DISCUSSION PAPER

Government Support to Textiles and Clothing Sector

A STUDY OF SELECT ASIAN COUNTRIES

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Acronyms

AIT	Advanced Income Tax
ASCM	Agreement on Subsidies and Countervailing Measures
ASEAN	Association of South East Asian Nations
ATC	Agreement on Textiles and Clothing
BOI	Board of Investment
CBI	Caribbean Basin Initiative
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EU	European Union
GDP	Gross Domestic Product
GNP	Gross National Product
IDSC	Infrastructure Development Surcharge
ILO	International Labour Organisation
IMF	International Monetary Fund
JAAF	Joint Apparel Association Forum
L/C	Letter of Credit
LDC	Least Developed Country
MFA	Multi-Fibre Arrangement
NCTO	National Council of Textile Organisations
NGO	Non-Governmental Organisation
PMAP	Post-MFA Action Programme
R&D	Research and Development
RMG	Readymade Garment
ROO	Rules of Origin
S&D	Special and Differential
S&DT	Special and Differential Treatment
SEZ	Special Economic Zone
SINOSURE	China Export & Credit Insurance Corporation
SITP	Scheme for Integrated Textile Parks
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
T&C	Textiles and Clothing
THC	Terminal Handling Charge
Tk	Taka
TUF	Technology Upgradation Fund
US	United States
USITC	United States International Trade Commission
USTR	US Trade Representative
VAT	Value Added Tax
VND	Viet Nam Dong
WTO	World Trade Organisation

Contents

Executive Summary

The textiles and clothing sector (T&C) is a major source of export earnings, government revenue and employment for most Asian countries. The sector also contributes significantly to the gross domestic product (GDP) of their economies. Asian exports alone contribute more than half to the global T&C trade. The elimination of T&C quotas due to the expiry of the Agreement on Textiles and Clothing (ATC) beginning 1 January 2005 has, however, had a significant impact on the countries within the region.

In the post-ATC period, countries like China and India have captured a major share of benefits. Similarly, some others have been able to hold on to their past gains, due to the imposition of temporary safeguards on China by the two major markets – the European Union (EU) and the United States (US). However, the landscape of T&C trade is going to be radically different with the phasing out of these safeguards from 2009.

Due to their excessive reliance on the quota system and lack of preparedness to face a fully competitive trading environment in the post-quota period, some Asian countries have either significantly lost or are in the process of losing their shares in the markets of developed countries. The exceptional growth of T&C exports of Bangladesh and Cambodia, in the first two years after the phasing out of quotas, is not likely to be sustainable, unless these countries undertake corrective measures to improve their competitiveness. Similarly, better off countries such as China, India and Pakistan realise the need to become highly competitive in order to take advantage of a relatively freer trade in T&C products.

While the private sector has a major role to play in improving the competitiveness of T&C exports, a majority of Asian countries are plagued with several supply-side constraints, which cannot be overcome by the efforts of the private sector alone. This exigency, coupled with the contribution of the T&C sector to the national economy of the Asian countries, has led the governments in the majority of these countries to provide support to this sector.

It can be observed that those Asian countries which pursue an active industrial policy to enhance their export potential are providing maximum support to this sector. However, these countries are also constrained by the multilateral rules on government support, mainly the World Trade Organisation (WTO) Agreement on Subsidies and Countervailing Measures (ASCM) in terms of the amount and form of support they can extend to the T&C sector.

Providing support to the export-oriented sector in general and the T&C sector in particular was an accepted norm in the pre-WTO era as well as in the first five-year period after the WTO came into being. However, the support provided to the T&C sector seems to have increased in most Asian countries since 2000. While this may be considered a 'preparedness strategy' for some countries, it is merely a 'survival strategy' for others.

The types of support that governments are providing can be broadly classified as general support, which is provided to all export-oriented sectors, and specific ones, which are exclusively provided to the T&C sector.

Some governments provide tax, including income tax, value added tax (VAT) and customs duty, exemptions to all export-oriented enterprises, and provide a boost to their export sector, for instance, by establishing special economic zones (SEZs) or export processing zones (EPZs).

The examples of specific support to the T&C sector include: support provided for the importation of T&C machinery to facilitate replacement of old machineries by new ones; provision of subsidised or reduced interest credit; duty reduction for the import of raw materials and machinery; human resources/skill development support; support to image-building and quality improvement campaigns; research and development (R&D) support; and support to strengthen domestic capacity to supply inputs.

This Discussion Paper presents an account of the type and amount, as far as possible, of both the general and specific support being provided by governments of four

South Asian (Bangladesh, India, Pakistan and Sri Lanka) and three East and South East Asian countries (China, Indonesia and Vietnam).

Most of the above mentioned support measures – to the extent they are specifically targeted to the T&C sector – have the potential to violate the WTO rules set under ASCM. While the Agreement has shown considerable leniency towards general support, provided they are within a certain limit, it is outrightly hostile to specific support measures. The Agreement provides unilateral as well as multilateral remedial measures to discipline these subsidies. However, none of the governmental support discussed above, except those provided by China, have ever been challenged by WTO Members.

This is partly due to special and differential (S&D) provisions of ASCM, which recognises that the developing countries, which are at a low level of economic development, encounter certain natural handicaps, and, therefore, it is necessary to provide some flexibilities to them. One of the provisions of ASCM exempts two groups of developing countries from the prohibition of export subsidies. They include: least developed countries (LDCs) designated as such by the United Nations, which are Members of the WTO; and a group of 20 developing countries until their per capita income reaches US$1,000. Asian developing countries like India, Indonesia, Pakistan and Sri Lanka are included in the latter category.

Another reason for the non-challenge of the above-mentioned subsidies is the availability of other remedial measures such as the imposition of quotas in the heyday of the Multi-Fibre Arrangement (MFA) and even when ATC was in operation for a 10-year period beginning 1 January 1995. However, given the fact that such a cover is not available anymore for developed countries, some of the countries being studied in this Paper have become vulnerable to challenges from the importing countries.

While four of the countries studied, namely Bangladesh (LDC) and India, Indonesia and Pakistan (developing countries with per capita income less than US$1,000) can still make use of S&D provisions, Sri Lanka may not be able to use it anymore because its per capita income has reached US$1,200. Similarly, China and Vietnam, which are not protected by S&D provisions, are likely to face the wrath of importing countries if corrective measures are not taken to phase out the government support provided to the T&C sector.

Given the rather intrusive nature of ASCM, it is advisable for these countries to phase out the specific support provided to the T&C sector and focus more on general support so that they are able to enhance the competitiveness of the export-oriented sector as a whole. Such support could be in the form of improved trade facilitation measures, support to general infrastructure, skill development training and R&D. Since government support has budgetary implications, caution should be exericsed not to crowd out investment in other sectors with higher human development spin-offs such as agriculture, health and education.

If support becomes inevitable, it is necessary for the governments to explore three other forms of financing in order to reduce the burden on budgetary resources, both due to support provided and revenue forgone. First, the potential for public-private partnership between the government and the consortia of exporters should be utilised to the extent possible to develop this sector. Second, it may be possible to charge the industry nominal user fees, and gradually increase the same over time. Third, governments should try to obtain technical assistance from various multilateral and bilateral donors to support some of these initiatives.

Chapter 1

Introduction

The Textiles and Clothing (T&C) sector, the second fastest growing sector[1] in global merchandise trade, is a major source of foreign exchange, government revenue and employment for a number of Asian countries. Some countries of the region are highly competitive in this sector, which is also evident from the imposition of trade-restricting measures on their T&C exports by the two major markets of the world – the European Union (EU) and the United States (US).

In Asia, the T&C sector is important for four main reasons.

First, since the T&C sector is considered technologically humble and least skill-intensive, Asian developing countries, particularly low income ones, have comparative advantage in this sector. However, such comparative advantage has been shifting from one country or a group of countries to others in the region during the past five decades. Mayer (2005) argues that the shift of labour-intensive activities in T&C away from the first-tier newly industrialising economies towards other Asian countries has clearly also reflected industrial upgrading associated with wage increases and a move in production and export patterns towards more technology-intensive goods.

It is, therefore, not surprising to see the dwindling share of T&C exports of countries like Korea, Hong Kong, Taiwan and Malaysia in both the US and the EU markets, and rising exports of other key players such as China, India, Indonesia, Pakistan and Sri Lanka. Looking at the present rate of export growth, countries with low wages such as Bangladesh, Cambodia and Vietnam are poised to become leading exporters in the low-cost segment of T&C products in the near future.

Second, since this sector is labour-intensive, it offers tremendous employment-generating potential to help the absorb growing number of people who enter the job market every year in these populous countries. Among those employed in this sector, women constitute a significant percentage. For example, in Bangladesh, out of the 2.2 million people employed in the readymade garment (RMG) sector, 80 percent are women (Razzaque 2005). In Cambodia, a total of 337,238 workers are employed in this sector, out of which 92.1 percent are women (ILO 2007). In Laos, out of 28,000 workers, 80 percent are women (NSC 2006). In Sri Lanka, the 350,000 women workers in garment factories account for 85 percent of the total workforce in this sector (Global Compact 2007).

The T&C sector is a major source of foreign exchange, government revenue and employment, particularly for women, in most Asian countries

Moreover, due to forward and backward linkages, this sector provides additional employment opportunities to other sectors of the economy. For example, according to IMF (2007), in Bangladesh, RMG factories and associated businesses (spinning, dyeing, finishing, etc.) are estimated to provide employment for a total of between 10 million and 12 million people.

Third, since most of the newly industrialised countries have used the T&C sector to climb up the economic growth ladder, developing countries aspiring to export their way out of poverty see great

While price still remains a major determinant in the decision-making matrix of the buyers, they now look for 'complete solution providers', who can cover all stages of the value chain

potential in this sector. This is particularly so for Asian countries because they saw significant growth in T&C exports, especially clothing, as they moved up the ladder of industrialisation from largely agricultural economies to modern manufacturing- and service-based economies over a 30–40 year period (ADB 2006).

Since there are natural limits to export-led growth based on primary products (agriculture or mineral), as country after country have discovered, developing countries exporting manufactured products do not face such limits as long as they can latch on to new activities, which face dynamic demand in rich countries' markets (Rodrik 2007). Therefore, there is always an incentive for the countries to switch to manufactured products from the export of primary products as well as move up the value chain ladder within the manufacturing sector as and when such opportunities become available. The past five decades of development of the T&C sector, particularly shifting comparative advantage, starting from Japan and ending in Cambodia, reveal this pattern.

Fourth, the T&C industry is a major source of export earnings as well as a major contributor to gross domestic product (GDP) in most Asian countries. For example, as documented by Adhikari and Weeratunge (2007, forthcoming), in South Asia, the share of the T&C sector in India's overall export earnings is approximately 16 percent and the industry accounts for 4 percent of GDP. In Sri Lanka, the sector accounts for 51.87 percent of the country's export receipts and contributes 6 percent to the country's GDP. In the case of Bangladesh, the sector contributes 84.5 percent to the overall export earnings and acounts for 17 percent of GDP. In Pakistan, T&C accounts for 64 percent of the country's exports (Ministry of Commerce 2007).

Looking at the evolution of the T&C sector over the past five decades, it can be observed that competitiveness plays a decisive role in export growth. This is more so in the post-quota world where the pressure to remain competitive has intensified, not least due to expanded choices available to buyers. Due to their growing market power, buyers are not only able to squeeze suppliers on prices but also make them agree to improve working conditions for workers and adhere to environmental and safety standards.

While price still remains a major determinant in the decision-making matrix of the buyers, they now look for 'complete solution providers', who can cover all stages of the value chain in production, ranging from product design to input sourcing, manufacturing, packaging and shipping of the final product (Adhikari and Yamamoto 2005) so that buyers can focus only on the retailing part, which is the core area of their expertise. The emergence of 'value chain networks' with companies from East Asia (mainly Hong Kong, Korea and Taiwan) acting as intermediaries for global buyers (Tewari 2006), has further hastened this process.

Due to the rapidly changing behaviour of buyers, coupled with the demand for low-cost supplies, countries having vertically integrated production structures, critical mass production apparatus and low lead-time are among the most-favoured suppliers. Only those countries with skilled workers, state-of-the-art machinery and equipment, ability to source inputs at global prices at short notice, and the infrastructure that allows exporters to process orders at the lowest possible cost can take advantage of this situation.

