Protect Our Key Industries Essay, Research Paper

Let us protect our key industries from unfair foreign competition

From the Beginning K

In addition to adopting a free trade policy, Government has protected the key US industries from unfair foreign competition. Domestic industries feel pressure from foreign competitors because of lower pricing and better quality products. For these reasons, competition can become intense and has caused our industries to seek government protection. Protectionism brings together business and labor, sixteenth century thinkers and twentieth-century economists.

Protectionism builds on the power to tax one man to help the business of another. The government s primary concern is national income, national spending and national employment.

Fewer industries need protection over foreign competition because of external influences over the global marketplace. Over a period of a few months, Asian and Russian economies have collapsed; a recession has been brought on by currency weakness and lower oil prices. As a result, the export of US goods to much of the world has decreased, corporate earnings weakened.

When this crisis hit, the US became one of the few markets where excess production could be sent. Many of the world s struggling economies have counted on exports to life them out of recession. The US has earned the role of importer of last resort.

Trade tensions escalate over charges that products exported to the US by several countries have been sold below market value. U.S. political leaders have started to discuss proposals that could further fuel any protectionist sentiment. Industry leaders contend that strong measures are necessary, even at the risk of foreign retaliation. The staunchest allies of these politicos are labor unions to whom government protection is of crucial importance. However, from an economic perspective, a trade deficit in and of itself is neither good nor bad. It simply means that in a given year, the citizens of one country purchased more goods and services than they sold overseas. A deficit might result because the economy and purchasing power of consumers in one country grew faster than in others. That would be a sign of economic strength. Alternatively, a deficit might result, for a short period, because a country inflated its currency. That would be a sign of unsound policies.

There is lot of reasons that demand some key industries to be protected. One is dumping by foreign firms. Contradictory line of protectionist assault on the free market asserts that the problem is not so much the low costs enjoyed by foreign firms, as the “unfairness” of selling their products “below costs” to American consumers, and thereby engaging in the pernicious and sinful practice of “dumping. By such dumping, they are able to exert unfair advantage over American firms who presumably never engage in such practices and make sure that their prices are always high enough to cover costs. Another cause is protection of infant industries. The government should provide a temporary protective tariff to aid, or to bring into being, an “infant industry. Then, when the industry was well established, the government would and should remove the tariff and toss the now “mature” industry into the competitive swim. Indeed, in recent years, older industries that are notoriously inefficient have been using what might be called a “senile-industry” argument for protectionism. Steel, auto, and other out competed industries have been complaining that they “need a breathing space” to retool and become competitive with foreign rivals, and that this breather could be provided by several years of tariffs or import quotas.

There is one other reason for protectionism. Presently America is facing a big trade deficit. Japan is the third largest export market for American products. However, Japan has high tariffs on many products. Japanese trade practices and policies create barrier to U.S. exports, whereas America has fewer restrictions on Japanese imports, and the result is not only substantial trade deficit with Japan but loss of jobs in America. Similarly, European Union is the largest trading partner of America but importers in the European Union face many restrictions to buy American products leading to trade deficit of America. China is using high tariffs amounting to 100% on some products like vehicles to protect its domestic industries. Thus, America needs to protect some of its industries for their survival in the international and national markets.

Industries can be protected from foreign competition in two ways. Firstly by putting tariffs on imported goods and secondly by quota. Import tariffs are taxes imposed on commodity imports. They may be levied on an ad valorem basis, i.e. as an amount per unit. Their purpose may be solely for raising revenue, in which case the home-produced product corresponding to the import would bear an equivalent compensatory tax. In international trade, the quantitative limits placed on the importation of specified commodities. The protection afforded by quotas is more certain than can be obtained by raising import tariffs as the effect of the latter will depend on the price elasticity s of the imported commodities. Quotas, like tariffs, can also be used to favor preferred sources of supply.

One method used to measure the degree of protectionism within an economy is the average tariff rate. Since tariffs generally reduce imports of foreign products, the higher the tariff, the greater the protection afforded to the country’s import-competing industries. Ideally, what we would like to measure is the degree to which a government’s policies (both domestic and trade policies) affects the flow of goods and services (on both the import and export side) between itself and the rest of the world. Thus, we might imagine an index of protectionism (IP) defined as follows:

Where the numerator represents the sum of all exports and imports across all N trade categories given the current set of trade policies, while the denominator represents the sum of all exports and imports that would obtain if the government employed a set of domestic policies that had no impact on trade of goods and services with the rest of the world. If IP = 1, it would indicate that current government policies are completely non-restrictive and the economy could be characterized as being in a pure state of “free trade. If IP = 0, then government policies would be so restrictive as to force the economy into a state of isolation.

