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Time Again to Revisit Imposed Tariffs On Specialized Steel Imports

By Steven J. Storts
Dublin, Ohio

FOR many industrial engineers, project managers, equipment contractors, and land developers, the rise in domestic oil and natural gas drilling has been a financial boon in a struggling U.S. economy. However, has the residual economic growth spilled over to the industrial community at large, for instance, with infrastructure suppliers?

For some, definitely yes, but the anticipated economic benefits for American steel interests have fallen short of expectations, at least in terms of supplying oil and gas pipeline drilling companies with tubular steel. The shortfall is being blamed primarily on the excessive dumping of underpriced oil country tubular goods (OCTG) — high-value steel products used in the extraction of oil and natural gas — in the U.S. market by Southeast Asia and the Middle East. Instead of a revenue windfall, the result has been a significant oversupply of materials and depressed prices for domestic steel producers.

Responding to voiced concerns of the United States Steel Corporation, United Steelworkers International, and other domestic steelmakers, the U.S. Department of Commerce determined in July that steel pipe imports from nine countries have harmed domestic competition. The case proceeds next to the U.S. International Trade Commission for a final ruling on whether OCTG imports have adversely affected U.S. industry, with a decision expected in coming months. Beginning immediately, though, tariffs will be imposed on OCTG imports from nine countries: South Korea, India, Philippines, Saudi Arabia, Taiwan, Thailand, Turkey and Vietnam. The duties will be refunded later if the ITC rules against the Commerce Department's determination. Under a suspension agreement, import duties will not be collected from Ukraine, although investigations revealed that underpriced imports from the country were also being dumped in the U.S. market.

The Commerce Department's final determination reverses a February preliminary determination in which the agency failed to assign dumping margins on South Korea's imports, despite the fact that the country has no domestic market of its own and represents more than half of all OCTG imports. In fact, OCTG imports from the nine countries cited in the steel industry's petition doubled between 2010 and 2012 to almost 1.8 million tons and accounted for more than 60 percent of the U.S. market last year, according to the American Iron and Steel Institute. Meanwhile, domestic steelmakers' production, capacity utilization, shipments, and sales all fell in the first quarter of 2013, with operating income being slashed by nearly $191 million.

AISI President and CEO Thomas Gibson comments, "Imports from these countries have surged in the past few years, and we are pleased that the Commerce Department has reversed its preliminary determination with respect to [South] Korea and taken this critical step to find that imports from all nine investigated countries are benefitting from unfair trade practices. It is critical that the U.S. government continue to aggressively and strictly enforce our trade laws to ensure that relief is provided to steelmakers and the nearly one million workers directly or indirectly supported by the steel industry. Today's determination is a positive development in this important case."

Earlier in May, a bipartisan group of 57 Senate members forwarded a letter to U.S. Commerce Secretary Penny Pritzker urging a thorough investigation of the dumping of OCTG imports by South Korea. Specifically, the congressional group requested a more complete investigation as to the accuracy of data submitted by South Korean steel companies. In support of the Senate's move, Scott Paul, president of the Alliance for American Manufacturing, notes, "We're exploring natural gas and oil in this country on the promise of energy independence. But if our government doesn't act, we'll head down a path of swapping our dependence on foreign oil with a dependence on foreign energy infrastructure."

Steel import tariff controversies are nothing new. They pervaded throughout several years in the first term of the Bush administration beginning in 2001 and late in the second term in 2008. In large part, they were resolved through the Commerce Department, favorable ITC rulings, and congressional support that helped stabilize an ailing domestic steel industry.

Paul further points out that past history shows that strong trade enforcement can yield positive results, but "only if our government fully investigates and utilizes the tools it

has at its disposal." In 2008, anti-dumping tariffs (ranging from 30 percent to 99 percent) were levied to halt a staggering surge of under-priced Chinese OCTG imports. Domestic industry was given an opportunity to recover, subsequently making almost $1.6 billion in capital expenditures between 2010 and 2012 and curbing American unemployment.

In addition to U.S. Steel, other industry petitioners include: Tenaris, a subsidiary Maverick Tube Corporation; Boomerang Tube; Energex Tube, a division of JMC Steel Group; Northwest Pipe Company; Tejas Tubular Products; TMK-IPSCO; Vallourec Star; and L.P. Steel.

U.S. Steel President and CEO Mario Longhi says the Commerce Department's "intensive investigation and final decision shows that the dumping of OCTG imports transpired through unfair methods and market-distorting pricing, causing material harm to U.S. markets. As a result of rising imports, U.S. Steel has suffered mightily — orders have been reduced, mills have been idled, and jobs have been lost. Our only recourse against such actions was with the U.S. Department of Commerce and their ability to support the rule of law and create a level playing field for American manufacturing."

Petitioners to the ITC will, of course, have to argue that the domestic OCTG industry is materially injured or threatened with material injury by reason of subsidized, dumped imports from companies in the nine foreign countries. Equally permitted during the quasi-judicial process, both importers and exporters can also testify that that increased duties are not justified.

The Economic Policy Institute and the law offices of Stewart and Stewart, both based in Washington, D.C., report that dumping is especially apparent in the market for OCTG used in oil and natural gas exploration and that a surge of subsidized, dumped steel imports could threaten more than a half-million steelmaking jobs in the United States. An EPI study points to an estimated 4,184 workers in eight states that have lost their jobs to the import surge since the beginning of 2012, with nearly 1,000 steel jobs being lost in the first three months of 2014.

Included in EPI's research and other studies are current or planned plant closings, slowdowns, or layoffs in Alabama, Arkansas, Delaware, Iowa, Kentucky, Ohio, Pennsylvania, Texas, and West Virginia. U.S. Steel alone, claims it has been working diligently to cut costs and restructure after five years of annual losses, including $290 million in annual cost cuts and undisclosed layoffs.

Not all industry stakeholders, though, are on board with the filed petitions. Reuters news service cites the American Institute for International Steel, a group representing steel importers and exporters, which calls the filing "excessive and unwarranted" and warned that it could disrupt oil and gas drilling. AIIS President David Phelps contends that while the low end of the market is over supplied, that is not the case for high-end seamless pipe sold by U.S. Steel and others. "We think this is an overreach," he says.

