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INTERNATIONAL TRADE – – ECONOMICS AND POLITICS

This is another "special edition" of the Corey Steel market analyses that we have been sending you over the past year. In those letters, we have often described China's seemingly insatiable demand for steel and the raw materials of steel-making. That demand for a time pushed world prices to record levels, and imports into the U.S. declined as foreign producers could maximize their profits by selling elsewhere. Lately, however, world demand has moderated, and imports have increased substantially. Indeed, we may be seeing a return to the "normal" scenario where the U.S. is perceived as the most attractive market for foreign steel and domestic producers are again bedeviled by cut-rate foreign competition.

For that reason, we thought that it might be useful to take a look at some of the economic theories and political realities that underlie international trade.

Economists are generally in agreement that the world at large and individual countries will prosper best if each country is allowed to exploit its comparative advantage in manufacturing goods and providing services. A corollary is that these benefits will arise only if countries are able to sell their products to other countries unhindered by artificial barriers. This economic theory underlies arguments for free trade among nations, it has been adopted by most countries, and is embodied in the charter of the World Trade Organization.

What economists rarely address – they are, after all, dealing in theory – is that world trade cannot operate free of the political influences that are present in democratic countries and even in non-democracies. These political factors arise because companies and workers who are adversely affected by international trade are understandably more interested in their own fates than in theoretical advantages to others. Thus, in order to achieve the political will to enact and pursue free trade measures, law makers and trade negotiators must be able to address those political concerns. Otherwise, protectionist influences would reign in most industrialized countries, and trade liberalization would become impossible.

The most effective way to counter fears about the adverse effects of international trade has been a system of rules aimed at assuring that imports will be traded fairly. Those rules permit redress against unfair trade practices and relief from sudden and severe dislocations caused by import surges. They are not protectionist devices – they have had the blessing of the international trade organizations for over 50 years. And they have served as an important building block of trade liberalization by reassuring domestic firms and workers, who might otherwise have good reason to fear severe injury from imports.

Dealing with unfair trade practices is only common sense. The economic theories supporting free trade rely on a world with minimal distortions to market forces. When companies dump their products into foreign markets or when governments subsidize their producers, the concept of comparative advantage is corrupted, since export sales are supported by means other than the ability to make a product more efficiently. For this reason, the charter of the WTO and the national laws of most countries provide for remedies against dumping and subsidization. And for the same reason, the use of those laws should not be considered protectionism.

Another of this kind of support for free trade is found in the so-called safeguard procedures, which provide for temporary measures to allow domestic industries to adjust to surges of injurious imports. The international community accepts that kind of safety valve as being critical to making the political case for free trade. Again, the use of those procedures cannot be fairly labeled as protectionist.

It is no secret that American steel producers have frequently used these laws against what they believe to be unfairly traded imports, and it is equally well known that some steel users have criticized those efforts. This is hardly surprising. The economic interests of both sides of the argument are easy to discern: domestic producers don't want to let dumped or subsidized imports undercut their market position and most users of steel products are happy to buy imports at cheaper prices.

To be sure, critics of particular trade cases are welcome to and should complain about what they see as shortcomings of trade cases brought against imports. Our laws provide extreme transparency in the conduct of those cases, with public hearings by the Department of Commerce and the International Trade Commission, testimony by all sides (producers, users and foreign suppliers), severe and rigorous analysis by career staffs and fully articulated decisions. Finally, all the administrative determinations are subject to judicial review. Thus, the particulars of any effort to use the unfair trade laws are properly subject to careful scrutiny.

But the principle of having those laws should not be gainsaid. For any rational system of free trade requires rejection of unfair trade practices for two reasons: those practices corrupt the economic theory behind free trade and they weaken the sense of fair play that is critical in all countries to the political support for that trade.

As always, I am interested in knowing your thoughts on these matters and on our periodic letters on the steel market and trade policy. We are posting this letter on our web site – www.coreysteel.com.