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 From *The Economist* print edition

By succumbing to domestic pressures, America has started an alarming trade row with China

Illustration by KAL



IN RAW economic terms Barack Obama's imposition of tariffs on Chinese tyres hardly registers. The number of jobs affected is barely a rounding error in measurements of the mighty American workforce. The cost to consumers is also slight. But in geopolitical terms, it is a whopper. Mr Obama's most overtly protectionist decision so far has triggered a predictably angry reaction from China, which threatened to retaliate against American chickens and car parts and to haul America before the World Trade Organisation. The *Global Times*, a newspaper that often reflects the views of hardline nationalists in China, ran a front-page headline saying "America has erred before the world".

The tit-for-tat dispute casts a pall over the G20 meeting in Pittsburgh on September 24th and 25th where Mr Obama will play host to Hu Jintao, China's president. Warnings of a trade war have multiplied. There have even been comparisons to America's infamous Smoot-Hawley Tariff Act, which deepened the Depression.

Some of this is hyperbole. Smoot-Hawley sharply raised tariffs on thousands of products, not just one. Then, there was no regulating framework for global trade; now both America and China are acting within the WTO, which was created precisely to keep such spats within rules. Every president since Jimmy Carter has sought import restrictions at one time or another, and Mr Obama's are mild by comparison. "On the broad canvas of presidential trade policy, Obama's decision is unexceptional," says Doug Irwin, a trade historian at Dartmouth College. And



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China's retaliation so far has been measured.

But the decision does come at a risky time. Protectionist actions, in particular against China, have been multiplying in recent years (see chart), even within the confines of WTO rules. Last November George Bush and in April Mr Obama, on both occasions joined by other leaders of the G20, pledged to "refrain from raising new barriers to investment or to trade in goods and services"; yet new barriers have steadily increased.



Until now Mr Obama has tried to allay fears that he is a bit of a protectionist by abandoning campaign threats to renegotiate the North American Free-Trade Agreement and to punish China for holding down its currency. He has surrounded himself with mainstream, pro-free-trade economists, watered down (though failed to veto) "Buy America" provisions in the fiscal stimulus, and opposed carbon tariffs in the cap-and-trade bill now before Congress. Even now Mr Obama insists he is "committed to pursuing expanded trade and new trade agreements", and this week he defended his action as nothing more than the enforcement of trade laws.

That, however, is a stretch. Mr Obama had no obligation to act. Under the terms of joining the WTO, China gave other countries the right until 2013 to impose temporary "safeguards" against surges of Chinese imports. In America the relevant law, Section 421 of the Trade Act, does not require proof that China has broken international trade rules against subsidising or dumping goods (ie, selling below cost), only that the domestic industry was disrupted. Once the International Trade Commission, an independent panel, says that such disruption has occurred, it is up to the president to decide whether to impose remedies. Mr Bush declined to do so in the four Section 421 cases that came to him.

Politically, Mr Obama may have felt he had little choice. The United Steelworkers union filed the complaint in April and the law required Mr Obama to decide by September 17th. Having promised repeatedly to enforce trade laws more vigorously than Mr Bush, Mr Obama presumably felt he needed to do something. The economic benefits to those who lobbied for protection, however, are minuscule. Domestic manufacturers have largely abandoned the low-end tyre market. The tariffs, which drop from 35% in the first year to 25% in the third, will mostly divert supply to Mexico, India, Indonesia and Brazil, says Tom Prusa, a Rutgers economist who has done work for tyre companies.

China also bears some blame. American negotiators were ready to withhold the tariffs if China made concessions, but to no avail. Mr Obama's defenders note that China would not have gained entry to the WTO without the "safeguard" provisions, which bought political support among its trading partners. And voters and Congress might be less likely to support future trade agreements if the safeguards in existing agreements are never used.

Still, Mr Obama's imposition of tariffs will tempt more industries and unions to seek similar relief, and he will have to decide whether this decision is a template or an exception. Other countries, fearing a wave of diverted Chinese imports, could copy America's action. After Mr Bush raised steel tariffs in 2002, half a dozen other countries followed. Under the terms on which China entered the WTO, others can impose safeguards simply because America has. The European Union, however, would struggle to master enough support among its member states.

China itself faces a delicate balancing act. On September 15th more than 300 of the Communist Party's top officials began a four-day annual meeting in Beijing where, among other things, they are expected to decide whether to give President Hu's presumed successor, Vice-President Xi Jinping, a further boost by making him a deputy commander-in-chief of the armed forces. Succession politics could be complicated by high-level disputes over how to respond to the Americans. And Mr Hu will not want a breakdown of commercial ties with America ahead of the G20 and Mr Obama's visit to China in November.

But nor can he let Mr Obama entirely off the hook. Having announced an investigation into America's alleged dumping, it will be hard to back away. Indeed, the spat will awaken unpleasant memories of the controversy over China's accession to the WTO. China agreed to the safeguards clause in 2001 with gritted teeth, in part because its reformists saw WTO entry as a useful tool for encouraging market-oriented reforms. China's prime minister at the time, Zhu Rongji, was subjected to harsh criticism from conservatives at home for pressing so hard for WTO entry. Times are more difficult now than they were back then, so expect a few more fireworks.

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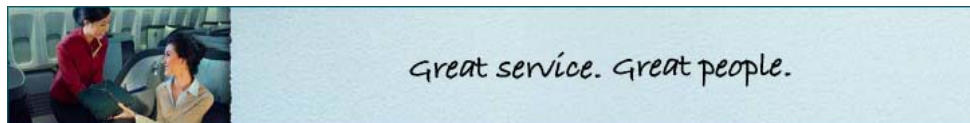
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