While the private sector has a key role to play in ensuring that it is able to compete globally in the rapidly evolving landscape of T&C trade, governments too have a major role to play. For example, it may not be possible for the private sector to source inputs at the lowest possible cost if tariffs on inputs are very high. Moreover, investment in public goods such as infrastructure is generally beyond the capacity of the private sector. Therefore, there are both theoretical and practical arguments for providing targeted government support to the industrial sector in general.

At the theoretical level, even going by the conventional Heckscher-Ohlin Model, economies that are labour-abundant are doomed to choose basic T&C products as their major exportable items at least for a few more years and do not have a choice but to provide support to the industry. There may be future prospects for graduating from this sector to higher value T&C items as well as into other manufacturing sectors such as electronics.

Another theoretical argument, which posits industrial policy as a tool for economic growth (Hausmann and Rodrik 2006) highlights the failure of the market mechanism to provide for the support required to ensure that a particular sector of the industry grows to its desired potential. Involvement of and support from the government may be necessary at each and every step in the process of structural transformation of an economy – a move from agriculture to manufacturing, and from manufacturing to services. In order to make these manufacturing activities (particularly exports) viable, the government needs to provide support to the growing manufacturing sector.

At the practical level, support for manufacturing activities such as T&C is necessary, not least because of their linkages with the rest of the economy. For example, as noted above, a least developed country (LDC) like Bangladesh would not have been able to sustain employment opportunities in associated businesses had it not provided necessary support to the RMG sector.

There are both theoretical and practical arguments for providing targeted government support to the industrial sector

Given the importance of the T&C sector to the national economy, the governments of most Asian countries have provided support to this sector to the best of their abilities. At the same time, it is equally true that due to increased political and economic clout of this sector in some cases, governments have even been compelled to provide support to this sector, even if reluctantly. Against this backdrop, the objective of this Discussion Paper is to initiate a debate on the desirability and sustainability of government support to the T&C sector, based on the structure of the industry, its importance to the economies of various Asian countries, and multilateral disciplines on government measures to promote and protect any particular sector of an economy.

Chapter 2

Changing Landscape of T&C Trade

1. General Trends and Developments

Global T&C trade, worth US$479 billion in 2005 and occupying a 4.6 percent share in global merchandise trade, has been growing at an average rate of 9 percent per year over the past two decades.[2] In the last two decades, T&C has been the second fastest growing segment of world trade, closely following electronics, despite the presence of the quota system.[3] It is more than two years since the phasing out of the global system of quota controls, which governed trade in the T&C industry. Policy developments in the post-quota world illustrate the highly selective and targeted nature of production and market relations in the industry. Although 1 January 2005 was supposed to mark the end of the quota system for all countries and was expected to unleash massive adjustment challenges for a number of countries, quota phase-out due to the expiry of the WTO's Agreement on Textiles and Clothing (ATC) shows mixed results. Moreover, countries that have lost out the most had seen their exports decline earlier, which means that their dismal performance cannot merely be ascribed to the quota phase-out.[4]

In the heyday of the Multi-Fibre Arrangement (MFA), many countries from Asia, considered highly competitive in the T&C sector, could not fully exploit their export potential due to quantitative restrictions (quotas) imposed on them by developed countries. Since the quota-imposing host countries did not have the requisite production capacity to meet their domestic demands, in order to clear the market, they had to import T&C products from countries other than those facing quota restrictions (Adhikari and Weeratunge 2007).

This provided an opportunity for the growth of the T&C industry in several developing and least developed countries, though they did not have comparative advantage in this sector. Countries such as Bangladesh, the Maldives, Mongolia and Nepal jumped into the bandwagon to fill the void. This pattern was later emulated by South East Asian LDCs such as Cambodia and Laos.

Quotas encouraged the geographical dispersion of T&C products allowing smaller countries to take first steps towards export-oriented industrialisation

The first move in many of these countries came from foreign investors from the nearby developing countries facing quota restrictions. They chose to locate part of their T&C operations in smaller countries not subjected to quota restrictions. This 'quota hopping' provided win-win outcomes for the host as well as home countries. Examples include Chinese investors establishing factories in Mongolia; Korean investors in Bangladesh; Indians in Nepal and Sri Lankans in the Maldives. Domestic investors followed suit, either in partnership with the foreign investors or on a standalone basis. MFA quotas, thus, encouraged the geographical dispersion of T&C products allowing smaller countries to take first steps towards export-oriented industrialisation (Mayer 2005).

It is, however, unfortunate that those countries that had limited or no capacity to survive in the quota-free world did not put in much effort to enhance their competitiveness, though ATC provided them a 10-year transition period, among others, to keep their house in order. These countries are precisely the ones facing major structural and socio-economic dislocation. Worse still, as the end date for quota-phase out approached, foreign investors, seeing greener pastures in their home turf, withdrew their investments and moved their factories back to their respective countries.[5]

2. China Safeguards

One of the major developments in the international arena that took place in 2005 was the imposition of safeguards on certain categories of Chinese T&C products. When China's exports increased globally in the post-quota period, countries reacted with a unique type of trade remedy measures – the so-called 'China Safeguards' – which was included in the Protocol of Accession of China to the World Trade Organisation.

The success of Asia masks a startling intra-regional variation, with at least three countries in the region facing severe setbacks

This provision allows any WTO Member to take safeguards action against China by imposing quotas at a level of 7.5 percent above the level of imports during the first 12 months of the recent 14 months preceding the month of the request for consultations with China on that matter. It is possible to continue this measure till 31 December 2008. Due to its convenient trigger mechanism, this provision is being used not only by the US and the EU but also by Argentina, Brazil, South Africa and Turkey. China is obliged to sign bilateral deals with many of these countries to make an orderly transition towards an eventual free trade inT&C by 2008. These impositions, which resulted in reduced exports from China, have changed the landscape of the global T&C trade.

3. Performance of Asian Countries in the post-ATC Period

The data available for the first two years of the post-ATC period show that Asia is emerging as a clear winner in the post-quota world, despite the temporary safeguards. Most of the lost share of China has gone to countries within the region itself, with Bangladesh, Cambodia, India and Vietnam capturing the lion's share (Tables A1 – A5 in Annex 1). Countries outside the region, despite having preferential trading arrangements with the major markets of the world, have been able to take advantage of neither the quota phase-out nor the imposition of safeguards on China.

This is evident from the declining exports of countries such as Mexico (a beneficiary of North American Free Trade Agreement-NAFTA), Caribbean countries (beneficiaries of Caribbean Basin Initiative-CBI), Sub-Saharan African countries (beneficiaries of African Growth and Opportunity Act-AGOA) in the US market (Tables A1 – A2). Similarly, Adhikari and Yamamoto (2007) show that market shares of countries having preferential trading arrangements with the EU, such as Morocco, Romania, Tunisia, and Turkey, too have declined, albeit slightly, in the post-ATC years (Tables A1 – A2).

The success of Asia masks a startling intra-regional variation. While Asia as a whole has seen a rise in exports in the post-ATC period, three countries – the Maldives, Mongolia and Nepal – have witnessed a sharp decline in their exports. Although, as noted above, these countries had seen a decline in their exports to the major markets, mainly the US, even before the quota phase-out, the precipitous decline in their exports in the post-quota era is alarming. While the Maldives has been completely wiped off the global T&C map, Nepal saw its exports to the US decline by 25.8 percent and 9.9 percent in terms of value in 2005 and 2006, respectively (Table A1). Similarly, Mongolia's exports to the US plunged by 41.2 percent and 22.8 percent, respectively, in the corresponding period.

Countries with average competitive strength such as Bangladesh, Cambodia, Indonesia, Pakistan, the Philippines and Sri Lanka, had seen a decline in their exports to the EU in the first year of the quota phase-out but they were able to revive their exports after the imposition of safeguards on China (Table A3). This trend casts a serious doubt on the ability of these countries to hold on to their past gains, after the removal of temporary safeguards on China.

Issues for discussion

- How have Asian countries been able to capture the benefits in the post-quota world, and is it possible to sustain this trend in the long run?
- Proximity to major markets and preferential market access are cited as two important attributes for a country to be able to succeed in the post-quota world. However, data for the post-quota period reveal exactly the opposite. What could be the factors responsible for such results?
- How should relatively less competitive countries in Asia devise strategies to survive the onslaught of competition from China when the temporary safeguards imposed on China expire in 2008?
- Is there any prospect for the revival of T&C exports in the Maldives, Mongolia and Nepal?

Chapter 3

Country Information on Government Support

This Chapter presents country information on government support for two regions of Asia – South Asia (Bangladesh, India, Pakistan and Sri Lanka), and East and South East Asia (China, Indonesia and Vietnam). The support measures in each country are divided into two categories, i.e., specific support for T&C exports and general support for the export-oriented manufacturing sector as a whole.

The Chapter is based on information collected from various national sources (such as budget speech, trade policy, industrial policy, investment policy, textiles policy, policies on special economic zones-SEZs, and media reports), international sources (such as International Labour Organisation-ILO, the World Bank, the WTO and T&C journals) and importers' sources (such as industry groups and government agencies, mainly of the US).

1. Government Support in South Asia

1.1. Bangladesh

1.1.1. Specific Support

Prior to the phasing out of quotas, the Ministry of Commerce formulated a US$40 million Post-MFA Action Programme (PMAP). This programme covered activities ranging from technology and skill development to expanding forward and backward linkages, and exploring new markets. Further, a budget allocation of Taka (Tk) 200 million (US$3.5 million) was made for PMAP in 2004/05. Several ministries, led by the Ministry of Commerce, and leading non-governmental organisations (NGOs), participate in training, retraining and rehabilitation of displaced RMG workers (WTO 2006b).

As per the Export Policy, bonded warehouse facility has been provided for import-dependent export industries. The RMG industry, particularly firms producing woven garments, is the prime beneficiary of this facility. It is also available to 'deemed' exporters such as local firms which sell inputs to export-oriented T&C enterprises. Similarly, special bonded warehouses, which have been a critical factor in the development of Bangladesh's garment exports (WTO 2006b), allow 100 percent exporters and 'deemed' exporters to import and stock inputs duty-free. Moreover, the Export Policy of 2003–2006 proposes to consider the possibility of installing a central bonded warehouse[6] in order to reduce the lead-time for export processing.

Export Policy of Bangladesh envisages providing wide ranging support to the T&C sector

The Policy also proposes to take measures for setting up garment villages with necessary infrastructure and utility services.[7] The Policy permits textile finishing units as well as export-oriented RMG units to import all kinds of grey fabrics under the 'bonded warehouse' system against back-to-back letter of credit (L/C).[8]

In order to facilitate technological upgradation, concessionary duty rates for the importation of capital machinery and spare parts (6 percent for industries, and duty-free for 100 percent export-oriented industries) are provided (WTO 2006b). Besides, the import of machinery for the export-oriented T&C industry is exempt from value added tax (VAT), Infrastructure Development Surcharge (ISDC) and

Advanced Income Tax (AIT). However, the Budget Speech of 2007/08 has abolished the provision of zero duty on the import of textiles machinery (Ministry of Finance 2007a).

Bangladesh has also been providing a 5 percent cash subsidy for the use of local fabrics as inputs for exporting RMG enterprises. Although the government considered phasing out this subsidy in 2004/05, it was eventually extended for 2005/06 as well (WTO 2006b).

1.1.2. General Support

Bangladesh provides several other incentives to export-oriented industries. Under the income tax law, all the exporting firms registered in Bangladesh get a 50 percent exemption in their income taxes.[9] Like other eligible industrial enterprises, export-oriented firms are accorded a tax holiday of five to seven years. All 100 percent export-oriented RMG firms are subject to a 0.25 percent tax at source if they do not enjoy a tax holiday (WTO 2006b).

The Government of Bangladesh has declared that utilities services would be provided to 100 percent export-oriented industries at reduced/rebated rates

To maintain price competitiveness for export products, VAT rebates are granted on a number of export-related services. For instance, VAT can be refunded on export support services, i.e., clearing and forwarding customs brokers' services, telephone, telex, fax, gas/electricity bills (80 percent refund), water and sewerage bills (60 percent refund), insurance premiums, and shipping agents' commission/bills (WTO 2006b). Similarly, one of the unique features of Bangladesh's export sector is that the government has declared through its Industrial Policy, 2005 that utility services will be provided to 100 percent export-oriented industries at reduced/rebated rates.[10] However, the magnitude of such rebates is not known.