July 2014

Approval of CAFTA Opens Doors for Better Balance of Trade, Proponents Say

By Steven J. Storts
Dublin, Ohio

DESPITE some political opposition and varied reaction from organized labor, most industry and commerce groups are hailing the recent passage of the Central American Free Trade Agreement by the U.S. House of Representatives as a victory against isolationism, affirming that America's best economic future lies with open markets and fair international trade practices.

"By lowering trade barriers to American goods in Central American markets to a level now enjoyed by their goods in the U.S., this agreement will balance the playing field and help American workers, farmers, and small businesses," says President Bush. "The agreement is more than a trade bill, however. It is a commitment of freedom-loving nations to advance peace and prosperity throughout the Western hemisphere."

Bush adds, "We have a moral obligation and a vital national security interest in helping the democracies of Central America and the Dominican Republic succeed, and CAFTA furthers that goal." The White House points out that the young democracies of Central America still face forces opposed to democratic government and economic freedom, such as the leaders of Cuba and Venezuela.

"By supporting CAFTA, the U.S. can stand with those in the region who stand for democracy and freedom, who are fighting corruption and crime, and who believe in the rule of law," the president emphasizes. "CAFTA, by integrating the Central American economies together with our own, will strengthen America's influence in the region. Failure to move forward with CAFTA could create a vacuum that China, with its growing economic weight, might use to expand its political influence in the region."

John Engler, president of the National Association of Manufacturers, comments, "I hope this CAFTA vote marks the end of political opposition to trade liberalization. We have to move forward with the World Trade Organization's Doha Round and additional bilateral agreements that will further level the playing field for American manufacturers, farmers, and service providers."

Prior to the House vote in late July, NAM released data showing that Florida is home to more companies exporting to Central America and the Dominican Republic than any other. In fact, more than 7,000 Florida companies already export to CAFTA countries, including Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. The export data, compiled from state reports produced by the U.S. Department of Commerce, shows that nearly 6,000 of these Florida companies are small and medium-size firms.

"As CAFTA eliminates barriers to U.S. exports, Florida stands to benefit more than any other state," says Engler, who notes that exporting is "hugely important to Florida's economy," with the CAFTA countries comprising the second largest market for the state's annual exports— $3.2 billion worth— second only to those markets related to the North American Free Trade Agreement.

David Pearl II, executive vice president of Uniweld, a Ft. Lauderdale manufacturer and exporter of industrial products agrees with Engler. "We are one of the 6,000 small Florida companies that already export to Central America, and we would benefit from CAFTA. The way I look at it, a vote for CAFTA is a vote for Florida's future and for Florida jobs," he explains.

On another front, in the textile industry, much of the apparel manufactured in Central America and the Dominican Republic uses American materials—everything from the fabric to the thread to the elastic. According to a recent poll by the American Apparel and Footwear Association, without CAFTA, more than 53% of apparel investors in Central America said they would go elsewhere to buy these raw materials. CAFTA will keep these manufacturing jobs in the U.S., the White House contends.

The U.S. Chamber of Commerce predicts that U.S. sales to the CAFTA region could expand by more than $3 billion in the first year, and the American Farm Bureau estimates that farm exports could grow yearly by $1.5 billion.

Additionally, the new trade agreement will instantly eliminate tariffs on 80% of U.S. manufactured goods, with the remainder of tariffs being phased out within a few years. As a result, manufacturers and workers are expected to benefit from increased sales of information technology; farm, construction, medical, and scientific equipment; paper products; and pharmaceuticals.

The White House notes that U.S. businesses currently export more than $15 billion annually to Central America and the Dominican Republic, but because of high tariffs, American com-

panies and farmers also pay out more than $1 billion in foreign taxes each year to do business in that region. CAFTA, in practice, would be a tax cut for American businesses, the president contends.

"America exports more to the six nations participating in CAFTA than to Russia, India, and Indonesia combined," Bush explains. "By removing tariffs and other barriers, CAFTA makes trade between the U.S. and participating countries less expensive."

September 2005

NAFTA Lumber Decision Receives Construction Industry Support

By Steven J. Storts
Dublin, Ohio

MANY in the construction industry are hailing an August ruling by a North American Free Trade Agreement dispute review panel that expects to lift punitive tariffs on Canadian lumber shipments into the U.S. Economists estimate that the import tax has cost American home buyers and consumers more than $4 billion.

The unanimous ruling by the NAFTA Extraordinary Challenge Committee should end a three-year legal battle to overturn punitive tariffs on Canadian lumber imports, according to David Wilson, a custom builder from Ketchum, Idaho, and president of the National Association of Home Builders. The U.S. government had imposed antidumping and countervailing duties totaling above 20% on softwood lumber in May of 2002, charging that Canadian imports represented a threat to domestic lumber producers.

American Consumers for Affordable Homes, a consortium of trade organizations and retailers favoring open trade markets, says the duties were imposed after mostly Southern timberland owners and forestry companies, including International Paper, Potlatch, Plum Creek, Sierra Pacific, and Temple Inland—members of the Coalition for Fair Lumber Imports—charged that Canadian lumber is unfairly subsidized and being dumped at lower prices in the U.S.

Currently, the U.S. must import a third of its lumber from Canada or other third-party countries, mostly European, to meet domestic housing demands and those of remodelers, ACAH spokesperson Susan Petniunas explains. "Industries that depend on lumber as an input and that oppose import restrictions include manufacturers of value-added wood products, lumber dealers, manufactured and on-site home builders, and remodeling contractors and individuals," she adds. "These industries employ more than 6.5 million workers, 25 to one when compared with those in the forestry industry."

The original NAFTA panel had ruled on August 31, 2004, that evidence relied on by the U.S. International Trade Commission did not support its finding of a threat of material injury to the U.S. softwood lumber industry from Canadian imports. Consequently, ITC issued a determination 10 days later to comply with the panel ruling that reversed its original threat finding.

