Textiles & Garments – International Regulatory and Policy Environment

China

China has been the world's largest exporter of textiles and garments for over a decade now, which clearly demonstrates the competitiveness of its textile and garments industry. China's leading position in the global textile and garments trade has been achieved largely under the direction and support of the Chinese government.

China began its transition from a planned economy to a market based outward-looking economy in 1978, when the government undertook economic reforms. These reforms initially included reorganization and restructuring of state-owned enterprises and agriculture and by mid-1980s reforms were extended to the manufacturing sector with the establishment of special economic zones aimed at attracting FDI and oriented towards export processing. The reforms have facilitated growth and development of the private sector, which now accounts for over half of China's GDP and has been the key driver of country's high economic growth. During this period, China also liberalized its trade policy with a view to accelerate the opening of its economy to the outside world, to introduce foreign technology and know-how, and develop foreign trade. In 1986, China began negotiations on the resumption of its status in the GATT and by 2001; it became a member of the WTO. The liberalized trade and investment environment has helped the economy in emerging as the largest exporter of several manufacturing products in the world.

While the private-sector has led the GDP and exports growth, the Chinese government has provided constant support to the industry through its economic policies and measures. For instance, its exchange rate policy has played a vital role in making the industrial exports highly competitive. In 1994, the Chinese government devalued the currency from 5.8 to 8.3 RMB Yuan per US dollar, which contributed to the global competitiveness of Chinese goods. Although China has followed a managed floating exchange rate since then, the authorities have been able to keep the exchange rate near constant at Yuan8.28 per US dollar by purchasing US dollars from its huge forex reserves. Thus, the Yuan remains undervalued, which contributes to the competitiveness of textile producers in China. Another government measure that made industry competitive and accelerated the economic growth is the large scale improvement in China's infrastructure including highways, railways, ports, and telecommunications, which is a key to logistics and export efficiency.

China's textile industry has largely benefited from the economic reforms. During the late 1990s, Chinese textile industry underwent a major restructuring program funded by the Chinese government in anticipation of the end of textile quotas and for reforming the unprofitable and debt-ridden State Owned Enterprises (SOEs). The restructuring program included scrapping of outmoded 110 million cotton spindles, one million silk spindles & 280,000 wool spindles; closure of many unprofitable SOEs; and import of advanced foreign textiles machinery for upgrading technological levels. These measures played a direct role in improving the production and efficiency of the Chinese textile industry.

The trade and investment policy of the Chinese government has also been critical in the success of Chinese textile industry as it has encouraged huge inflows of FDI in the country. Major policy measures taken over the last decade include development of Special Economic Zones freed from import and export restrictions; and provision of better than national treatment in its taxation policies to foreign invested enterprises (FIEs). While the enterprise income tax rate has been 33%, FIEs have enjoyed rates of 15% or 24% depending on where they invested. In addition, FIEs have enjoyed tax holidays for varying lengths of time depending on their activities (However, these incentives are being phased out as China unified its enterprise income tax on FIEs and domestic enterprises in 2008). These special incentives for FIEs have attracted huge foreign direct investment (FDI) in manufactured export processing including textiles, and provided China with access to imported technology and overseas marketing networks.

Post restructuring of the textile industry, the Chinese government continues to follow a proactive fiscal policy, involving substantial government spending on modernisation, development and technological advancement of the textile industry. The support programmes of the Chinese government for the textile industry are illustrated in the table below.

Support programme	**Key features**
The Special Fund to Support the Restructuring of the Textiles Industry and the Efforts of Chinese Textile Companies to "Go Global"	• To provide lump sum direct grants to projects of technology innovation, development and industrialization of core technologies and equipment, establishment of innovation services platforms, brand development and promotion. • To provide loan interest subsidies for the construction of overseas textile industrial parks. • To subsidize the provision of land, manufacturing facilities, infrastructure and services in overseas textile industrial parks. • To subsidize the expenses of Chinese textile companies incurred in early stages of "going global" that may involve R&D, consulting services, feasibility study and project evaluation, and intellectual property rights protection. • To subsidize the expenses of Chinese textile companies in the establishment of distribution channels in overseas markets.
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. • Project related to the technology service platforms can be subsidized with a grant up to RMB 2 million
The Special Fund for Brand Development	• Fund to support companies in implementation of brand development programs; in participation of national and international exhibitions; in brand

	promotion activities; to support international exchanges, trainings and seminars related to brand building, and other public services that facilitate brand building.
Monetary Awards to Textiles and Apparel Companies Contingent Upon Export Performance and Brand Development	• Many local governments provide monetary incentives to boost textiles and apparel exports and encourage brand building
Loan Interest Subsidies for Technology Renovation	• Provincial and municipal governments administer a fund used to subsidize loan interest for upgrading technologies and equipment across a range of key industries. Project can receive subsidies up to RMB 3 million or 30-40 percent of the total amount of interest in a year

