U.S. And China Clash Over Free Trade

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The U.S. government has challenged Chinese policies it says improperly subsidize exports of auto parts in violation of World Trade Organization free trade rules. The issue is politically sensitive at a time when Western governments are trying to boost exports, especially of higher-value industrial goods, to cut high unemployment. China is the world's biggest auto market but rapid sales growth is slowing, increasing pressure on Beijing to avert the loss of manufacturing jobs.

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Where they stand:

Trade and China have become sensitive issues for President Barack Obama, who faces pressure to generate jobs and pledged in 2010 to double exports within five years. Obama and his Republican challenger in the presidential race, Mitt Romney, have accused each other of favoring policies that would shift more U.S. jobs to China. Obama's administration has filed a series of WTO cases challenging Chinese trade policy on autos, rare earths and other industries.

The Chinese government had no immediate response to the latest U.S. complaint but has defended its aid to industries such as solar power as in line with WTO free-trade rules.

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Why it matters:

The United States, China and other governments see the auto industry as an important source of higher-paid jobs and export revenue. The 2008 global crisis fueled complaints in the West that Chinese policies on a wide range of industries might be wiping out jobs abroad.

Chinese automakers exported only about 500,000 autos last year, mostly to the Middle East, Southeast Asia and other developing markets. But its producers of tires, aluminum wheels, radios and other components are making inroads in U.S., European and Japanese markets. They have yet to break into the top ranks of suppliers along with companies such as Delphi, Visteon or Europe's Michelin and Bosch. At the lower end of the market, Chinese suppliers are increasing their global share, putting pressure on smaller Western competitors.

Exports accounted for about one-sixth of the 2 trillion yuan ($300 billion) in sales by Chinese auto parts makers last year, according to AlixPartners Asia, a research firm. The United States was by far the biggest destination for Chinese auto parts exports last year, with sales rising 26 percent to $12.9 billion. Exports to the No. 2 region,

Western Europe, rose by a similar margin to $7.8 billion.

Beijing has an array of strategies to support industries targeted for development, ranging from clean energy to mobile phones to autos. Companies can receive tax breaks and low-cost bank loans, energy and land.

The WTO allows research grants and some other aid, but critics say China violates rules that prohibit making exports a condition of support. They say Chinese policies have encouraged auto parts manufacturers to shift production to China, hurting employment abroad.

U.S. Trade Representative Ron Kirk said in a statement announcing the WTO challenge that Chinese auto and auto parts exporters in government-designated "export bases" received at least $1 billion in subsidies from 2009 to 2011.

Employment in the U.S. auto parts sector shrank by roughly half between 2001 and 2010, while U.S. imports of auto parts from China have increased seven-fold, according to the Obama administration.

For its part, Beijing faces pressure to hold down potential job losses as export growth plunges and China's domestic consumer demand weakens.

Export growth fell to just 2.7 percent in August over the same month in 2011, down sharply from the double-digit increases of recent years.

China's auto sales growth tumbled to 3.7 percent in August, down from July's 11 percent growth and June's 15.8 percent rate. That reduces domestic demand for auto parts, increasing the importance of exports. Sales in China by global brands such as General Motors Co., Volkswagen AG and Toyota Motor Co. are growing faster than the overall market. That is squeezing Chinese automakers, especially smaller competitors that local leaders want to support as a source of jobs and taxes.

Beijing fired back in the auto dispute last year by imposing anti-dumping and anti-subsidy duties on imports of American-made automobiles worth some $3 billion. The White House said they covered more than 80 percent of U.S. auto exports to China and fell disproportionately on GM and Chrysler LLC because of Washington's financial rescue of those companies following the financial crisis. The United States filed a WTO case in July challenging that move.

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