

**WITNESS STATEMENT OF
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for
THE NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS
U.S.-CHINA ECONOMIC and SECURITY REVIEW COMMISSION
SEPTEMBER 6, 2007**

Commissioner Fiedler and Commissioner Shea and other distinguished members of the Commission, thank you for the opportunity to appear today and outline China's impact on North Carolina's textile industry.

My name is Jim Chesnutt. I am President and CEO of National Spinning, an employee-owned textile manufacturer headquartered in Washington, North Carolina. We employ almost one thousand workers in facilities in North Carolina. National Spinning manufactures primarily acrylic yarns used in apparel, home furnishings, and industrial end products. I am also a member of the board of directors of the National Council of Textile Organizations.

U.S. Textile Industry Background

First, I would like to debunk some commonly held beliefs about the U.S. textile industry. I have often heard elected officials, so-called trade experts, and numerous retailers and importers refer to our industry as a dead or dying industry and one that is antiquated and not prepared to meet the challenges of manufacturing in the 21st Century. In fact, the exact opposite is true.

The U.S. textile sector continues to be one of the largest manufacturing employers in the United States. The overall textile sector employed nearly one million workers in 2005 and textile mills alone employed 383,000 workers.

Our industry is also the third largest exporter of textile products in the world exporting more than \$16 billion in 2005. These exports went to more than 50 countries, with 20 countries buying more than \$100 million a year.

In addition, the U.S. textile sector is a very important component of our national defense and supplies more than 8,000 different textile products a year to the U.S. military. The industry spends enormous resources on research and development each year to ensure that our military continues to be the most well-equipped and technologically advanced military in the world.

From 1994 to 2004, the U.S. textile industry invested more than \$33 billion in new plants and equipment and has increased productivity by 49 percent over the last ten years. This

investment has secured our second place ranking among all industrial sectors in productivity increases over the past ten years.

As you can see, the U.S. textile industry is an innovative, productive industry that can compete with anyone in the world if our government would not disadvantage us by supporting a trade environment that favors overseas producers to U.S. manufacturers.

That's the good news.

The bad news is that since China joined the WTO in 2001, the U.S. textile and apparel industries have lost 365,000 jobs, this represents a 38 percent decrease of our entire workforce. In fact, the industry lost 44,500 from 2005 to 2006 alone. North Carolina has been hardest hit by these plant closures and job losses and lost 11,365 jobs lost over just the last year, representing a 12 percent decrease of its entire textile workforce. The current environment is unsustainable long term, and not just for us, but for many other manufacturers as well.

U.S.-China Textile Trade

The purpose of this hearing is to evaluate the impact that trade with China, and the interventionist policies of the central government in Beijing, have had on workers, companies and communities in North Carolina. This is obviously an important issue for everyone in this room and particularly for those of us who continue to maintain a textile manufacturing presence in this state.

But this is not, in my opinion, the central issue. The central issue is not what policies or practices the central government in Beijing has undertaken; rather, the central issue is how our own government has responded, or, more accurately, has failed to respond to China's deliberate economic intervention on behalf of its citizens and its industry.

The U.S. government clearly has very limited, if any, direct control over events in Beijing. However, our government can and should defend itself, its workers, its companies, its communities and our own way of life from mercantilist policies that exploit democracy and the free-market system for its own gain. As the noted economist and Nobel Prize winner, Robert Samuelson recently stated: "It is not "protectionist" (I am a long-standing free-trader) to complain about policies that are predatory; China's are just that¹." Our enormous trade deficit, the loss of more than one and half million manufacturing jobs² and the very real possibility that the Bank of China may soon have more control over our economy than the

¹ "China's Trade Time Bomb," Robert J. Samuelson, The Washington Post, Wednesday, May 9, 2007. Samuelson also noted:

"China is already the world's third-largest trading nation and seems destined to become the largest. On its present course, it threatens to wreck the entire post-World War II trading system. Constructed largely by the United States, that system has flourished because its benefits are widely shared. Since 1950, global trade has expanded by a factor of 25. By contrast, China's trade is mercantilist: It's designed to benefit China even if it harms its trading partners."

² U.S.-China Trade, 1989-2003, Impact on Jobs and Industries: A Research Paper Prepared for the U.S.-China Economic and Security Review Commission. Economic Policy Institute, 2005.

Federal Reserve³ is the disturbing legacy we face today as a result of decades of inaction by the U.S. government.

Recently, the costs of a do-nothing policy, both to our way of life as well as our country's economic and national security, have become more clear. Because of the efforts of this Commission and numerous other concerned individuals and groups, there appears to be a new interest from the Congress and, to a certain extent, from the Administration, to finally hold China to account. Only time will tell whether this new interest is real and will lead to meaningful action for U.S. workers and manufacturers.

In this context, I would like to focus my remarks today on actions the U.S. textile industry believes Congress and the government should take to rebalance the playing field and ensure that global trade rules are applied uniformly and in a way that ensures support for trade among U.S. workers and companies into the future. Absent such action, American workers will continue to question the benefits of trade and support for the trade agenda will remain on life support.

Before getting into specifics regarding what can be done to rebalance the trade equation with China, I should briefly explain how the Chinese government works to ensure that its textile sector dominates world trade in textiles and apparel.

