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# China's Trade Subsidies and Export Rebate

## Types of China Trade Subsidies

In China the trade subsidies includes price support, allowance for damage, Workers and residents living subsidies, Interest subsidy, and other subsidies which not included on the national budget.

Price support: in order to keep the normal production and business, government will provide subsidies for relevant producers and companies to compensate the loss due to the increasing prices of raw material or complete products when the product selling price cannot change.

Allowance for damage: in order to keep the national production and business to follow the plan, China's government will provide allowance to national enterprises for their loss due to the objective conditions.

Workers and residents living subsidies: is set aside from the financial expenditure to ensure the basic living standard of the people and to protect the residents form a high food price.

Interest subsidy: in order to be better macro-control the economy, the government launches interest subsidy to compensate some enterprises for the expenses caused by loan interest or other particular items.

## Development of China Trade Subsidies

China's high export growth rate largely relies on direct fiscal subsidies and export rebates. The following is the development of China's fiscal subsidy policies.

First, in 1986, fiscal subsidies combined by export rebates for the first time exceeded 20 billion RMB. From 1986 to 2006, we saw a double digit export

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growth rate for 16 times, which showed a positive correlation between fiscal support and export growth.

Second, from 1988 to 1990, China saw a continuous high export growth due to a large amount of subsidies and export rebates.

Third, the reason for the high export increase from 1991 to 1993 is the surge in export rebates. China's government provided foreign currency subsidies with the amount of 23.375 billion yuan to export companies.

Forth, in 1993, the export growth rate slumped due to a severe domestic inflation.

Fifth, 1994 marked the end of the export subsidies but still saw a record 32% export growth rate. This was because of the practice of export rebates was written into a trade policy. At that time the average export tax rate was around 11.2%, but the export rebate rate was 14.2%. In fact, the company gained 3% of export subsidies.

Sixth, in 1998, under the gloom of Asian financial crises, China's export growth rate dropped sharply. State financial expenditure was mainly focused on boosting domestic demand instead of export.

Seventh, from 1999 to 2003, to meet the WTO requirements, China stopped fiscal subsidies but increased export rebates. Since then, China's export growth rate maintained momentum.

## China Export Rebate

Since 1985, China has had in place a tax rebate system designed to support export trade and increase the international competitiveness of companies involved in this business.

The rate of Export Rebate is corresponding to VAT and VAT incentive rate policies. There are two characteristics about export rebates. In terms of products under the same legal tax rate, will issue the different export rebate rates. Under

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the legal VAT rate of 17%, different products have different export rebate rates of 9%, 11%, 14% or 17%. Additionally, the export rebates are distinguished under the same terms of product category. For example, in terms of machinery product, the export rebate for general electric machinery is 9%, which is 17% on textile machinery product.

Currently, the labour-intensive industries rely more on the export rebate, such as textile and machinery industry which enjoys the export rebate of 13% and 17%. However, due to overseas recession and overseas demands, companies in these industries are still struggling to survive.

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