

# DISRUPTIVE ISSUES

*Tyre Asia News Bureau*

Multilateral trade has become a hot issue amid fears that the tyre tariff rhetoric of the US and China might dampen global economic growth prospects. The spat has unleashed charges and counter-charges: Currency manipulation, hidden subsidies, dumping and so on.

For President Barack Obama, invoking trade rules was a political decision to please his constituency of Big Labour. He believes imports of low cost tyres create “market disruption.” Hence the decision to apply the “safeguard clause.”

As could be expected Beijing retaliated with a slew of restrictions on US products. It also approached the World Trade Organisation. Here are the views top analysts share with **Tyre Asia**.



**Dan Ikenson**, Associate Director of the Center for Trade Policy Studies at Washington DC-based think-tank Cato Institute, said Obama’s decision set “a bad example,” which might encourage other countries to build protectionist walls.

He does not believe that prohibitive tariff on Chinese tyres would create more American jobs. He recalled that no US tyre companies had favoured

tariffs on Chinese tyres.

Seven out of 10 US tyre producers have manufacturing plants in China, of those Goodyear, Michelin, Cooper, and Bridgestone account for almost 90% of American production. Thus, the change in the composition of domestic and imported tyres in the US market is a function of the decisions of these US producers, he said.

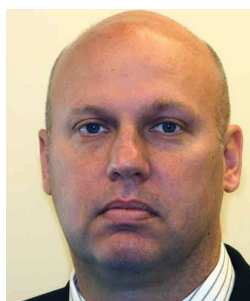
“It was a deliberate decision of US producers to reduce production of Tier-3 tyres—the lowest-end, lowest-profit-margin tyres—at their US plants, and increase sourcing of that tyre in China and elsewhere, where lower production costs enable the realisation of some profit, which in turn helps support continued production of Tier-1 and Tier-2 tyres in the US,” the trade specialist noted.

Thus, the declining employment, production, capacity, and shipments are all attributable to intentional, conscious planning on the part of profit-maximising firms.

“This test case for Obama pits American workers against American producers, and American workers against American workers,” Ikenson said. By going after Chinese producers, the petitioners ensnare their own employers, as well as fellow American workers, organised or otherwise.

“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 organised labour begrudging US producers for pursuing profit-maximising strategies in a globalised world,” he argued. “In seeking sanctions, the petitioners are asking Obama to indict globalisation,” he said.

**Derek Scissors**, a Research Fellow for Asia Economic Policy at The Heritage Foundation’s Asian Studies Center, a Washington-based conservative think-tank, believes the tariff issue will have very little short and long-term impact on the global tyre



industry. “These are temporary tariffs on replacement tyres. It will boost the low-end tyre market from production sites outside China, but the low-end tyre market is not very lucrative,” he said

He did not agree with US arguments that the Chinese tyre imports would take away American jobs. “They are taking away jobs from other potential national suppliers of low-end tyres, for example, Vietnam. Low-end tyres

won’t be made in the US unless we put tariffs on tyres from all countries, not just China,” the trade analyst said. The tariffs may jeopardise China’s competitiveness at the low-end.

Scissors said the tariff imposition will hit the ordinary Americans hardest. “It will cost people who buy cheaper tyres money, and those people tend to be poorer; so the cost will be more difficult to bear.”

To create a level-playing field and find an effective role for WTO in determining existence of hidden subsidies, he said that these are difficult issues to tackle “It would require measuring subsidies in a comprehensive way, which is both difficult and politically controversial. The only advantage of the American tyre tariffs is they are quite visible.”

He fears that the tariff issue might affect China investment decisions. “They will delay investment in China and prompt investigation of other possible sites, such as Mexico,” said Scissors, who specialises in Chinese economy and broader Asian economic trends. The best possible step would be a clear and detailed statement from President Obama supporting free trade, including references to specific goods. “Free trade in tyres can be boosted either by reducing subsidies and eliminating import quotas for all products or by steps towards ‘free trade in autos,’ where barriers to both vehicles and parts would be cut simultaneously,” he suggested.



