Flood of Chinese imports could renew trade tensions, threaten U.S. jobs

Date: Mar. 18, 2024
From: Washingtonpost.com
Publisher: The Washington Post
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Chinese factories are flooding global markets with cars, appliances, computer chips and electronics, setting the stage for a fresh round of trade tensions with the United States and Europe, economists said.

China's output dwarfs its domestic needs -- especially with a property bubble weighing on the economy -- so prices for its goods are falling. In February, U.S. imports from China cost 3.1 percent less than one year ago, the Bureau of Labor Statistics said on Friday.

That helps the Federal Reserve's fight against inflation. But those low-priced Chinese goods may cost American manufacturers sales, threatening the Biden administration's election-year hopes of boosting the number of factory jobs. China's factory output in the first two months of the year rose 7 percent over the same period in 2023, the government said on Monday.

"You just have expanding Chinese capacity in a range of sectors, some sectors that are strategic, other sectors that are priorities for the U.S. and Europe. And that's generating tension," said economist Brad Setser, an Obama administration Treasury Department official. "The rest of the world also wants to produce manufactured goods."

Beijing over the past few years invested in new factories to meet demand from American consumers who splurged on imported goods during the pandemic and to develop high-tech industries such as electric vehicles and batteries, which the Chinese government sees as essential.

Since the end of 2019, China's manufacturing output, already No. 1 in the world, has expanded by roughly one-quarter, according to Capital Economics in London. U.S. factory production over the same period was flat and remains 7 percent below its 2007 peak.

The result, according to various measures of China's trade performance, has been a growing imbalance in global trade. China's current account surplus as a percentage of global output, one broad indicator, is larger now than during the period that preceded President Donald Trump's imposition of tariffs on most Chinese imports and is close to an all-time high, according to Neil Shearing, chief economist for Capital Economics.

"There is a need to better balance global trade," he said.

China's surplus in manufacturing goods trade as a share of the global economy, a second measure, is almost twice as large as Japan's in the late 1980s, when many Americans feared the Japanese economy was destined to become the world's largest, according to Setser's calculations.

As China's global manufacturing dominance swells, the stakes are high for automakers, especially in Europe. China in recent years has emerged from auto industry obscurity to pass Germany in auto exports.

Chinese factories can churn out 40 million cars each year, 15 million more than are needed to satisfy domestic demand. The 5 million cars China exported last year were roughly five times its 2020 total, according to Michael Dunne, a San Diego-based industry consultant, who said that figure could double in coming years.

Chinese automakers already are Mexico's top supplier. China's BYD, backed by Warren Buffett, sells one electric model for about $15,000, which helped it overtake Tesla late last year as the world's largest EV producer.

Tesla CEO Elon Musk said earlier this year that Chinese companies would "pretty much demolish most other car companies in the world" unless they face new trade barriers.

The battle for auto industry supremacy is just one element of a worsening trade climate between China and its major customers in Europe and the United States.

European officials said this month that an ongoing trade probe found "sufficient evidence" that China was subsidizing production of electric vehicles in a manner that could harm Europe's automakers. A decision on initial tariffs could come by July.

The U.S. auto market is already shielded by tariffs. Under the USMCA trade agreement, vehicles also must meet regional rules of origin that would prevent Chinese companies from exporting to the United States cars made in Mexico.

But Chinese vehicles eventually might land here via South Korea or other nations that have free-trade agreements with the United States, analysts said.

A spokesman for the Chinese Embassy in Washington dismissed concerns about the country's swollen manufacturing sector.

"Excessive production capacity is a relative concept. One cannot limit demand to one country or region, but need to see things in the context of economic globalization," said Liu Pengyu, head of the embassy's information and public affairs section.

Concerns over Chinese manufacturing dominance flared last week, as the United Steelworkers union petitioned the office of U.S. Trade Representative Katherine Tai seeking an investigation of China's shipbuilding industry.

