



Obama Moves Again on China Export Subsidies: How Big an Impact?

Gary Clyde Hufbauer explains the facts supporting the Obama administration's legal action to stop Chinese export subsidies, but he says the impact of winning is likely to be small.

Transcript of interview recorded September 18, 2012. © Peterson Institute for International Economics.

Steve Weisman: The Obama Administration has stepped up its trade actions against China at a time of tensions on other matters and questions about China's future leadership. Gary Hufbauer, at the Peterson Institute, is here with me, Steve Weisman, to answer some questions about the impact and the logic of these steps. What, first, did the Obama Administration do with regard to China and cars, and car parts?

Gary Hufbauer: They took China to account for the subsidies in what China praises as its export base production areas. The allegation says they're given production subsidies and so forth. And the Administration cites a figure of \$1 billion over the period 2009 to 2011.

The Administration also says that China now exports, in the year 2011, about \$69 billion of autos and auto parts. Assuming these figures are right, and I think the Commerce Department does a very good job of calculating as best they can these figures, it's a fairly small percentage relative to the sales, because it's a three year figure for subsidies – let's say \$500 billion a year over about \$70 billion of exports. That's not nothing, but it's not an enormous percentage.

Steve Weisman: They went to the World Trade Organization?

Gary Hufbauer: Yes the Administration is taking this case to the World Trade Organization. If the Administration's complaints hold up, namely that these are specifically directed at exports, that's going to be the real issue. Are they specifically directed at exports? Then the subsidies are prohibited. We don't have to look at any impact. They might have increased auto exports a lot, maybe they didn't increase Chinese auto or auto parts exports a bit, doesn't make any difference. If they're directed at exports, then they are prohibited.

Steve Weisman: What is the relief?

Gary Hufbauer: The relief is that China will have to withdraw them [the subsidies], and China has actually been pretty good, when it loses a case, about changing its practice. If it doesn't withdraw them, then the U.S. could put on a retaliatory tariff. But China almost certainly would withdraw them if they're found to be in violation of the WTO.

Steve Weisman: Sounds like the Administration might have a good case, maybe more symbolic than sizable in impact.

Gary Hufbauer: I think that's fair to say. First of all, I haven't yet been able to nail down the size of Chinese auto parts exports to the U.S., but I will be surprised if they're much more than a couple billion dollars. I might be surprised, but we're working on that figure right now.

Steve Weisman: This is part of a flurry of activities by the Administration against China over the last year?

Gary Hufbauer: The last four or five years, yes. The Obama Administration has brought about eight cases against China in the WTO.

Steve Weisman: What's the track record on winning them?

Gary Hufbauer: We win most of them. They're well researched and when China loses those WTO cases, it has changed its policies. But let me mention one we didn't win. That was on intellectual property, which had many different complaints. But the one big complaint we did not win was that China inadequately enforces its own intellectual property laws. But other parts of the case we won, and we've won several other important cases.

Steve Weisman: What's China's reaction likely to be on this latest step?

Gary Hufbauer: On this latest one, the reaction was a little surprising. The basic Chinese mode of commercial policy is to retaliate by bringing a case against the U.S. or against Europe, after a period of say a couple weeks or a couple of months, maybe on a totally unrelated product, and not to say it's retaliation, just to do it, but all the lawyers in the business know it's retaliation.

This time China filed a case against the U.S. either the same day or the next day, in the same industry, autos and auto parts, and cited all the U.S. help to the auto industry in the Great Recession. I haven't read the Chinese complaint, but obviously we gave a lot of subsidies during the Great Recession.

Steve Weisman: Yes, I was going to ask about that. Isn't it hypocritical for the United States to accuse China in this area, after rescuing the auto industry?

Gary Hufbauer: Yes, maybe there is a bit of hypocrisy. But here would be the vital distinction. I think it's fair to say that the U.S. subsidies, whether they were a good idea or a bad idea, were not directed at exports.

Steve Weisman: Right.

Gary Hufbauer: They were directed at keeping these firms alive for the domestic market, for the export market, for everything, but no specific direction on exports. Whereas the Chinese subsidies, according to the Administration, are export-oriented or export-driven. Now, just because the names of these kinds of production locations is export-based, that doesn't prove it. It'll take more than that. But that would be the real distinction.

Steve Weisman: You can understand why the Chinese would not see that as much of a distinction.

Gary Hufbauer: Oh they don't see it. They see it as all politics.

Steve Weisman: Lawyers and hair splitting, and politics.

Gary Hufbauer: Yes, absolutely.

Steve Weisman: Thank you Gary.

Gary Hufbauer: Thank you.

