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China's paper industry owes rapid growth to government subsidies that provide unfair global advantage, says new EPI report

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Massive Chinese government subsidies have given China's paper industry an unfair competitive advantage that has helped fuel the industry's rapid growth in recent years, contributing to the U.S.'s worsening trade deficit with China, a new study from the Economic Policy Institute shows.

China overtook the U.S. as the world's largest producer of paper and paper products in 2008, and has increased its production of paper three-fold since 2000, according to the study, ***No Paper Tiger: Subsidies to China's Paper Industry from 2002-2009***. The study shows that the rapid rise in China's paper industry did not result from advantages in natural resources, economies of scale or scope, new technology, or lower cost of production (including labor). Instead, the growth resulted from at least $33.1 billion in various Chinese government subsidies paid to the country's paper industry between 2002 and 2009.

"The United States is a net importer of paper and paper products, and imports from China are rising faster than those from any other country. Over the past decade, U.S. paper mills have shrunk with drops in output, employment, revenues, and the number of domestic companies, while Chinese imports have risen rapidly," said the report's author, Usha C.V. Haley, a Chaired Professor of International Business at Massey University in Auckland, New Zealand, and an EPI research associate.

"Unless the U.S. government acts to offset unfair and illegal subsides to Chinese paper exports, U.S. paper production will continue to erode, leading to further job losses and widespread mill closures," said Haley. "The United States should investigate the widespread use of subsidies throughout China's paper industry, and impose countervailing duties whenever those harm or threaten to harm domestic producers and workers making similar products in the United States."

The rapid rise of China's paper industry has led to a growing trade deficit in paper between the U.S. and China. Haley estimates that in February 2010, the annualized rate of growth of Chinese paper and paper products into the U.S. was 22%.

A report released earlier this year by EPI showed that the growing *overall* trade deficit between the U.S. and China eliminated or displaced an estimated 2.4 million jobs in the U.S. between 2001 and 2008. That report documented other ways in which China's government policies give China's industries an unfair advantage, including currency manipulation and wage suppression. And a report by Haley released last year shows that China's glass industry also became the world's largest thanks to government subsidies.

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