The steelworkers, backed by four other unions, said China had employed "nonmarket policies" in a deliberate 20-year strategy to dominate global shipbuilding. Tai has 45 days to decide whether she will pursue an investigation, which could authorize the president to levy tariffs on Chinese vessels.

Chinese economic planners have long favored state-owned firms in scores of industries, with cut-rate financing, cheap or even free land, reduced electric bills and other assistance. In total, the generous aid -- equal to more than 1.7 percent of China's economy -- is more than twice as large as in other countries, including the United States, according to a study by the Center for Strategic and International Studies.

In 2019, China spent more on industrial subsidies than it spent on national defense, the report said.

The International Monetary Fund warned last month that China's manufacturing subsidies were diverting state funds to ventures offering subpar returns and were creating "significant domestic challenges." Such measures could create "excess capacity" and tilt the economic playing field in favor of state enterprises rather than private companies, the fund said in its latest review of the Chinese economy.

In December, Chinese leaders meeting in their annual central economic work conference acknowledged problems including a lack of domestic demand and "overcapacity in some industries."

China's economy has typically emphasized investment in industrial facilities and real estate developments. Consumer spending accounts for just 40 percent of gross domestic product (GDP) compared with roughly 70 percent in the United States.

The combination of weak consumer demand and robust factory production leaves China with a surplus of goods that it needs to unload on global markets.

The solution to the country's lopsided trade profile lies in boosting the purchasing power of Chinese consumers, enabling them to buy more of what Chinese factories produce. To do that, the government in Beijing would need to redirect financial support from the politically powerful state enterprises to Chinese households. And it shows no sign of doing that.

Instead, amid a property market crash and slowing domestic growth, Chinese leaders are betting on exporting their way out of economic trouble.

Flooding foreign markets with surplus goods should help ease global inflation. Lower-cost Chinese goods likely trimmed 0.15 percentage points off the U.S. inflation rate last year and will remain a relative bargain for U.S. shoppers through the first half of this year, according to Goldman Sachs.

But the excess production threatens a handful of industries that are key to the administration's hopes of spurring a manufacturing revival, said economist Eswar Prasad of Cornell University, former head of the International Monetary Fund's China division.

China's emergence as a global manufacturer at the start of the 21st century involved a range of products across numerous industries: clothing and textiles, electronics, furniture, and industrial equipment. More than two decades later, China is the world's top manufacturing nation, accounting for 31 percent of global manufacturing value added, according to the United Nations.

The United States is a distant second, with 17 percent.

"China's economy is much larger than it was a couple of decades ago. So this shock could be even larger than the previous one," Prasad said.

The irony is that China's current export boom comes as both Beijing and Washington are promoting greater self-reliance. The Biden administration, reacting to shortages of medical gear and computer chips during the pandemic, is using tax credits and government subsidies to spur domestic production. And Chinese President Xi Jinping wants to reduce his economy's dependence on foreign demand even as he makes foreigners more dependent on China.

But after more than four decades of growing ties, it is proving difficult to thin the commercial relationship.

The impact of China's colossal manufacturing output is being felt in some unexpected ways.

China last year opened 17 new plants that convert oil or gas into virgin resin, the raw material used to make plastic water bottles. The expanded production has driven down global prices, making recycled plastic less attractive to bottle manufacturers, said Steve Alexander, head of the Association of Plastic Recyclers.

"That's a huge deal. That changes the economics, and we're just beginning to see the impact of that in the marketplace," he said.

One Midwestern recycler is considering closing its doors, after losing a pair of recent contracts to a company using the lower-cost material. It may be a sign of what's to come.

Source

"Flood of Chinese imports could renew trade tensions, threaten U.S. jobs." *Washingtonpost.com*, 18 Mar. 2024, p. NA. *Gale OneFile: News*, link.gale.com/apps/doc/A786815076/STND?u=cornell&sid=ebsco&xid=211338ea. Accessed 01 Apr. 2024.

Gale Document Number: GALE|A786815076