The adjoining diagram depicts average trade related tariffs rate in US between 1821 and 2000. This rate is calculated by dividing the value of tariff revenue by the total value of imports in each successive year. The main point to notice is that protectionism has declined consistently due to

Global integration but still it exists because of the protection of few industries from foreign competition.

In few industries like steel, government is forcing more protectionism to protect it from foreign competition and trying to solve its crises. Claims of the imminent demise of America s domestic steel industry — at the hands of “unfair” and “illegal” imports — have generated a crisis atmosphere in Washington. Antidumping, countervailing duty, and Section 201 actions now under way already threaten draconian cutbacks of steel imports. However, U.S. steel mills and their unions want additional protection, including highly restrictive quotas already approved by the U.S. House of Representatives. Govt. put protectionism measures for steel industry but Steel protectionism is incapable of saving steel jobs.

Protectionism measures are applied to agriculture also. Although U.S. agriculture is generally considered a bastion of free enterprise, the reality is quite different. The Agricultural Adjustment Act of 1933, as amended, requires that the U.S. Government impose quantity restrictions whenever imports would “materially interfere” with the operation of U.S. farm programs. The export enhancement program is targeted to markets taken over by competing nations using unfair trade practices.

The Impact on the US Steel Industry K

There are several reasons for the decline in steel prices in the United States. The main reason is the price of imports undercutting the American steel industry. Foreign countries are manufacturing steel for a fraction of the price that it costs to make steel in America. The foreign markets can produce labor at a lowered cost then that of the United States, and the cost of the manufacturing supplies is inherently lowered from the mining costs being less. Also, there is no market for steel in foreign countries today. Since the cost is so low from the foreign steel industry, foreign customers are now buying their steel from their own countries. This defers from the past when US Steel was being bought all over the world.

These reasons coupled with financial crises in countries producing steel at a lower cost drives the price down even further because of the lowering exchange amount. The import surge can be specifically linked to the Asian and Russian economic crises. Currency devaluation s are driving this unprecedented crises which our trade laws are not prepared to handle, said Keith Busse, chairman and CEO of Steel Dynamics Incorporated.

It is also apparent that some of the foreign companies are selling the steel lower then their cost, just to stay afloat with their withering economy. With foreign dumping coming over at an atrocious amount, the US Steel industry is getting worse and worse. There is no longer the need for mass quantities of steel. Automobiles are increasingly being made with less steel than ever before. Therefore there is more steel being produced by American companies than needed by the quotas of customers.

Effects of price of Steel dropping and over flooding of the market

Since steel prices are at 20 year lows, companies are attempting to find new ways to survive. With the market inflation in the last 20 years, it would be almost impossible for the steel industry to stay afloat. They simply cannot sell the steel with any margin of profit at all. And even if the American steel companies could find a way to sell the steel at a profit, there would be little steel for them to sell with the limited demand for steel than in years past.

This result in the producers cutting back the amount of steel that they produce. With the steel industry attempting to police itself, the cutbacks are required for the industry to thrive. This will result in the layoff of long standing employees, and less manufacturing overhead to companies that supply steel manufactures. Eventually with cutbacks not working, companies will file for bankruptcy and shut plants down for good.

Reasons for the Protection of Industry from dumping

There is a need for the United States market economy to be protected from other foreign markets. With most of our steel being imported from foreign countries, our market will be merged with unstable foreign markets around the world. If the unstable merge occurs, the United States autonomy will be reduced in the world market and trade. This will cause prices to be uncontrollable and may give countries a monopolistic effect. A comparison with OPEC for the steel industry would not be feasible.

John Armstrong, a spokesman for the US Steel group, the nations largest steel maker, said last November, The situation is only getting worse, we started to notice it in July (2000) when imports really started to increase. We have virtually sold nothing abroad this year. There is no market for (steel) in Russia and Asia right now. In order for anything to be done about it, President Clinton will have to take some action to stop the dumping (of low priced steel) .

There is also a question about the Japanese. With foreign steel markets ruling the necessity for steel in the United States, this makes the US need Japanese trade. It could turn into the onslaught of imports, and create a new import, export crises with Japan.

