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CHINESE GOVERNMENT SUPPORT IN THE AUTO AND AUTO PARTS SECTORS THREATENS U.S. JOBS AND INDUSTRIAL BASE

Statement of Terence P. Stewart,
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Chinese industrial policies in the auto and auto parts sectors are harming American jobs and our industrial base. If these policies are not stopped, by the end of the decade China could seize 50% or more of our auto parts market, costing hundreds of thousands of American jobs.

We are pleased to be part of this coalition committed to working with Congress and the Obama Administration to fashion a comprehensive response to preserve this critical sector of American ingenuity and manufacturing.

To that end, our firm is releasing a report this morning that details the scope and scale of the distortions and discriminatory practices by the Chinese government that adversely impact our auto and auto parts sectors.

In its 12th Five-Year Plan, China designates “new-energy” automobiles and their components as one of the seven “strategic and emerging industries” in which it aims to become a world leader by 2030. China will reach this goal by growing Chinese production of vehicles and parts by 35% per year – a staggering surge in production that will cause significant problems here in the U.S. and globally. The Chinese government will invest $1.5 trillion in these seven industries over the next five years. Specifically, the Chinese plan to invest at least $18 billion in the new-energy automotive industry through 2020. Additionally, China’s 2009 stimulus plan allocated $1.5 billion to develop key automotive parts and technologies. Auto parts targeted in these plans include batteries, electric motors, electronic control systems, and fuel cells – critical components to the next generation of motor vehicles.

More specifically, our report demonstrates how Chinese auto and parts producers benefit from an array of government policies, including export restraints, domestic content rules, technology transfer requirements, export requirements, and massive domestic and export subsidies. Our report explains how a number of these policies directly violate China’s WTO commitments.

- Restraints on exports of key raw materials, including critical materials for light-weight composites, special alloys, fuel cells, batteries, and electronics, increase supplies and lower prices for Chinese auto parts producers.
- Investors in finished auto production in China are required to also produce engine sets in China.

- Subsidies for new purchases of energy-efficient cars of up to $18,000 per vehicle are funneled through domestic manufacturers so that imported vehicles do not qualify – every one of the car models eligible for the subsidy is produced in China.
- China is waiving sales taxes on locally made electric vehicles, likely violating WTO obligations of national treatment.
- Foreign investors cannot produce complete automobiles in China unless they do so through a joint venture majority-owned by the Chinese partner, a rule recently extended to producers of new-energy vehicle components. The rule gives Chinese partners leverage to force technology transfers, examples of which are documented in our report.
- China provides discounted export credits and export credit insurance for auto parts exports. Both programs appear to be prohibited export subsidies under WTO rules. A major Chinese auto producer, Chery Auto, for example, received export credits of RMB 5 billion in 2005 and another RMB 10 billion in 2008 – that's billions of U.S. dollars to this one Chinese company.

These policies are already increasing Chinese exports. Today, China exports 25 percent of the automotive parts it produces, and that proportion is expected to increase to 30 percent by 2015. The U.S. absorbs nearly a quarter of China's auto parts exports, and those U.S. imports have grown at a rate of more than 25% per year since 2003. If Chinese exports to the U.S. continue to grow at this rate, it will export more than $100 billion to the U.S. by 2020, a figure greater than total U.S. imports of auto parts from all countries in 2010. And if the trend continues, the Chinese could take 50 percent of the U.S. market by 2020.

Our report highlights import surges in a number of automotive parts products including aluminum wheels, radiators, laminated safety glass windshields, mounted brake linings, and engine ignition coils. If unchecked, this surge of Chinese product into our market could decimate the U.S. auto parts industry which has already suffered massive contraction in the last decade.

The Obama Administration did an admirable job bringing the auto industry out of crisis in 2009 and preserving hundreds of thousands of U.S. jobs. The effort launched today is the next major step to assure the long-term viability of the vital U.S. industry. There is still time to prevent China's state capitalism from toppling a pillar of our economy.

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Terence P. Stewart is the managing partner of the Law Offices of Stewart and Stewart. Mr. Stewart has worked with various industries to solve trade matters in the U.S. and abroad, including representing agricultural, industrial, and service groups. He is widely published and is a frequent speaker on international trade issues.

The Law Offices of Stewart and Stewart, located in Washington D.C., has a more than 50 year tradition of excellence in helping clients prevail in a complex and ever-changing global marketplace. by providing innovative solutions to the challenges of international trade.

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