But on November 24, the Office of U.S. Trade Representative requested that an extraordinary challenge committee be formed to review the panel's action, claiming that the panel had violated the dispute settlement rules established under Chapter 19 of NAFTA. The agency also alleged that one of the panelists was in a conflict of interest position in violation of a code of conduct, but ECC dismissed the ethics claim. ITC's final negative threat determination was suspended during the challenge, but it now takes effect.

However, Wilson expresses concern about an August statement released by USTR officials indicating that the U.S. would not comply with the NAFTA ruling, which carries the weight of law in Canada, the U.S., and Mexico. Canada filed several appeals to overturn the duties before NAFTA and World Trade Organization (WTO) panels, which repeatedly ruled that the duties on lumber were inconsistent with international agreements and with U.S. law.

In the USTR statement, spokesperson Neena Moorjani notes, "We are, of course, disappointed with ECC's decision, but it will have no impact on the antidumping and countervailing duty orders given ITC's November 2004 injury determination. We continue to have concerns about Canadian pricing and forestry practices. We believe that a negotiated solution is in the best interests of both the U.S. and Canada, and that litigation will not resolve the dispute."

Wilson observes, "Now that the legal challenges have run their course, it's time for the [Bush] administration to live up to its international obligations . . . by moving quickly to roll back the tariffs and refund all duties paid out by Canadian firms."

On the Canadian front, International Trade Minister Jim Peterson comments, "We are extremely pleased that ECC dismissed the claims of the U.S. This is a binding decision that clearly eliminates the basis for U.S.-imposed duties on Canadian softwood lumber. We fully expect the U.S. to abide by this ruling, stop collecting duties, and refund the duties collected over the past three years."

Peterson emphasizes that ECC's ruling "is a strong vindication for the Canadian softwood lumber workers and industry," but he also points out that "the surest way to put a real end to this or any future dispute is through negotiation . . . . This dispute has dragged on too long. It is time to put it behind us and focus our efforts on improving the competitiveness of the North American industry and finding

a fair deal for Canadian and U.S. workers alike."

Nearly 50 members of Congress have signed a letter to President Bush calling on the administration to implement the NAFTA panel's and to adhere to the international agreements that the U.S. has signed. The letter states that the "current duties, which have been found illegal under both the WTO and NAFTA, deprive Americans of affordable housing, the first step in the American dream. The border taxes should be stopped at once and past payments given back."

This is the last appeal available for the U.S. Commerce Department to take "on behalf of a small number of U.S. protectionist lumber producers and landowners," Petniunas contends. "The NAFTA process worked as it was designed. The administration should do the honorable thing and promptly end the duties that have penalized consumers for more than three years."

October 2005

Roundtable Dispels Outsourcing Myths, Emphasizes Innovation, Not Isolation

By Steven J. Storts
Dublin, Ohio

ISOLATIONIST proposals are neither the answer to sustaining economic growth nor creating and retaining jobs in the U.S., the Business Roundtable cautions. The organization, which comprises CEOs from America's largest companies, is challenging critics of outsourcing to "reject isolationist thinking and isolationist rhetoric."

"When you look at our nation's history, every generation seems to have its own new job-killing monster," says Roundtable President John Castellani. "In the early 20th century, it was immigration; in the 1930s, it was capitalism; in the 1960s, it was automation; and in the 1980s, it was Japan," he explains. "Outsourcing is not a threat to this nation's economy. It is an opportunity to raise American earnings, productivity, and prosperity."

Speaking earlier this year before the Detroit Economic Club, Castellani put the current outsourcing debate into perspective, noting that there are more than 138 million Americans with jobs today, and in recent years only a small percentage of white-collar jobs––about 100,000 annually—have gone overseas. In addition, the Bureau of Labor Statistics forecasts that the U.S. will net 21 million new jobs between 2002 and 2012.

Castellani warns that unions and their members are "jeopardizing the very jobs and wages they think they are protecting by reflexively opposing any attempt to lower trade barriers." He urges politicians and labor leaders to recognize that American workers have "everything to gain by free trade with other nations," citing the benefits that decades of improved efficiency, worldwide competition, and demand have brought to the U.S.

To promote economic growth and job creation, Castellani underscores the importance of government policies and practices, highlighting key recommendations developed by the Roundtable in its report *Securing Growth and Jobs: Improving U.S. Prosperity in a Worldwide Economy*. The document lays out an agenda for taking full advantage of America's growth opportunities, describing the impending crossroads for business and industry—economic isolation or business innovation—and addresses four recommendations:

- Federal and state tax policies should encourage investment and innovation;
- Free trade must be expanded through new agreements with the rest of the world;
- Foreign trading partners should work to grow their domestic economies; and
- There should be greater focus on improving the education and training of the U.S. workforce.

The last recommendation is key. In a public opinion poll commissioned by the Roundtable and conducted by Voter Consumer Research, a majority of the more than 1,000 respondents support the creation and expansion of programs that provide retraining for Americans who lose their jobs. In fact, 88% of those surveyed contend that U.S. companies have an obligation to help workers who lose their jobs, while understanding that companies and workers must remake themselves in a global economy so they can continue to lead, meet customers' needs, and create sustained growth and jobs.

"Although working with the world helps our economy and creates jobs in the U.S., the painful and difficult reality is that some American workers may have to transition to another job," Castellani admits. "That is why it's imperative that those workers have robust retraining programs to turn to, providing a new cadre of workers for companies in the U.S."

The Roundtable executive also emphasizes that the nation's public education system must be improved to ensure that the U.S. workforce has the knowledge and skills necessary to continue to fuel innovation, and he cites a recent report showing that many high school graduates lack such skills as writing and the ability to do basic math.

"Give America a school system that teaches all children to be proficient in reading and math and prepares them for college and the workplace, coupled with public policies that encourage growth and innovation, and the future success of our economy will be assured," Castellani noted recently in congressional testimony before the House Committee on Education and the Workforce.

He also recommends streamlining the federal government's myriad of education and training programs for current workers and urges states and schools to implement the No Child Left Behind Act, which calls for proficiency in reading and math for all U.S. students.

