

The Vietnam Tariff?

Plastic bags present a test for free trade.

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President Obama likes to talk about "fair trade." So will his Administration impose protectionist duties on Vietnam in the name of fairness, even if it means increasing costs for U.S. retailers and consumers?

We'll soon find out. Two American manufacturers filed a countervailing duty petition with the Commerce Department last week over imports of plastic shopping bags from Vietnam. They allege Hanoi illegally subsidizes its bag exporters and want Commerce to impose a duty equivalent to that subsidy. The U.S. companies also asked for antidumping duties against bags from Vietnam, Taiwan and Indonesia, saying they sell bags in the U.S. at a price that's less than their cost of production.

The bag exporters want Commerce to declare Vietnam a "market economy" for the purposes of imposing the countervailing duties to compensate for the alleged government subsidies. The last time Commerce peered into Communist Vietnam, in 2002, the Bush Administration determined the country wasn't enough of a market economy to be subject to countervailing duties. That's because in a command-and-control economy, it's hard to untangle what constitutes an "illegal" subsidy and what is normal government support.

If Commerce deems Vietnam a market economy for the purpose of countervailing duty cases, it will open the floodgates to duties on more imports -- and higher prices for U.S. consumers. The direct hit from the bag case would fall on U.S. retailers, which buy the bags and are already so squeezed by the recession that they laid off 48,000 workers last month alone.

There's a precedent here. In 2007, the Bush Administration bowed to congressional pressure and designated China a market economy for the purpose of imposing countervailing duties. The decision sparked about half a dozen requests for protection from U.S. manufacturers of goods ranging from pipes to off-road tires. China now is taking the U.S. to the World Trade Organization, arguing the duties run afoul of America's trade agreements. The case will soon head to an arbitration panel.

The two U.S. bagmakers, Hilex Poly and Superbag, say they're fighting to save U.S. jobs and factories by leveling the playing field. But it hasn't worked in the past. The same companies petitioned for, and won, antidumping duties in 2003 on bags from China, Thailand and Malaysia. No sooner had the new duties kicked in than the U.S. simply started importing more bags from Vietnam, Taiwan and Indonesia.

Mr. Obama has already risked U.S. free trade credibility by starting a trade war with Mexico and stalling on free trade agreements with South Korea, Colombia and Panama. The political danger for him is that eventually Americans will start noticing how much this "fair trade" costs.