Source: China's Support Programs for Selected Industries: Textiles and Apparel, Trade Lawyers Advisory Group, 2007

Besides monetary allocation, the industry also benefits from various tax rebates and incentives. The incentives include tax and social welfare payment benefits conditional on export performance, export awards, and export loan interest subsidies. During the period of global financial crisis, a stimulus package was also introduced to help the troubled enterprises. Various tax incentives provided by the Chinese government to the textile industry are illustrated in the table below.

Tax and other incentives	Key features
Income tax	• Advertising expenses of apparel companies, within the limit of 8 percent of the sales revenue, can be fully deducted from the income tax • Tax benefits to FIEs under Enterprise income tax (though these are being phased out as the new law equalizes the income tax rate for domestic and foreign enterprises at 25 percent) • State-encouraged new-and high-technology enterprises can enjoy a favourable 15 percent income tax rate
Import tariff	• Under the mode of "processing trade", import tariffs are exempted if the goods are imported in bond and exported within a certain period.
Excise Tax/ VAT	• Excise tax is fully rebated on exports. • VAT may be rebated on exports, although the rebate rates are, by and large, lower than the VAT rates actually paid
Incentives Provided by Local Textile Industrial Parks	• *Tax benefits*: Local income taxes can be refunded to the enterprises in full within 5 years; enterprises with annual VAT payments above RMB 1 million and sales taxes of RMB 500,000 may receive a 20 percent refund of the portion of the tax allocated to

	the industrial park. • *Preferential treatment in land use*: Enterprises with a fixed asset investment of above RMB 10 million and annual tax payments of RMB 1 million can receive a waiver of the land leasing fee for 20 years. • Preferential treatment in administrative fees: enterprises with a fixed asset investment of above RMB 5 million can receive a waiver of administrative fees during the construction period and within 5 years of operation.

Source: China's Support Programs for Selected Industries: Textiles and Apparel, Trade Lawyers Advisory Group, 2007

Vietnam

Over the last decade, Vietnam has emerged as a strong textiles exporter in the world, especially in trade of cotton textiles. The low manufacturing costs, economic reforms including market liberalization, trade and investment liberalization and benefits of textile quota regime under Multi-Fibre Arrangement (MFA) have aided textile industry's growth in Vietnam.

Before 1986, Vietnamese economy was largely state dominated, wherein the ownership and management of nearly all capital and assets of the country vested with state owned enterprises (SOEs). In 1986, the economic reforms were initiated to restructure SOEs and allow private-sector to actively participate in the economy. Post the market liberalization, during the period 1988 –1992, central bank credit was reduced, interest rate was raised dramatically, multiple exchange rates were unified, the dual price system was abolished and most prices were liberalized, and state subsidies were virtually eliminated. The results of the reforms were visible in the form of reduction in budget deficit to 1.7% of GDP in 1992, decline in inflation, expansion of trade markets, and inflows of foreign investment in the country.

Prior to reforms, the textile industry of Vietnam predominantly constituted SOEs, which enjoyed majority share in production and exports of textiles and garments. The textile and garment exports were largely made to the Council for Mutual Economic Assistance (Comecon economic block) comprising former Soviet Union and several East European countries. Vietnam had signed subcontracting arrangements with Soviet Union and other countries, wherein Vietnam received cotton from the partner country, did processing and delivered back readymade garments to that country. Thus, the industry made substantial progress during 1987-1990. However, in early 1990s the textiles and garment industry and exports suffered considerably post the collapse of Soviet Union and Comecon.

The 'doimoi' process (economic reforms) and global dynamics of textiles trade reinstated the textile industry's development by 1992. Vietnam emerged as a major beneficiary of textile quotas under the Multi-Fibre Arrangement (MFA). The quota markets for Vietnam's textiles and garments were EU, Norway, Canada and Turkey. Since then, Vietnam's garment and textile exports have grown strongly. Even after the end of MFA in 2005, the Vietnamese textile industry has maintained its competitiveness on the back of its continuous investment towards technological up-gradation and modernisation of the industry and improvement in physical infrastructure, including several export processing zones.

