

In Tire Tariff Case, Obama Faces First Chinese Trade Policy Test

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Washington Post
August 7, 2009

The Obama administration is considering imposing tariffs on some Chinese-made tires that could effectively ban them from the United States, a proposal that is shaping up to be the first major test trial of the White House's trade policy toward China.

The case stems from a petition filed by the United Steelworkers, who blame surging Chinese tire imports for the loss of more than 5,000 U.S. jobs since 2004.

In a hearing scheduled for Friday, the Office of the U.S. Trade Representative will consider whether to endorse a recommendation by the International Trade Commission to impose tariffs of as much as 55 percent on Chinese-made tires for passenger vehicles and light trucks that are sold by independent tire dealers.

The trade commission is a quasi-judicial federal agency that provides trade policy advice to the legislative and executive branches of government. It recommended that the tariffs be imposed for three years. It is up to the president to decide whether to follow that recommendation, ignore it, or craft his own remedy.

The president must decide by Sept. 17, a week before he is scheduled to host Chinese President Hu Jintao in Pittsburgh at a gathering of leaders from the group of 20 industrialized and developing nations.

"This is the administration's first real test on trade policy . . . [and] they're either going to implement new trade barriers or not," said Chad P. Bown, an economics professor at Brandeis University and a fellow at the Brookings Institution. Unlike the Buy American provisions in the \$787 billion stimulus package, which Congress passed over the president's objections, "this is the first decision that has been in the administration's lap that they have direct responsibility over," Bown said.

In his short tenure, Obama has sent conflicting signals on trade. He has warned against policies that "send a protectionist message" and criticized trade barriers, saying they "hurt us all in the end." But the administration has also failed to stop policies that major trading partners have decried as protectionist. It has largely ignored complaints by Canada, its largest trading partner, over the Buy American policy. And it has failed to resolve a dispute with Mexico over Mexican truck access to U.S. highways.

If Obama backs the tariff, he risks upsetting the Chinese at a time when the United States needs China to keep buying U.S. government debt to fund stimulus efforts.

In recent months, administration officials have been trying to calm Chinese fears over the size of the U.S. deficit and assure them that the government will get the deficit under control once an economic recovery is firmly established.

If Obama rejects the tariff, he could alienate labor unions and in particular the steel workers' union, which campaigned heavily for him during his 2008 presidential bid.

The tire case was brought under Section 421 of the Trade Act of 1974, which lets the government determine whether a product from China is being imported in such increased quantities that it causes "market disruption" to the domestic producers of similar or directly competitive items. It became law in 2000 after China agreed to the provision while negotiating to join the World Trade Organization. At least five petitions have since been filed under Section 421, and none earned the support of President George W. Bush.

In its investigation of the tire petition, the International Trade Commission found that between 2004 and the end of 2008, imports of passenger vehicle tires from China increased 215 percent by volume, while production by the U.S. tire industry fell 26.6 percent, net sales were down 28.1 percent, and more than 5,000 domestic jobs were lost.

Chinese tire producers and suppliers were in Washington this week to try to persuade the White House to reject the tariff hike, calling them a form of protectionism that would put 100,000 Chinese out of work without creating jobs in the United States.

"U.S. tire makers will not shift production back to the United States because they have their strategy. They want to produce high-profit tires in the United States and produce economy tires in China so even if the United States closes the border . . . they can not add more jobs," said Mary Xu, deputy secretary general of the China Rubber Industry Association.

United Steelworkers President Leo Gerard said that imposing tariffs for violating a law that the Chinese agreed to abide by is not protectionism. He also said that higher tariffs would encourage domestic tire production because other countries with low-cost labor don't have the capacity to ramp up production to make up for the drop in Chinese imports.

U.S. tire makers have not taken a position on the union's petition.

Chinese tire makers and suppliers have found allies in U.S. tire distributors and retailers who say tariffs would raise prices, hurting cash-strapped consumers. The Consuming Industries Trade Action Coalition, a group representing manufacturers and distributors, has also objected to the proposed tariff. It fears that if Obama supports tariffs on Chinese tires, it could set off an avalanche of Section 421 filings that would lead to trade wars and harm global trade.