Other results from the opinion poll show that a majority of respondents (92%) believe that isolating America

from the world is not the answer to the nation's economic problems, and that U.S. companies should be free to compete in the world economy so they can create new employment and build economic strength in America. Also, nearly 95% of those polled indicated that U.S. companies must work to successfully meet their customers' needs so jobs can be created in America.

"Americans want U.S. employers to engage in the worldwide marketplace, and understand that doing so is essential for sustained growth and the creation of jobs," says Castellani. "This research validates the importance of opening worldwide markets to trade, strengthening our education system, and expanding research and development incentives for companies—all key Business Roundtable priorities."

Castellani observes, "History has proven that policies that embrace trade and economic growth allow companies to grow their markets and create jobs, whereas isolationist policies stifle growth and innovation, restricting job opportunities for the world's strongest workforce."

September 2004

Bush Lifts Steel Sanctions, But Promises Stepped-Up Monitoring of Imports

By Steven J. Storts
Dublin, Ohio

SANDWICHED between a rebounding economy and threats of foreign trade sanctions from European and Asian countries, President Bush in early December lifted the temporary steel tariffs that were put in place in March 2002. However, in return for ending the safeguard measures, he promised U.S. steel producers an expanded import licensing and monitoring program that would enable the administration to quickly respond to future import surges that could unfairly damage the industry.

Prior to imposing the tariffs, steel prices were at 20-year lows, and the U.S. International Trade Commission found that a surge in imports to the U.S. market was causing serious injury to the domestic steel industry. The president imposed temporary safeguard measures on specific steel products under the authority of Section 201 of the Trade Act of 1974. The safeguarding took the form of tariffs ranging from 8% to 30% on 10 categories of steel products, in addition to a tariff-rate quota on one product.

"I took action to give the industry a chance to adjust to the surge in foreign imports and to give relief to the workers and communities that depend on steel for their jobs and livelihoods," Bush noted in his White House statement. "These safeguard measures have now achieved their purpose, and as a result of changed economic circumstances, it is time to lift them."

The president applauded the U.S. steel industry for wisely using the 21 months of "breathing space" provided to it for consolidating and restructuring. "The industry made progress increasing productivity, lowering production costs, and making America more competitive with foreign steel producers," he said. For example, Bush cited the three largest steelmakers that invested $3 billion to consolidate the flat-rolled sector of their business, and more than half of U.S. raw steelmaking capacity is now owned by firms that merged or restructured since the tariffs were implemented.

"The United Steelworkers of America and several major steelmakers have also negotiated innovative labor agreements that increase flexibility, boost productivity, protect retiree welfare, and empower workers," the president added. "And major domestic steel producers are now streamlining their management structure."

Bush further explained that restructuring has allowed steelmakers to reduce the high retiree pension and healthcare costs that impaired their competitiveness. Since 2000, the Pension Benefit Guarantee Corporation has assumed the pension plans of 14 companies with total liabilities of nearly $8.2 billion. Retirees from bankrupt steel companies will receive on average more than 90% of the pensions they had earned. The president also indicated that more favorable economic conditions for the industry and the improving economy would help further stimulate demand for domestic steel products.

"We will continue negotiations with our trading partners through the Organization of Economic Cooperation and Development to establish new and stronger disciplines on subsidies that governments grant to their steel producers," Bush promised. "And we will continue to pursue economic policies that create the conditions for steel producers, steel consumers—who rely on steel to produce goods ranging from refrigerators to auto parts—and other U.S. manufacturers to succeed."

The White House expects to face some criticism from steel-producing states in the Midwest, congressional caucuses, and organizations such as the American Iron and Steel Institute and the Steel Manufacturers Association for perhaps lifting the steel tariffs too prematurely in the face of what they term "unjustified and World Trade Organization-illegal European Union threats of immediate retaliation."

Daniel DiMicco, vice chairman, president, and CEO of Nucor Corporation and chairman of AISI, said in November, "The October data show again that the president's steel tariff program is working in the national interest, but it also shows why it's essential to stay the course. The U.S. steel industry is holding up its end of the bargain, but the process of consolidating, restructuring, and investing to the long-term benefit of our customers is incomplete and remains at risk."

The AISI official also noted that continued bankruptcies, rising debt levels, increasing import pressures in specific product lines, and the lack of a long-term solution for restoring market forces to the global steel sector pointed to the need to maintain the president's steel tariffs.

Just a few weeks prior to Bush's announcement, 108 members of the House of Representatives from 33 states signed a letter to the president urging him to maintain the steel tariffs for their full, intended three-year term to fulfill the goals of his three-

pronged steel program. The House members emphasized that the remaining 16 months of the Section 201 relief were necessary for the domestic steel industry "to finalize the consolidation process and emerge a strong global competitor."

The letter further stressed that "these final months will also permit your administration to continue its important negotiations on global excess steel capacity and foreign government trade-distorting practices. These talks are an essential part of the process aimed at addressing the fundamental problems in the international steel market."

However, administration trade officials contend that a growing economy and increased consumer confidence and worker productivity will offset any temporary destabilizing effects caused by lifting the steel tariffs.

"I strongly believe that America's workers can compete with anyone in the world as long as we have a fair and level playing field," says Bush. "Free trade opens foreign markets to American products and creates jobs for American workers, and an integral part of our commitment to free trade is our commitment to enforcing our trade laws. I am pleased the steel industry seized the opportunity we provided to regain its competitiveness and assist steelworkers and their communities. As a result, U.S. steel companies are now once again well positioned to compete both at home and globally."

January 2004

U.S. Manufacturers Welcome News from White House to Examine Unfair Trade

By Steven J. Storts
Dublin, Ohio

THE White House announcement in September to take aggressive action against unfair trade practices is welcomed news to many U.S. manufacturers.

Jerry Jasinowski, president of the National Association of Manufacturers, says the U.S. Commerce Department's creation of offices to "target unfair trade practices and analyze the cost impact of domestic regulation is desperately needed to help level the playing field."

According to the NAM official, manufacturing is bogged down in one of the weakest downturns on record, losing more than 2.7 million jobs over 37 consecutive months. In response to this lagging industry sector, the Commerce Department this year has conducted 25 regional roundtables around the U.S. to gather input from manufacturers and analyze the specific factors affecting production, investment, and industry jobs.