The Chinese government's efforts are clearly defined in its 11th Five-Year Plan for the textile industry. This plan sets specific benchmarks for its textile and apparel sector over the next five years, continuing a pattern that has been in place for more than fifty years. These benchmarks include production, research, sales, fiber consumption, investment targets, among many others. Specific goals are established and specific policy instruments are introduced to ensure those goals are achieved.

How do these plans work? How can the Chinese government ensure success across such a broad and diversified manufacturing sector? NCTO has done an extensive review of the subsidies that China extends to its textile and apparel industries. According to various sources, the Chinese government offers its textile and apparel manufacturers 73 different subsidy programs and, as a result, has pumped tens of billions of government assistance into its textile sector over the last ten years (attachment 1). These subsidies are in addition to the enormous financial support which Beijing offers through its managed exchange rate, which most economist estimate is undervalued by 20 – 40 percent.

To better understand how these subsidy programs have enabled Chinese textile manufacturers to dominate the market, let's review a few key statistics – during the last ten years, the Chinese textile sector has purchased 65 percent of all knitting machines, 62 percent of all weaving machines and 46 percent of all spinning machines sold in the world.⁴ To put this in another context, China's assistance to its textile industry has allowed Chinese

³ "Uncle Sam, Your Banker Will See You Now...In the Hole to China", Paul Craig Roberts, The Baltimore Chronicle, 08/08/07.

⁴ "International Textile Machinery Statistics", ITMF, Vol. 29, 2006.

manufacturers to buy an average of ten times more knitting, weaving and spinning machines than their next largest competitor.

These efforts by the central government in Beijing have reaped unparalleled rewards for its textile sector and have made China, by far, the largest producer and exporter of textile products in the world. From 2000 to 2005, China's worldwide exports of textiles and apparel jumped from \$81 billion to \$150 billion, an increase of \$69 billion in just five years. As a result, China now controls over 40 percent of the global textile and apparel trade and nearly 50 percent of the apparel trade alone. And in product areas where China's exports have not been restrained either through safeguards or quotas, China's market share ranges from 66 percent (in the U.S. and EU) to nearly 90 percent (Japan and Australia).

The impact of China's government policies on the U.S. and North Carolina's textile industry has been nothing short of devastating. U.S. textile mill shipments have declined by 25 percent since 2000, and more than 160,000 textile workers have lost their jobs, with 11,365 workers losing their jobs in North Carolina in 2006. This has occurred despite aggressive efforts by the industry to modernize and streamline. Over the last ten years, the U.S. textile industry invested more than \$30 billion in new plants and equipment – an investment rate that is 50 percent higher than the rest of the manufacturing sector.

But as the production and job loss statistics demonstrate, U.S. textile companies, as well as other manufacturing sectors, cannot survive when they are pitted against the Chinese government. As the Chinese government moves to progressively target the highest technology sectors of our economy (including aircraft, automobiles and semiconductors), we face the prospect of sector after sector in the United States falling before the Chinese onslaught.

We believe strongly, however, that this is not a battle that that the U.S. textile industry, or other sectors, has to lose. The U.S. consumer market is the single largest market in the world, a fact that China cannot ignore. In this sense, we control the cards. If we begin to play our own hand more skillfully, we could see a rebirth of manufacturing, including textile manufacturing, in this country. This will take a determination on the part of Congress and the Administration to force China to live by its own international obligations and to penalize China when it does not. In this vein, we recommend nine specific actions that we maintain could lead to a revitalization of U.S. manufacturing:

1. Pass Strong Currency Legislation: The Congress should pass and the President should sign into law meaningful and effective legislation that allows U.S. manufacturers to offset the benefits of the undervalued yuan. In our opinion, the most effective legislation currently before the U.S. Congress is a bill introduced by Representatives Ryan and Hunter – the Currency Reform for Fair Trade Act or H.R. 2942. This legislation would allow U.S. industry to file countervailing duty cases against China's currency manipulation. This is a reasonable, targeted approach which provides impacted industries with a means of defending themselves without penalizing unaffected parties. Other legislation, such as bills recently passed by the Senate Finance and Banking Committees are too weak because they do not address the subsidy component of

currency manipulation and provide numerous escape clauses which would allow the administration to “opt out” even when action is justified.

2. Extend or Replace the Current China Safeguard: Congress and the Administration should ensure that the textile safeguards currently in place against China are either extended or replaced until China fulfills all of its WTO-accession commitments. The textile safeguards, which have helped to prevent China from monopolizing the U.S. textile and apparel markets in key product categories, will expire on January 1, 2009, and they cannot, under WTO law, be unilaterally renewed. If China is allowed unfettered access in these categories, the consequences for U.S. textile companies and hundreds of thousands of textile workers will be catastrophic and North Carolina will likely be the hardest hit of all the textile-producing states. We know this will occur because during a five-month period in 2005 when China’s quotas were temporarily removed, prices of textile and apparel products from China fell by 40 percent while imports in key products increased by as much as 1,500 percent. If the government had not moved quickly to temporarily re-impose quotas, the industry would largely have been destroyed.

The U.S. textile industry is facing this exact same scenario on January 1, 2009, but this time there is currently no recourse. As a result, the U.S. government must insist that China either agree to extend the current safeguards or face comprehensive dumping actions against apparel imports from China by the U.S. government when quotas are again removed. Anti-dumping actions must be self-initiated by the U.S. government because the U.S. textile industry lacks standing to take actions on apparel products and the U.S. apparel industry has largely moved offshore. Such punitive actions should stay in place until China fulfills the obligations of its WTO accession agreement.