Bangladesh currently has six EPZs and one more is under construction. More than half of these zones continue to produce RMG or textile items. Apart from the benefits available to exporters in general, enterprises located within EPZs also enjoy an income tax exemption for 10 years and a 50 percent rebate on export earnings thereafter (WTO 2006b).

There are three major types of preferential credit available to exporters. First, a concessional local currency loan from Bangladesh Bank is provided at 7 percent interest. Second, an export credit up to 90 percent of the value of an irrevocable L/C can be obtained by exporters, with a repayment period of 180 days. Third, the Export Development Fund provides pre-shipment financing either in US dollars or in local currency for a period of up to 180 days.[11]

The Export Credit Guarantee Scheme covering risks on export credits at home, as well as commercial and political risks occurring abroad, is administered by a state-owned general insurance company. There are four types of guarantee schemes, out of which the Export Payment Risk Policy, which offers a comprehensive guarantee and is intended to protect exporters against overseas commercial and political risks, is the most widely used. This may be partly because the Policy covers 85 percent of commercial risk losses and 95 percent of political risk losses, and it can even be assigned to banks as a collateral against loans (WTO 2006b).

Finally, the Government of Bangladesh also has an elaborate scheme of export promotion and marketing support, which is coordinated by the Export Promotion Bureau (EPB) under the Ministry of Commerce. As per an earlier survey conducted by the WTO, 52 percent of the export-oriented enterprises have used the facilities/services provided by EPB. This body provides financial aid of up to 50 percent of marketing costs for export promotion as well as incentives for enterprises to find joint venture partners (WTO 2006b).

1.2. India

1.2.1. Specific Support

The first priority of the government seems to be the modernisation of the T&C industry. The government established a Technology Upgradation Fund (TUF) to support investment in the upgradation of T&C machinery. T&C firms can borrow from commercial banks at lower-than-market rates,[12] the difference being refinanced from the TUF scheme implemented by the Ministry of Textiles. The loan repayment period is five to seven years with a moratorium of two years but no limit on the amount of loan has been fixed. Initially, the scheme was in operation for the period of five years from 1 April 1999 to 31 March 2004, and was later extended till 31 March 2007 (Ministry of Textiles 2006). In 2006, the Ministry of Textiles further decided to extend the TUF scheme until 2009 as EU and US quotas on Chinese textile imports expire in 2008 and 2009, respectively (Ministry of Textiles 2006).

Having recognised and identified the growth potential of the textile industry, especially cotton textiles, the government in the Budget Speech of 2006/07 proposed to enhance the allocation for TUF from Rs. 4.35 billion to Rs. 5.35 billion (US$116 million) (Ministry of Finance 2006). Further, the Budget Speech of 2007/08 has confirmed that the TUF scheme will be continued in the Eleventh Plan. The Finance Minister has proposed to provide Rs. 9.11 billion (US$228 million) in 2007/08.[13] Similarly, Capital Subsidy Scheme for the textile processing sector, in addition to the normal benefits available under the TUF scheme, has been introduced (Ministry of Finance 2005).

The Ministry of Finance has also announced a package for the restructuring of high-cost debt of textile units in the organised sector. As per this scheme, local banks/financial institutions would be permitted to access external commercial borrowings, which are required to lend to the textile units at an interest rate of 8 to 9 percent for a period of at least five years (Ministry of Textiles, undated).

The government also launched the Technology Mission for Cotton on 21 February 2000, which involves providing support for increasing the productivity of cotton, reducing the cost of cultivation, improving fibre attributes, improving infrastructure of cotton agricultural markets, and modernising ginning and pressing factories (Cotton Corporation of India 2006).

Likewise, the Textile Centre Infrastructure Development Scheme, and the Apparel Parks for Export Scheme have been merged into a single scheme, the Scheme for Integrated Textile Parks (SITP). As per the Guidelines for SITP prepared by the Ministry of Textiles, the main purpose of SITP is to provide the industry with world-class infrastructure facilities for setting up textiles units through public-private partnership. It was decided that an amount of Rs. 6.25 billion (US$145 million) would be provided by the government for the development of these parks between 2005/06 and 2006/07.[14] So far, 26 parks have been approved out of 30 sanctioned under the scheme. The Finance Minister proposes to provide Rs. 4.25 billion (US$105 million) for these parks in 2007/2008 (Ministry of Finance 2007b).

Technology Upgradation Fund is the single largest source of government support to the T&C sector in India

The following extra measures were taken by the government through the Budget Speeches of 2005/06 to 2007/08.

Import duty on man-made fibre and filament yarn has been reduced from 15 percent to 10 percent. This has further been reduced to 7.5 percent through the Budget Speech of 2007/08. [15] Customs duty has been reduced from 20 percent to 10 percent for most textile machinery. Similarly, excise duty on man-made fibre and filament yarn has been reduced from 16 percent to 8 percent (Ministry of Finance 2005).

An allocation of Rs. 1.89 bilion (US$42 million) has also been made for SITP. Similarly, for the development of the handloom sector, a 'Handloom Mark', modelled on 'Wool Mark', has been introduced, and, as in the past, the TUF scheme would continue to be extended to this sector (Ministry of Finance 2007). The provision for this sector has been enhanced from Rs. 1.95 billion to Rs. 2.41 billion (US$54 million). This has further been increased to Rs. 3.21 billion (US$79 million) for 2007/08. [16]

Finally, the government announced that yarn depots would be established to ensure an uninterrupted supply of yarn to weavers (Ministry of Textiles 2006). Accordingly, 273 new yarn depots have been established in 2006/07, and the government has proposed to take up an additional 100-150 clusters in 2007/08 (Ministry of Finance 2007b).

1.2.2. General Support

There are some general support measures available to all export-oriented enterprises. For example, several non-tax incentives in the form of capital subsidies and concessional credits are offered by the central and state governments in the interest of developing backward areas, exports or some specific industries. No distinction is made between domestic and foreign investors. Moreover, certain industries are eligible for concessional credits in the form of soft loans. Similarly, export credits as well as pre-shipment and post-shipment finance are provided to several export-oriented industries.[17]

Technology upgradation and modernisation of the T&C sector have been the major thrust of the government support programme in Pakistan

1.3. Pakistan

1.3.1. Specific Support

Technology upgradation and modernisation of the T&C sector have been the major thrust of the government support programme in Pakistan, as can be seen from the increased import of textile machinery – from US$211 million in 1999/2000 to US$532 million in 2002/03 (Din 2005). This is the direct result of reduced tariff on T&C machinery and equipment. Pakistan spent a total of US$4 billion before quotas were eliminated, in order to modernise its T&C industry (EmergingTextiles.com 2006a).

The government has established a Federal Textile Board to assist the textile industry in the post-quota period. The Board is responsible for addressing issues related to clean cotton, labour, social and environmental laws; modernisation of ginneries; rationalisation of tariffs; facilitation in sales tax issues; and developing a package to promote the garment sector's competitiveness in international markets.[18]

The Ministry of Textile Industry implemented a cash incentive-based programme in 2005/06 to promote contamination-free cotton. This programme involves distribution of premium to select farmers, who are able to supply clean cotton to the ginners (Ministry of Commerce 2006) and imposition of a cess of Rs. 10 per bale of cotton to promote production of standardised cotton (Ministry of Textile Industry 2006a). To provide a further boost to this activity, an institute is being established with funding from the Export Development Fund for training farmers and ginners in the production of contamination-free cotton (Ministry of Commerce 2007).

After the establishment of a textiles city in Karachi, garment cities have been established in Karachi, Lahore and Faisalabad. These incorporate a cluster of sewing and stitching units that focus on the production of specialised garments for export. This initiative has helped to develop the supply chain by providing opportunities to small and medium entrepreneurs to produce value-added clothing and accessories (Ministry of Textile Industry 2006b).

Similarly, the Ministry of Commerce has set up Pakistan School of Fashion Design with the aim of producing designers and managers capable of catering to the demands of fashion-conscious buyers. It commenced fashion design classes in 1995 and fashion merchandising and marketing classes in 2005 in collaboration with French Fashion Design Institutes (L'ecole de la chambre syndicale and mode'spe of Paris). The school, currently based at Lahore, is preparing the national industry to compete successfully in the growing international fashion market. It is expected that the curriculum being offered at the school in Lahore is also going to be offered at the Karachi and Islamabad Chapters of the School, to be set up within 2007/08 (Ministry of Commerce 2007).

With the objective of overcoming skill deficit, the government has established a Garment Skills Development Board under the Ministry of Textile Industry. Through a public-private partnership, close to 30 garment units in Karachi, Lahore and Sialkot have been declared training institutes to improve the skills of garment workers. In addition, it has been proposed to conduct certification courses in partnership with international organisations. It was decided that the fund required for foreign institutional partnerships was to be provided by the Ministry of Commerce (Ministry of Commerce 2005a).

Several tax incentives have also been provided to the textile industry in the form of reduced import duties of 5 percent *ad valorem* on textile machinery and parts excluding spinning rings, which are taxed at the rate of 10 percent. Sales tax on the import and local supply of major inputs/raw materials used in the entire manufacturing process has been eliminated. Similarly, import duty exemption has been provided for raw materials, sub-components and components used in the local manufacturing of textile plants and machinery for the export sector (Ministry of Commerce 2005).

Other tax incentives include the reduction in taxes levied on retailers of specified textile fabrics and articles of apparel, including RMG or fashion ware, to 1 percent, and the lowering of turnover tax and sales tax to 2 percent. Customs duty, sales tax and withholding income tax on raw materials for textile production have been eliminated (Ministry of Textile Industry 2006a). Apart from the above-mentioned categories, dyed/printed fabrics and white home textiles, both woven as well as knit, are to be granted compensatory rebate at the rate of 3 percent. Dyed/printed home textiles, both woven and knit, are to be granted rebate at the rate of 5 percent (Ministry of Commerce 2006).

A compensatory rebate of 6 percent was granted to RMG and knitwear as research and development (R&D) support. This support has been extended till the end of June 2007 at the same rate and for the following one year (June 2008) at the rate of 3 percent. A similar support has been extended to the home textiles sector in 2006/07. This support will continue in 2007/08 (Ministry of Commerce 2007).

The status of enterprises providing stitching, dying, printing, embroidery and washing services to the export industry has been changed to that of 'deemed exports', and they have been granted concessional rates of withholding tax (Ministry of Commerce 2005a). At the same time, a Textile Package has been introduced to enhance the competitiveness of the industry. The package incorporates a provision of reduced interest rate on term-financing of export-oriented projects, reduction in re-financing interest rates, continuation of R&D support and formation of committees to provide further tax benefits to the T&C sector (Ministry of Textile Industry 2006c).

Besides supporting technology upgradation, R&D and skill development have been the major features of the T&C support programme in Pakistan

1.3.2. General Support

Like many other developing country governments, Pakistan also provides several general support and incentives to export-oriented enterprises. Such measures are also applicable to the T&C sector. For example, Pakistan has an elaborate programme of incentives for enterprises established in an EPZ. Some of these incentives include duty-free import of inputs and machinery, sales tax exemption on inputs as well as utilities, and sales tax and customs duty exemption on the import of materials for the construction of factories.[19]

1.4. Sri Lanka

1.4.1. Specific Support

Like other countries of the region, modernisation of the T&C industry has been a major thrust of the support programme in Sri Lanka. Financial Assis-

Besides promoting backward linkages, skill development and image building campaign feature prominently in the government support programme in Sri Lanka

tance for Technology Improvements Scheme was introduced in the Budget Speech of 2005 in order to facilitate access to finance for small and medium enterprises (SMEs) involved in apparel manufacturing. As per the scheme, a guarantee would be provided through the SME bank to grant a required term loan to the apparel industry to modernise its factories. The total sum earmarked for the issuance of this guarantee is Rs. 600 million (US$6 million), with the expectation that the industry would be able to raise a matching fund of Rs. 2 billion (US$20 million) (Ministry of Finance and Planning 2004).

In order to help ailing industries restructure themselves, the government has also decided to write off the unpaid debt of local textile manufactures that have registered for textile industry restructuring. As per the 2006 budget, an amount of Rs. 350 million (US$3.5 million) was to be allocated for this programme.

With a view to simplifying the VAT application procedures, it was decided that all apparel manufacturers registered with the Textile Quota Board would be exempted from the payment of VAT on the import of textiles and ancillary inputs. Similarly, in order to help promote the international competitiveness of garment buying offices, which act as a link between the manufacturers and retailers, services provided by such companies are zero-rated for VAT purpose (Ministry of Foreign Affairs 2004).

