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[Home](#) > [By Publication Type](#) > [Daily Analysis](#) > [By Date](#) > [Ill Trade Winds With Beijing](#)

*Daily Analysis*

## Ill Trade Winds with Beijing

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The Obama administration's decision to levy tariffs of up to 35 percent on imported Chinese tires and Beijing's threats of reprisal against some U.S. products have raised concerns about a sudden escalation of protectionism between two of the world's largest economies.

Roughly 17 percent of tires now purchased in the United States come from China. U.S. officials said they were obligated to act after a finding by the U.S. International Trade Commission that an improper increase in China's imports caused domestic U.S. tire factories to close. Free trade advocates such as Daniel Ikenson of the Cato Institute say the negative impact of the tariffs outweigh any economic benefits: "Although the lightning rod is China (with all of the negative perceptions that have been cultivated about its trade practices), this case has little to do with China per se, and everything to do with organized labor begrudging U.S. producers for pursuing profit-maximizing strategies in a globalized world."

Eswar Prasad, who teaches trade economics at Cornell University, told the *Financial Times* the moves by the Obama administration could "easily ratchet up into a full-blown trade war and inflict serious economic damage on both countries." And a former assistant U.S. trade representative for China affairs, Charles Freeman, writes in an *Financial Times* op-ed that the U.S. decision could serve to both whip up nationalism in China but also "play into a broader trend within China to roll back market-opening reforms." At the same time, other trade experts say the United States is acting within its rights and China can now try to make its case against the tariffs at the World Trade Organization.

A *TIME* magazine analysis says the timing of the dispute couldn't be worse, ahead of a meeting of the U.S. and Chinese presidents at next week's G-20 summit and at a time when the two countries have been seeking to build partnerships on everything from climate change to repairing the world's financial system. "Most pressing, cooperation between Washington and Beijing is seen as absolutely crucial to nurturing the budding recovery of the global economy," writes *TIME*'s Michal Schuman. "The two sides need to alleviate the giant economic imbalances--excessive debt and deficits in the U.S. paired with excessive savings in China--to restore the world economy to a more sustainable growth path."

*The New York Times* reports that the White House decision to impose the tariff is a sign that President Barack Obama will follow through on a pledge to labor unions to more strictly enforce trade laws, especially against China. The tire penalties followed a petition filed by the United Steelworkers Union.

Yet a Bloomberg News report suggests a much different reason for the administration's action: Obama could be

making a tough opening gesture on trade as a prelude to launching a broader free trade initiative. The report notes that the four previous U.S. presidents each made moves to protect domestic industries at the outset of their administrations before later pursuing free trade agendas.

## **Background**

C. Fred Bergsten, who heads the Peterson Institute for International Economics, testified to Congress on September 10 about the importance of the U.S.-China relationship and the need for policy coordination.

An interactive CFR timeline tracks developments in the U.S.-China relationship since 1949.

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