In addition, the U.S. government should expand third-country dumping provisions to grant apparel producers in the NAFTA/CAFTA regions the right to bring anti-dumping actions against Chinese apparel exporters who damage their own vital export markets in the United States. Since the passage of NAFTA and CAFTA, textile and apparel sectors in the region have become integrated with the U.S. supplying most of the yarns and fabrics and the NAFTA/CAFTA regions providing the apparel assembly. Ample precedent exists in the WTO for granting apparel producers in the entire region the right to seek redress for dumped goods.

3. Create a Comprehensive Subsidy Database: Establish a comprehensive subsidy database on China at the Department of Commerce that can be utilized by government and industry. The U.S. government still refuses to create a database of the subsidies the Chinese government provides to its industry. Instead, the government relies primarily on what China itself has notified as subsidies, a list that is laughably small and incomplete. And even then the Commerce Department’s database is not up to date – the government’s subsidy review page on the Commerce Department’s website has not been updated since 2004⁵. The most noteworthy observation here is that according to the Commerce Department website, China is not listed as employing a single subsidy!

⁵ Commerce countervailing duty websites by country and type of subsidy: <http://ia.ita.doc.gov/esel/index.html>;
<http://ia.ita.doc.gov/esel/eselframes.html>

4. Increase Dumping and CVD Assistance to Small and Medium-Sized Manufacturers: The government should increase assistance to small and medium-sized manufacturers so that they can afford to pursue dumping and countervailing duty (CVD) cases. CVD cases cost several hundred thousand dollars to file and dumping cases typically cost more than one million dollars - - costs that are too steep for most small and medium-sized businesses to pay, particularly when those businesses are already losing money because of dumping. The Commerce Department should follow the lead of the European Union by shouldering more of the administrative and financial burden in complying with the complex rules and regulations that the Department imposes.
5. Increase and Re-Prioritize Enforcement Efforts at USTR and the Department of Commerce: Today, trade enforcement is seen as a career dead end within the U.S. government; instead, negotiating new agreements rather than enforcing existing agreements is the best way to advance within the ranks. Commerce and USTR need to be restructured to give trade enforcement a higher priority and more status within the agencies. On top of enhanced focus on enforcement, these efforts also need to be greatly expanded. The U.S. government should be conducting ongoing reviews of Chinese government subsidy and support programs and taking action at the WTO and through U.S. trade remedies when warranted.
6. Review China's Government Support of Its State-Owned Industrial Sectors, Including Textiles, and Penalize Illegal Transactions: Over the past five years, China's government has forgiven tens of billions of dollars of debt in its state-owned manufacturing sector. This practice has salvaged countless unprofitable enterprises that would not have survived in a free market system. These enterprises, which comprise roughly half of China's textile assets, are notorious for suppressing prices to absurd levels, often below the cost of raw materials. In late 2005, China announced that it was liquidating almost \$600 million in debt to a major Chinese textile manufacturer that it previously stated had been privatized.⁶

These state-supported enterprises essentially operate as state employment agencies rather than market-based companies and their pricing practices have caused more damage to legitimate textile producers in the United States and elsewhere than anything else. Because of financial support from the Central Government, textile manufacturers in China can offer whatever price necessary to make the sell and grow its market share. A practice against which no other producer in the world can compete.

In addition, China continues to effect privatization schemes which appear to transfer huge state-owned industrial enterprises to the private sector at virtually no cost. All of these actions are in direct conflict with China's WTO commitment to treat state-owned enterprises as if they were market entities.⁷

⁶"NCTO Decries Chinese Bailout of Textile Giant," 12/1/05, <http://www.ncto.org/newsroom/pr200539.asp>.

⁷ Report of the Working Party on the Accession of China, 11/9/01, Chapter II, Paragraph 6, World Trade Organization.

7. Increase and Reform Customs Enforcement Efforts Targeting China: Recent newspaper headlines regarding widespread recalls of Chinese food and consumer products are yet another symptom of major enforcement issues involving China – primarily that U.S. Customs has become a trade facilitation, rather than trade enforcement, agency. With respect to textiles, this fact recently became all the more evident when the textile enforcement branch was transferred from the Operations Division into a trade facilitation office. This reorganization occurred despite strong opposition from U.S. industry and in direct conflict to the fact that more than half of all Customs fraud occurs in the textile and apparel sector and a majority of that is textile transshipment from China to avoid quotas and duties.

Following that move, Customs has stopped reporting on textile enforcement efforts, halted data dissemination to the industry and cut back on key enforcement activities. CBP needs to intensify its enforcement efforts, particularly in the textile area. As with the Commerce Department and USTR, enforcement has now become a dead-end career path within Customs and this is not likely to change without a change in priority.

8. Develop a More Effective Enforcement System that Holds U.S. Importers and Consignees Responsible for the Products They Import and Provides for Stronger Penalties for Those Who Violate the Law: U.S. importers and consignees should and must be held responsible for the products they import.

With respect to the recent spate of product recalls from China, fault does not lie with the Chinese manufacturer; rather, the fault lies with the U.S. company responsible for importing that product to the U.S. market. If the public at large and U.S. policymakers fail to recognize this important point, then any solutions will only be temporary band-aids that address a symptom but not the underlying disease.

