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Don't throttle trade

Alec van Gelder | July 09, 2009

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A SWEET-talking President Barack Obama played down fears about the Buy American clause in his stimulus package, but it has started a trade war not just with traditional opponent China but with its close ally and biggest economic partner, Canada. And the rot is spreading around the world.

After denouncing Buy American as "protectionist poison" when it was originally launched in February, China's own \$US586 billion stimulus package includes Buy Chinese rules, leading to a retaliatory Buy Aussie clause in the NSW budget that could also hit trade with Thailand, New Zealand and the US. Similar ideas have been promoted in The Philippines and Australia. Tariffs have risen in other countries, such as Russia and Ecuador. Some foreign products have simply been banned in India and new, even higher, dairy subsidies in the European Union threaten thousands of producers across the world.

Obama's Buy American provision in the American Recovery and Reconstruction Act covers all public works receiving federal money: at the last minute he said the US would not let that infringe any trade pacts, but this ruling has little effect on spending at state level. Most US states are not bound by the international Government Procurement Agreement: at least one-third of the stimulus package is to be distributed by states, so they can Buy American and exclude foreign firms from tenders for their projects, including Australian firms which might have thought the two countries' free trade agreement gave them a foothold there.

Similarly, 79 years ago the

Smoot-Hawley Tariff Act of 1930 kicked off a tit-for-tat among America's main trading partners and triggered a wave of economic nationalism that helped cause World War II.

Protectionism made no sense then and it makes even less sense now. Today's global economy is much more integrated and we are all much better off because of reduced trade barriers, especially the poorest countries.

For all the hand-wringing and doublespeak about trade with China, Canada is the US's biggest partner, forming two of the world's most integrated economies. Workers in both countries are already being laid off because of Buy American.

This threatens the \$US1.5 billion in goods and over 300,000 people that travel both ways across the massive border every day. The value of trade crossing the Ambassador Bridge between Windsor, Ontario and Detroit, Michigan is equal to all of Japan's exports to the US. Canada is a bigger market for US goods than 27 countries of the European Community.

Canadian officials say the water and waste treatment industry has been hit hardest by Buy American, and their US customers agree: "unless Canadian manufacturers do something with that product in the United States before they send it to the actual public works site, they cannot sell under these new Buy American provisions," says Dawn Champney, president of the US Water and Wastewater Equipment Manufacturers Association.

And what does Buy American mean in a globalised economy?

Four thousand shipments of ingredients for Campbell's Soup products cross from the US into Canada each day and 3500 come from Canada into the US, chief executive Doug Conant explained recently. Some of the vegetables cross the border twice when ingredients from processing plants in both countries are mixed, packaged and distributed to retailers across the globe.

In Pennsylvania, Duferco Farrell Corp, a Russian-Swiss partnership, took over a bankrupt steel plant in the 1990s and employed 600 people. Its biggest client, a steel pipe maker just down the road, recently told Duferco Farrell it was cancelling orders in favour of firms with 100 per cent US production to comply with the ARRA. Duferco has laid off 80 per cent of its workforce. Executive vice-president Bob Miller recently said: "I've got 600 United Steel Workers out there who are going to lose their jobs because of this. And you tell me this is good for America?"

According to Dan Ikenson of the Cato Institute think-tank, most of the carbon steel shipped from entirely US-owned rolling mills is produced in places such as Canada, Brazil and Russia so "these American companies aren't American enough for Buy American".

Buy American threatens the 350 per cent rise in trade with Canada since 1985 that came from lowering barriers and creating the North American Free Trade Agreement. Any countries anywhere can reap that kind of benefit.

Predictably, the backlash against Buy American has already spawned a wave of self-mutilating protectionism elsewhere, including the "Do Not Buy American" campaign all over Canada. The list grows around the world.

It is frightening that open borders can be shut down by one misguided law, especially when wretched in pious statements supporting free trade and condemning protectionism. But free trade can quickly be restored or introduced and it is the quickest way out of our economic crisis: don't strangle it.

Alec van Gelder is project director at International Policy Network and Co-ordinator of the Freedom to Trade campaign, opposing protectionism in all its guises.

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