Vietnamese government issued a development plan for the textile and garment industry known as "the Speed-up Strategy for 2010" in 2001. The key objectives of this strategy were to promote backward linkages by encouraging investments in the upstream sectors (including raw material and fibre production, weaving, knitting as well as processing), and to rapidly increase high value-added garment export. The strategy also included initiation of specific programmes for upgrading technology, export marketing and promotion, and for preparing human resources. Details of such programmes are provided in the table below.

Development Area	**Key initiatives**
Investments	• Investments in raw material development, fibre production, cloth weaving, knitting, colour printing, dying, and finishing, producing synthetic cloth, producing industrial textiles, developing mechanical industry for textile and garment, environment protection and social responsibility, and producing garment accessories.
Technology	• To upgrade the production capacity • To invest in equipment of modern technology and of high specialization
Marketing and promotion	• Establishing representative offices in a number of countries like the United States, Hong Kong, Japan, and EU. • Organize study tours, visit to trade fairs abroad, to collect market information, approaching customers, and promoting Vietnamese products in the world market. • Cooperate and link with suppliers of cotton, fibres, textiles, materials and additives
Human resources	• To regularly coordinate with units, schools at home and abroad for organizing training courses for specialized engineers, line ministries, and technical workers, in order to supplement to the existing human capital of enterprises, and to supply labour to industrial zones for textile and garments

One of the important elements of the strategy was to attract all forms of investments in the industry, especially FDI. The textile industry has been able to attract substantial FDI on account of liberalized investment policies with the introduction of Law on Foreign Investment in 1987; foreign investors have been provided several tax and other incentives, as illustrated in the table below.

Tax and other incentives for foreign investors	Key features
Income tax	• Foreign investors utilising their shared profits for re-investment can enjoy a sum of profit tax return which is equal to the sum paid for the re-invested profits; the Profit tax return rates are stipulated at 100%, 75% and 50% based on the type of project. • Tax exemption for maximum of 9 years from the day enterprise starts making profits, depending on their export ratio or area of investment. • Reduction from taxable income all donations for humanitarian purposes to Vietnamese organization and individuals. • Import tax exemption for raw materials, for 5 years, with respect to projects operating in highland and remote areas
Fee and other charges on establishing foreign enterprises	• In 1999, the government reduced the business licensing fee and fee for establishing representative offices. • No fee charged on extension of representative office operation
Indirect taxes	• Presence of duty drawback regime to refund duties paid on imported products used in the manufacturing of goods for export
Incentives for industries in export processing zones	• Incentives awarded to domestic and foreign investors without discrimination. • Enterprises in export processing zones exempt from import and export duties for goods imported from or exported to foreign countries. • Allowed import of duty-free equipment, machinery and specialized means of transport (including spare parts and accessories) for the initial establishment, expansion or rehabilitation of the project. • Materials and parts used in the production of exports subject to import duty, but are eligible for refund in proportion to the amount of those materials/parts used in exported products.

The domestic enterprises also get benefits from many incentives such as cheap land rent, tax holidays for new investments, tariff exemption on capital goods for export production, and lower tax rates. The sound investment climate for domestic as well as foreign enterprises has thus facilitated steady investments in the industry.

Besides tax incentives, the government also provides monetary support to the industry in the form of various subsidy and export promotion schemes, as illustrated in the table below.

Government scheme	Key features
Export Promotion Fund	• Subsidies provided in the form of interest rate support (full or partial refund of interest incurred on ordinary bank loans) • Direct financial support, particularly to first-time exporters, for exports to new markets, or goods subject to major price fluctuations • Export rewards and bonuses. • Support to enterprises for expenditures on trade promotion activities such as participation in trade fairs and exhibitions, market surveys, consultancy fees and the opening of trade promotion centres and representative offices abroad

Japan

Textiles has been an important sector in Japanese industrialization as it contributed towards development of capitalist factories, and was a major export item that sustained Japan's balance of payments for several years. The textile industry of Japan has witnessed several structural transitions with predominance of silk reeling during the pre-industrial period to cotton and wool during industrialization era and later synthetic fibres post-industrial restructuring in 1960s.

The role of government in development of textile industry was most imminent during the post-world war period. Japan had lost almost 30% of its national wealth in the war. Consequently, the government adopted several measures on the industrial and trade policy front to aid economic recovery. The key objectives of the economic policies post war period were strengthening of industries' international competitiveness; and promotion of exports. Consequently, the government lowered the high prices of coal and steel to boost international competitiveness of industries. Further, the government introduced Industrial rationalization policy during the first half of 1950s. This included a series of policies adopted to remove bottlenecks and raise technological levels in key industries.

