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In September 2009, President Obama placed a tariff on imports of tires from China. The tariff was a response to a rising tide of imports from China and intense lobbying from the United Steelworkers union, which represents 15,000 workers at 13 tire plants in the United States. Tires imported from China are usually low- end models that sell for half the price of American- made, name- brand tires. In 2008, the United States imported 46 million tires from China, three times as many as it did in 2004. China's share of the American market leaped from 5 percent to almost 17 percent over the same period, while U. S. employment in the industry fell by more than 5,000 and domestic production slumped from 218 million tires to 160 million tires.

The United Steelworkers petitioned the International Trade Commission, which is a unit of the U. S. Department of Commerce, for protection. After reviewing the case, the commission concluded that the surge in Chinese tire imports was causing significant " market "market disruption" and recommended imposing a three- year tariff on Chinese imports of tires. The Obama administration agreed and placed a 35 percent tariff for one year on tire imports from China, followed by a 30 percent tariff in the second year and a 25 percent tariff in the final year. These tariffs were placed on top of an existing 4 percent import tariff.

The Chinese quickly objected, calling the tariffs "a serious case of protectionism" and arguing that the United States was violating World Trade Organization (WTO) rules, of which both countries were members. For its part, the United States argued that the tariffs were allowed under the terms of a special safeguard provision that was part of the U. S. agreement to support China's entry into the WTO in 2001. Under that provision, U. S. companies or workers harmed by imports from China can ask the government for protection simply by demonstrating that American producers have suffered a "market disruption" or have experienced a surge in imports from China.

The WTO's dispute resolution panel quickly took on the case. In December 2010, the panel issued its ruling, finding that the United States "did not fail to comply with its obligations" under world trade agreements and allowing the tariffs to remain. China immediately appealed the ruling. Chinese officials stated the tariff has hurt the interests of both China and the United States. They argued that the tariffs cost jobs in the U. S. sales sector, causing some small and medium- size wholesalers and dealers to go out of business. Moreover, they argued that the tariff has burdened low- income consumers in the United States, with the average price of tires increasing 10 to 20 percent since the tariffs were imposed.

For its part, the United Steelworkers argued that the tariff had been a big success. For the first six months after the tariffs were imposed, U. S. production increased more than 15 percent, and the union claimed that U. S. producers were making plans to add additional capacity. During the same period, tire imports from China fell by 34 percent. However, the union may have been too quick to claim victory. Over the next 18 months, tire imports surged from Thailand, Indonesia, and Mexico, suggesting that low- cost pro-ducers in other countries were taking advantage of the tariffs on Chinese tires to in-crease their exports to the United States. Furthermore, U. S. producers did not add capacity. Indeed, several U. S. tire makers have factories in China and elsewhere and had, for some time, been exporting from them. To complicate matters, China responded to the tariffs on tires by placing tariffs on the export of some U. S. products, such as broiler chickens, to China.

Sources: S. Chan, “ World Trade Organization Upholds American Tariffs on Imports of Tires from China,” The New York Times, December 14, 2010, p. B3; “ WTO Rules US Tariff on Chinese Tire Imports,” China Daily, December 14, 2010; J. M. Freedman, “ WTO Rules US Tariffs on Chinese Tire Imports Legal,” Bloomberg Businessweek, December 27, 2010; and J. Bussey, “ Get Tough Policy on Chinese Tires Falls Flat,” The Wall Street Journal , January 20, 2012.

Case Discussion Questions

1. Which groups benefited from the imposition of U. S. tariffs on Chinese tire imports? Which groups suffered? What does this tell you about tariffs in general?
2. How do you think that the United States would have reacted if the Chinese had raised tariff rates on the importation of certain goods from the United States?
3. What does the rise of tire imports from Thailand, Indonesia, and Mexico during 2010 and 2011 tell you about the value of this kind of trade policy?
4. Do you think that the policy was in the best interests of the United States? Justify your answer.