"Americans are willing to compete, on even terms, with any country in the world, but we will not stand for unfair competition," notes Commerce Secretary Don Evans. "We are going to aggressively target unfair trade practices wherever they occur so that we can help create American jobs and improve the economy."

Under the agency's plan, four new offices will be created: an Unfair Trade Practices Team; an Office of Industry Analysis to study the impact of regulations; a new Assistant Secretary for Trade Promotion; and an Office of Export Readiness to help U.S. firms meet the challenge of foreign competition.

Acknowledging the administration's seriousness in addressing trade issues, Jasinowski explains, "The New Unfair Trade Practices Team will put our government on the side of U.S. manufacturers and workers, protecting them from unfair trade practices by our trading partners. And the Office of Industry Analysis will begin to rein in the escalating costs that we impose upon ourselves."

He emphasizes, however, that manufacturing should not rely solely on government to address its problems, but instead, bears the lead responsibility to meet and defeat foreign competition on its own terms. "The strength of U.S. manufacturing has always been our creativity and capacity for innovation," Jasinowski notes. "Manufacturing success requires a team commitment from management and employees; it requires commitment to research and development; and it requires investment capital."

Still, Jasinowski cites the president's concern regarding China's current trade practices, primarily currency manipulation and subsidized exports. Investment banks and other currency and trade indexes have estimated that the Chinese yuan could be undervalued anywhere from 15% to more than 50%. "It is clear the Bush administration gets it and will not tolerate China's flouting of trade rules," he says. "The administration is demonstrating its commitment and putting up the resources necessary to fight unfair trade, keep down production costs, and promote U.S. exports."

The Chinese Market

Trade with China is of immense importance for U.S. manufacturers, both because its growing economy of 1.2 billion consumers offers a major market for U.S. products and because it is also an increasingly vigorous competitor in the U.S. and global marketplace. The Chinese market is set to become one of the largest in the world within the next several years, with exports expected to exceed $380 billion in 2003, making China the world's third largest importer after the U.S. and Germany.

At the same time, China is rapidly becoming a major exporter of industrial goods, and its range of exported products has continued to grow at a rapid pace. William Primosch, director of international business policy for NAM, observes, "China's expanded participation in the global marketplace offers both new commercial opportunities as well as challenges resulting from increased competition in the U.S. and foreign markets."

Primosch says many NAM members, notably large multinational corporations, have developed important commercial relationships in China and seek to expand their share of that market. However, he points out that a large number of manufacturers, particularly small companies, have also expressed concern about increased import competition from China in the U.S. and the currency and trade practices that give Chinese producers an unfair advantage.

It won't be an easy fix. In several meetings addressing China's trade practices, Primosch says NAM members have indicated that they want the U.S. to have a positive trade relationship with China. However, they also want a level playing field for competition. "Manufacturers want the U.S.

government to deal firmly with unfair Chinese trade and currency practice," he notes. "And they want the U.S. government to advance the long-term goal of providing U.S. companies with the same kind of access for their goods and services in the Chinese market that Chinese goods and services enjoy in the U.S. market."

As China concludes its second year as a World Trade Organization member, its compliance record is decidedly mixed, says Primosch. While U.S. exports to China continue to grow (a 24% increase from January through June 2003) and a rising number of U.S. companies are trading and investing there, NAM has also received far more complaints about unfair Chinese practices than in the previous year.

"NAM members recognize that China is still in transition to a market economy and in the process of phasing in certain WTO market-opening commitments," Primosch explains. "However, because China has quickly become such an important global importer and exporter, it is vital that the U.S. work to ensure that China complies with all WTO obligations, particularly those that have a significant impact on U.S. economic interests."

Manufacturing Coalition

To complement the Bush administration's manufacturing initiative and build support for new manufacturing approaches, NAM is creating the Coalition for the Future of Manufacturing (CFM), a group that will include diverse groups of manufacturing associations, state and local business groups, chambers of commerce, civic organizations and individual businesses.

"This is a challenge to the very heart of our country, and we cannot stand idly by while our manufacturing base is hijacked," Jasinowski says. "We are going to forge one of the biggest and most diverse coalitions the politicians have ever seen, and we will not relent until we see broad action to support manufacturing and its workers."

The coalition is a work in progress, supporting the following objectives:

- A level playing field with U.S. trading partners based upon currency values set by markets and compliance with international trade rules—not protectionist measures;
- A reduction in the costs of production in the U.S., including containment of health care costs, enactment of legal reforms, assurance of plentiful and inexpensive energy supplies, and reform of the regulatory system to ensure cost-benefit analysis; and
- Promotion of innovation and investment through increased research and development support and a tax system that encourages R&D.

CFM's planned activities include employee involvement initiatives, plant tours, congressional dialogs, town hall meetings, editorial board meetings, letter campaigns, speeches to civic and community organizations, national and regional conferences, and Washington "fly-ins" to meet with elected officials.

November 2003

Levying of Steel Tariffs Draws Mixed Response from Trade Critics

By Steven J. Storts
Dublin, Ohio

CRITICS of trade protectionism claim that President Bush's decision to impose tariffs on steel imports for the next three years will hurt steel consumers and won't solve the problems of weak, mismanaged steel companies in the U.S.

Responding to the president's move to impose tariffs of 8% to 30% on a range of imported steel products, the American Institute for International Steel warns that recent changes in the steel market have caused a shortage of steel supply in the U.S., and that protectionism only distorts market conditions. The new steel import duties will cover flat-rolled, tin mill, hot-rolled bar, and cold-finished bar, among other products. Bush also announced a tariff-rate quota on slab steel.

AIIS President David Phelps says Bush has now made the U.S. the most protected market in the world for steel. "This remedy, like all the other attempts to protect the U.S. steel industry, will not save fundamentally mismanaged companies," he comments. "Well-managed and competitive companies do not need the government to guarantee profits via more trade protection." He also says there is a possibility that major U.S. trading allies could close their steel markets in response, creating more protectionist pressure on international markets and a retaliation against U.S. exports of agricultural and other products.

