

China drops 25% tax on imported automobile parts

China will abolish the 25 percent tax slapped on some imported automotive parts starting tomorrow in accordance with a World Trade Organization (WTO) decision that found the country was in violation of international trade rules.

The current policy, implemented in April 2005, assessed a 25 percent tax on imported parts if the number or value of imported parts used in an assembled vehicle exceeded the threshold, which was 60 percent.

If the amount of imported parts fell below 60 percent, the tax was 10 percent.

"The parts imported are those China is unable to produce," said Beijing-based independent auto analyst Shangguan Zhoudong.

"Most cars produced in China, except for a few luxury vehicles like Lexus of Nissan and Infinite of Toyota, use more than 60 percent of the parts produced in China which are cheaper than imported ones.," Shangguan explained.

The WTO case dates back to 2006 when the US, the European Union and Canada asked the WTO to hear a complaint about the policy.

China became a member of the WTO in December 2001 and lost an initial ruling and the appeal in December 2008.

The policy change comes within the one-year implementation period set by WTO. The standard 10 percent tax will remain on all imported parts.

The change in policy should be welcomed by Complete Knocked Down (CKD) car producers, namely, vehicles assembled with 100 percent imported parts as it will reduce production costs.

CKD vehicles make up only 2 percent of the vehicles produced in 2008, an industry analyst told the Global Times yesterday.

However, Shangguan was worried that China's auto parts manufacturers may be threatened by rivals from areas such as India and Southeast Asia where auto parts production may be even cheaper than that in China in the long run.

China adopted the high tariff out of fear that foreign cars may flood the country once it joined WTO, said Zhong Shi, also a Beijing-based auto analyst.

"The administration was too worried," said Zhong. "The situation was much less serious than it should be.

The vehicle producers would surely prefer to purchase cheaper components in China, as long as they are good enough. Car producers would only choose to import those parts with standards that Chinese parts producers cannot meet from Europe or the US."

China imported \$13.4 billion in auto parts in 2008, up 5 percent from 2007, but the growth rate was 11 percentage points down from 2007.

Source: Global Times