The prospect of a trade war with China fueled fears of wider fallout Monday, rattling bond markets and prompting many economists to criticize President Obama's decision to slap import tariffs on Chinese-made tires.

Traders fretted that the 35 percent tariffs might prompt China to send a sign of disapproval by paring purchases of U.S. government bonds. And a chorus of economists and climate activists fretted that the president's action might undercut U.S.-China climate talks and poison relations just two weeks before the summit of the Group of 20 major economies to be held in Pittsburgh.

Moreover, economists argued that it would all be for nothing; they said tariffs on Chinese tires would probably boost U.S. imports from countries like Poland and Mexico and do little to help the American steelworkers whose union brought the trade action in the first place.

Obama said Monday on CNBC that the tariffs, which were announced late Friday night, were necessary to maintain the "credibility" of trade agreements. "I'm not surprised that China is upset about it, but keep in mind, we have a huge economic relationship with China," he said.

China's commerce minister, Chen Deming, called Obama's action an "abuse" of trade provisions and said it "sends the wrong signal to the world." China said it would look into punitive measures against U.S. exports of auto and poultry parts.

"I think it's a terrible message in the run-up to the G-20, and we are all very concerned about the escalation of protectionist measures," said Uri Dadush, senior associate at the Carnegie Endowment for International Peace and long-time international trade director at the World Bank.

"If there were any prospect of the United States taking the moral high ground in Pittsburgh at the G-20, there isn't any longer, and that's unfortunate," said Daniel Rosen, partner at the advisory firm Rhodium Group and a former senior adviser for Asia at the National Economic Council. "Instead . . . people are going to be talking about the U.S. and China squabbling over tires and chickens."

One person who said such fears are overblown: Leo W. Gerard, the former nickel mineworker and leader of the United Steelworkers who instigated the current flap by filing the trade complaint that pushed Obama to impose a tariff on Chinese tires imports. Brushing aside concerns over a trade war or China's purchases of mountains of U.S. debt, he said that China exports far more than it imports and so has much more to lose.
"Eh," Gerard said when asked about fears of Chinese retaliation. "Are they going to kick the three chickens out they let in? . . . We've got into a situation now where everyone's afraid to tick off our banker," he said. "If our government had the guts to retaliate, [China] is going to be on the losing end."

The Obama administration also said it was not worried. "We do not expect that it will have an impact on the broader relationship," said a senior administration official who spoke on the condition of anonymity because he was not authorized to speak publicly. He said that there had been a "robust effort" by the administration to negotiate with China for a settlement on tires before imposing import tariffs. He asserted that U.S. imports of Chinese tires, which more than tripled since 2004, clearly met the test for tariffs aimed at reducing "surges" in imports.

But when asked about whether the United States would simply import from other nations, he conceded that "it is hard to predict the impact with specificity."

'Not to Be Provocative'

"A healthy economy in the 21st century also depends on our ability to buy and sell goods in markets across the globe. And make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," Obama said in a speech Monday in New York's financial district.

"But no trading system will work if we fail to enforce our trade agreements," he added. "So when -- as happened this weekend -- we invoke provisions of existing agreements, we do so not to be provocative or to promote self-defeating protectionism. We do so because enforcing trade agreements is part and parcel of maintaining an open and free trading system."

There are reasons why the dust-up over tires might settle down. China exports three times as much to the United States as it imports from the United States. It also has relatively few secure places to park its huge foreign-exchange reserves other than U.S. Treasury bonds and government-backed U.S. mortgage securities.

Thea Lee, an economist and policy director for the AFL-CIO, said the concern over an incipient trade war was overblown and called China's reaction "blustering."

"The Chinese government is trying to raise the rhetoric and scare off the U.S. We should not be scared off," she said. "We are within our rights. . . . It's not the beginning of a trade war."

From 2004 to last year, the number of Chinese tires imported in the United States more than tripled and their share of the U.S. market rose from 5 percent to 17 percent. Over the same period, the share of the U.S. market served by U.S. factories declined by a corresponding amount. More than 5,000 U.S. jobs were lost.

Opponents of the tariff say the U.S. industry's shrinkage is unrelated to the surge in Chinese imports. U.S. manufacturers, they say, have strategically moved into pricier, more profitable tires, shifting production of cheaper tires overseas. Yao Jian, a Chinese Commerce Ministry spokesman, said, "Four U.S. companies have tire production operations in China and account for two-thirds of exports to the U.S. The tariffs will have a direct impact on them."
Under the so-called "421 clause" that China agreed to as part of its bid to gain admission to the World Trade Organization, the United States does not need to prove unfair trade practices.

**Bad Timing?**

But other observers said the timing was particularly bad, regardless of the case's merits. "They may have the basis for doing this, but the point in my mind is not the legality but the overall political impact and the message this gives the world," said Dadush of the World Bank. "Over the last several months, Chinese imports are exploding and thank God for that because that's holding up all of Asia and having a good impact on the rest of the world." By contrast, he said, U.S. imports are declining.

Moreover, globally, new requests for protection from imports in the first half of 2009 are up 18.5 percent over the first half of 2008, according to the World Bank-sponsored Global Antidumping Database, organized by Chad P. Bown, a Brandeis University economics professor. That increase follows a 44 percent increase in new investigations in 2008.

On Tuesday, Obama is scheduled to address the AFL-CIO's annual convention. Some analysts said that the tire tariffs were a political favor to trade unions, whose support Obama needs for health-care reform and who backed Obama in the 2008 election. Gerard dismissed the idea that the tire tariffs were political payback. The people who say that "are smoking something," he said.

Some observers said Obama might follow the Bush administration, which initially seemed to adopt a tough stance on trade. In March 2002, President Bush imposed tariffs on foreign steel, but later he backed off and rejected proposals to impose trade sanctions for other products.

"He pulled the plug on us because he didn't think we were grateful enough," Gerard said. "He didn't have the guts to enforce the law. He basically invited the Chinese to keep doing the same thing."

Whoriskey reported from Pittsburgh.