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Why Steel Buyers Should Care About An Imported Tire Case

June 25th, 2009 · 1 Comment

I've managed to go two full weeks without writing one post on international trade and anti-dumping (not that there has been any lack of news on those subjects mind you), but I wanted to give it a little rest. Unfortunately, the break is over because of an "affirmative determination in a so-called 'section 421' or 'China-Specific Safeguard" case involving tires from China. Now before you nod off, read on because this one case lays out the future for international trade and for American buying organizations.

To simplify the 421 language, suffice it to say that the US ITC (International Trade Commission) has ruled that imports of consumer tires from China have "disrupted" the US market. But get this – NOT EVEN the US Tire Industry Association (which includes US tire producers) supports the petition to provide import "relief." According to the Cato Institute's international trade policy expert Daniel Ikenson, "It is really nothing more than a matter of a US union objecting to management's decision to produce its lowest grade (lowest quality, lowest priced, lowest profit margin) tires abroad." The United Steel Workers filed the original petition in the tire case. Their goal, according to this article is to, "cap Chinese imports of tires to their 2005 levels." And let's face it if imports are capped from China, the US tire producers and other suppliers will simply source the low-end range elsewhere.

China is not a sole-source provider.

So what makes this case so different from all of the other anti-dumping cases filed (including the enormous OCTG case pending)? In a Section 421 ruling, the ITC has to actually provide recommendations to the President of the United States (as opposed to merely issuing anti-dumping or countervailing duties which the President never needs to get involved with) and more important, the President needs to either grant or deny relief. If he grants relief, he'll anger the Chinese, which in turn will escalate trade wars (remember when we put up trade barriers, so do our trading partners). If he does not grant relief, he'll risk alienating a key support group, the unions, which he relied upon to win the Presidency.

Now why does this case matter to a steel buyer? It matters because now, for the first time, President Obama will have to make a decision one way or the other on a major international trade case. His vote on this case will draw a line in the sand regarding America's current policies involving international trade. Trade restrictions such as this tire case (and other restrictions such as the 'Buy American' clause) will have long- term consequences both for trade and more important for the overall economic health of our country. History has proven protectionist policies do not work. And let's not forget that trade policy is a part of foreign policy. If we close our doors and create barriers, we'll have less room at the foreign policy table. And given the likes of North Korea, Iran, and conflicts in the Middle East, now doesn't seem to be the best time to engage in trade wars.

–Lisa Reisman

Tags: Anti-Dumping · Global trade developments

1 response so far ↓

- 1 **n65321** // Jun 25, 2009 at 10:30 am

  How can you say "history has proven protectionist policies do not work?"

  The real world experience of the US is just the opposite. For more than a hundred years before World War II the US was the world's most prosperous nation and the most trade protected. Trade protection produces prosperity.

  The history of trade protection has been written by advocates of free trade. They left out a few things to make their case sound better. According to the free trader story the world collapsed because the US introduced the Smoot-Hawley tariffs in 1930. Wrong! Blaming Smoot-Hawley (the Great Depression protection tariffs) is a misreading of history. Smoot-Hawley was not a shift to protection but rather a continuation of long standing trade protection. At the time it was proposed the US was already the world's most trade protectionist nation and had been for more than a hundred very prosperous years. The Smoot-Hawley tariffs were not the highest tariffs the US ever had. Nor did they last very long. Passed in the summer of 1930 they became effective the following year and began to be reduced after 1932 by the Roosevelt administration. When the Depression got worse in 1937 tariffs were already back to the pre Smoot-Hawley levels. While trade did decline by two-thirds it was two-thirds of a small number. Trade declined from 6 percent of GNP to 2 percent while the nation remained a net exporter. Smoot-Hawley did what it was intended to do. It kept us a net exporter throughout the Great Depression and protected jobs from the dumping of cheap foreign goods. Free trade has made us a net importer and has cost us jobs.

  During that long period of trade protection, contrary to the theory of free traders, the US had higher real wages, lower prices, and more innovation than the rest of the world.

  During that long period of protection the US ascended to the economic high from which it has descended during a short period of free trade.

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