Inside US-China Trade

Think Tank Study Pinpoints Subsidies To Chinese Glass Industry

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China has become the leading global producer and trader of glass and glass products over the past five years thanks at least in part to $30.3 billion in central, provincial and local government subsidies received from 2004 to 2008, according to a new study released this month by the liberal Economic Policy Institute.

The subsidies grew over the 2004 to 2008 period, amounting to the value of more than a third of the gross industrial output of glass in 2008. The supports cover heavy oil, coal, electricity and soda ash, all inputs used in the glass-making process, according to Through China's Looking Glass: Subsidies to the Chinese Glass Industry from 2004-08.

Chinese production of flat glass, glass fiber, container glass, glass tableware and specialty glass has risen on average 18% per year from 1987 to 2007, the report notes. This despite the fact that most Chinese producers are not big enough to enjoy economies of scale and are geographically dispersed with no particular advantage for exporting.

"I would not know where the cost advantages are coming from if not from subsidies," said author **Usha Haley** in an interview. Haley is the Asia programs fellow at the Harvard Kennedy School's Ash Institute for Democratic Governance and Innovation.

She explained that because glass production is a capital-intensive industry for which wages are only 2% of production costs, China's relatively low wages cannot explain its success.

Chinese glass exports to the U.S. tripled and the U.S. trade deficit with China on glass also rose three times from 2000 to 2008, according to the 37-page EPI briefing paper.

U.S. Steelworkers (USW) President Leo Girard publicly said the glass sector may be one area that warrants further scrutiny for a potential section 421 China safeguard following President Obama's decision last month to increase import tariffs on Chinese tires under that safeguard provision.

In the interview, Haley stressed that much more detailed data would be required in order to prepare a viable countervailing duties petition than what is contained in her study. The study uses publicly available information that Haley was able to verify.

She also provided a "scattergram" not included in her study that shows a correlation between the level of subsidy provided to the Chinese glass industry and the level of U.S. imports of Chinese-made glass and glass products. Generally, a high level of subsidies correlated to a high level of imports and vice versa.

For instance, it showed that when subsidies were valued at $15 billion, U.S. imports were valued at about $1.5 billion. When Chinese subsidies were worth around $2 billion, U.S. imports of Chinese product were valued at less than $1.35 billion.

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