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Subsidies to Chinese auto-parts industry puts U.S. auto-parts jobs at risk, two new EPI studies find

The auto parts and tire manufacturing industry supports roughly 1.6 million jobs in the United States. The auto parts industry contributes the most direct jobs to the motor-vehicle manufacturing sector, which is the second-largest employer among all U.S. manufacturing industries. However, the U.S. lost more than 400,000 jobs in auto parts between 2000 and 2011. Over the same time period, China's auto parts exports have grown, largely because Chinese central and local governments subsidize China's auto-parts industry. Many of the subsidies violate international trade treaties, and China's restriction of sales of U.S. auto parts in China is in violation of their obligations to the World Trade Organization. Today, the Economic Policy Institute (EPI) releases two reports, ***Jobs in the U.S. auto parts industry are at risk due to subsidized and unfairly traded Chinese auto parts*** and ***Putting the pedal to the metal: Subsidies to China's auto-parts industry from 2001 to 2011***, that outline how China's growing auto parts sector puts U.S. auto parts jobs increasingly at risk.

In ***Jobs in the U.S. auto parts industry are at risk due to subsidized and unfairly traded Chinese auto parts***, EPI Director of Trade and Manufacturing Policy Research Robert E. Scott finds that the U.S. trade deficit in auto parts increased from $9.5 billion in 2000 to $31.2 billion in 2010. Trade deficits tend to increase unemployment, so a growing trade deficit causes displacement of U.S. jobs. In 2010, U.S. imports of tires and auto parts from China exceeded exports by 725%.

U.S. auto parts jobs are located in every U.S. state and the District of Columbia. In terms of total employment, the states most at risk are Michigan (249,989 jobs), Ohio (189,039), Indiana (132,769), Illinois (98,748), Tennessee (79,225), Texas (74,942), California (70,883), Kentucky (58,745), New York (58,429) and North Carolina (54,540). In terms of share of state employment, the most vulnerable states are Michigan (6.5% of total state employment), Indiana (4.8%), Ohio (3.7%), Kentucky (3.3%), Tennessee (3.0%), Alabama (2.2%), South Carolina (1.9%), Illinois (1.7%), Wisconsin (1.6%) and North Carolina (1.4%).

“Since the depths of the Great Recession, auto sales have increased more than twice as fast as employment in the U.S. auto parts industry,” said Scott. “This discrepancy is in part due to the rapid growth in Chinese auto-part imports.”

In ***Putting the pedal to the metal: Subsidies to China’s auto-parts industry from 2001 to 2011***, Usha C. V. Haley, Chaired Professor of International Business, Massey University, New Zealand, discusses the $27.5 billion in direct and indirect subsidies the auto-parts industry received from 2001 to 2011, as well as planned and committed subsidies for industrial restructuring, technology development and technology acquisition. Haley also provides an overview of the strategic decisions made by Chinese policymakers and business leaders worldwide that have strengthened the Chinese auto-parts industry.

The Chinese central and provisional governments have provided $27.5 billion in direct subsidies, such as loans, and committed $10.9 billion in subsidies for restructuring and technology development for 25,000-plus companies manufacturing auto parts in China. Direct subsidies include subsidized financing, cash grants, tax subsidies, subsidized inputs such as steel, interest-free loans and research and development grants. The central and provincial governments have also consistently given substantial energy subsidies to coal, electricity and natural gas, which have indirectly benefited the auto parts industry. The scale of government subsidies relative to the size of China's auto parts was massive in the 10-year period the study covers and accounted for China's rapid transformation from a net importer of auto parts in 2003 to one of the largest exporters of auto parts in the world. The subsidies are part of the reason that Chinese auto parts sell for 30-50% less than comparable auto parts made in Europe, North America or Japan.

“The Chinese auto-parts industry enjoys no comparative advantage,” Haley said. “In this capital-intensive industry, labor accounts for only 5 percent of the costs of production. The industry also has no technological advantage or economies of scale or scope. Government subsidies have made the industry and contribute to its continuing growth."

Furthermore, though Chinese law contains no local-content requirements at the regional or national level, local-content requirements exist formally and informally. For example, some loans from Chinese banks and provisional governments are contingent on foreign companies’ willingness to use local suppliers.

China imports very few auto parts from the U.S., largely because U.S. auto companies have increasingly sourced auto parts from Chinese suppliers rather than U.S. suppliers, or have encouraged U.S. suppliers to manufacture auto parts in China. Despite China's price advantage, because China primarily manufactures less sophisticated auto parts, it imports more auto parts than it exports to most of the auto-producing countries—except the United States.

“U.S. corporate decisions on where to manufacture and how to integrate their supply chains, as well as which technologies to transfer to joint-venture partners and subsidiaries, along with Chinese subsidies, have made the United States China's largest market for auto parts,” Haley said. “At the same time, foreign auto-parts companies, including some from China, have built plants in the U.S. and are now

competing in the U.S. market with traditional U.S. suppliers. These foreign companies have as a goal the transfer of technology to their home countries."

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About EPI

The Economic Policy Institute (EPI) is an independent, nonprofit think tank that researches the impact of economic trends and policies on working people in the United States.