Industry statistics

Chinese glass industry heavily subsidized, report says

Compiled by Jenni Chase

A new study released by The Economic Policy Institute, Washington, D.C., by Dr. Usha Haley, a China expert at the Ash Institute for Democratic Governance and Innovation at the Harvard Kennedy School, sheds light on the role government subsidies play in the growing Chinese glass industry. The report, "Through China's Looking Glass: Subsidies to the Chinese Glass Industry from 2004-2008," claims that China's flat glass sector received approximately $4.8 billion in subsidies from 2004 to 2008, spanning heavy oil, coal, electricity and soda ash. (See Figure 1) These subsidies partially explain how the industry was able to remain profitable during that four-year period despite stagnant flat glass prices and increasing raw-material costs, the study states.

"In the midst of a global recession, subsidies to Chinese glass are increasing," Haley says. "Besides the [oil, coal, electricity and soda ash] subsidies, Beijing's stimulus package includes elimination of export taxes, possible devaluation of the currency, and an infusion of loans into the manufacturing sector to boost exports. In March 2009, Beijing announced that it will reduce export taxes to zero and give more financial support to exporters as it tries to increase its share of global trade."

As the largest consumer of glass in the world, China accounts for 33 percent of global demand, the report states. However, declines in the real estate and automobile sectors, combined with excess capacity, have made exports the engine behind the industry's growth, according to the study. "Because of existing and planned production capacity, glass exports from China are expected to increase at least until 2011, far outpacing projected increases in domestic demand," Haley says.

The Chinese glass industry experienced a three-fold increase in exports to the United States from 2000 to 2008; correspondingly, the U.S. trade deficit with China on glass tripled in the same period, according to the study.

"Until this subsidy problem is addressed and fair competition can be restored, U.S. glass manufacturers will face continuing pressures to downsize or close plants," said Robert Scott, senior international economist, EPI, in a release.

"Our domestic glass industry is the most efficient in the world, but it cannot compete against production that is heavily subsidized by the Chinese government," echoed Scott Paul, executive director, Alliance for American Manufacturing, Washington, D.C., in an email. "As a result, glass production in the U.S. has suffered in recent years, with plant closings and thousands of lost jobs throughout the country."

A copy of the 37-page report, which includes analysis of China's glass supply and demand, production processes and manufacturing costs, and subsidies, is available through EPI at www.epi.org/publications/entry/bp242/. g

Subsidies to flat glass in China, 2004-08: quarter 3

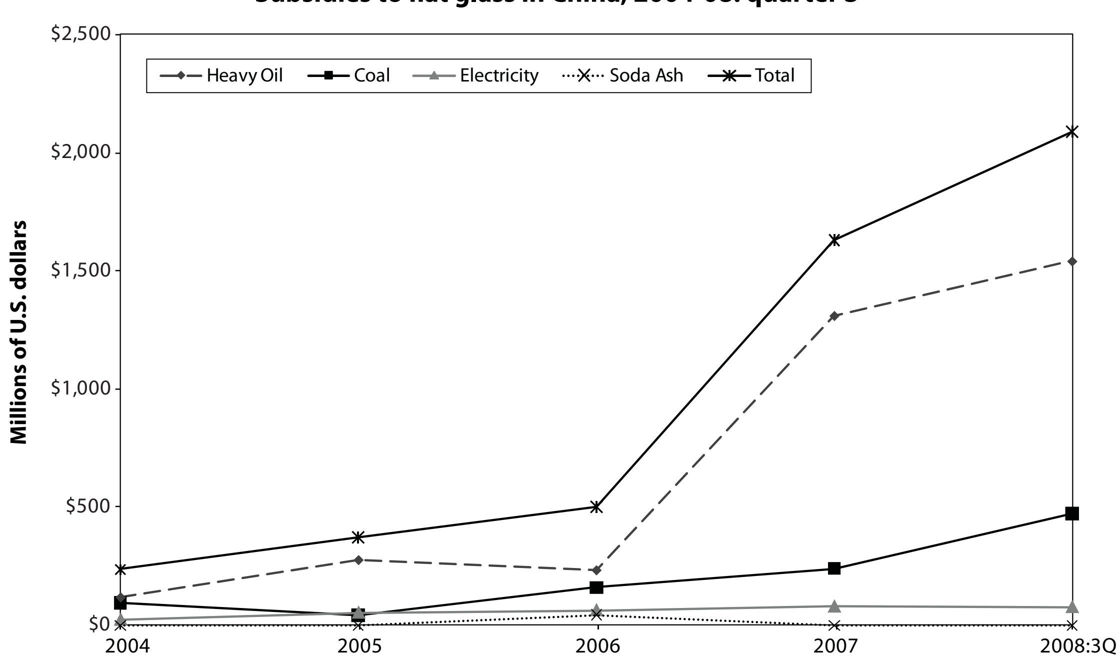

Fig. 1

Reprinted from EPI briefing paper #242, "Through China's Looking Glass: Subsidies to the Chinese Glass Industry from 2004-2008."

SOURCE: International Energy Agency; China Economic Information Network; National Bureau of Statistics, China; glass.cn; Interfax – *China Metals Weekly*, Oct.26, 2007; KeyBanc Capital Markets; U.S. Geological Survey; steelonthenet.com; *The Standard* (Hong Kong) Jan. 21, 2006; *Asia Pulse*, 10/11/07; author's estimates.