The tyre wars
Playing with fire
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By succumbing to domestic pressures, America has started an alarming trade row with China

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

They're already here.
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 (i.e., 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. 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.

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