U.S. laws and regulations can only effectively be applied to entities operating within U.S. borders. U.S. law enforcement and product safety officials do not have the authority to arrest someone in China or to levy fines on a business in China for poor practices. What they do have authority to do is to hold individuals or businesses operating in the U.S. to account when the products they import are found in violation of U.S. laws and regulations. These violations can be safety-related, but in the case of textiles and apparel could also include violations of rules of origin claims.

With respect to textiles and apparel, rules of origin are the cornerstone of our free trade agreements and preference programs. In the history of the textile program, un-enforced rules have been a proven access point for large scale fraud which displaces legitimate production both in the U.S. and in the beneficiary country(s) involved. NCTO and our member companies have seen time and again how unscrupulous actors have knowingly violated rules and regulations governing U.S. preference and free trade programs to gain duty-free access to the U.S. market, with China being by far the worst offender. In fact, the textile and apparel trade has the highest fraud content of any manufactured good. Therefore, it is imperative that the rules and regulations governing this trade are effectively enforced and the only way to do this is through the importer or consignee.

U.S. regulations governing the importers, however, are weak and often times these importers will appear, disappear and then reappear under new names to avoid penalties and fines and the U.S. government does nothing about it. In considering future FTAs and other trade programs, Congress and the Administration should ensure that these agreements are written in a way that provides for meaningful and effective customs enforcement by requiring the ultimate consignee of the product, i.e. the retailer or the company owning the brand-name, responsible for rule of origin violations. In the 2005 ITC case *U.S. v. The Pan Pacific Textile Group*^[1], the Court ruled that liability could be extended to the consignee when the consignee has direct input into how the transaction is structured. If the goal is to ensure that safety standards and rules of origin are adhered to then the law should be broadened to ensure that the consignee is also responsible for the products its sells or that bears its brand name.

9. Develop a System for Penalizing Companies Importing Products Which Were Made by Companies Who Pollute the Environment: A recent front page Wall Street Journal expose⁸ on the Chinese textile industry revealed that continuing demands by U.S. importers for lower prices are playing a key role in the environmental catastrophe that is now unfolding across China. The Journal notes that “one way China’s factories have historically kept costs down is by dumping waste water directly into rivers.”

There are many other areas outside of China where new initiatives could help U.S. manufacturers and U.S. workers. These range from health care reform, reduced regulatory burdens, environmental reviews and the like. Equal to all of these is one little noticed, but extremely important issue – the inequity created through value-added tax systems. While the rest of the world employs a value-added tax system, including China, the U.S. corporate tax structure is a direct-tax system, meaning that we tax profits. As a result, U.S. exports are essentially double-taxed and U.S. imports enter our market tax-free. The current annual penalty that this discrepancy places on U.S. manufacturers equals nearly \$400 billion.⁹ U.S. manufacturers desperately need for this tax inequity to be addressed either by the U.S. adopting a value-added tax system or by being compensated for the costs imposed on them by the current system.

In conclusion, I would like to again thank the Commission for the leadership it has shown in the struggle to preserve U.S. jobs and U.S. manufacturing. Through your hard work, you have helped to lift the veil not only on the mercantilist practices of the Chinese government but the cost of those practices to workers across America. We look forward to working with you and other concerned groups to fashion a new trade policy that supports manufacturing and other jobs in this country.

⁸ “China Pays Steep Price as Textile Exports Boom,” Wall Street Journal, August 31, 2007.

⁹ “Industry Supports Border Tax Equity Act,” AMTAC press release, 6/7/07.

<http://www.amtacdc.org/SiteCollectionDocuments/Amtac/Press%20Room/06%2007%2007%20Border%20Tax%20Equity%20Act%20Press%20Statement.pdf>

