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Riding The GDPism Wave

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Riding the GDPism Wave

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There has been speculation recently on China's heavily subsidized exported solar products and their effect on U.S. solar companies. The state-owned China Development Bank gave \$42 billion in loans to solar and wind companies last year. The U.S. Commerce Department is investigating the Chinese dumping of subsidized solar panels into the United States markets at prices lower than the cost of production and distribution. Tax subsidies, preferential loans, grants, debt forgiveness and transfers of assets to favored firms are most commonly used by their government. Solar panel subsidies are both practical, benefiting the Chinese public, and strategic in the sense that they seek to advance the overall economic well being¹. Many people fear this strongly undercuts American competition. It isn't difficult to see how this fear has gained traction, as it reflects a broader American unease about China's potential for global economic dominance².

Seven American solar panel manufacturers filed a petition for the investigation, and proposed tariffs of 50-250% be imposed on imported Chinese panels. If these tariffs are implemented they will raise solar energy prices for consumers. China has failed to report its use of subsidies for solar panel production to the World Trade Organization³. Ron Kirk, the United States trade representative said, "Every member of the World Trade Organization is required to

¹ Capital Trade Incorporated. "An Assessment of China's Subsidies to Strategic and Heavyweight Industries"

² Eisen, Joel. "New Energy Geopolitics."

³ NYTimes Oct. 21st 2011

come clean on its subsidy programs on a regular basis, and China has not notified its subsidy programs in over five years.”

Chinese solar panel manufacturers have been growing very quickly with the nation’s robust GDP growth over the past five years, raising their American market share to more than half, from almost none just five years ago. China, whose government has been a big promoter of clean energy companies, accounts for three-fifths of the world’s solar panel production. They also export 95 percent of their production, mostly to the United States. This has caused the wholesale solar panel prices down \$1-\$1.20 a watt from \$3.30 just three years ago⁴

The American solar panel producers that filed for investigation might find that a legal victory, if it happens, may not translate into business success. During the 1970’s and 80’s American car companies won a series of trade cases to limit Japanese car imports. Japan responded by moving factories to the United States, and Detroit continued to have trouble competing. While this has created hardship, the social benefits were greater. Eventually marginal social benefits exceeded marginal private benefits. If trade restrictions are implemented the Chinese will take a similar path, which would benefit U.S. consumers. Our surplus of skilled labor is a great incentive for solar panel manufacturing. China has already begun to move solar operations to the United States, Taiwan, and South Korea to avoid trade restrictions. Legally our government should be welcoming to these companies. Grape Solar, an American company, has been trying to persuade big Chinese panel makers to move more manufacturing factories to the United States for some time. Suntech Power, a Chinese company

⁴ NYTimes Oct. 19th 2011

and also the world's largest manufacturer of blue solar panels, have moved some assembly tasks to the U.S as well⁵.

American solar companies could also move their factories to China as well. Boston-Power Inc. a company that produces lithium-ion battery cells and systems has worked successfully with China, says Christina Lampe-Onnerud, international chairman. When the company wanted to expand and needed financing, it tried negotiations with the U.S. Energy Department first, but to no avail. The company then looked to the Chinese government who was willing to provide a range of grants, low-interest loans, and related financial and tax incentives that would help Boston-Power build a factory in Shanghai. "China is increasingly seen by U.S. companies as a source of capital and a source of policy support," says Dan Reicher, former Energy Department assistant who is now a law professor at Stanford. This type of joint venture gives American solar companies access to Chinese markets, and more importantly access to Chinese subsidies. China in return gains more technology that increases its competitiveness in global markets⁶

The closest thing the U.S. has to a monopoly is utilities. The R&D rate for electric companies is only 0.15% of its total revenues, compared to 8-10% in most competitive industries⁷. American companies that migrate across the Pacific can use subsidies for R&D. R&D activities are highly encouraged in China. Back in 2008 President Hu Jintao stated he wanted China to become an "innovation nation." They are no longer content to remain the "workshop of the world" while relying on foreign technologies. China is willing to do this in

⁵ NYTimes Oct. 19th 2011

⁶ WSJ Oct 21st 2011

⁷ Friedman, Thomas. "Hot, Flat, and Crowded".

hopes of a technology breakthrough happening within their state borders⁸. A technology breakthrough(s) that progresses towards a cost effective clean energy product would be paramount for the renewable energy industry. Any increase in clean energy use will increase global public good benefits by improving air quality. Also energy that isn't oil reduces America's dependence on foreign oil. This increases national security.

I don't believe there is an effective manner to curtail the explosion of dumping and money flux of the Chinese government. Their policy moves much quicker than the United States'. I believe American companies can benefit from this money flux, and work with the grain not against it. The companies that move to the U.S. will employ Americans and products will be packaged as made in the U.S.A. Aggressive American solar companies can move plants across the Pacific to reap governmental benefits. These monetary aids create more certainty in an infant industry, and this creates more enticing investment opportunities. If the U.S. ceases on trade barriers, relations will remain at healthy levels for the future. Clean energy products will become more common to consumers, surpassing their small market niche in a quicker manner.

⁸ Capital Trade Incorporated. "An Assessment of China's Subsidies to Strategic and Heavyweight Industries".

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