

China cuts tax rebates to curb exports

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Published: June 19 2007 19:01 | Last updated: June 19 2007 19:01

China has cut and in some cases abolished export tax rebates for some of its largest export categories in the latest attempt by Beijing to rein in its bulging trade surplus and ease trade friction with the US and Europe.

The new measures announced on Tuesday appeared to be the most sweeping changes announced so far to the tax rebate system, which has already been trimmed for a number of products over the past year.

The rebate, which can be as high as 17.5 per cent, the level of China's value-added tax, has been abolished for some leather products, fertiliser and some wood exports.

The finance ministry said the cuts were aimed at energy-intensive industries.

"The aim is to curb excessive growth of exports, rationalise export structure, ease trade friction and slow down sales of products that consume a lot of energy," the ministry said.

The current account surplus is on track to reach about \$400bn this year, more than 10 per cent of gross domestic product.

Mark Williams of Capital Economics said in a research note that the changes would have "little immediate impact" on the surplus.

"Chinese producers are continuing to enjoy bumper profit growth, which suggests they can absorb higher costs into their margins," he said. "And in sectors where Chinese producers do not face much foreign competition, higher prices may simply be passed on to consumers."

A spokesman for Peter Mandelson, the European Union trade commissioner, said he welcomed steps “to address the imbalance in the EU’s trade with China”.

Mr Mandelson attacked the growing trade deficit – set to hit €170bn (\$228bn) this year – as artificial in a meeting with Bo Xilai, Chinese commerce minister, when they met last week.

Mr Bo denied trade was unbalanced but the two sides have agreed to discuss it at a summit in November.

US industry groups also welcomed the Chinese move. Calman Cohen, head of the Coalition for American Trade, said: “This is a step in the right direction to correct unfair trading practices. We are seeing slow but steady movement by China to abide by the international trading rules, which say export subsidies and tax incentives for exports are to be eliminated.”

Beijing, meanwhile, continues to complain about US restrictions on high-technology exports to China.

The US on Monday introduced new regulations that will tighten the sales of some goods overseas, including some aircraft and engines, and space communications systems.

“It is inappropriate for the US side to introduce the new rules without fully listening to the Chinese side, and it is against the spirit of co-operation,” said Yao Shenhong, a spokesman for China’s Commerce Ministry.