**Marguerite Trossevin**, lead attorney for the American Coalition for Free Trade (ACFT) in Tyres, said over the next year or so there could be shifts in trade patterns, with more tyres from other countries in Asia and elsewhere coming to the US and more tyres being made in China for other export markets.

“But, it is highly unlikely that there will be any material change in US tyre

production because the cost structure in the US is too high for producers here to make tyres for the low end of the market,” said the lawyer, who is former Deputy Chief Counsel for Import Administration at the US Department of Commerce and a founder of Jochum, Shore & Trossevin, which provides legal and lobbying services in Washington.

On behalf of ACFT she argued before the International Trade Commission that heard the tariff issue that the major tyre producers had a global footprint that enabled them to rationalise production to maximise profits. They produce for the US market both here and in other countries. That business model is not unique to tyres.

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“The US needs imported tyres and will continue to import low end tyres, if not from China, then from some other place,” she pointed out.

The tyre tariffs have already caused prices in the US to increase and further increases are anticipated. “Obviously, this is a burden that falls most heavily on lower income Americans. People who are struggling financially in today’s economy are already driving longer on their tyres and this will only increase that potential safety problem,” Trossevin feared.

Although she did not want to comment on views that most countries subsidise tyre production, she believes in general certain subsidies distort markets and therefore are disciplined under the WTO rules. “The subsidy disciplines and other WTO agreements are important to maintaining a robust international trading system,” she argued.

“I hope China and other WTO members will work constructively to build on gains achieved in past WTO rounds,” Trossevin said.

She said her firm is continuing to monitor the impact of the tyre tariffs and will pursue whatever remedies are available to mitigate the harmful effects.



**Philip I. Levy**, Resident Scholar at the Washington DC-based American Enterprise Institute for Public Policy Research expects relatively little long-term impact on the global tyre industry. “These tariffs are explicitly temporary. They decrease over the next three years, and then disappear altogether,” he explained.

In the short run, the immediate impact of the US action could be to shift

American demand to other foreign producers. Chinese supply, in turn, will go looking for other markets.

“A very important question will be whether other countries follow the US lead in blocking those tyre imports. The particular WTO provision under which this action was taken – Section 421 – makes it very easy for other countries to follow suit. If they do so, the effect on this part of the Chinese tyre industry could be severe,” he said.

The argument that Chinese tyre imports take away American jobs

is misguided, but represents a common strain of thinking among the American organised labour. The US manufacturing sector employment has steadily declined since 1979. Careful studies show the most likely culprit to be technological change; it is now possible to make more goods with fewer workers.

“But labour organisations have held trade responsible. Further, they have focussed on China as a culprit. Their presumption is often that any good not made in China will be made in the United States,” Levy said.

The evidence shows that the world is filled with low-cost producers beyond China, but they have not captured the American imagination the same way. That is partly due to focus on bilateral trade deficits.

There are WTO-sanctioned procedures to counteract illicit subsidies, he said commenting on the perception that various governments offer subsidies to boost exports. “Direct export subsidies are forbidden by the WTO and indirect measures can be addressed through countervailing duty law,” Levy explained.

“It is worth remembering though that the US action against Chinese tyres was not based on any finding of wrongdoing on China’s part. The provisions of the safeguard law only required a finding that imports had surged and that US industry had suffered,” Levy pointed out.

A new WTO agreement through the Doha talks could lower barriers to trade in tyres and other goods and it could seek a new understanding on which subsidy measures were permissible.

“Despite China’s claims to the contrary, though, I believe the US action was entirely permissible under existing WTO rules. Misguided, but permissible. The provision that allowed for this action will automatically expire in 2013,” he added

“I doubt the tariffs will alter American manufacturer’s plans to operate in China in the longer run,” the trade analyst said. “I suspect they are targeting the global market and are looking beyond the three-year time-frame for the tariffs. It may slow things down in the short run. It is worth noting that no one in the American tyre industry supported the tariffs; they were backed by the steelworkers’ union,” he pointed out.

Given the temporary nature of the tyre tariffs, it is unlikely that any significant palliative measures will emerge. “It will certainly help global tyre trade if other countries show more restraint and sense than the US did in this case,” Levy hoped.▲