Attachment 1: NCTO Review of Chinese Government Subsidies for Textile Industry

| Subsidy | Relevance | Description | Financial |
|--|------------|---|---|
| 1 (Title Unknown) | Specific | Benefits under the 2006 <i>Notice of Relevant Policies to Promote Chinese Textile Enterprises to Shift to New Ways of Growth and Support Them to Go Global</i> . -- WTO consistency questioned | Government funding for textile companies to set up distribution channels in overseas markets. |
| 2 Brand Building Incentives (Shishi City of Fujian Province) | Applicable | Shishi City of Fujian Province offers monetary incentives based on achievements in brand building. Under the city's most recent award measures, textiles and apparel companies with well-known brand names recognized by the State Administration of Industry and Commerce or the Administration of Quality Supervision, Inspection and Quarantine can receive a lump-sum award of RMB 500,000; for companies with well-known export brand names, the award is RMB 400,000. In addition, companies that have received quality inspection waivers from the national government are eligible for awards of RMB 100,000 from the Shishi City government. | Award amounts range from RMB 100,000-500,000 |
| 3 Brand Development Fund | Applicable | The fund should serve the following purposes: To support companies in implementation of brand development programs, to support companies in participation of national and international exhibitions, to support brand promotion activities, To support international exchanges, trainings and seminars related to brand building, and to support other public services that facilitate brand building. | The Ministry of Commerce and the Ministry of Finance appropriate the fund to provincial governments who are required to formulate their own measures on the administration of the fund. (Note: With respect to the amount of the grants, for corporate development projects, each project can receive a grant up to RMB 200,000 or 50 percent of the actual expenses required by the project; public services projects, if covered under the public services project plan jointly determined by the provincial foreign trade bureau and finance bureau, can be fully subsidized) |
| 4 Discounted lending rates | Applicable | Discounted lending rates available to companies that satisfy certain export performance requirements. | "Honorable Enterprises for Collection of Export Receipts and Foreign Exchange" may receive up to a 10% reduction in lending rates of RMB loans extended by commercial banks based on the lending rates fixed by People's Bank of China. |
| 5 Export Awards (Local export-related awards) | Applicable | Certain local export-related awards. | Information available to the U.S. indicates that various Chinese government entities at the sub-central level provide awards and direct payments for exports by a wide-range of industries. There are regional programs that tie monetary awards solely to the amount exported or to a percentage growth above the previous year's export totals. --WTO consistency is questioned. |
| 6 Export Incentive Program (Ningbo City's Jiangdong District Export Contingent Award for Increasing Exports of Textiles and Apparel Goods) | Specific | A program in Ningbo City's Jiangdong District offers benefits to certain textile and apparel companies. Example: Textile and apparel companies that export more than USD \$1 million per year in this district are eligible for an award for each dollar of textiles and apparel exports which exceed the previous year's total. -- WTO consistency is questioned | |
| 7 Export Incentive Program | Applicable | Export Interest Subsidy Funds for Enterprises Located in Zhejiang and Guangdong Provinces. | Export Interest Subsidy of \$0.03 for every \$1 of general merchandise procured in Shenzhen exported. Guandong provides a \$1250 subsidy for enterprises with more than \$1 million in exports. |
| 8 Export Incentive Program (contingent support) | Applicable | Export Contingent Support for Famous Name Brand Products In order to increase Chinese name brand exports and limit its reliance on foreign name brand exports, the Chinese Government is offering the following incentives: An Export Brands Development Fund to develop and promote designated exports; Preferential funding for research and development products; Support for technology to strengthen the competitiveness of famous brand exports; Special assistance for domestic brand name enterprises to establish state-level R&D centers; Simplified loan application procedures and easy access to export credit insurance. Similar or implementing programs offered at the central or sub-central government levels | |
| 9 Export Incentive Program (Credits) | Applicable | As reported by MOFCOM, Dalian Branch of the Export-Import Bank would provide RMB 5 billion of export credits to companies to enter global markets, and, since November 2003, "low-cost credit provided by the bank has saved the enterprises RMB 150 million interest." | RMB 5 billion of export credits |

| Subsidy | Relevance | Description | Financial |
|---|------------|---|---|
| 10 Export Incentive Program (Credits) | Applicable | Export credits offered by China Development Bank to support sectors considered to be essential to China's long-term competitiveness and specifically for companies engaging in R&D, Chinese brand name companies, and certain companies in overseas expansion. --- WTO consistency is questioned | |
| 11 Export Incentive Program (Export-oriented enterprises preferential policies) | Applicable | As reported from the website of Shanghai Foreign Investment Center, export-oriented enterprises enjoy various preferential policies in the use of land, water, electricity, transportation, telecommunication, short-term funds and necessary loans, as well as local income tax exemption after expiration of normal income tax exemption if more than 70% of the production is exported. --- WTO consistency is questioned | |
| 12 Export Incentive Program (Government Assistance to increase fabric exports) | Specific | Measures under the program of upgrading the textile industry through accelerating technical reforms and strategic restructuring of textile enterprises, including substituting imported fabrics or expanding fabric exports.-- WTO consistency is questioned | |
| 13 Export Incentive Program (Guangdong Grants) | Applicable | Guangdong Grants provided for export performance. | The Guangdong provincial government has introduced a program to provide RMB 25 million in grants over five years to export-oriented companies meeting specific export targets. --- WTO consistency is questioned |
| 14 Export Incentive Program (Hangzhou City of Zhejiang Province) | Specific | Benefits are extended to exporters on the basis of the total amount of exports. | Award amounts range from RMB 10,000-10,000 |
| 15 Export Incentive Program (Interest Subsidy) | Applicable | As reported by www.tdctrade.com, the Export Interest Subsidy for Shenzhen Enterprises has been raised from 20% to 40%. | The policy of subsidizing USD \$0.03 for every USD \$1 export of general merchandise is only applicable to merchandise procured in Shenzhen. SMEs with exports below USD \$15 million are eligible to apply. Fund allocation is on a first-comefirst- serve basis. The fund would provide RMB 800 million in 2004. --- WTO consistency is questioned. |
| 16 Export Incentive Program (Ningbo City of Zhejiang Province) | Specific | Ningbo City of Zhejiang Province has been subsidizing certain textiles and apparel exporters since 1999. Under the Measures on Awarding Brand Name Textile and Apparel Exports issued in 1999, exporters of textile and apparel products with trademarks registered overseas and annual exports of over USD \$200,000 can receive monetary awards for the increment in exports over the previous year; to be more specific, an award of RMB 0.03 for every U.S. dollar of textile exports and an award of RMB 0.05 for every U.S. dollar of apparel exports | An award of RMB 0.03 for every U.S. dollar of textile exports and an award of RMB 0.05 for every U.S. dollar of apparel exports. |
| 17 Export Incentive Program (Subsidy Fund) | Applicable | As reported from Zhejiang Province, an Export Subsidy Fund based on a federal program . | Enables regional authorities to provide all exporting companies exporting more than USD \$3 million with a subsidy of 0.01 RMB per each USD \$ exceeding this threshold. --- WTO consistency is questioned. |
| 18 Foreign Investment (Free Land) | Applicable | Free Land Given as Part of Foreign Investment Projects. | The Yinchuan government grants foreign investors, which meet certain investment conditions, land valued at twice the amount of an investor's original investment. |
| 19 Foreign Trade Activities (Special) Funds | Applicable | Reported by www.tdctrade.com, the Guangdong provincial government supports private enterprises to "expand outward," and eligible private enterprises may apply for special funds conceived for developing foreign trade activities. These funds include market exploration, export credit insurance, offshore processing trade project loan interest subsidy, export research and development fund, antidumping proceedings fund, export rebate account loan interest subsidy fund, and outward-looking enterprises development fund. --- WTO consistency is questioned | |
| 20 Foreign Trade Development Fund (Central Foreign Trade Development) | Applicable | The Central Foreign Trade Development Fund. The alleged purpose of the Fund is: to regulate and promote foreign trade; to encourage the development and export of new electronic, deep-processing, high-tech and high value-added products; and to increase Chinese export capacity and competitiveness | |
| 21 Go Global (One of special funds for brand development) | Specific | Special fund (support program of central government) to support restructuring of textile industry and the efforts of chinese textile companies to "go global". | The initial scale of the fund is RMB 1.35 billion with RMB 560 million dedicated to projects related to technology innovation and restructuring and RMB 800 million for the "go global" operation. |