American companies and workers are going "to pay the price for this remedy," Phelps contends, noting that the president has placed a tax on domestic manufacturers who rely on high quality steel they cannot obtain in the U.S. "These Section 201 tariffs will only raise the price of steel for U.S. manufacturers, while their global competitors will be paying international market prices," he explains. "As three separate studies have shown, the result will be job losses by U.S. steel-consuming industries that will need to move their facilities offshore to compete with their global competitors."

Aside from the tariff issue, the AIIS has praised the Bush administration for its progress on the first two elements of its multilateral steel initiative, including the work now underway in the Organization for Economic Cooperation and Development on inefficient world steel capacity and the elimination of subsidies and other trade-distorting practices.

The White House, which has the backing of both U.S. and Canadian steel producers for its industry revitalization efforts, has also garnered public support for what it calls "temporary safeguards" for domestic manufacturers. However, Bush emphasizes, "The U.S. steel industry must use this temporary help to restructure and ensure its long-term competitiveness. Restructuring will impact workers and the communities in which they live, and we must help hard-working Americans adapt to changing economic circumstances."

Part of the president's immediate relief plan is an enhanced trade adjustment assistance program that includes a proposed expansion of the National Emergency Grants program to help workers affected by restructuring with effective job training and education. Bush has also proposed direct assistance for health insurance costs, which will be available to workers and retirees who lose their employer-provided coverage.

One of the core elements of the administration's three-part steel trade initiative is a focus on reducing excess global steel capacity, in addition to international negotiations to eliminate the market-distorting subsidies that have led to the current glut of capacity. The White House also called upon the U.S. International Trade Commission to investigate the impact of imports on the U.S. steel industry under Section 201 of the 1974 Trade Act. The ITC subsequently found that increased steel imports are a substantial cause of serious injury to American industry.

Exempt from the reach of the U.S. trade sanction, Canada's top steel producers and the union representing most of their workers have urged lawmakers in Ottawa to follow the U.S. and impose tariffs on steel imports. Moreover, Pierre Pettigrew, Canada's international trade minister, has further welcomed Bush's decision exclude Canadian exports from restrictions on U.S. imports of a number of steel products.

The decision ends nearly eight months of uncertainty for the Canadian steel industry and means that Canadian exports will continue to flow unimpeded to the U.S. With Canadian steel exports totaling $3.6 billion, import restrictions could have been imposed on six products valued at about $1.86 billion.

May 2002

Congress, Trade Alliance Note Flaws In Placing Duties on Lumber Imports

By Steven J. Storts
Dublin, Ohio

AT a congressional briefing on trade, the Bush administration was criticized for failing to consider the negative impact on American consumers in levying countervailing and antidumping duties on Canadian softwood lumber imports. The briefing, hosted by the Cato Institute's Center for Trade Policy Studies, was sponsored by Sen. Charles Grassley (R-Iowa), the ranking minority member of the Senate Finance Committee.

More than a dozen ranking Democrats and Republicans in both the Senate and House of Representatives have urged the president and U.S. Commerce Secretary Donald Evans to overturn Canadian trade duties that potentially could be harming consumers, the housing industry, and the overall economic recovery. Additionally, more than 100 legislators have expressed support for free lumber trade between the U.S. and Canada by sponsoring concurrent resolutions in both congressional houses.

Congressional staff members were told that spruce pine fir from Canada does not compete with southern yellow pine produced in the U.S. The species' properties are significantly different as are their uses in the homebuilding industry.

In fact, representatives of homebuilders, lumber dealers, and other consumer groups told the International Trade Commission (ITC) last summer that Canadian lumber is used for framing because it will not twist or warp; southern yellow pine is not suitable for framing and is used for purposes such as outdoor decking.

"The Department of Commerce effectively levied a federal sales tax on every American family buying a home," says Gary Horlick, a prominent trade attorney representing American Consumers for Affordable Homes, an ad hoc alliance of 17 major national consumer groups, businesses, and organizations.

The combined countervailing duties and antidumping duties imposed on Canadian lumber imports amounted to 32% for 90 days last fall. In December, the countervailing duties lapsed until May, with the current antidumping duty set at 13%. "These duties essentially mean that the cost of homes is increased by more than $1,000 per unit, which, according to U.S. Census Bureau calculations, means that about a half-million American families cannot qualify for mortgages to buy a new home," Horlick points out.

The trade attorney reports that in 1986, the Commerce Department negotiated a 15% export tax with Canada that allegedly cost American consumers hundreds of millions of dollars. The Softwood Lumber Agreement, which expired last March, replaced it, adding more hidden taxes on home buyers and pricing many families out of the housing market, he contends.

Also, the U.S. is not following World Trade Organization or North American Free Trade Agreement rules in making its preliminary import duty decisions, Horlick notes. His claims are also shared by Canadian Trade Minister Pierre Pettigrew, who announced that Canada will challenge the U.S. position on softwood lumber import duties under NAFTA rules. The Canadian government has filed a "notice of intent" requesting that a binding panel review the U.S. Department of Commerce's final lumber countervailing duty determination.

May 2002

Imposed Canadian Lumber Import Duty Draws Criticism of Housing Lobby

By Steven J. Storts
Dublin, Ohio

ALTHOUGH several lobbying groups are calling for greater foreign trade protectionism, one coalition recently expressed strong opposition to the U.S. Department of Commerce imposing antidumping duties on Canadian softwood lumber imports.

The American Consumers for Affordable Homes (ACAH), an alliance of 16 organizations representing about 95% of softwood lumber use in the U.S., claims that the new import duty will harm millions of consumers and lumber-dependent workers, housing affordability, and a fragile economy.

In late October, the Commerce Department imposed average antidumping duties of 12.6% on Canadian lumber imports. When that average is added to the earlier 19.3% countervailing duty imposed by the agency last summer, it amounts to a 32% federal sales tax on American lumber consumers, according to the consumer alliance.

ACAH representatives have termed the agency's action as "unacceptable protectionism that hurts U.S. consumers." Alliance spokesperson Susan Petniunas says, "It is unconscionable that the Bush administration would allow these protectionist measures at a time when the president said . . . that he intended to 'tear down walls' that create barriers to free trade. Enacting new trade barriers that will harm housing—at a time when this industry has been propping up the economy—makes no sense."