The government has also proposed incentives for productivity improvement in the apparel industry through a grant of Rs. 100 million (US$1 million). As an incentive for product design, Rs. 100 million (US$1 million) was granted to improve the designer degree programme at the University of Moratuwa (Ministry of Finance and Planning 2004).

The above-mentioned schemes have been implemented through the Joint Apparel Association Forum (JAAF) and are in progress (Ministry of Finance and Planning 2004). As per the Budget Speech of 2006, it was decided to set up a college of T&C in Thulhiriya with Rs. 250 million (US$2.5 million) in 2006 to train professional managers, qualified service providers and skilled workers (Ministry of Finance and Planning 2005).

Realising the need to promote backward linkages to enhance competitiveness and fulfil the stringent rules of origin (ROO) requirements of some importers, the Sri Lankan Board of Investment (BOI) has decided to set up an Industrial Park with a waste and effluent treatment plant at Biyagama Zone to facilitate fabric manufacturing in Sri Lanka (Ministry of Finance and Planning 2004). Similarly, dedicated textile zones at Thulhiriya and Horana to set up large-scale textile factories with BOI incentives, targeting an investment of about US$300 million, are now being developed (Ministry of Finance and Planning 2006). It is, however, not clear whether the government itself is making this investment.

Further, a Rs. 50 million (US$500,000) government-funded image-building programme called 'Garments without Guilt' has also been launched recently to position Sri Lanka globally as an ethical clothing producer (Daily Mirror 2006). This programme is being jointly implemented by the Ministry of Industry and JAAF.

A unique programme outlined in the Budget Speeches of 2006 and 2007 is to promote a new mega shopping centre at Katunayake, an area where an EPZ as well as an international airport are located, in order to promote a regional apparel hub (Ministry of Finance and Planning 2005; 2006).

The government has also made a policy decision to source school uniform materials for 4.5 million children studying in public schools from the local textile industry. According to the decision, all textile requirements of the armed forces, the police, health services, prisons and other government agencies must also be procured from local manufacturers (Ministry of Finance and Planning 2005).

1.4.2. General Support

In Sri Lanka, there are general support/ incentives available to all enterprises registered with BOI. Because more than 90 percent of the garment exports are from enterprises registered with BOI (BOI 2002), these incentives are relevant to almost all garment exporters of Sri Lanka.

Incentives to the T&C sector fall under the category of 'manufacture of non-traditional goods for exports or deemed exports', as per which industries making a minimum export of 80 percent are eligible for a full tax holiday, concessional tax as well as duty exemption on imports. While tax holidays are available for a five-year period,[20] a concessionary tax at the rate of 10 percent is available for two years, following which a concessional tax of 15 percent is imposed. All the raw materials and capital goods used by this category of industries are exempt from import duty (BOI, undated).

2. Government Support in East and South East Asia

2.1. China

2.1.1. Specific Support

The major portion of support from the Chinese government has been channelled towards the modernisation of the T&C industry. Massive restructuring of the industry took place between 1997 and 2000, during which over US$30 billion worth of state-of-the-art textiles machinery was imported.[21] The pace of such import slowed down a bit between 2000 and 2003, when China's imported T&C machinery was worth US$5 billion.[22]

The import of these machinery has been carried out by the private sector as well as state-owned enterprises (SOEs), and the government seems to have provided support to the SOEs. Even for the private sector, the government provided support through the State Textile Bureau.

As stated by the United States International Trade Commission (USITC), China committed US$2.4 billion in grants to the industry's top 200 firms and US$1.7 billion in bank loans to finance technological upgrades in 2000. Similarly, the government also pledged US$1.8 billion in support and US$1.2 billion in bank loans to the industry as a whole (USITC 2004).

In preparation for China's accession to the WTO, when the restructuring of the industry led to huge losses and the closing down of SOEs, the government came to their rescue by providing grants or tax forgiveness totalling Yuan 3.1 billion in 1997 and 1998 (WTO 2001). Of late, direct support of this nature seems to have been discontinued by the government. According to WTO (2006c), since 2000, there have been no government subsidies to this industry. However, there are several indirect support measures provided by China to promote the T&C sector, some of which are discussed below.

Modernisation of the T&C industry, bailing out of SOEs, and export credit insurance are the major forms of government support extended to the T&C sector in China

Due to the problems China is experiencing in cotton production, the government is encouraging the production of other natural fibres such as ramie, silk and angora rabbit hair (USITC 2004). More recently, China National Technical Import and Export Corporation implemented a 'Fabrics China' campaign in an effort to modernise the textile industry (USITC 2004).

Similarly, the government provides export assistance, among others, to select T&C exporters through export credit insurance provided by China Export & Credit Insurance Corporation (SINOSURE), an agency supported by the Ministry of Finance (WTO 2006c).

In June 2006, the government issued its new five-year plan for modernising the T&C industry. The plan includes shifting to more value-added products, developing technology, supporting mergers, creating international brands, using alternative fibres and reducing energy consumption (EmergingTextiles.com 2006b). No specific support has, so far, been pledged by the government to these efforts.

As part of China's drive towards internationalisation of its T&C business, a series of preferential policies have been implemented to encourage T&C manufacturers to invest more in other developing countries, particularly in LDCs. China's overseas investment in T&C is expected to grow faster in the coming years as mutually beneficial cooperation between China and other developing countries proceeds rapidly (ILO 2005).

Governments at the provincial level are equally active in promoting the T&C sector. For example, the Huoshan government is planning to establish a new textile city housing more than 1,000 textile factories by combining small villages.[23] Similarly, the Sinkiang government plans to implement several projects to train textile players, including 80,000 skilled workers, in collaboration with textile colleges spread across the country.[24]

Although credit policies have been relaxed over the years, they are still 'guided' into certain sectors

2.1.2. General Support

An example of general support provided in preparation for the termination of ATC is infrastructure support. As reported by USITC (2004), China invested heavily in infrastructure throughout the country, including a major highway system linking western China with the more developed eastern part of the country. In terms of location, industry sources indicate that the shipping time from China to the West Coast of the US is relatively short, particularly compared to many of the Association of South East Asian Nations (ASEAN) countries or India. China is also investing in deep water port facilities that will further shorten shipping time.

Similarly, the government operates six different types of developmental zones, out of which SEZs are of tremendous significance to the T&C sector. Since these zones were established mainly to attract foreign investment, several benefits, including revenue foregone, have been provided by the government to enterprises established within the SEZs (WTO 2006c).

Given the tradition of strong government, budgetary support to loss-making SOEs is still in force. However, both the magnitude and type of support have changed. For example, overall budgetary support for loss-making SOEs was Yuan 21.8 billion in 2004, compared to Yuan 30 billion in 2001, when China joined the WTO. As clarified by the Chinese authorities to the WTO, subsidies for 'operational losses' had been phased out by 2001 but 'losses' due to price controls and other government policies are compensated by the government (WTO 2006c).

All the exporters are entitled to VAT rebates, the rates of which differ from sector to sector. T&C exporters are, for example, provided with an 11 percent VAT rebate (WTO 2006c). In relation to income tax, only foreign investment enterprises seem to be receiving such benefits, contingent upon their export performance. Directed credit used to be the norm rather than the exception in China. Although credit policies have been relaxed over the years, they are still 'guided' into certain sectors (WTO 2006c).

2.2. Indonesia

2.2.1. Specific Support

Like other governments, replacement of machinery and upgradation of technology seems to be the foremost priority of the Indonesian government. According to the Ministry of Industry, half of the machinery at Indonesia's textile plants are more than 15 years old and in need of repairs and upgrades in order to enhance competitiveness.

At the request of the government, a number of local banks agreed in January 2006 to provide US$100 million in the form of loans to companies in the weaving and spinning industries with a good financial track record, with another US$250 million coming from the World Bank's private financing arm, the International Finance Corporation (The Jakarta Post 2006; US Embassy 2006a).

Similarly, Bank Indonesia agreed to the government's request to offer enhanced loans to manufacturers of 2 trillion rupiah (US$211 million), which would be used for replacing aging machinery.

The government has also made an announcement to cut Terminal Handling Charges (THCs) for 20-foot containers in all domestic ports from US$150 to US$95 (EmergingTexiltes.com 2006c). The Indonesian textile sector has welcomed the government's move to lower the THCs at seaports stating that the reduction would partially compensate for the massive increases in production costs due to recent fuel price increases, and would save the jobs of 250,000 workers.[25] With a view to cutting the cost of shipping, the government has planned to scrap the 10 percent VAT currently imposed on freight handling.

The Ministry of Finance announced on 17 April 2006 that it plans to abolish import duties on raw materials for textiles, beverages, footwear and electronics as part of an effort to boost growth in these industries. Reportedly, the government is also considering exempting commodity goods produced by those four industries from VAT. The government currently applies between 5 percent and 15 percent import duties on raw materials for these sectors, and a 10 percent VAT on the goods they produce (US Embassy 2006b).

2.2.2. General Support

At the general level, several incentives have been granted to exporting manufactured products. These are: restitution (drawback) of import duty on the importation of goods and materials needed to manufacture the exported finished products; exemption from VAT and sales tax on luxury goods and materials purchased domestically, to be used in the manufacturing of the exported products, and the import of raw materials required regardless of the availability of comparable domestic products. [26]

The industrial firms which are located in SEZs (called 'bonded areas' in Indonesia) are provided with a number of incentives, including exemption from import duty, excise, withholding income tax, and VAT on luxury goods on the importation of capital goods and equipment including raw materials for the production process.[27] With the aim of attracting more foreign investment, the government plans to create eight new SEZs. The major focus of the proposed SEZ in Java is on export-oriented industries, including the T&C industry (US Embassy 2006c).

2.3. Vietnam

2.3.1. Specific Support

Besides technology upgradation, reduction in infrastructure charges and establishment of SEZs have been the major features of the government support programme in Indonesia

Vietnam, being a non-market economy, has been a major target of attack by the textile lobby as well as politicians of the developed countries, particularly the US. In a press release issued by National Council of Textile Organisations (NCTO), Chairman Jim Chesnutt has been quoted as saying: "Vietnam is currently subsidising its textile and apparel sector through preferential interest rates, wage controls, rent holidays, export subsidies, preferential tax rates and direct investment from the Vietnamese government totalling billions of dollars" (NCTO 2006). On a similar note, in a letter addressed to the US Trade Representative dated 13 June 2006, which is signed by 44 Republican and Democrat Congress members, they labelled Vietnam's growth of exports in the US market as massive and disruptive, "clearly aided by Vietnam's ability to artificially lower prices through its state sponsored system."

Very limited information on government support to the T&C sector is available from country sources. As per the available information, in 2001, the government ratified the development strategy for the T&C industry and initiated several measures to support the strategy's implementation (Decision 55/2001/QD-TTg). The strategy included financial support for projects to develop cotton-growing areas; infrastructure for textile industrial zones; preferential loans for capital investment in textile weaving, dyeing and finishing sectors; subsidies for export promotion and performance incentives; and lower fees for US-bound garment exports.[28] Under Decision 55, while total spending reached Viet Nam Dong (VND) 35 trillion (US$2.19 billion) during 2001–2005, for 2006–2010, the target is VND 30 trillion (US$1.87 billion) (Vietnam Economy 2006a; 2006b).

Vietnam, which provides support for export promotion of the T&C sector, has made a commitment to phase them out during its accession to the WTO

The number of enterprises relying on subsidies is estimated to be 10–12 percent of the total (Phuong 2006). Vietnam's government decided to end the state's support as per a requirement made in bilateral talks during the country's accession to the WTO. Decision 126/2006/QD-TTg, which invalidates Decision 55, was issued on 30 May 2006 with a view to implementing the commitment before Vietnam's WTO accession. The other T&C-specific support from the government is the zero-tariff benefit on the import of textile materials, provided they are used to produce apparel for export purpose (EmergingTextiles.com 2002).

2.3.2. General Support

Vietnam provides several general incentives to its export-oriented enterprises. For example, the government provides tax holidays of up to eight years for certain enterprises, reduced corporate income tax ranging from 5 to 25 percent for more than 10 years (depending on the nature of investment, exportability, and the geographical location of the industry), and exemption from import duties and VAT in certain sectors. Moreover, firms established in SEZs are entitled to additional benefits (Fletcher 2002).