| Subsidy | Relevance | Description | Financial |
|---------|---|-------------|---|
| 22 | Hangzhou Municipal Government cooperation | Specific | In January 2006, the Chinese National Textile and Apparel Industry Council (CNTAC) and the Hangzhou Municipal Government signed a cooperation agreement under which CNTAC will give priority support to the upgrading of the textile industry in Hangzhou, a textile powerhouse in China. As part of the cooperation, the two sides will join hands to establish a textile circulation and innovation service platform with a total investment of RMB 320 million in the Xiaoshan district of Hangzhou City, the largest polyester manufacturing base in the world. |
| 23 | Import licensing exemption | Applicable | Import licensing exemption on products imported by FIEs to produce goods for export. |
| 24 | Income Tax Program (Benefits under new Enterprise Income Tax Law) | Applicable | Benefits under new Enterprise Income Tax Law The government may extend tax benefits to companies engaged in industries the development of which is supported and encouraged by the State --WTO consistency questioned The existing tax benefits may be granted a grace period of up to 5 years. --consistency questioned |
| 25 | Income Tax Program (Exemption and Reduction) | Applicable | Local income tax exemption and reduction program for "productive" FIEs. Pursuant to Chinese tax regulations, local provinces authorize their own tax exemptions to specific industries, i.e. 'productive FIEs within their jurisdiction |
| 26 | Income Tax Program (Exemption) | Applicable | Income tax exemption on profits made by certain FIEs. Profits distributed to foreign investors by foreign-invested enterprises that export more than 50% of their products, or that utilize foreign advanced technology to produce products for export, are exempt from income tax. |
| 27 | Income Tax Program (Exemption) | Applicable | Income Tax Exemptions Program for FIEs located in certain geographic locations. Following the conclusion of the "two free, three half" program, FIEs located in specific designated locations can continue to pay income tax at only half the normal rate. Income tax at only half the normal rate. |
| 28 | Income Tax Program (Rate) | Applicable | Under China's newly-enacted Enterprise Income Tax Law which equalizes the income tax rate for domestic and foreign enterprises at 25 percent, state-encouraged new- and high-technology enterprises can enjoy a favorable 15 percent income tax rate. (In an effort to encourage domestic and foreign companies to invest in the manufacturing of advanced textile machinery.) |
| 29 | Income Tax Program (Reduction) | Applicable | Income tax reduction available to foreign-invested companies for the purchase of Chinese-produced equipment. Foreign-invested companies can deduct 40% of the cost of purchasing domestically-produced equipment that is w/in the total investment of the project, or beyond the total investment of the project but for the purpose of upgrading existing equipment, from the increment in income tax in the year the equipment is purchased compared to previous year. --WTO consistency is questioned |
| 30 | Income Tax Program (Reduction) | Applicable | Income tax reduction available to Chinese companies for the purchase of Chinese-produced equipment. For technology renovation projects consistent with the national industrial policies, 40% of the cost to purchase domestically-produced equipment required in the projects can be deducted from the increment in income tax in the year the equipment is purchased compared to the previous year. --WTO consistency is questioned |
| 31 | Income Tax Program (Reduction) | Applicable | Income tax reduction available to foreign-invested companies that satisfy certain export performance requirements. After the expiration of the normal reduction or exemption of income tax for production oriented FIEs, foreign-invested exporting companies can pay income tax at one-half of the present rate, provided 70% of their products are exported. -- WTO consistency is questioned |
| 32 | Income Tax Program (Reduction) | Applicable | Income tax reduction available to foreign-invested companies that satisfy certain export performance requirements. Foreign-invested companies engaged in industries allowed by the State that export all of their products may pay a reduced income tax of 15% --WTO consistency is questioned |
| 33 | Income Tax Program (Refund) | Applicable | Income tax refund available to foreign-invested companies that reinvest profits in certain qualified projects in China. Foreign investors who reinvest their profits to establish or expand exporting companies or technologies-advanced companies for a period of operation of not less than five years shall be refunded the total amount of income tax already paid in reinvested portion. --WTO consistency is questioned |

