



Written by on September 16, 2009

## China Calls for WTO to Settle Trade Dispute

China's Ministry of Commerce on September 14 called for the World Trade Organization to help settle a tariff dispute with the United States over Chinese-made tires. The Chinese are objecting to the imposition of a 35 percent U.S. tariff on tires imported from China, an Obama administration response to a United Steelworkers union complaint that its members have lost 5,000 of their jobs since 2004 because of the amount of cheap Chinese imports flooding the U.S. market.



The additional duties will begin September 26 and last for three years, dropping to 30 percent the second year and 25 percent the third year, according to a [White House statement](#). (The new tariffs are defined as being "above the column 1 general rate of duty [which is 4 percent].")

The increases levied by the administration were actually less than the International Trade Commission's (ITC) recommendations of 55 percent, 45 percent, and 35 percent, respectively, for the three years. The ITC is the U.S. agency that advises the president and Congress on trade matters. (See, also, "[Panel Rules Against Chinese Tire Imports](#).")

In signing the September 11 proclamation authorizing the tariff, President Obama cited a report from the United States International Trade Commission (USITC) stating that it had reached a determination under the Trade Act that "certain passenger vehicle and light truck tires from China are being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products."

China's Ministry of Commerce seeks to bring the U.S. decision to levy the increased import duties on Chinese tires before the World Trade Organization. The ministry's website carried the following statement by its spokesman Yao Jian: "China's move to seek consultations with the U.S. is a legitimate act in line with a WTO member's rights and a practical step to protect one's own interests."

The *Journal* reported that under WTO rules, both nations will have around 60 days to settle the dispute through consultations. Failing that, the WTO could set up a dispute settlement panel.

Bloomberg news report that, following Obama's action, rubber futures dropped as much as 9.3 percent to the lowest level since August 24. The report quoted Kazuhiko Saito, chief analyst at Tokyo-based commodity broker Fujitomi Co, who told Bloomberg by phone: "The news triggered sales. The U.S. action may not only weaken rubber consumption in China, but also have a negative influence on the global economy if retaliatory moves accelerate."

However, Singapore-based hedge fund manager Michael Coleman told Bloomberg in another phone interview that the rubber futures slump was "a bit of an over-reaction." "Objectively that doesn't



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actually impact natural rubber demand one way or the other, because low-end passenger car tires have no natural rubber in them," said Coleman. "They are all synthetic rubber."

A *Forbes* report on September 14 noted that shortly after the U.S. imposition of the increased tariffs, China retaliated by saying it would launch an anti-dumping investigation into automobile and chicken products from the United States.

China's Commerce ministry said on September 13 that the investigation was in response to complaints from Chinese manufacturers charging that some U.S. products have an unfair advantage. Beijing also condemned protectionist policies adopted elsewhere.

An editorial in the September 14 *China Daily* newspaper, widely viewed as a mouthpiece for the Chinese government, labeled the tariffs as "irresponsible," warning of possible severe consequences, such as a chain reaction of protectionist trade measures that would hamper global economic recovery.

Arguments between advocates of establishing protective tariffs to make American manufactured goods more competitive domestically, and those who countered that the absence of such tariffs would make imported goods cheaper and also help U.S. exports by inducing our trading partners to refrain from similar tariffs, have been waged almost as long as our nation has been in existence. In general, most people from the industrial North favored tariffs while those from the agricultural South opposed them. A good argument can be made that disagreements over tariffs between residents of states such as Massachusetts and South Carolina had more to do with Southern secession and the subsequent Civil War Between the States than did disagreements concerning slavery

Constitutionalist Americans have registered in on both sides of the argument,

However, in "Why Not a Tariff for Revenue?" an article that appeared in *The New American* magazine for April 27, 1987, the late historian Clarence B. Carson dwelt not on the tariff's protective attributes, but the use of import duties as a source of revenue for the federal government. As Carson noted:

The distinction that was commonplace between a tariff for revenue and a protective tariff in the early decades of the Republic appears to have been lost in the shuffle. Protectionism won out during the War Between the States. And, during the lengthy Republican era ending in 1939, the protectionists usually held sway in imposing their high tariffs. Ultimately, all tariffs got tarred with the same brush by free traders. That is unfortunate, and it is high time that we revived the distinction. After all, the tariff played a leading role in providing revenue during the first hundred or so years of the Republic. The first revenue measure passed by Congress was a tariff, and it was a major source of federal revenue during the 19th century.

As for guidelines to distinguish between the protective tariff and the revenue tariff, Carson offered the following:

There are several rules to be followed to ensure that a tariff is and remains a revenue tariff, in addition to keeping it relatively low. It should generally be applied to all imported goods, and there should be no discrimination in the matter of rates, either on particular nations or products. It probably should apply to products that Americans do not produce in quantity as well as those that they do. After all, if revenue is its purpose, it is most effective in the field of noncompetitive products.

The above rules would mean that all duties, special or otherwise, that are now in effect would be repealed or yield to the standard tariff rates. Above all, it would mean that all reciprocal trade



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agreements, quotas, and cartel-like arrangements would be abandoned as soon as legally possible. Such measures, if accompanied by an end to all foreign economic aid, would go far to disentangle the American government from other governments and restore our independence. Unlike selective and discriminatory protective tariffs and special agreements with some nations, a uniform tariff for revenue should not disturb the peace among nations.

The revenue stream from such intelligently imposed tariffs (combined with massive cuts in unconstitutional federal spending) might well be the first step in relieving the U.S. taxpayer from dependence on the progressive income tax as the federal government's primary source of revenue.

One more note about Carson's proposal that "there should be no discrimination in the matter of rates." While this is a tried-and-true position, in harmony with George Washington's admonition that Americans "observe good faith and justice toward all nations. Cultivate peace and harmony with all." And his advice that the "great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little political connection as possible," a case has also been made that because of the inherent evil of communist regimes, free nations should not trade with them at all.

Again, constitutionalists can disagree about this point — more libertarian constitutionalists like Rep. Ron Paul would open trade to all nations as a sort of behavior modification, teaching them the benefits of commercial trade to entice them to act better in the international forum. Conservatives of the old school would assert that any dealings with a regime that has taken control by forces amounts to helping that regime stay in power.

There is a valid place for differences of opinion concerning trade policies, so long as no policy attempts to give to the federal government powers not delegated to it in the Constitution and, likewise, that all trade authority is retained by our government and not surrendered to international trade blocs.



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