According to ASEAN-China Business Net,[29] other preferential taxes and/or tax reductions or exemptions may be granted to companies producing exports and/or export goods. For example, export goods are subject to zero percent VAT. Businesses may defer the payment of VAT on materials and supplies imported for the production of export goods within the time limit for the deferment of import tax payment prescribed by the Law on Export Tax and Import Duty.

Companies, including private firms, producing exportable items may find it easier to access land-use rights and may be given a 50–70 percent reduction in land rent or an exemption from land rent for three to six years. Export-oriented companies with foreign investment may enjoy preferential corporate income tax rates, which are as low as 10 percent for the whole life of investment, plus tax holidays of up to four years and a 50 percent reduction for another four years or even eight years in special cases.[30]

Issues for discussion

- What is the rationale for most governments to focus excessively on technology upgradation and not so much on innovation through R&D and skill development of workers?
- What could be the possible survival and/or export growth strategy in the post-ATC period, other than government support?
- What is the role of public-private partnership and South-South cooperation in helping Asian countries strengthen their position in the global market in the post-ATC period?
- What is the role of SEZs and EPZs in harnessing the potential of the T&C sector?

Chapter 4

Multilateral Discipline on Government Support

1. Background

Market is a powerful tool for resource allocation but it has its own limitations, market failure being one such example. Therefore, governments all over the world have made investments in correcting such failure. Although economic literature suggests that government intervention can distort the pattern of resource allocation, thereby causing inefficiency, history is replete with examples of governments providing support to the economic activities that contribute to exports, employment, food security and economic growth. The EU subsidy on agriculture and aircraft manufacturing, and US subsidy on cotton and foreign sales corporations are a few examples. While some forms of government support are politically motivated, others are targeted to promote the domestic industry or the agricultural sector.

Conventional economic thinking holds that subsidies are better instruments than tariffs for the protection or promotion of local industries as the former, unlike the latter, do not raise prices, hurt consumers, or raise costs for users (World Bank 1997, cited in Chang 2005). This argument has been contested mainly on the ground that resources required for providing subsidies is extremely limited in the developing countries in the first place (Chang 2005). Likewise, the multilateral discipline on subsidies tends to clip the wings of governments trying to provide such support.

There is, however, always a limit to government support. Although governments articulate legitimate goals for their subsidy programmes, critics believe that government subsidies may give excessive protection to domestic industries. They fear that subsidies may act as a barrier to trade, by distorting the competition that they argue develops naturally in a free trading system. Export of subsidised products may injure the domestic industry producing the same product in the importing country. Subsidised products may even gain artificial advantages in third country markets and may even impede other countries' exports to those markets.

Additionally, governments have been blamed for trying to protect domestic industries regardless of their competitiveness. They have often been accused of using subsidies to needlessly prolong the natural adjustment process. Critics of government policies on subsidies argue that in the short term, such subsidies may place a domestic product in a more competitive position. They may maintain or increase the profitability of the products and keep employment in that industry stable. In the longer term, such subsidies, because they do not push industries to compete in world markets, may lead to inefficient allocation of resources. Thus, subsides may obstruct an industry's development or encourage misallocation of domestic resources.

Although economic literature suggests that government intervention can distort the pattern of resource allocation, thereby causing inefficiency, history is replete with examples of governments providing subsidies

In light of the trade-distorting nature of subsidies, ASCM has been included in the WTO system to prohibit subsidies that have a particularly high trade-distorting effect.

2. Multilateral Discipline

2.1. Historical Perspective

Subsidy has been historically considered a powerful tool for enhancing competitiveness of domestic enterprises vis-à-vis foreign ones. However, efforts to regulate them have not been effective, not least because of the tussle between the two powerful economies of the world on how to discipline the same. According to United Nations Conference on Trade and Development (UNCTAD) (2003: 3): "Notably because of policy differences between the US and the European Commission (EC), the GATT treatment of subsidies (Articles VI and XVI) has historically been controversial and the disciplines weak."

ASCM is aimed at disciplining trade distorting subsidies – export subsidies as well as import substitution subsidies

A Subsidies Code was agreed upon in the Tokyo Round but it skirted around important issues. ASCM, agreed during the Uruguay Round, has generally been hailed as a major improvement over previous regimes as it provides for the first time a definition of 'subsidy', lays down detailed standards for the conduct of countervailing duty investigations and provides a workable multilateral discipline on subsidies (UNCTAD 2003).

2.2 Objective and Definitional Issues

The primary objective of ASCM is to define those types of subsidies that distort trade. The Agreement prohibits two types of subsidies – export subsidies, which are provided to make the products competitive than they would otherwise have been and thereby distort international trade; and import-substitution subsidies, which include subsidies given for the use of domestic products in preference to imported products (Das 2006). The second objective is to set out rules for trade actions that countries may take to counter such subsidisation by other countries.

This Chapter focuses only on export subsidy, which is the main focus of this Discussion Paper. However, import-substitution subsidies are also important elements in the multilateral disciplines on subsidies.

In order to understand what constitutes a subsidy, analysis of Das (1999: 155) is quite instructive: "If there is a financial contribution by the government [or a public body], or if there is income or price support, and if either of these confers a benefit to production or export, a subsidy is deemed to exist." Even if a private body is entrusted with the responsibility of providing such support on behalf of the government, it will be considered a subsidy.[31] Further, it has been clarified by the Appellate Body of the WTO that it is the *benefit to the recipient* that matters, as opposed to the *cost to the government.*[32]

Assuming that a measure is a subsidy within the meaning of ASCM, it, nevertheless, is not subject to ASCM unless it has been specifically provided to an enterprise or an industry or a group of enterprises or industries. The basic principle is that a subsidy that distorts the allocation of resources within an economy should be subject to discipline. Where a subsidy is widely available within an economy, such a distortion in the allocation of resources is presumed not to occur. Thus, only 'specific' subsidies are subject to ASCM disciplines[33] (Box 4.1).

There are four types of 'specificity' within the meaning of the ASCM:

Enterprise specificity. A government targets a particular company or companies for subsidisation. For example, a subsidy of US$618 million, alleged to have been provided by China for the bail-out of its state-owned enterprise, WorldBest.[34]

Industry specificity. A government targets a particular sector or sectors for subsidisation. For example, subsidised and/ or preferential credit provided by several Asian countries – including Bangladesh, China, India, Pakistan, Sri Lanka and Vietnam – to their T&C exporters.

Regional specificity. A government targets producers in specified parts of its terri-

BOX: 4.1

Definition of Specific Subsidies

Specificity is defined both in positive and negative terms. A subsidy is specific if access to it is explicitly limited to specific enterprises or specific industries. For subsidies to be considered 'general' and not 'specific', the following conditions have to be fulfilled:

a) Objective criteria or conditions have been established for the eligibility of enterprises or industries to obtain the subsidy and also for the quantum of the subsidy;

b) The criteria or conditions so established are:
   i) neutral, i.e., they do not favour certain enterprises over others;
   ii) economic in nature;
   iii) horizontal in application, e.g., number of employees, size of the enterprise;

c) Eligibility is thereby made automatic; and

d) The criteria or conditions are clearly laid down in laws, regulations or other official instruments and are capable of verification.

Source: Das (1999).

tory for subsidisation. For example, Development Assistance Fund of Vietnam was established to assist in the implementation of important economic projects and the development of disadvantaged areas, which include: preferential investment credit for development contingent upon export criteria; preferential development credit for investment contingent upon localisation ratios; and other preferential investment credit for development (WTO 2006d).

Prohibited subsidies. A government targets export goods or goods using domestic inputs for subsidisation.[35] For example, as discussed above, the Indian government has planned to establish yarn depots for strengthening the supply of yarn for the use of domestic textile factories.

2.3. Types of Subsidies

Not all subsidies are prohibited by ASCM. Therefore, they have been categorised as prohibited subsidies and actionable subsidies, according to the current WTO discipline. It originally contained a third category: non-actionable subsidies. This category existed for five years, ending on 31 December 1999.

2.3.1. Prohibited Subsidies

Subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods are considered prohibited subsidies. They are prohibited because they are specifically designed to distort international trade, and are, therefore, likely to hurt other countries' trade.[36] Even if a subsidy is not formally dependent on export performance but is in fact tied to actual or anticipated exports or export earnings, it will still fall under the prohibited export subsidy (Das 1999).

Annex I of ASCM provides an illustrative but not exhaustive list of export subsidies (which are appended on Annex 3), the major ones of which are: direct payment of subsidy to a firm or an industry based on export performance; exemption, remission or deferral of direct taxes; exemption or remission of indirect taxes; provision of export credit guarantees; and grant of export credit at a relatively lower rate.

Subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods are considered prohibited subsidies

Import substitution subsidies, as defined by Article 3.1 (b) of ASCM, which too are prohibited, are subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods.

2.3.2. Actionable Subsidies

In this category, the complaining country has to show that the subsidy has an 'adverse effect' on its interests. Otherwise the subsidy is permitted. According to Das (1999), the term 'adverse effect' has three alternative elements, any one of which, if present, may be enough to get the action

ASCM appreciates that the developing countries, which are at low level of economic development, encounter certain natural handicaps and, therefore, it is necessary to provide them some flexibilities

initiated. These elements are elaborated below.

Material injury or threat of material injury: One country's subsidies can hurt a domestic industry in an importing country.[37] It needs to be noted that injury is related not only to an existing industry but also to the future establishment of an industry. The determination of injury involves an objective examination of the volume of subsidised import; the effects of the subsidised imports on the prices of like products in the domestic market; and the consequent impact of the imports on the domestic producers of these products (Das 1999).

Serious prejudice or the threat of serious prejudice: One country's subsidies can hurt rival exporters from another country when the two compete in a third market. [38] There is a presumption of existence of serious prejudice if a subsidy on a product exceeds 5 percent of the value of production; the subsidy is given to cover operating losses of an industry; if the repeating subsidy covers the operating losses of an enterprise beyond a one-time subsidy for this purpose and if there has been direct forgiveness of debt, including grants to cover debt repayment (Das 1999).

Nullification or impairment of benefits under GATT 1994: Domestic subsidies in one country can hurt exporters trying to compete in the subsidising country's domestic market,[39] thereby 'nullifying and impairing' the market access concession granted to the exporting country through tariff binding commitment made as per Article II of GATT 1994.

2.4. Special and Differential Treatment

The Agreement appreciates that developing countries, which are at a low level of economic development, encounter certain natural handicaps. In order to overcome these hurdles and provide a level playing field for the enterprises of developing countries to compete with very strong trading enterprises having superior human, financial and technological resources, a certain degree of support from the government may be necessary. Besides, developing countries use subsidies as an important policy instrument for facilitating export diversification into higher value-added products so as to achieve structural transformation. For these reasons, a special dispensation for developing countries in general and LDCs in particular has been considered necessary (Das 1999). The special and differential treatments (S&DTs), allowed at present by the ASCM[40], are as follows.

Article 27.2 exempts two groups of developing countries (provided in Annex VII of the Agreement) from the prohibition of export subsidies. These include:

a) LDCs designated as such by the United Nations which are Members of the WTO; and

b) Each of the following developing countries which are Members of the WTO until their per capita income reaches US$1,000 per annum[41]: Bolivia, Cameroon, Congo, Côte d'Ivoire, Dominican Republic, Egypt, Ghana, Guatemala, Guyana, India, Indonesia, Kenya, Morocco, Nicaragua, Nigeria, Pakistan, the Philippines, Senegal, Sri Lanka and Zimbabwe.

Articles 27.4 and 27.5 of ASCM, however, impose restrictions on the use of export subsidies by the developing countries. If a country reaches export competitiveness in a certain product, the Agreement requires that the export subsidy on that product be phased out over a period of eight years. According to ASCM, export competitiveness in a product exists if a developing Member's export of that product has reached a share of at least 3.25 per cent in world trade of that product for two consecutive calendar years.

It should be emphasised that even if the Agreement allows some developing countries to implement export subsidies, it does not make the exports from these countries immune from countervailing duties. If the conditions for introducing countervailing measures are met (discussed below in sub-section 2.5), then other Members can impose countervailing measures on subsidised imports from the developing countries and the LDCs.

It should, however, be noted that countries that are not the founding Members of the WTO and have become Members through accession were largely denied these S&DTs. Among the newly acceded countries from Asia, while LDCs such as Cambodia and Nepal were able to retain the right to provide export subsidy, countries such as China and Vietnam have been made to abide by the disciplines on subsidy from the date of their accession and have not even been granted the transitional period. They were asked to make commitments, among others, to terminate, phase out, bind or not to introduce prohibited export subsidies (WTO 2006c).