The alliance opposes any trade restraints on Canadian softwood lumber, considered essential to the domestic housing and remodeling markets and a wide range of products, including window and bed frames, wooden pallets, and pellets for fuel. In fact, workers involved in lumber-using businesses outnumber lumber-producing workers by 25 to 1 in the U.S.

The Coalition for Fair Lumber Imports, a special interest group lobbying for stricter U.S. trade protection policies, has come under fire from ACAH representatives who claim that the coalition represents "only a handful of lumber producers that has spent millions of dollars to appease their stockholders by blocking competition with Canada, at the expense of market stability, consumers, and affordable housing."

Gary Donnelly, president of the National Lumber and Building Material Dealers Association, which represents more than 8,000 independent lumber dealers in the U.S., says, "That coalition is unwilling to admit that U.S. producers have a technology lag in their mills and a forest policy that has dramatically shut off access to federal and state forests. Putting a federal tax on the back of consumers and home buyers will not modernize their members' mills or open up the forests. This is the time we need to encourage home building and remodeling, not hinder it."

Another ACAH representative, Consumers for World Trade, advocates strong Canadian resistance to "any negotiated deal" if the U.S. persists in trying to impose punitive new taxes on consumers. "While we have deep concerns about the U.S. trade remedy process," says CWT Executive Director Robin Lanier, "at least Canadian producers have an option of pursuing an international review through the North American Free Trade Agreement and the World Trade Organization."

Moreover, last summer, a bipartisan group of House and Senate members sent a letter to President Bush, along with resolutions signed by more than 100 congressional members, urging the president to assure that the administration would protect the interests of consumers and workers from trade duties being requested by U.S. lumber producers seeking to limit imports from Canada.

January 2002

Congress, Trade Commission Further Scrutinize Foreign Steel Producers

By Steven J. Storts
Dublin, Ohio

AS Congress keeps a watchful eye on national security issues, some lawmakers are equally concerned about protecting a U.S. steel industry from what they call an "economic assault" by foreign producers.

"Any fair examination of the facts makes clear that the domestic steel industry has been—and remains—embattled because of illegal steel imports," Sen. Evan Bayh (D-Ind.) recently told States News Service. Bayh has joined other congressional and state officials from Ohio and West Virginia in urging the International Trade Commission to grant federal trade protection to the U.S.

The September 11 terrorist attacks have somewhat bolstered pro-steel lawmakers' arguments favoring import relief for U.S. companies. "Without steel, we cannot guarantee our national security," says Sen. Jay Rockefeller (D-W.V.) "Without steel, we cannot rebuild from our national tragedy." Ohio Gov. Robert Taft adds, "It would be a grave risk to be entirely dependent on other nations for a commodity that is so essential to our economy and to our military capability."

States News Service reports that since 1997, when foreign steel first began flooding the U.S. at below-market prices, 23 companies have filed for bankruptcy, and more than 20,000 steelworkers have lost their jobs. In Ohio alone, five of the leading steel producers have declared bankruptcy or shut down completely just in the past 12 months, with more than 5,000 jobs already lost and another 12,000 threatened.

More than 3,400 steel workers have lost their jobs in Rep. Pete Visclosky's (D-Ind.) Merrillville district in northwest Indiana, coupled with 2,700 jobs in related manufacturing fields now gone, he notes. Visclosky, who authored a bill to direct President Bush to impose tariffs and restrict imports, points out that five firms nationwide have filed for bankruptcy since he appeared before the U.S. International Trade Commission (ITC) last June.

However, opponents to trade sanctions claim that other factors, such as operational problems, bad management, intra-industry competition, declining demand, and poor investment decisions by the companies themselves, have brought about the industry's woes.

Opponents also contend that trade sanctions could cause substantial harm to companies that use steel in manufacturing other products, which oftentimes exceed steel-making firms in terms of the number of jobs.

For example, William Sopko, president of Euclid, Ohio-based Stamco Industries, says that imports are essential to steel-using companies like his because domestic steel producers can only satisfy 75% of their demand. In Ohio, steel-using jobs outnumber steel-making jobs 20 to 1, he adds.

Nevertheless, four domestic steel producers have filed dumping complaints against 20 exporting countries of cold-rolled steel products into the U.S. In their filing, U.S. Steel, Bethlehem Steel Corp., LTV Steel Co., and National Steel Corp. allege that American steel companies and their employees are being devastated by dumped and heavily government-subsidized steel imports. In fact, Bethlehem Steel declared bankruptcy in early October, blaming unfair imports and a slowing economy.

Antidumping suits were filed against Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Japan, South Korea, the Netherlands, New Zealand, Russia, South Africa, Spain, Sweden, Taiwan, Thailand, Turkey, and Venezuela. Countervailing duty suits were also filed against Argentina, Brazil, France, and South Korea.

The cases filed represent antidumping margins of as high as 150% and subsidy margins more than 40%. Since 2000, imports of cold-rolled products from the countries cited have increased by 38%, and imports from these countries now represent more than 80% of all imports of cold-rolled steel products.

Thomas Usher, president and chief executive officer of U.S. Steel, points out, "These cases are consistent with the President's three-part strategy for restoring a level playing field for American steel companies and workers. The President has clearly stated that the United States will take all necessary steps to combat unfairly traded imports and its causes."

Strongly criticizing the dumping complaint by the four U.S. steel companies is David Phelps, president of the American Institute for International Steel, who calls the action "more proof that the domestic steel industry has no interest in competing in the free market, but simply wants to shut off imports to U.S. steel consumers."

Phelps explains that the ITC threw out a similar complaint against imports of cold-rolled steel last year. In addition, the ITC decided to terminate cold-rolled dumping cases in a

separate sunset review at the end of 2000.

However, in a more recent determination, the ITC said that the U.S. steel industry is being harmed by a surge of imports. It's reported that the products affected by ITC's affirmative determination constitute about 74% of imports. "ITC's injury finding opens the next stage of the Section 201 process, which is a recommendation from the ITC to the president on possible action to assist domestic producers in adjusting to import competition," says U.S. Commerce Secretary Don Evans.