| Subsidy | Relevance | Description | Financial | |
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| 34 | Income Tax Program (Refund) | Applicable | Corporate Income Tax Refund Program for reinvestment of FIE profits in export-oriented enterprises. Per the Chinese Ministry of Finance's authorization, that FIEs, or foreign investors in Chinese companies that re-invest profits into the same FIE or use the profits to establish another FIE are eligible for complete refund of the corporate income tax already paid on the invested amount, so long as the recipient is export oriented and scheduled to operate for five years. | Complete refund of corporate income tax already paid on the invested amount. |
| 35 | Land Grant Program | Applicable | Provision of Land for Less than Adequate Remuneration GOC Grant Programs. The GOC provides discounted land to SOEs in the high tech industry. Additionally, provincial governments provide subsidies through lease arrangements on land to targeted industrial sectors (including textile). | |
| 36 | Legal Fees Reimbursements | Applicable | Reported by www.tdctrade.com and China Daily, the Shenzhen WTO affairs office sponsors a fund of more than 10 million in order to reimburse up to 30% of legal fees incurred by local export companies facing antidumping lawsuits. --- WTO consistency is questioned. | A fund of more than 10 million |
| 37 | Lending Program | Specific | Excessive lending to the textile industry noted by the secretary-general of the China Cotton Association and that 'the Chinese Government will loosen up credit lending controls to textile companies' as reported on a 2004 China Daily article. | |
| 38 | Loan Interest Subsidy (Environmental projects loan) | Applicable | | |
| 39 | Loan Programs | Applicable | Loan Forgiveness for (LWS/Textile) Producers by the GOC. The GOC allowed textile companies to file bankruptcy and allowed to write off debt. The GOC has also created a reserve fund to accommodate this debt. | |
| 40 | Local Textile Industrial Parks | Specific | Incentives provided to investors include tax benefits, preferential treatment in land use, preferential treatment in administrative fees. | |
| 41 | Model enterprises allowance | Applicable | | |
| 42 | Ningbo Export Contingent Aid for Textile Exporters- "Export Branding" | Specific | Information available to the US indicates to that the Ningbo City Int'l Trade and Economic Cooperation Bureau provides benefits to the city's top eight textiles and apparel brand enterprises which export more than USD \$20 million. | The top eight brand companies which meet the qualifications receive and award of RMB 50,000. |
| 43 | Northeast revitalization program (portion of) | Applicable | Continued use of state-owned banks to keep non-viable SOEs afloat. | Writing off non-performing loans of SOEs as part of the Northeast revitalization program; one example is that Heilongjiang Province agreed to write off RMB 36 billion worth of non-performing loans of SOEs. --- WTO consistency is questioned. |
| 44 | Policy Loans | Applicable | Discounted Loan Program. Discounted loans, interest subsidies, and debt forgiveness are provided through policy banks and state-owned banks providing policy loans. | |
| 45 | Preferential Loans | Applicable | Preferential loans provided by the chinese government. | According to a document posted by the Jiangsu Province Tax Bureau in September 2004 entitled "Tax Reimbursement Regime on Exported Goods in China," exported goods that are "manufactured by using preferential loans of the Chinese government" will be "given approval to reimburse or exempt VAT or consumption tax due to some special features such as . . . turnover linkages and settlement methods, etc." |
| 46 | Subsidies (incentives) | Specific | Reported subsidies in the textile industry in connection with manufacturing or raw materials, the financing mill establishments, and the purchase and selling of raw materials, e.g., certain tax incentives and preferential rents provided to textiel companies located in Changzhou City of Jiangsu Province. | |
| 47 | Subsidies (state-owned enterprises) | Applicable | Subsidies to state-owned enterprises operating at a loss. --- WTO consistency is questioned. | |
| 48 | Subsidy (energy) | Applicable | Provision of Electricity for Less than Adequate Remuneration. The GOC provided cut-rate electricity to SOEs in the high tech industries (including textiles). | |
| 49 | Tax (Preferential) Program | Applicable | Preferential Tax Policies for (FIEs) Township Enterprises (entrepreneurial endeavors) based in rural areas. | Under this program, they only pay 90 percent of both national and provincial income taxes. |