Vietnam's request to be included in the Annex VII exemption, based on its low-income country status (including a per capita gross national product-GNP of less than US$1,000), was turned down by the Working Party on the ground that the list provided in the Annex is exhaustive and cannot be expanded to include new countries. Moreover, as Vietnam was acceding to the WTO after the expiry of the phase-out period for export subsidies by developing countries, the Working Party decided that the country should phase out its export subsidy schemes upon accession (WTO 2006d).

2.5. Remedies

Two types of remedies exist under ASCM: unilateral and multilateral. Certain disciplines have been imposed based on the type of damage subsidies cause or are likely to cause to the industry concerned. ASCM uses the three terms 'adverse effects', 'serious prejudice' and 'material injury' to indicate certain conditions that must be met for remedies to be applied, and which track should be followed for initiating remedial actions (UNCTAD 2003).

In case material injury or its threat exists, a country may impose countervailing duties on the subsidised product to compensate for the effect of a subsidy or may take the dispute settlement route and have the subsidy removed. Elaborate rules have been prescribed for determining injury and the quantum of subsidisation, which have been the subject of disputes in the WTO. In the case of the existence of serious prejudice, there is only one route of relief; a country may resort to the dispute settlement process to have the subsidy removed (Das 2006).

The purpose of the unilateral track is to re-establish the level playing field for domestic producers, which face competition from subsidised imports. Thus, the imposition of a countervailing duty supposedly will offset the unfair advantage that foreign exporters gained as a result of subsidisation. As the relevant procedure is a domestic one, ASCM contains various procedural obligations that authorities wishing to investigate injurious subsidisation must comply with.[42]

Even if ASCM allows some developing countries to provide export subsidies, it does not make the exports from these countries immune from the countervailing duties

Multilateral disputes relating to subsidies involve developed as well as developing countries. So far, the US has been the major respondent in these cases followed by Canada. The Asian developing countries have been respondents in a limited number of cases, with India, Indonesia and the Philippines being the respondents in a few cases. Moreover, government support provided to the T&C sector had not been challenged until recently because of the reasons outlined in Box 4.2.

A recent decision of the US to set up a dispute settlement panel to remedy the problem emanating from alleged Chinese subsidy is probably the first case which will bring government support provided to the T&C sector under the close scrutiny of the WTO. The US alleges that the nine Chinese government programmes in question use a series of tax refunds, re-

BOX: 4.2

Reasons for Non-action against T&C Subsidies

Most of the subsidies provided to the T&C industries in the countries reviewed are either prohibited or actionable. However, such subsidies, as noted above, had not been challenged until recently. There are three plausible reasons for this.

First, the availability of other trade remedy measures had made the initiation of a countervailing or dispute settlement proposition unattractive. Second, most countries provide subsidies in a discrete manner and do not notify them to the WTO, despite the obligation to do so under ASCM. Third, three developing countries, which have been included in the Annex VII list of ASCM, namely India, Pakistan and Indonesia are yet to cross the threshold of GNP per capita of US$1,000. This exempts them from the normal disciplines on export subsidy outlined in ASCM. Similarly, Bangladesh, being an LDC, is allowed to continue export subsidy as long as it remains within this category.

However, the subsidies provided by Sri Lanka can be challenged at the WTO now that the country has crossed the threshold. Its GNP per capita now stands at US$1,200, which makes it vulnerable to challenges from the developed countries. Since China and Vietnam are also not included in the Annex VII list, they too are in a vulnerable position.

A recent challenge of the Chinese subsidy by the US and Mexico at the WTO is probably the first case initiated against the Asian T&C subsidy

ductions and exemptions to subsidise exports by foreign investors in China and their Chinese business partners, and encourage the consumption of domestic equipment and other manufacturing inputs over imported equivalents (ICTSD 2007a).

According to the US Trade Representative (USTR) office, these programmes are available for all products made in China but are particularly used for steel, computers, clothing and other manufactured products. The partly foreign-owned companies that are eligible for these subsidies account for some 60 percent of Chinese manufactured exports. Chinese exporters who meet certain requirements are exempted from sales tax (ibid.). Mexico filed a similar complaint against China on 28 February 2007 (ICTSD 2007b).

Since consultation with China failed to yield results, the US officially requested the WTO on 12 July 2007 to create a dispute settlement panel to examine its claim that a range of Chinese government tax policies have been effectively serving as illegal subsidies. Mexico has not formally requested for setting up a panel but is likely to follow suit (ICTSD 2007c).

Although the US textile industry group NCTO had requested USTR to impose countervailing duty against Chinese subsidies[43], the latter seems to have taken recourse to a multilateral mechanism for the settlement of dispute. There may be two reasons for this.

First, the US Department of Commerce, which is entrusted with the responsibility of imposing countervailing measures against subsidies, feels that it is difficult to unpeel the subsidies.[44] Second, the multilateral mechanism too seems to provide a relatively swift remedy on the issue of subsidy. It is worth noting that ASCM provides for a rapid dispute settlement mechanism, whereby it is necessary for the panel to prepare and circulate the report within 90 days of the date of composition and establishment of the panel's terms of reference.[45] Under normal circumstances, panel issues report only after six months from the date of its composition.

Issues for discussion

- Why are the maximum number of subsidy-related disputes among developed countries themselves and not so much with developing countries?
- How are SEZs or EPZs regulated under the multilateral discipline?
- Are the S&DT provisions included in ASCM sufficient to address the development needs of developing and least developed countries?
- Should the countries acceding to the WTO be given some flexibilities in the application of ASCM rules, which are available to existing WTO Members at a comparable level of development?

Chapter 5

Some Analytical Issues

1. Summary Analysis of Government Support

The phasing out of T&C quotas on 1 January 2005 represents both opportunities and threats for Asian countries, depending mainly on the level of competitiveness of each individual country. Therefore, government support measures provided, whether before or after the phasing out of quotas, can be broadly considered a 'survival strategy' for some players but a 'preparedness strategy' for some others eager to take advantage of the potential market access opportunities.

In Asia, some governments have been highly proactive, while others appear to be reactive in terms of providing support to the T&C sector. Governments tend to keep the support to industry, particularly for export-oriented sectors, as discreet as possible, mainly due to the fear of falling foul of ASCM.

For the T&C sector, the support and incentives provided by various governments can be either general or specific. Some governments provide tax exemptions to all export-oriented enterprises while other incentives or support could be specifically targeted at the T&C sector. For example, the support provided for the importation of T&C machinery to facilitate technological upgradation is considered a specific assistance targeted at the T&C sector.

While some support has been provided only by the government, others have been undertaken through public-private partnership or with the private sector reacting to incentives provided by the government. For example, the Sri Lankan government is working together with industry groups to create a 'brand image' for Sri Lankan apparels. Another example could be that the private sector in China and Pakistan have reacted positively to the stimulus provided by their governments, reducing tariffs on the import of T&C machinery.

Based on the type and magnitude of support provided by various governments, one can notice the following patterns:

Governments that pursue active industrial policies tend to provide higher levels of support

First, support is the function of the ability as well as the willingness of governments to provide assistance. Therefore, better-resourced countries like China seem to have provided more assistance compared to, say, Indonesia. Governments that pursue active industrial policies tend to provide higher levels of support, which can also be seen from the examples of China and India vis-à-vis Indonesia and Sri Lanka.

Second, maintaining and improving competitiveness being the key to survival in the post-quota world, investment in technological upgradation and modernisation of the T&C sector has been the most widely utilised form of support in all the countries reviewed. While some countries reduced tariffs on import of machinery and equipment, others provided preferential credit or cash support to enterprises to help firms modernise themselves.

Third, two types of support, which are general and applicable for all exporting enterprises, are prevalent in all the countries reviewed. They are, first, operation of SEZs or EPZs and, second, refund of and reductions in excise duty, sales tax and VAT for inputs – goods and/or services – used in export processing. Similarly, duty reduction in the import of inputs also figures as a prominent means for supporting export-oriented industries.

Fourth, reductions in the prices of infrastructure such as rebate/reduction in utility charges is found to be the least used (or least reported) form of government support. Even in the case of Bangladesh, where this facility is provided to export-oriented enterprises, the scheme seems to have been only recently introduced, through the Industrial Policy of 2005.

Fifth, income tax exemption for exporting sectors, an extensively used form of government support in the past, is not the norm anymore as some governments have recently discontinued such facility. Others charge income tax at reduced rates for export-oriented enterprises.

Further research is required to establish, if any, correlation between the magnitude of government support in the T&C sector and export growth

2. Policy Issues

The countries reviewed in this paper happen to be those that have achieved considerable export gains in the post-quota period. However, further research is required to establish, if any, correlation between the magnitude of government support and export growth.

For example, it may not be possible to ascribe the success of Bangladesh in the post-quota period to government support because a host of literature (see, for example, Razzaque and Raihan 2006; Unnayan Shamannay 2006; Adhikari and Weeratunge 2007; IMF 2007) as well as the views of the major stakeholders reveal that Bangladesh's success is due to the temporary safeguards imposed on China; higher value addition in knit garments resulting in the fulfilment of EU ROO criteria for duty-free access under the Everything But Arms (EBA) initiative; and a depreciation of Bangladeshi currency, which has resulted in increased competitiveness of Bangladeshi exports in the global market.

Similarly, it may not be possible to ascribe Sri Lanka's success to government support due to two primary reasons. First, the government support, in financial terms, has been minimal. Second, the efforts of the private sector to focus on product diversification by identifying niche products and initiating an ethical clothing campaign, have yielded impressive results, which cannot be discounted at any cost (Adhikari and Weeratunge, forthcoming).

While Industrial Policy is necessary to tap the opportunities available in the post-ATC period and enable countries to face competition from countries with high potential, a continuation of government support to the T&C sector also raises four major questions.

First, much of the support seems to have resulted from 'demonstration effect' with the countries trying to replicate a successful model of other countries without conducting a proper cost-benefit analysis. Given the fact that government support to the industry has severe budgetary implications and its sustainability can be questioned, it is vital that the governments conduct such an analysis before providing any form of support.

Second, there is a political economy aspect intrinsically linked to the support because the T&C sector, being a major contributor to the national economy, is a powerful lobby in most Asian developing countries. They can exert considerable pressure on the government to provide new forms of support or continue existing measures even when marginal benefits of such support may not justify the costs. Some support measures that were provided during the period of quota restriction have outlived their utility in the present day competitive and relatively freer trading environment. Such support, which was never meant to be perpetual, should have been phased out after the sectors reached a competitiveness threshold.

Third, given the fact that most of these governments have limited resources, fi-

BOX: 5.1

Investing in Trade Facilitation

Rather than providing specific support to the T&C sector, a government is better off investing resources to improve trade facilitation measures, which will produce benefits for the entire trading activities of the country, both imports and exports, including for the T&C sector. Let us consider the following case. It takes 57 days to import a consignment into and 35 days to export a consignment from Bangladesh. The corresponding figures for Sri Lanka are 27 days and 25 days, respectively.[46] Given the distance of Bangladesh from the major markets, it is assumed that Bangladesh will not be able to bring these times on a par with those of Sri Lanka at least in the short run. However, even if Bangladesh halves the differences in the times, it would be able to reduce the time taken for export by five days and the time taken for import by 15 days.

Hummels (2001) estimates that each day saved in shipping time is worth 0.8 percent *ad valorem* duty for manufactured goods. If Bangladesh can save five days in its export time, it would be able to make a saving of 4 percent on its export costs. Razzaque (2005) estimates that for the woven garments, 75 percent of inputs are sourced from outside. If Bangladesh can reduce the import time by 15 days as mentioned above, it can reduce the cost of its exports by 9 percent (15 days x 0.8 percent saving x 75 percent imported inputs). Therefore, by investing in trade facilitation measures and improving the delivery time, Bangladesh's exports can become 13 percent more competitive in the global market. In the long run, if Bangladesh is able to match the current level of the efficiency of Sri Lanka, it would become 26 percent more competitive in the global market than it currently appears to be.

