Reports: China's Trade Practices Hurting Tier 1 and Tier 2 Automotive Suppliers

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By *Josh Cable* China's "illegal trading practices" have contributed to the loss of more than 400,000 jobs in the U.S. automotive supply chain since 2000. If China doesn't reverse course, another 1.6 million U.S. jobs in the auto supply chain are at risk.

Those are among the conclusions reached by three separate reports analyzing the impact of China's trading practices on the U.S. automotive supply chain.

The Alliance for American Manufacturing released the three reports today.

"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, a nonprofit partnership of manufacturers and the United Steelworkers union.

The reports point to the need for "federal action [to] be taken to challenge these abuses before they completely undermine the job recovery underway in the U.S. auto industry," Paul added.

"As a result of this web of subsidies and illegal practices, China's exports of auto parts have surged over the past decade," Paul asserted. "A large portion of these exports are bound for the U.S. market."

According to AAM, 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%," Paul said.

The auto-parts sector comprises 75% of the employment in the U.S. auto industry, according to AAM.

The more heavily industrialized states on the coasts and in the Midwest are particularly at risk, the alliance noted. In Michigan, the auto-parts industry supports 250,000 jobs, while it supports 189,000 jobs in Ohio, according to AAM.

The three reports released today are:

- "Growing Threats to the U.S. Auto-Parts Industry from Heavily Subsidized Chinese Tires and Parts," by Robert Scott and Hilary Wething of the Economic Policy Institute.
- "Putting the Pedal to the Metal: Subsidies to China's Auto-Parts Industry From 2001 to 2011," by business professor Usha Haley.
- "China's Support Program for Automobiles and Auto Parts Under the 12th Five-Year Plan," by Stewart and Stewart, a Washington, D.C.-based law firm that has won cases challenging China's trading practices.

"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% since 2009," Scott and Wething note in their report. "However, employment in the auto-parts and tire industry has rebounded at less than half that rate."

In her report, Haley points to $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."

'Deliberate Mercantilism'

AAM believes that the Chinese government's subsidies, "many of which are in violation of WTO trade rules, have dramatically increased the U.S. trade deficit with China."

"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, America's trade deficit with China on auto parts was more than $8 billion and rising, according to AAM.

The Stewart and Stewart report asserts 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 report asserts.

AAM's conclusion: The subsidies will continue for years unless challenged by Congress and the president.

"In addition to massive, illegal government subsidies, China also employs currency manipulation to artificially lower the cost of its exports," AAM's Paul said.

"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."

See Also:

- "Chinese Raw-Material Exports Broke Trade Rules, WTO Says"
- "OEM-Supplier Collaboration Key to Auto Industry's Survival"