Will Obama Get Rolled On Tires?

Failure to be tough with China on tire imports could doom Obama's trade policy.

by Bruce Stokes
National Journal
September 5, 2009

http://www.nationaljournal.com/njmagazine/ei_20090905_9905.php

For months, K Street has buzzed about a promised speech laying out White House plans on trade. Obama will address the AFL-CIO convention in mid-September. It could be an opportunity for the president to seize a Nixon-to-China moment, to spell out his trade plans before a highly skeptical audience.

A presidential decision due on September 17 will make an even more telling statement. By that date, the White House must decide whether to act to slow a recent surge of tire imports from China. If Obama fails to cap Chinese shipments, any broader administration trade policy he eventually articulates may be dead on arrival on Capitol Hill, where a widespread sense exists that trade deals made by any president, Democrat or Republican, can no longer be trusted.

In January, the Obama White House ordered a full-scale review of trade policy, always a useful delaying tactic while an administration gets its ducks in line. In subsequent speeches and congressional hearings, Obama trade officials have stressed three initial priorities: dealing with pending free-trade agreements, seeking stronger enforcement of U.S. trade rules, and making progress on the Doha Round of multilateral trade negotiations. "To date," Barfield and his AEI colleague Phil Levy point out in a recent paper, "the record in each area has been spotty and replete with contradictions."

In the China tire case, the administration finally has a unique opportunity to provide some clarity. In June, the International Trade Commission determined that tire shipments from China had increased so rapidly that they threatened to disrupt the U.S. market. The ITC recommended three years of tariffs on Chinese-made tires to allow American tire producers time to adjust to the competition.

The Wall Street Journal, on the free-trade side of the argument, framed Obama's upcoming decision as his first "trade test." It argued that any action against the imports would alienate Beijing at a time when the U.S. needs Chinese capital to fund the government's mounting debt.

Invoking trade protections on tires could also have some negative diplomatic consequences. Obama travels to China later this year, and the White House wants the trip to be productive and positive, a goal that a trade dispute might imperil.

On balance, however, those pushing for a tough stand on the tire imports have the better side of the argument -- indeed, failing to act in the tire case may jeopardize the cause of free trade in the long run in this country. The long-term threat to Obama's trade strategy comes not from action but from inaction.

Protection from tire imports is available under the terms of legislation that Congress passed in 1999, which opened the way for China's membership in the World Trade Organization. To obtain sufficient votes for passage, the Clinton administration promised Congress that it would impose limits on rapid increases in any imports from China if they caused or threatened market disruption. This provision, called a special safeguard, will lapse in 2012.

The tire dispute is the seventh such challenge brought under this provision. During the Bush administration, the ITC recommended action on four of six import surge cases involving China, and in each instance, the White House declined to invoke protection.

In July, U.S. Trade Representative Ron Kirk vowed, "The Obama administration is both willing and able to enforce our trade agreements." Failure to act in the tire case would certainly call that pledge into question.

But if public hypocrisy were the only cost of failing to act on tire imports, it might be a small price to pay. The greater danger from rejecting the ITC's recommendation involves the further erosion of Congress's trust in the executive branch regarding trade matters.

A decade ago, trade skeptics on Capitol Hill, most of them in Obama's own party, agreed to ignore their constituents' concerns about the long-run implications of greater competition from China and voted to give Beijing all the benefits of normal trade relations with the United States. At the time, China accounted for 26 percent of the U.S. trade deficit in manufactured products. Now it accounts for 79 percent of that deficit.

Those trade skeptics can be forgiven if they feel that their fears of yesterday were justified. And the track record of inaction on other surge protection cases suggests that Congress should be dubious of future executive branch commitments to get tough on trade.

So the Obama administration's tire decision -- if it declines to protect the U.S. market -- is likely to pollute the political environment surrounding other trade issues, especially congressional consideration of pending free-trade agreements with Colombia, Panama, and South Korea.

This, indeed, would be a high price to pay. A Government Accountability Office report issued in July underscored the economic potential of such deals. Reviewing four free-trade accords, with Chile, Jordan, Morocco, and Singapore, the GAO found that the agreements led to significant increases in American exports. And, thanks to congressional insistence that those deals include more-stringent labor and environmental standards, these standards have indeed improved in those countries.

True, enforcement remains a challenge. The Labor and State departments and the USTR, responsible for overseeing these commitments, have fallen down on the job, due to a lack of funding and an obvious lack of interest.

To win congressional approval of the pending trade accords, the White House will undoubtedly need to make new promises to Congress: better labor-law enforcement in Colombia, removal of nontariff trade barriers impeding U.S. auto sales in South Korea, and, above all, more meaningful oversight of commitments made in the deals. If the White House fails to act in the tire case, why should Congress believe any new promises?

Further alienating Congress on trade would also throw away a good opportunity to move the country forward on trade. For the first time in years, the American public seems to have a more open mind on globalization, which affords the president room to pursue trade liberalization. In 2008, only 53 percent of Americans thought trade was good for the country, down 25 percentage points from 2002. This summer, however, the annual Pew Global Attitudes Survey found that 65 percent of American respondents approved of trade.

And, contrary to the conventional Washington narrative that casts Democrats as protectionists and Republicans as free-traders, 70 percent of Democrats surveyed think favorably of trade today, up from 53 percent in 2007. Now the Republicans are starting to have doubts. Only 61 percent of GOP members think that trade is good for the United States. That's down from 64 percent in 2007.

Clearly, the Democrats' turnaround on trade says more about their faith in Obama than about some born-again belief in globalization. They trust the president to look out for their interests, even when it comes to a divisive issue such as trade. This is a reservoir of goodwill that Obama can use in dealing with China, in renegotiating the Colombian and South Korean free-trade agreements, and, most important, in laying out his vision for managing American engagement in the global market.

In the run-up to the president's decision on the China tire case, both sides in the dispute will argue their respective and narrow positions. But such legal and commercial details are far less important than the political message that Obama's verdict will send to Capitol Hill. The cornerstone in rebuilding bipartisan House and Senate support for trade is the re-establishment of trust between Congress and the White House. That requires the administration to live up to past executive branch agreements. A tough decision on tires now could ease the way for other free-trade agreements. Failure to be tough could lead to worse trade setbacks and doom Obama's trade policy, whatever it may turn out to be.