It is encouraging to note that such efforts are already under way in Bangladesh. Realising the continued lack of efficiency in the Chittagong port, a range of reform measures have been taken. These have led to a reduction in the average turnaround of ships from nine days to four days. The shipping costs of consignments have been reduced by 20 percent. Overall, the efficiency level of the port has increased by 40 percent and the costs have been reduced by 30 percent (Ministry of Finance 2007a). Similarly, efforts are under way to construct a new terminal with the help of private management. Likewise, the technical and financial feasibility studies of the proposals for building a deep sea port have been completed (Ministry of Finance 2007a).

nancial support to the T&C sector may crowd out public investments in other sectors of the economy such as agriculture, education and health, which have far greater human development spin-offs. As described in Box 5.1, investment in improving trade facilitation measures may have a greater pay-off for the entire trading sector. Therefore, it is advisable for governments to conduct a thorough study on this aspect as well.

Fourth, in providing subsidies for export development in general and boosting T&C exports in particular, these Asian countries may be violating the provisions of ASCM, thereby making themselves vulnerable to trade remedy measures by the importing countries. The fact that such challenges had not been initiated in the past provides no reason for complacency. The recent dispute initiated by the US and Mexico over the subsidies provided by China, among others, to the T&C sector demonstrates such vulnerability. Therefore, it is advisable for a country to provide 'general' support rather than 'specific' support targeted at export-oriented industries in general and the T&C sector in particular. As noted above, such general support could be in the form of creating infrastructure for the industries, improving trade facilitation measures, investing in human capital, which will help countries increase their productive capacity vis-à-vis other competing countries. Investment in human capital, for example, will help these countries move up the value chain by producing higher value-added products.

Financial support to the T&C sector may crowd out public investments in other sectors, which have far greater human development spin offs

Issues for discussion

- What are the subsidies still provided to the T&C sector though they have outlived their utility?
- Why are the rebates/reductions in utility charges the least used forms of government support despite their visible impact on the competitiveness of the T&C industry?
- How can improved trade facilitation measures be useful for the Asian governments to enhance their competitiveness in the T&C industry?
- How valid is the argument that the government support to the T&C sector may crowd out public investment in other sectors with higher human development spin-offs?
- What is the role of political economy factors in determining the type and magnitude of government support to the T&C sector?

Conclusion

Government support to the T&C sector is widely prevalent in Asia. The support measures are provided to the industry to help them enhance their competitiveness, which is rather limited due to several demand- and supply-side factors.

On the demand side, these countries are at a competitive disadvantage vis-à-vis Sub-Saharan African, Caribbean, East European and North African, Latin American, and Pacific countries, which are the beneficiaries of preferential market access schemes in the major markets of the world.

On the supply side, a low level of human capital, technological backwardness, infrastructural handicaps, limited trade facilitation measures, high costs of procuring inputs and limited access to credit are stifling competitiveness.

Protagonists of an active industrial policy are of the opinion that such support measures are helpful in enhancing competitiveness of most Asian countries, and governments should have the right to make use of them as long as they need them.

The budgetary implications of such subsidies, including their tendency to crowd out investment in other economic and social sectors, which may have better human development spin-offs, are, however, a cause of concern. This is particularly so due to political economy factors. Since the T&C industry is a powerful lobby, it is able to exert considerable pressure on the government to provide such support. Sectors like agriculture, health, education and infrastructure are too general to be of interest to any particular lobby, and they tend to be marginalised in the process of allocation of public resources.

Policymakers are advised to provide general support to the industrial sector as a whole rather than providing specific support to export-oriented industries or the T&C industry in particular. This is more so for a country like China, Sri Lanka and Vietnam, which are not exempted from any discipline of ASCM. However, countries such as Bangladesh, India, Indonesia and Pakistan can continue to provide specific support, if they so desire, as long as they do not reach the threshold stipulated in ASCM.

The general support not only provides economy wide benefits but also are in line with the requirements of the WTO

While providing support to the T&C sector, a gradualist approach is better suited due to legal (because of ASCM) as well as economic reasons (in order to reduce burden on public resources). There should be a 'sun set' clause with credible milestones and deadlines for the phasing out of support. Apart from the Indian government's policy of discontinuing income tax exemptions to exporters, the recent decision of Bangladesh to withdraw zero-duty facility for the import of textiles machinery is an example worth highlighting.

If support becomes inevitable, it is necessary for the governments to explore three other forms of financing in order to reduce the burden on budgetary resources, both due to support provided and revenue forgone.

First, as has already been initiated in many countries, including Sri Lanka, the potential for public-private partnership between the government and consortia of exporters should be utilised to the extent possible to develop this sector. Cost sharing should be encouraged in every support programme.

Second, it may be possible to charge the industry nominal user fees, and gradually increase the same over time.

Third, governments should try to obtain technical assistance from various multilateral and bilateral donors, as has been done in Bangladesh, to support some of these initiatives.

Annex 1

Recent Trend in T&C Imports of Two Major Markets

Table A1: **Share in US Imports of T&C Products**

Country/Region	2005		2006		2007		2004-05 Annual Growth Rate (%)	2005-06 Annual Growth Rate (%)
	Value in 1,000 US$	Market Share (%)	Value in 1,000 US$	Market Share (%)	Value in 1,000 US$	Market Share (%)		
World	86,703,575	100.0	92,595,009	100.0	96,201,234	100.0	6.8	3.9
Asian 12 Ranked by 2004 Value of Imports	35,842,500	41.3	46,076,508	49.8	53,296,126	55.4	28.6	15.7
China	14,948,476	17.2	22,445,458	24.2	26,418,449	27.5	50.2	17.7
India	3,946,295	4.6	4,973,699	5.4	5,377,695	5.6	26.0	8.1
Indonesia	2,601,592	3.0	3,092,157	3.3	3,915,366	4.1	18.9	26.6
Vietnam	2,573,239	3.0	2,724,722	2.9	3,236,344	3.4	5.9	18.8
Pakistan	2,550,601	2.9	2,887,926	3.1	3,226,865	3.4	13.2	11.7
Thailand	2,207,135	2.5	2,178,467	2.4	2,179,876	2.3	-1.3	0.1
Bangladesh	1,986,278	2.3	2,380,338	2.6	2,919,631	3.0	19.8	22.7
Philippines	1,862,742	2.1	1,881,837	2.0	2,053,547	2.1	1.0	9.1
Sri Lanka	1,600,622	1.8	1,694,485	1.8	1,725,249	1.8	5.9	1.8
Cambodia	1,430,845	1.7	1,716,164	1.9	2,146,378	2.2	19.9	25.1
Nepal	132,563	0.2	98,420	0.1	88,724	0.1	-25.8	-9.9
Lao PDR	2,112	0.0	2,836	0.0	8,004	0.0	34.3	64.6
CBI+Mexico	18,685,974	21.6	17,775,857	19.2	16,280,962	16.9	-4.9	-8.4
CBI	10,159,534	11.7	9,807,670	10.6	9,156,336	9.5	-3.5	-6.6
Mexico	8,526,440	9.8	7,968,188	8.6	7,124,626	7.4	-6.5	-10.6
AGOA[1]	1,792,858	2.1	1,497,104	1.6	1,332,906	1.4	-16.5	-11.0
ROW	30,382,243	35.0	27,245,539	29.4	25,291,240	26.3	-10.3	-7.2
Fiji	85,784	0.1	19,160	0.0	3,904	0.0	-77.7	-79.6
Maldives	81,052	0.1	4,720	0.0	1	0.0	-94.2	-100.0
Mongolia	229,045	0.3	134,785	0.1	104,026	0.1	-41.2	-22.8

Source: USITC Interactive Tariff and Trade DataWeb.

Note: [1]37 African countries that are eligible for AGOA benefits.

Table A2: Share in US Imports of T&C Products

Country/Region	2005		2006		2007		2004-05 Annual Growth Rate (%)	2005-06 Annual Growth Rate (%)
	Volume in 1,000 Kg	Market Share (%)	Volume in 1,000 Kg	Market Share (%)	Volume in 1,000 Kg	Market Share (%)		
World	8,379,097	100.0	9,020,184	100.0	9,333,506	100.0	7.7	3.5
Asian 12 Ranked by 2004 Value of Imports	3,507,528	41.9	4,531,754	50.2	5,129,838	55.0	29.2	13.2
China	1,481,599	17.7	2,261,263	25.1	2,582,941	27.7	52.6	14.2
India	445,821	5.3	534,071	5.9	585,930	6.3	19.8	9.7
Indonesia	203,917	2.4	242,768	2.7	306,678	3.3	19.1	26.3
Vietnam	185,749	2.2	185,098	2.1	214,789	2.3	-0.4	16.0
Pakistan	454,075	5.4	529,550	5.9	587,534	6.3	16.6	10.9
Thailand	189,208	2.3	183,625	2.0	176,567	1.9	-3.0	-3.8
Bangladesh	207,593	2.5	246,341	2.7	292,644	3.1	18.7	18.8
Philippines	117,464	1.4	114,803	1.3	123,785	1.3	-2.3	7.8
Sri Lanka	110,043	1.3	106,099	1.2	104,489	1.1	-3.6	-1.5
Cambodia	100,644	1.2	121,394	1.3	148,538	1.6	20.6	22.4
Nepal	11,308	0.1	6,636	0.1	5,497	0.1	-41.3	-17.2
Lao PDR	108	0.0	105	0.0	445	0.0	-3.1	325.1
CBI+Mexico	1,860,696	22.2	1,788,384	19.8	1,635,684	17.5	-3.9	-11.6
CBI	905,846	10.8	917,791	10.2	858,337	9.2	1.3	-6.5
Mexico	954,850	11.4	870,593	9.7	777,346	8.3	-8.8	-10.7
AGOA[1]	141,173	1.7	119,708	1.3	108,360	1.2	-15.2	-9.5
ROW	2,869,700	34.2	2,580,337	28.6	2,459,624	26.4	-10.1	-4.7
Fiji	6,041	0.1	1,263	0.0	282	0.0	-79.1	-77.7
Maldives	1,603	0.0	73	0.0	0	0.0	-93.6	-100.0
Mongolia	14,567	0.2	10,112	0.1	7,745	0.1	-30.6	-23.4

Source: USITC Interactive Tariff and Trade DataWeb.

Note: [1] 37 African countries that are eligible for AGOA benefits.

Table A3: Share in EU Imports of T&C Products

COUNTRY/ REGION Ranked by 2004 Value of Imports	2005		2006		2007		2004-05 Annual Growth Rate (%)	2005-06 Annual Growth Rate (%)
	Value in 1,000 Euro	Market Share (%)	Value in 1,000 Euro	Market Share (%)	Value in 1,000 Euro	Market Share (%)		
EU-Extra Trade	67,349,936	100.0	71,678,693	100.0	79,710,794	100.0	6.4	11.2
Asian 12	30,888,680	45.9	36,988,858	51.6	42,838,795	53.7	19.7	15.8
China	14,661,418	21.8	20,836,111	29.1	23,541,345	29.5	42.1	13.0
India	4,434,101	6.6	5,251,549	7.3	5,991,169	7.5	18.4	14.1
Bangladesh	3,895,402	5.8	3,710,534	5.2	4,807,093	6.0	-4.7	29.6
Pakistan	2,321,356	3.4	2,016,465	2.8	2,281,633	2.9	-13.1	13.2
Indonesia	1,751,723	2.6	1,577,777	2.2	1,856,302	2.3	-9.9	17.7
Thailand	1,172,411	1.7	1,072,912	1.5	1,175,089	1.5	-8.5	9.5
Sri Lanka	841,187	1.2	832,880	1.2	1,007,845	1.3	-1.0	21.0
Vietnam	728,185	1.1	775,083	1.1	1,137,400	1.4	6.4	46.7
Cambodia	519,712	0.8	477,098	0.7	552,464	0.7	-8.2	15.8
Philippines	367,202	0.5	246,010	0.3	297,504	0.4	-33.0	20.9
Lao PDR	118,195	0.2	119,352	0.2	122,449	0.2	1.0	2.6
Nepal	77,787	0.1	73,088	0.1	68,503	0.1	-6.0	-6.3
ROW	36,461,256	54.1	34,689,835	48.4	36,871,999	46.3	-4.9	6.3
Turkey	10,440,556	15.5	10,866,425	15.2	11,314,788	14.2	4.1	4.1
Romania	4,219,671	6.3	4,003,830	5.6	3,988,634	5.0	-5.1	-0.4
Tunisia	2,834,756	4.2	2,677,572	3.7	2,687,569	3.4	-5.5	0.4
Morocco	2,548,936	3.8	2,372,078	3.3	2,469,019	3.1	-6.9	4.1
Hong Kong, SAR	2,030,137	3.0	1,757,781	2.5	2,582,132	3.2	-13.4	46.9
EU-Extra trade/ Total EU trade	46.4	—	47.8	—	49.7	—	—	—

Source: Eurostat.