Two key policy measures were applied during this period:

- **Taxation**: Special amortization of key machinery items or machinery items for rationalization; exemption of duties on key machinery items.
- **Fiscal investments and loans**: The private sector's investment activities were supplemented by the Development Bank of Japan (DBJ) and the Export-Import Bank of Japan, etc.

On the trade policy front, the government introduced heavy import barriers and introduced various measures for export promotion of domestic goods. On import side, all products were subject to government quotas, many faced high tariffs, and Ministry of International Trade and Industry (MITI) had authority over the allocation of the foreign exchange that companies needed to pay for any import.

Japan's textile industry (especially cotton textiles) was severely affected by the defeat of the World War II; two-thirds of pre-war cotton spindleage was scrapped by wartime administrators and bombing and destruction of urban areas caused a further loss of 20% of spinning and 14% of weaving capacity. After 1945, textile companies were faced with a shortage of raw materials, unreliable power supplies, hyperinflation, and a workforce who had returned to their rural homes. The economic recovery included government measures to improve the industry infrastructure and technology and improve labour working condition to boost labour productivity.

Under the industrial rationalization policy, more than 30 industries were designated as key industries eligible for government support, synthetic fibres/ man-made fibres (MMF) being one of them. MMF was chosen to reduce Japan's dependence on raw cotton and wool imports and to upgrade nation's textile industry. The designated key industries were eligible for government support such as low interest financing, preferential tax treatment, and protection from import competition.

The development of man-made fibres industry in Japan was promoted in 1950s when the government designated it as a key industry eligible for government support and protection. The government facilitated transfer of technology for production of major synthetic fibres from the companies in the western countries to Japanese firms, which in turn made significant improvements in those fibres. The present structure of man-made fibres industry can be attributed to the Japanese government's restrictive policies for entry of firms and technology introduction in new sectors. In order to prevent over-investment, Japanese government restricted the entry into production of a particular fibre to a single local firm until the demand was sufficient to justify a second plant of efficient size. All chemical producers wanted to enter the synthetic fibre industry, but they were allowed entry only on a staggered basis. Thus, Tokyo Rayon (now Toray), acquired the right to use Du Pont's nylon patent for a 15 year period; Nippon rayon followed in 1954 with a license from Inventa (Switzerland) in 1954, and after around ten years Teijin and Asahi Kasei entered the industry. Similar staggered entry was seen in case of polyester; in 1958 Toray and Teijin jointly negotiated a polyester licence from ICI, and they controlled the market for six years before others were allowed to enter the market. Japan's output of synthetic fibres grew at an average annual rate of 26.3% during 1960s; it emerged as the second largest producer after the US. Soon Japan emerged as the largest exporter of MMF due to relatively large domestic output and high propensity to export.

The government encouraged technological upgradation of the textile industry through scrapping of outdated machinery and replacement with modern machinery. During 1960s, the Continuous Automated Spinning (CAS) system was implemented and high-speed drawing frames and open-end spinning frames were developed and introduced into the industry, which led to substantial reduction in labour requirements.

Other government measures for the industry included promotion of exports by providing preferential tax treatments on export earnings, establishment of JETRO in 1951 for collecting and disseminating export related information and holding export exhibitions to develop overseas markets. In 1960s the government also announced plans to 'Liberalise Trade and Foreign Exchange' and thus shifted to a free trade regime, subsequent to which it gained entry into the OECD in 1964. Consequently, the modalities of industrial policies changed, as the government lost its control over import allotments and its licensing authority over technology introduction and joint-venture business establishment.
The measures introduced by the government under its industrial rationalization policies aided Japan's rapid industrial growth and it soon emerged as the second largest economy after the United States. However, the growth was affected by the oil crisis in 1973 and the asset price bubble in 1980s. The economic policies formulated by the government post the oil crisis were largely unsuccessful in sustaining the past growth. Since then, the Japanese economy has stagnated and the economic

recovery has been slow. The production of synthetic fibres like polyester, nylon and acrylic has been on a decline, however the industry has shifted its focus on relatively new synthetic fibres like Para aramid, carbon fibre, modacrylic, etc. which are increasingly playing an important role in technical textiles. Several Japanese chemical fibre companies have expanded their production capacity for these fibres.

Since the trade and industrial liberalization, Japanese government's intervention in manufacturing has been minimal. However, in 2010, the government issued a 'New Growth Strategy', with a view to increase employment and attract FDI in high value added products and services. The specific measures under this strategy include reduction in corporate tax, incentive system containing taxation measures for foreign investors, and a program for promoting Japan as an Asian industrial centre.