| | Subsidy | Relevance | Description | Financial |
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| 50 | Tax Exemption (Repayment) | Applicable | Repayment tax exemption on certain products generated by FIEs. | By-products, substandard products and leftover industrial surplus generated by FIEs while producing goods for export, are exempt from repayment tax when sold domestically. Such products, if generated while producing goods for domestic consumption, are not exempt. |
| 51 | Tax exemption program (Consolidated and commercial tax) | Applicable | Consolidated and commercial tax exemption on products exported by FIEs. | Export products of enterprises with foreign investment, except crude oil, oil products, and other products subject to special State provisions, shall be exempt from the consolidated and commercial tax. |
| 52 | Tax Program | Applicable | Preferential Tax Policies for Research and Development. The GOC provides tax benefits to FIEs engaged in research and development. | An FIEs expenses for R&D may be offset 150 percent from the year's taxable income (is expenses have increased by at least ten percent over the previous year). |
| 53 | Tax Program | Applicable | Tax Subsidies to FIEs in Specially Designated Geographic Areas designated by the GOC as "free trade zones," "high technology zones," or other such zones. Subsidies include reduced tax rates. | |
| 54 | Tax Programs (Preferential)- Tax & Tariff Incentives for Select Industries | Applicable | Tax & Tariff Incentives for Select Industries. The GOC through its tax regulations has provided tax incentives through tax and tariff exemptions on imported equipment as well as new construction and upgrade projects from the fixed asset tax. | |
| 55 | Tax Programs (Preferential)-Tax Incentives for FIE | (pending) | Tax Incentives for FIE. FIEs that invest in GOC preferred industries receive tax benefits. | Ex: GOC provides a full VAT rebate on the purchase of domestically manufactured equipment and income tax deductions for investment in domestically manufactured equipment. |
| 56 | Tax Programs and Import Tariff Programs | Applicable | VAT and Tariff Exemptions for FIEs Using Imported Technology and Equipment in Encouraged Industries. The program is designed to encourage foreign investment and to introduce foreign advanced equipment. | Exemption from paying tariffs and VAT on imported equipment. |
| 57 | Technology (Clean Production) Grant Programs | (pending) | Clean Production Technology Fund. The purpose of this program is to provide incentives and rewards (monetary and non-monetary) to encourage enterprises to conduct clean product inspections. | |
| 58 | Technology (Digital) demonstration program assistance | Applicable | | |
| 59 | Technology Development Fund (Ningbo City Key Industry Technological Development) | Applicable | Ningbo City Key Industry Technological Development Fund. The purpose of the fund is to assist key industries in their technological upgrading projects, expand their sales and assist companies in applying to be considered a national famous brand. | According to the MOFCOM website, Ningbo City has set up an RMB one billion special fund to support four fast-growing key industries, namely, electronic information, new materials, auto/auto parts, and machinery production industries. The maximum subsidy for a qualified enterprise or project is RMB five million. |
| 60 | Technology Grant Programs | Applicable | State Key Technology Renovation Fund. The program is to promote technology renovation in key industries and key products. | Grants are disbursed in the form of "project investment facility" grants covering two years's worth of interest payable on loans to fund the project, or up to three years in certain regions. Grants may also be disbursed as "loan interest grants" which are calculated in reference to the amount of the project loan and prevailing interest rates. |
| 61 | Technology Grant Programs | Applicable | Grants and other funding for high technology equipment for the textile industry. | |
| 62 | Technology Grants (High-tech project support grants) | Applicable | | |
| 63 | Technology Incentive Program (Assumption of Interest on Loans for Technology Upgrades) | Specific | Government payment of interest on bank loans for the technology upgrades of state-owned enterprises, including textile enterprises. | |
| 64 | Technology Innovation Grants | Applicable | Technological Innovation Funds Provided by Zhejiang Province. | This program provides payments ranging from \$3,750 to \$6,250 (if the product is consistent with national/provincial economic plans). |

| Subsidy | Relevance | Description | Financial |
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| 65 Technology Innovation-Loan interest subsidies | Applicable | Local governments are providing loan interest subsidies to support technological innovation projects. Zhongshan City, for example, has provided loan interest subsidies that cover 30-40 percent of the actual interest payments on loans. | |
| 66 Ten Thousand Miles March for Brand Building | Applicable | The government has launched a campaign under which companies whose brand names are certified as "famous" will be given free media publicity. Public funds are awarded to cover part of the brand-building expenditures. Local government assistance for brand name building is also available to textiles and apparel companies. (Ningbo City, home to several leading textile manufacturers, has been providing awards to companies that export textiles and apparel products under their own foreign-registered brand names. | Free media publicity Funds given to cover brand building expenditures |
| 67 The "Two Free, Three Half" Program | Applicable | Under Chinese law, an FIE that is 'productive' and is scheduled to operate for not less than ten years may be exempted from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three years. | Applicable companies are exempted from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three years. |
| 68 Trade Promotion Fund | Specific | The Trade Promotion Fund for Agriculture, Light Industry and Textile Products. Textile companies that have conducted R&D projects for new products or have been contracted for state or provincial research projects in the past three years, as well as textile industry associations with a membership of not less than 500 that have hosted national or international exhibitions, seminars and trainings in the past three years, are both eligible to receive grants from the fund. | Each project related to the technology service platforms can be subsidized with a grant up to RMB 2 million. |
| 69 Value Added Tax (Refund) | Applicable | Full VAT refund available to foreign-invested companies for the purchase of Chinese-produced equipment. --WTO consistency is questioned | |
| 70 Value Added Tax (Special Refund) | Specific | A special VAT refund scheme for silk to be exported. | |
| 71 VAT and tariff exemption | Applicable | VAT and tariff exemption available to foreign-invested companies that satisfy certain export performance requirements. | For foreign-invested companies engaged in industries allowed by the State that export all of their products, equipment purchased for self-use, shall be exempt from tariff and import VAT. --WTO consistency is questioned |
| 72 VAT expenses (exemption) | Applicable | VAT expenses exemption and deduction. | Based on the EC's experience in anti-dumping cases, it seems that certain levels of production are exempt from paying VAT and that traders were able to deduct VAT expenses even though their suppliers did not charge and pay VAT. --- WTO consistency is questioned. |
| 73 Worker Benefit Contributions (Exemptions from mandatory worker benefit contributions) | Applicable | Exemptions from mandatory worker benefit contributions available to foreign-invested companies that satisfy certain export performance requirements. | Foreign-invested "product-export enterprises" and technologically-advanced enterprises shall be exempt from payment to the State of all subsidies to staff and workers, except for the payment or allocation of funds for labor insurance, welfare expense, and housing subsidies. |