Table A4: Share in EU Imports of T&C Products

COUNTRY/ REGION Ranked by 2004 Value of Imports	2005		2006		2007		2004-05 Annual Growth Rate (%)	2005-06 Annual Growth Rate (%)
	Volume in 1,000 Kg	Market Share (%)	Volume in 1,000 Kg	Market Share (%)	Volume in 1,000 Kg	Market Share (%)		
EU-Extra Trade	8,460,035	100.0	8,926,836	100.0	9,609,487	100.0	5.5	7.6
Asian 12	4,453,016	52.6	5,131,122	57.5	5,655,826	58.9	15.2	10.2
China	1,934,534	22.9	2,631,993	29.5	2,782,630	29.0	36.1	5.7
India	755,877	8.9	803,479	9.0	872,929	9.1	6.3	8.6
Bangladesh	564,813	6.7	559,383	6.3	654,438	6.8	-1.0	17.0
Pakistan	493,254	5.8	472,107	5.3	520,125	5.4	-4.3	10.2
Indonesia	272,054	3.2	253,968	2.8	288,925	3.0	-6.6	13.8
Thailand	140,891	1.7	134,518	1.5	127,422	1.3	-4.5	-5.3
Sri Lanka	102,255	1.2	100,614	1.1	114,715	1.2	-1.6	14.0
Vietnam	87,849	1.0	90,983	1.0	198,741	2.1	3.6	118.4
Cambodia	38,940	0.5	35,777	0.4	41,095	0.4	-8.1	14.9
Philippines	44,900	0.5	31,380	0.4	37,501	0.4	-30.1	19.5
Lao PDR	10,037	0.1	10,199	0.1	11,093	0.1	1.6	8.8
Nepal	7,613	0.1	6,722	0.1	6,211	0.1	-11.7	-7.6
ROW	4,007,019	47.4	3,795,714	42.5	3,953,661	41.1	-5.3	4.2
Turkey	1,074,825	12.7	1,101,698	12.3	1,215,585	12.6	2.5	10.3
Romania	256,140	3.0	236,270	2.6	239,514	2.5	-7.8	1.4
Tunisia	165,532	2.0	152,658	1.7	149,601	1.6	-7.8	-2.0
Morocco	154,477	1.8	141,953	1.6	141,446	1.5	-8.1	-0.4
Hong Kong, SAR	136,024	1.6	109,966	1.2	152,797	1.6	-19.2	38.9
EU-Extra trade/ Total EU trade	43.8	—	49.0	—	55.0	—	—	—

Source: Eurostat.

Table A5: US and EU combined T&C imports, 2004-2006.

Country/Region Ranked by 2004 Value of Imports	2005	2006	2007	2004-05 Annual Growth Rate (%)	2005-06 Annual Growth Rate (%)
Value (in 1,000 US$)					
Asian 12	74,264,929	92,094,347	107,084,517	24.0	16.3
China	33,185,814	48,367,663	55,976,961	45.7	15.7
India	9,461,874	11,507,150	12,900,207	21.6	12.1
Bangladesh	6,831,769	6,996,613	8,955,417	2.4	28.0
Pakistan	5,438,136	5,396,611	6,091,683	-0.8	12.9
Indonesia	4,780,560	5,055,069	6,246,138	5.7	23.6
Thailand	3,665,498	3,513,277	3,655,317	-4.2	4.0
Viet Nam	3,479,028	3,689,002	4,664,463	6.0	26.4
Sri Lanka	2,646,975	2,730,672	2,990,699	3.2	9.5
Philippines	2,319,505	2,187,898	2,427,094	-5.7	10.9
Cambodia	2,077,315	2,309,722	2,840,052	11.2	23.0
Nepal	229,322	189,349	174,736	-17.4	-7.7
Lao PDR	149,135	151,321	161,751	1.5	6.9
Volume (in 1,000 Kg)					
Asian 12	7,960,545	9,662,875	10,785,663	21.4	11.6
China	3,416,133	4,893,256	5,365,571	43.2	9.7
India	1,201,698	1,337,550	1,458,859	11.3	9.1
Bangladesh	772,406	805,724	947,082	4.3	17.5
Pakistan	947,329	1,001,657	1,107,659	5.7	10.6
Indonesia	475,971	496,736	595,603	4.4	19.9
Thailand	330,099	318,143	303,989	-3.6	-4.4
Viet Nam	273,598	276,081	413,530	0.9	49.8
Sri Lanka	212,298	206,713	219,204	-2.6	6.0
Philippines	162,364	146,183	161,286	-10.0	10.3
Cambodia	139,584	157,171	189,633	12.6	20.7
Nepal	18,921	13,358	11,708	-29.4	-12.4
Lao PDR	10,145	10,304	11,538	1.6	12.0

Source: USITC Interactive Tariff and Trade DataWeb; Eurostat.

Annex 2

An indicative chart of governments' support to the T&C Sector in seven Asian countries

Support measures	Countries						
	BD	CN	IN	IS	PK	SL	VN
Support for technological upgradation	T&C specific	T&C specific	T&C specific	T&C specific	T&C specific	T&C specific	T&C specific
Subsidized/preferential credit	T&C specific	T&C specific	T&C specific	N/A*	N/A*	T&C specific	T&C specific
Creation/designation of textile/garment cities/village	T&C specific	T&C specific	N/A*	N/A*	T&C specific	N/A*	N/A*
Special economic/export processing zones	All exports	All exports	All exports	All exports	All exports	All exports	All exports
Duty reduction for the import of inputs/machinery	T&C specific	N/A*	T&C specific	N/A*	T&C specific	T&C specific	T&C specific
Excise, sales tax, VAT refund/reduction	All exports	All exports	All exports	All exports	All exports	All exports	All exports
Income tax rebate/reduction	All exports	All exports	N/A*	N/A*	All exports	All exports	All exports
T&C specific infrastructure support	N/A*	T&C specific	T&C specific	N/A*	N/A*	T&C specific	N/A*
Incentives for use of local inputs/outputs	T&C specific	N/A*	N/A*	N/A*	N/A*	T&C specific	N/A*
Reduction in price of infrastructure	T&C specific	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*
Export credit insurance	T&C specific	All exports	N/A*	N/A*	N/A*	N/A*	N/A*
Subsidies to loss making state owned enterprises	N/A*	All exports	N/A*	N/A*	N/A*	N/A*	N/A*
Writing off of upaid debt / debt forgiveness	N/A*	T&C specific	N/A*	N/A*	N/A*	T&C specific	N/A*
Human resource/skills development	T&C specific	T&C specific	T&C specific	N/A*	T&C specific	T&C specific	N/A*
Image building/quality improvement campaign	T&C specific	N/A*	T&C specific	N/A*	T&C specific	T&C specific	N/A*
R&D support	N/A*	T&C specific	N/A*	N/A*	T&C specific	N/A*	N/A*
Strengthening domestic capacity to supply inputs	N/A*	T&C specific	T&C specific	N/A*	T&C specific	T&C specific	T&C specific

Shade signs T&C specific | All exports | N/A*

Country abbreivations BD: Bangladesh; CN = China; IN = India; IS = Indonesia; PK = Pakistan; SL = Sri Lanka; VN = Vietnam

*The areas shaded in white do not necessarily mean that the government support is not existing, but that the information is not available.

Annex 3

Annex I of ASCM – Illustrative List of Export Subsidies

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

(b) Currency retention schemes or any similar practices which involve a bonus on exports.

(c) Internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments.

(d) The provision by governments or their agencies either directly or indirectly through government mandated schemes, of imported or domestic products or services for use in the production of exported goods, on terms or conditions more favourable than for provision of like or directly competitive products or services for use in the production of goods for domestic consumption, if (in the case of products) such terms or conditions are more favourable than those commercially available[47] on world markets to their exporters.

(e) The full or partial exemption remission, or deferral specifically related to exports, of direct taxes[48] or social welfare charges paid or payable by industrial or commercial enterprises.[49]

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

(i) The remission or drawback of import charges58 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.

(j) The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases in the cost of exported products or of exchange risk programmes, at premium rates which are inadequate to cover the long term operating costs and losses of the programmes.

(k) The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and other credit terms and denominated in the same currency as the export credit), or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.

Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members), or if in practice a Member applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.

(l) Any other charge on the public account constituting an export subsidy in the sense of Article XVI of GATT 1994.

Endnotes

1 Electronics is the fastest growing sector in terms of merchandise trade. See ADB (2006).

2 See WTO (2006a).

3 See ADB (2006).

4 See Adhikari and Yamamoto (2007).

5 Chinese investors pulling out their investment from Mongolia and Sri Lankan investors pulling out their investments from the Maldives are glaring examples. See Adhikari and Yamamoto (2006).

6 A facility to import free of customs duty and stock up essential inputs based on potential demand, which is allowed to sell the inputs to the exporters against production of confirmed export order or L/C. See Ministry of Commerce (2003), paragraph 9.45.1.

7 See Ministry of Commerce (2003), paragraph 9.46.1.

8 See Ministry of Commerce (2003), paragraph 9.48.1.

9 See Ministry of Commerce (2003), paragraph 9.8.1.1.

10 See Ministry of Industries (2005), paragraph 13.7.

11 While interest rate for local currency loan is not available, the financing on dollars is made at the rate of LIBOR+1. This facility is being mostly used by the apparel sector. See WTO (2006b).

12 The interest rate charged to the textiles firms was 5 percent lower than the market rate. Other facilities include 5 percent exchange fluctuation (interest and repayment) from the base rate on the foreign currency loan. See Ministry of Textiles (2006).

13 See Ministry of Finance (2007b).

14 See Ministry of Textiles (undated).

15 See Ministry of Finance (2007b).

16 See Ministry of Finance (2007b).

17 See India Finance and Investment Guide, http://finance.indiamart.com/exports_imports/incentives/

18 See Manufacturing, Mining and Investment Policies, http://www.finance.gov.pk/survey/sur_chap_05-06/03-Manufacturing.PDF

19 See Export Processing Zones Authority, Board of Investment, Government of Pakistan, http://www.pakboi.gov.pk/Biz_guide/export_processing_zones_author.html.

20 Tax holiday period will be reckoned from the year of assessment in which the enterprise begins to make profits or any year of assessment not later than 2 years reckoned from the date of commencement of commercial operation or production whichever is earlier. See BOI (undated).

21 See Ministry of Commerce (2005b), cited in WTO (2006c).

22 See World Bank (2006a)

23 See http://www.fibre2fashion.com/news/textile-news/textiles-policy-news/china/newsdetails.aspx?news_id=19885

24 See Sinkiang to conduct projects to train textile players, June 30, 2006, http://www.fibre2fashion.com/news/textile-news/textiles-policy-news/china/newsdetails.aspx?news_id=19159

25 See Indonesian textile association says plan to cut THC will save 250,000 jobs, http://www.its-guide.com/news.php

26 See Indonesia's Investment Coordinating Board (2006).

27 ibid.

28 As per Congressional Research Service (2002).

29 See ASEAN-China Business Net (undated).

30 ibid.

31 Article 1.1.a.1 (iv) of ASCM.

32 Appellate Body Report, Canada – Aircraft para. 157, cited in UNCTAD (2003).

33 See WTO (undated).

34 See NCTO (2005).

35 See WTO (undated).

36 ibid.

37 ibid.

38 ibid.

39 ibid.

40 This is because other S&D measures

provided to developing countries in general expired in 2003.

[41] 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.

[42] See UNCTAD (2003); Das (1999); and ASCM Articles 11-13 and 17-23 for further details.

[43] See NCTO (2007).

[44] In its letter to the Department of Commerce, NCTO expresses surprise over the proposition of the Department of Commerce that any effort to unpeel subsidies is technically impossible. See NCTO (2007).

[45] See Article 4.6 of ASCM.

[46] This comparison is not being made with Hong Kong or Denmark, which have the most efficient trade facilitation infrastructure and where it takes five to six days to either import or export aconsignment. See World Bank (2006b); World Bank (2007a; 2007b).

[47] The term 'commercially available' means that the choice between domestic and imported products is unrestricted and depends only on commercial considerations.

[48] 'Remission' of taxes includes the refund or rebate of taxes. 'Remission or drawback' includes the full or partial exemption or deferral of import charges.

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

[50] 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).

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