

China's WTO Violations Threaten U.S. Jobs Recovery

Alliance For American Manufacturing

More than 400,000 jobs in the U.S. auto supply chain have been lost since 2000 and another 1.6 million U.S. jobs are at risk unless China's illegal trading practices are curtailed, according to three separate reports.

"Taken together, these three reports show beyond a shadow of a doubt that China's blatant use of illegal government subsidies and a web of predatory trade practices on a massive scale are undercutting companies in the U.S. auto supply chain," said Scott Paul, Executive Director of the Alliance for American Manufacturing (AAM), a non-profit, non-partisan partnership of leading manufacturers and the United Steelworkers.

"It's essential that federal action be taken to challenge these abuses before they completely undermine the job recovery underway in the U.S. auto industry," Paul said.

As a result of this web of subsidies and illegal practices, China's exports of auto parts have surged over the past decade. A large portion of these exports are bound for the U.S. market. China is the fastest-growing source of U.S. auto parts imports. In fact, since 2001, an AAM investigation has found that \$62 billion worth of Chinese auto parts have been imported into the U.S., causing the auto parts trade deficit between the U.S. and China to increase by more than 850 percent.

One of the reports, *Growing Threats to the U.S. Auto-Parts Industry from Heavily Subsidized Chinese Tires and Parts*, conducted by Robert E. Scott and Hilary Wething of the Economic Policy Institute (EPI), notes that a substantial portion of jobs in the U.S. auto industry are in the auto-parts sector, with direct and indirect auto parts jobs in virtually every state. The report concludes that "every one of these [1.6 million U.S.] auto-parts jobs is individually at-risk from this unfair trade competition." Research by AAM has found that the auto parts sector comprises 75 percent of employment in the U.S. auto industry.

The more heavily industrialized states on the coasts and in the Midwest are particularly at risk. The total number of jobs supported directly and indirectly in the auto parts industry in Michigan and Ohio are 250,000 and 189,000, respectively.

"U.S. automakers have enjoyed a strong turnaround since the government aided the restructuring of GM and Chrysler, with U.S.-based automakers' sales up 29.1 percent since 2009," Scott and Wething said. "However, employment in the auto-parts and tire industry has rebounded at less than half that rate."

The products included in U.S. auto-parts trade include tires, engines, electrical, and

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

electronic equipment.

A second report, entitled Putting the Pedal to the Metal: Subsidies to China's Auto-Parts Industry from 2001 to 2011, conducted for EPI by Usha C.V. Haley, cites \$27.5 billion in government subsidies to the Chinese auto-parts industry and notes that China's central government has committed to disbursing an additional \$10.9 billion in subsidies for industrial restructuring and technological development of the industry.

"Between 2000 and 2010," the report found, "imports of Chinese auto parts into the United States increased about eight-fold and are expected to continue to increase."

The subsidies from China's central government and seven local governments have gone to 73 companies for investment in coal, electricity, natural gas, glass, and cold-rolled steel, including \$18.4 billion in subsidies for technology development and industrial restructuring.

Haley's study, like the report done by Scott and Wething, is being released little more than a week after the National Science Foundation issued its biennial report on the impact of science and engineering on the U.S. economy, in which NSF revealed that 687,000 U.S. jobs in high tech manufacturing have been lost over the past decade, many of them to Asia.

The Chinese government's extensive subsidies, many of which are in violation of WTO trade rules, have dramatically increased the U.S. trade deficit with China. Haley notes that "China's exports of auto parts to the United States are three times those of its next highest trading destination (Japan)," and radically different from China's relations with other trading partners.

"In auto parts," Haley said, "China runs a trade deficit with every major auto-producing country except the United States," including Japan, Germany, and South Korea. In 2010 alone, the United States' trade deficit with China on auto parts was more than \$8 billion and rising.

A third study conducted by Stewart and Stewart, a prominent law firm that has won cases challenging China's unfair trading practices, notes that "China has achieved astronomical growth in its domestic automotive and parts industry through generous government subsidies, performance requirements for foreign investors, technology transfers, discrimination against imported goods, restrictions on raw material exports, and priority support for exports of vehicles and parts. China plans to devote more resources to these policies over the next five years."

The Stewart and Stewart study, China's Support Program for Automobiles and Auto Parts Under the 12th Five Year Plan, offers compelling evidence that the massive government subsidies being given to Chinese producers, which are in violation of China's WTO commitments, will continue for years to come unless challenged by Congress and the President.

In pursuit of global leadership by 2030 in what the Chinese call 'new energy'

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automobiles and their components, the Chinese government will invest a total of \$1.5 trillion in that sector and six others over the next five years to enable them to grow at an annual rate of 35 percent over the period. Specific auto parts targeted in the plan include batteries, electric motors, electronic control systems, and fuel cells, according to the law firm's study.

Said AAM's Paul, "In addition to massive, illegal government subsidies, China also employs currency manipulation to artificially lower the cost of its exports. This deliberate mercantilism has the potential to cripple the U.S. auto-parts industry. What's urgently needed is federal action to address these predatory trade practices before thousands more U.S. jobs are lost."

Source URL (retrieved on 10/22/2014 - 9:59am):

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