



Obama Meets Chinese President Amid Rising Trade Tensions

China Infuriated by U.S. Tire Tariffs, Threatens Retaliation

By KAREN TRAVERS

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[President Obama](#) sat down with Chinese President [Hu Jintao](#) in New York today amid rising tensions between their two nations over recent trade decisions.

Earlier this month, the Obama administration announced it would impose tariffs of up to 35 percent over the next three years on Chinese tires for cars and light trucks, in order to boost the tire industry in the United States.

[The tariffs infuriated China](#), which responded by lodging a formal complaint with the World Trade Organization. It threatened to retaliate against American auto products, and sellers of chicken as well.

While trade issues did not come up in the remarks by the two presidents after their meeting, President Hu did acknowledge "sensitive issues" between the two nations.

"The Chinese side is willing to work with the United States to keep our bilateral relationship firmly along the right course and deepen our pragmatic cooperation in a wide range of areas," Hu said. "The Chinese side is also willing to work with the United States to properly handle sensitive issues to ensure that our relationship will continue to grow on a sound and steady course."

Obama said he is committed to pursuing "a genuinely cooperative and comprehensive relationship with China" and wants to make the relationship "more dynamic and effective."

A senior administration official providing a readout on the bilateral meeting said the Chinese remain concerned about the tariff issue. The official said Obama noted that the two countries have differences on this issue and told Hu that despite the tariff decision, the United States remains firmly committed to free trade and resisting protectionism.

Both sides emphasized the importance of "close consultations" in order to "attempt to manage potential trade disputes" in the future.

[The Obama administration's decision to impose the tariffs](#) came after a determination by the U.S. International Trade Commission, an independent government agency, that inexpensive Chinese tires were disrupting the U.S. market and costing the United States jobs.

U.S. imports of Chinese tires have nearly quadrupled since 2004, from \$453.3 million to \$1.8 billion in 2008, and their share of the U.S. market rose to nearly 17 percent.

According to the Office of the U.S. Trade Representative, in that same period, annual U.S. tire production capacity fell by 17.8 percent.

U.S. Trade Representative Ron Kirk said in a statement that the tariff was "designed to level the playing field for American workers in the tire market."

"These remedies are a necessary response to the harm done to U.S. workers and businesses, designed to achieve the objective of curbing what the ITC determined was a harmful surge of Chinese tires into the U.S. market," Kirk said.

Some analysts said the tariff decision could hurt the U.S.-China relationship and open the Obama administration up to charges of protectionism on the eve of the global economic summit in Pittsburgh.

China is the United States' second-largest trading partner, and the U.S. trade deficit with China reached a record \$268 billion in 2008. As of the end of July, China held \$800 billion of U.S. government debt, the largest foreign holdings of U.S. government assets held by any country.

While analysts said the trade disputes between the U.S. and China will continue, it is not likely to blow up into a full-fledged trade war, given the strategic economic relationship the two nations have.

"Both sides have too much at stake here," said Eswar Prasad, senior fellow and new century chairman in international economics at the Brookings Institution. "The relationship is especially important for China, because they need exports and the United States is a very important export market. China sends about one-fifth of its exports to the United States."

Playing to Labor Unions?

Domestic politics are also at play here. Analysts said the decision on Chinese tires was aimed at labor unions, whose support Obama needs in his push for health care reform and other domestic agenda items. Unions have been pushing the White House to help them. The White House announced the decision just days before the president addressed the AFL-CIO annual convention, ahead of a Sept. 17 deadline to take action on the ITC recommendation.

When China became a member of the World Trade Organization in 2001, it agreed to a clause (the so-called 421 clause) that said other WTO members could impose relief on Chinese goods if imports caused market disruptions and threatened domestic producers.

The tire tariffs would take effect on imports entering the United States on or after Sept. 26.

Obama Tries to Ease U.S.-China Economic Tensions

Despite the aggressive posture on trade, the Obama administration needs China's cooperation on a range of issues, including [climate change](#), [nuclear negotiations with Iran](#) and [North Korea](#), and stabilizing the global economy.

The White House dismissed suggestions that friction over trade could spill into these other policy areas.

"I don't see that a dispute like this will cause something that causes countries like the United States and China to get off track in things that are very important in terms of global matters," White House spokesman Robert Gibbs said last week.

Unions Cheer Tariffs

Labor unions applauded the administration's decision to impose the tariffs and said it would help American workers.

"For far too long, workers across this country have been victimized by bad trade policies and government inaction," said United Steelworkers president Leo Gerard. "President Obama made clear that he will enforce America's trade laws and stand with American workers."

The United Steelworkers, which represents tire workers, said the surge of imported tires has cost 5,000 American jobs since 2004. AFL-CIO president John Sweeney said the decision "sends a strong message that the U.S. government will take the necessary action to ensure that American workers and producers can compete on fair terms in the global economy."

"This action will bring relief to many workers and their families -- and fulfills a longstanding promise that disruptive import surges can and will be countered by effective remedies," Sweeney said.

But not everyone thinks the tariffs will be a job saver. The Tire Industry Association, the organization representing U.S. tire retailers, said the decision will actually result in higher prices for consumers and will result in tire makers shifting production to other low-cost countries like India or Brazil.

"TIA believes this was a politically motivated decision that will end up costing more jobs than it saves," said TIA Executive Vice President Roy Littlefield in a statement last week. "These tariffs will not bring back the jobs that the union claims have been lost; it will not create any new tire manufacturing jobs, and it will most likely result in the loss of thousands of retail tire industry jobs here in the U.S., affecting everyone from the shop that services your tire to the tire wholesalers, many of whom are small businesspeople struggling to stay afloat in this economy. This, all during a time when we can ill afford to be losing more U.S. jobs."

Chamber of Commerce Weighs In

"The Obama administration's actions are not likely to save or create a single American job," said Jeremie Waterman, senior director for China at the U.S. Chamber of Commerce.

Waterman said more jobs are at risk if the Obama administration fails to take forward-looking policies on free trade agreements and resists policies like Buy America. The administration's \$787 billion Recovery Act had a provision that products purchased with stimulus funds for public works projects must be made in the United States.

Obama Defends Tariffs, Insists No Trade War

In a speech to [Wall Street](#) last week, Obama defended the decision to levy higher tariffs on imported Chinese tires, saying the move was "not to be provocative or to promote self-defeating protectionism," but necessary to maintain an "open and free trading system."

"This administration is committed to pursuing expanded trade and new trade agreements. It is absolutely essential to our economic future," the president said. "But no trading system will work if we fail to enforce our trade agreements."

Obama stressed in television interviews that there will not be a trade war with China over the tire tariffs.

"I think that there are some tensions around this, no doubt about it. But my message is very simple: We have rules on the books," he said in an interview with Bloomberg News on Sept. 14. "We've got to establish credibility and enforcement of the rules precisely because I want to further expand trade in the future. And that is something that I think the Chinese government should understand."

Obama told CNBC the United States has a "huge economic relationship with China," and he is not surprised Beijing is upset about the tariff decision.

"We have cultivated a strong strategic relationship with China," he said. "But I just want to make sure that if we actually have rules written down, they mean something."

President George W. Bush rejected four similar recommendations from the U.S. International Trade Commission to impose tariffs on Chinese tires.

ABC News' Matthew Jaffe and Sunlen Miller contributed to this report.

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