What will the loss of jobs do to our already struggling economy? The mass of layoffs and plant shutdowns will undoubtedly strain our economy even further. This will also cause a loss of retirement and health benefits in years to come to have a long lasting effect on the government social security and welfare system. Steel has always been a staple industry in the United States. The loss of such an industry would have long lasting effects on the economy and government. After Paul J. Wilhelm, president of US Steel group, announced cutbacks in one of their plants, he had this to say, The actions we re being forced to take at the Fairless plant are a direct result of the record tonnage s of illegally dumped foreign steel reaching this country,

This leaves us to ponder the effects if the dumping continues and a US steel crisis occurs. As always the inevitable question would be, What if there is a long conventional war?

Would we be relying on our enemies to supply us with the steel to produce weapons and transportation of troops? The governmental spending on steel alone could undermine our defense in the years to come if the foreign markets realize they have a monopolistic effect. In turn, this would hamper the United States from protecting itself from foreign invaders.

On the domestic front, automobile and jet prices could soar when manufacturing cost go through the proverbial tin roof. The inflation of appliance and tool costs offset by a slower economy due to higher unemployment and import prices could cause a long lasting recession in the economy. This would make it difficult for the United States to rebound from. Protecting our staple industry should be necessary among our economy. With increased layoffs and shutdowns at steel mills, our economy is struggling. The country cannot rely on technology alone to lead the world economy. Steel is a building block in the pyramid of world trade. Once a key piece of the pyramid is removed, the structure is weakened and may never recover.

The Benefits of Free Trade K

The federal government claims that anti dumping laws aid in the fight against unfair trade practices by foreign firms or governments when in truth, there are many problems associated with the actual existence of dumping that the rules deem themselves unfair.

There is currently no economic case for the claim that selling below cost is an unfair practice. The current claims of unfairness are based on the fear that industries will use these pricing strategies to create a monoploy. However, the world market today is so competitive that is is almost impossible for a company to exploit a dominant share of the market for any length of time. The free trade ultimately disables this from happening.

Another inconsistency lies in the fact that American companies are allowed to dump in our own market to drive out foreign competitors.

In addition, it is common practice for businesses to sell their products at a loss to make up some of their investments, this is another illustration of how the US market can do it, but expects foreign markets not to do it. This only tells US businesses that unfair foreign competition is wrong, but it is o.k. For you to drive your neighbor out.

When determining dumping cases, the government also tends to compare products that aren t necessarily the same. The US can charge a foreign company with dumping when they are essentially comparing apples to oranges.

When the US investigates dumping cases, the results often hurt US businesses and US consumers. An example of this is the 1991 investigation of a Japanese company that made Flat Panel Displays (FPD) for laptop computers. The result was the government instigating a 62.7% dumping duty on the imported screens; this made the screens unaffordable in laptop computer production. The reason this affected the US laptop industry K there were no companies in the US making the FPD s. There was no competition. In this case, the government essentially increased consumer prices for no reason. This action also resulted in a loss of jobs. These screens were so expensive that Toshiba actually moved its plant back to Japan. Apple abandoned plans to make the laptops in Colorado and moved the plant to Ireland to avoid the duties. IBM also announced similar changes.

These practices consistently raise costs for the American consumer and in some cases undermine core American competition. Although some laws are needed to prevent foreign competition from destroying American jobs and industries, in many cases, the application of anti-dumping laws causes more problems than they solve.

Consistent with this current viewpoint in favor of free trade, the US has developed the Trade Development Act of 2000. This act lowers some of the barriers to trade by working within organizations such as the World Trade Organization (WTO) and in conjunction with NAFTA.

The benefits of free trade are highlighted by Denise H. Froning, a Trade Policy Analyst for the Center for International Trade and Economics (CITE):

P Free Trade promotes innovation and competition within US industries.

P Free Trade generates economic growth by rewarding risk taking

P Free Trade fosters economic freedom.

These points are enforced by the fact that the US supports over 12 million trade related jobs in America which pay 13-16 percent higher than the wages on non trade related jobs.

CITE also argues the fact that the economy has grown more than 23% in the last 10 years adding more than $2.1 trillion dollars to the nations gross domestic product and raising the individual consumer wealth by and average of $5,500. In addition to these statistics, the import of real goods and services has increased 115%!

Conclusions in favor of free trade reveal that free trade fosters economic dynamism and growth. It is not only American s who benefit from free trade. It also encourages economic development in other countries that, in turn, invest in our country s markets (although not on as grand a level).