

Barack Obama and free trade

Economic vandalism

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A protectionist move that is bad politics, bad economics, bad diplomacy and hurts America. Did we miss anything?

Correction to this article

YOU can be fairly sure that when a government slips an announcement out at nine o'clock on a Friday night, it is not proud of what it is doing. That is one of the only things that makes sense about Barack Obama's decision to break a commitment he, along with other G20 leaders, reaffirmed last April: to avoid protectionist measures at a time of great economic peril. In every other way the president's decision to slap a 35% tariff on imported Chinese tyres looks like a colossal blunder, confirming his critics' worst fears about the president's inability to stand up to his party's special interests and stick to the centre ground he promised to occupy in office.

This newspaper endorsed Mr Obama at last year's election (see [article](#)) in part because he had surrounded himself with enough intelligent centrists. We also said that the eventual success of his presidency would be based on two things: resuscitating the world economy; and bringing the new emerging powers into the Western order. He has now hurt both objectives.

Deeply tyresome

Last year the fear was that Mr Obama would give in to enormous protectionist pressure from Congress. By introducing the levy, Mr Obama has pandered to a single union, one that does not even represent a majority of American tyre-industry workers, and he has done so against the interests of everyone else (see [article](#)). America's tyre-makers, who have more or less given up making low-end tyres at home in favour of importing them (often from joint-ventures in guess where) declined to support the application for import "relief". Consumers will have to pay more. The motor and garage trades will be harmed. And no one can seriously imagine that any American tyre-making job will be saved; firms will simply import cheap tyres from other low-cost places like India and Brazil.

One might argue that these tariffs don't matter much. They apply, after all, only to imports worth a couple of billion dollars last year, hardly the stuff of a great trade war. China is incandescent with rage; but China is a

master of theatrical overreaction. Its actual response so far has been the minor one of announcing an anti-dumping investigation into American chicken and car-parts exports. The whole affair might blow over, much as did the furore surrounding George Bush's selective steel tariffs (much worse ones than Mr Obama's on tyres) back in 2002. Presidents, after all, sometimes have to throw a bit of red meat to their supporters: Mr Obama needs to keep the unions on side to help his health-reform bill.

That view seems naive. It is not just that workers in all sorts of other industries that have suffered at the hands of Chinese competitors will now be emboldened to seek the same kind of protection from a president who has given in to the unions at the first opportunity. The tyre decision needs to be set into the context of a string of ominously protectionist policies which started within weeks of the inauguration with a nasty set of "Buy America" provisions for public-works contracts. The president watered these down a bit, but was not brave enough to veto. Next, the president stayed silent as Congress shut down a project that was meant to lead to the opening of the border to Mexican trucks, something promised in the NAFTA agreement of 1994. Besides these sins of commission sit the sins of omission: the president has done nothing at all to advance the three free-trade packages that are pending in Congress, with Colombia, Panama and South Korea, three solid American allies who deserve much better. And much more serious than that, because it affects the whole world, is his failure to put anything worthwhile on the table to help revive the moribund Doha round of trade talks. Mr Bush's tariffs, like the Reagan-era export restraints on Japanese cars and semiconductors, came from a president who was fundamentally committed to free trade. Mr Obama's, it seems, do not.

America is needed to lead. The global trading system has many enemies, but in recent times the man in the White House could be counted as its main champion. As the driver of the world's great opening, America has gained hugely in terms of power and prestige, but the extraordinary burst of growth that globalisation has triggered has also lifted hundreds of millions out of poverty over the past few decades and brought lower prices to consumers everywhere. The global recession threatens to undo some of that, as country after country is tempted to subsidise here and protect there. World trade is likely to slump by 10% in 2009, and a report from the London-based Global Trade Alert claimed this week that, on average, a G20 member has broken the no-protectionism pledge once every three days since it was made. For Mr Obama now to take up the no-protection cause at the G20's forthcoming meeting in Pittsburgh would, alas, be laughable. But if America does not set an example, no one else is likely to.

Dumb and dumber

Nor is the potential fallout from Mr Obama's wrongheaded decision limited to trade. Evidence of a weak president being pushed leftward might cause investors to worry whether he will prove similarly feeble when it comes to reining in the vast deficits he is now racking up; and that might spook the buyers of bonds that finance all those deficits. Looming large among these, of course, are the Chinese. Deteriorating trade relations between the world's number one debtor and its number one creditor are enough to keep any banker awake at night.

And America needs China for a lot more than T-bonds. Any hope of securing a climate-change agreement at Copenhagen in December on a successor treaty to Kyoto will require close co-operation between America and China. So does the work of negotiating with North Korea on its nuclear weapons. And as for Iran, where America is keen to seek a fresh round of UN sanctions in the hope of forcing it to scrap its nuclear programme, China holds a power of veto at the Security Council. Under the relevant trade laws, Mr Obama had the absolute discretion not to impose the recommended tyre tariffs on the grounds of overall economic interest or national security. Given everything that is at stake, his decision not to exercise it amounts to an act of vandalism.

Correction: the report referred to in the sixth paragraph is the work of Global Trade Alert not the World Trade Alliance. This was corrected on September 18th 2009.