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Analysis: China toughens trade stance with tariffs

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By Lucy Hornby

BEIJING (Reuters) - China has fired a warning shot with its decision to impose tariffs on imports of sport-utility vehicles (SUV) and other large cars from the United States as both countries gear up for increased trade friction next year.

The tariffs, announced on Wednesday and ranging from 2 percent to 22 percent, are unlikely to inflict much pain on American carmakers, who generally only import a small fraction of what they sell in China.

But by hitting a powerful industry that has benefited from a U.S. government bailout, China can signal a tough stance in the face of rising pressure over its trade practices while at the same time pressuring American companies into lobbying on its behalf.

"It's a threat to companies, to say that you'd better lobby your government not to impose more tariffs because that could lead to a trade war and that's going to hurt you here," said Usha Haley, professor of international business at Massey University in New Zealand, who studies the Chinese auto sector.

"It's an extremely effective way of working."

China's move comes as the United States -- increasingly frustrated with a mammoth trade deficit and what it calls unfair treatment of U.S. companies in China -- changes its own tactics.

Instead of focusing on dumping of cheap Chinese-made goods, it is building a case that China's support for state-owned firms -- from discounted land and electricity prices to loans that can be perpetually rolled -- violates World Trade Organization (WTO) rules.

Arguing that China isn't playing fair will appeal to U.S. politicians in an election year when jobs are a sore point.

A WTO appeals panel overturned the first American attempt to apply anti-subsidy measures against Chinese steel, sacks and tires, but left the door open for a more nuanced case that China subsidizes its state-owned sector.

"The U.S. is getting ready to be a lot tougher on China on trade. They are doing a top-to-bottom review in Washington," said James McGregor, senior consultant for APCO Worldwide in Beijing.

"It's going to get at the whole state-owned sector and at subsidies that are hard to quantify."

At a news conference on Thursday, a Ministry of Commerce spokesman declined to explain why China had chosen to target car imports.

HIGHER GEAR

China's complaints about American car imports aren't new.

It launched its investigation shortly before U.S. President Barack Obama visited in November 2009, in apparent retaliation for U.S. duties on Chinese-made steel pipes used in the oil and gas industry.

At the time, the Ministry of Commerce said it was investigating incentives and tax breaks granted by the U.S. federal government and the state of Michigan, home to the U.S. auto industry.

Wednesday's announcement came amid Chinese anger over a U.S. investigation into whether China unfairly subsidizes its solar panel makers. But China's previous experience with trade disputes have taught its officials the lesson that American firms can be allies in opening American markets.

In recent years, the U.S. poultry industry lobbied actively against a Congressional ban on negotiating with China to import Chinese cooked chicken -- imposed after Chinese food safety scandals -- because they feared losing the lucrative Chinese market for chicken feet.

China's choice of targets is limited by its reluctance to alienate Chinese consumers with higher prices for imported foodstuffs or raw materials.

The value of soy and oilseeds imports from America so far this year is triple that of cars, at about $12 billion. Making imported cotton, chemicals or grains more expensive would also only contribute to inflation in China.

Imported cars, however, appeal mainly to China's wealthiest consumers, who aren't very price sensitive to begin with.

Liu Hongyan, shopping at a Beijing Cadillac dealership on a clear and windy Thursday, shrugged off the possibility that customers like him might have to pay more for cars.

"I think it doesn't really affect people of our class and status who buy these types of cars, because the tariff rate only takes up a small percentage of the cost," he told Reuters.

"If you like the car it doesn't matter."

The automakers themselves are more vulnerable, although their problem isn't the direct impact on imports, which only make up 9 percent of auto sales in China.

"Chrysler is a bit vulnerable as it's been counting mostly on imported models to drive its China sales, but the impact on GM and others is very limited as imports accounts a small portion of the tally," said Sheng Ye, associate research director for the Greater China region at industry consultancy Ipsos.

Instead, their Achilles heel is their business in China -- the world's biggest market for cars, and one of the only growth areas of scale.

With regulators already delaying permission to expand production unless automakers agree to transfer branding rights and technology, none of the big automakers will relish being left out in the cold.

(Additional reporting by Fang Yan and Steve Wang; Editing by Don Durfee and Robert Birsel)