The Bush administration, which requested the ITC investigation last June, will receive a final report on the commission's proceedings December 19, and then will have up to 75 days to decide whether to adopt, modify or decline ITC's recommendation.

Still, Phelps contends that there is no factual basis for this latest complaint filing by steel producers, observing, "In the context of this overwhelming level of trade litigation, it becomes clear that this new cold-rolled filing confirms once again that no amount of protection for the domestic steel industry will ever satisfy those in the U.S. steel industry who simply don't want to compete." In times of economic uncertainty, Phelps cautions, "Now is not the time for the U.S. to launch a trade war with its allies and trading partners."

December 2001

Steel Industry Seeks Temporary Help From Bush Administration, Congress

By Steven J. Storts
Dublin, Ohio

FOR the last two years, the U.S. International Trade Commission has ruled unfavorably toward domestic steelmakers' complaints regarding the dumping of steel imports into the marketplace. However, there soon could be a reprieve as the Bush administration has begun targeting concerns of the U.S. steel industry.

Following extensive meetings with steel executives and union representatives, a top trade negotiator in the administration told Congress that he and other administration officials are focused on finding temporary relief from rising foreign steel imports. That relief, the Associated Press reports, may come from the administration employing a rarely used U.S. trade law remedy that provides for broad protections for industries suffering serious financial harm from imports.

Speaking to the House Ways and Means Committee, U.S. Trade Representative Robert Zoellick said, "I frankly think that the [Section] 201 approach could be more productive than all the others."

The AP release notes that such a move was rejected by the Clinton administration, which believed it would send the wrong signal at the time of the 1997-98 global financial crisis if the U.S. began retreating behind protectionist barriers. Instead, the administration pursued a country-by-country effort to stem imports by approving a series of antidumping cases that raised tariffs against specific countries.

Faced with continued high imports and mounting bankruptcies, steel companies are renewing the push for broader protection with the Bush administration, the news service states. Since mid-1997, when the Asian crisis began, 14 domestic steel companies have sought bankruptcy-law protection.

Under Section 201, if the International Trade Commission finds that U.S. steelmakers are being seriously harmed by imports, the administration can offer government assistance and impose high tariffs and quotas to limit the amount of foreign steel coming into the country. The import-relief remedies, however, can only be in effect for a limited time, and in return, the industry must agree to restructure or take other actions to become more competitive.

Congress is also taking a proactive stance toward reviving the steel industry. Just introduced in the House of Representatives by Rep. Pete Visclosky (D-Ind.), the Steel Revitalization Act (H.R. 808) has already attracted 115 congressional cosponsors. The legislation proposes to cut illegal foreign imports, strengthen the Steel Loan Guarantee Program, promote consolidation of the industry, and ensure the continuation of retiree healthcare benefits.

"The ongoing steel crisis bearing down on the U.S. is worse now than at any time in the past and continues to threaten thousands of good-paying steel worker jobs nationwide," says Visclosky. "The current situation is nothing short of an emergency."

On another front, consumer groups have argued that protecting the steel industry will drive up the cost to steel users, which ultimately end up costing consumers more. "We don't think import quotas will solve the domestic steel industry's problems," observes Laura Baughman, executive director of the Consuming Industries Trade Action Coalition.

David Phelps, president of the American Institute for International Steel, agrees somewhat, pointing out that the U.S. steel industry has enjoyed various kinds of trade protections for 30 years and still has not become competitive. "Whatever the Bush administration does has to be market-driven and part of a larger package that uses market incentives to restructure the industry," he says.

May 2001

ITC Lifts U.S. Import Duties On Some Foreign Steel Products

By Steven J. Storts
Dublin, Ohio

IN November, the U.S. International Trade Commission voted to remove existing antidumping duties on cold-rolled steel imports from Canada, South Korea, and some European countries, while maintaining import duties on other steel products.

ITC's decision to end antidumping duties on cold-rolled steel products—as part of a five-year review of duties affecting imports from 17 countries—has received lukewarm response from industry, which still has not recovered from the import crisis of 1998 when steel imports reached 41.5 million tons or about one-third of the apparent demand for steel in the U.S.

The commission's ruling removes antidumping duties on cold-rolled carbon-steel flat products from Germany, the Netherlands, and South Korea, in addition to lifting all countervailing duties on imports from Germany, South Korea, and Sweden. However, ITC also decided to keep in force the antidumping duties on imports of corrosion-resistant steel flat products from Australia, Canada, France, Germany, Japan, and South Korea, in addition to the countervailing duties on products from France, Germany, and South Korea.

U.S. Steel President Paul Wilhelm calls the commission's ruling a "partial victory" for the American steel industry. "We are encouraged by ITC's recognition that lifting the orders against these products would be likely to cause material injury to the American steel industry," he notes. "We are disappointed, however, that they [ITC] did not come to the same decision on cold-rolled steel."

Wilhelm explains that as a result of the flood of imported steel in 1998, thousands of steel jobs were lost, and several steel producers were forced to file for financial protection under bankruptcy laws. He contends that the flood of imports once again threatens industry as recent import levels approach the crisis levels of 1998 and prices decline significantly.

"Production at U.S. Steel is off about 20% as a direct result of imports," says Wilhelm. "The No. 4 blast furnace at Gary [Indiana] Works has been idled since July; we recently announced layoffs at our Fairless Works near Philadelphia and our Fairfield Works in Alabama; and we have announced plans to idle a production line at our iron mine in Minnesota that could result in substantial layoffs."

The commission's November ruling also prompted Sen. Arlen Specter (R-Pa.) to call for congressional hearings into the import duty issue. "While I am pleased that ITC saw fit to continue antidumping and countervailing duty orders on corrosion-resistant steel products and cut-to-length carbon-steel plate, I am deeply concerned that the commission neglected to continue duty orders on cold-rolled steel," he said.

Specter, who represents one of the largest steel-producing states and heads the Senate Steel Caucus, cites a recent U.S. Department of Commerce finding, which states that the revocation of trade duties would lead to "the recurrence of dumping or illegal subsidies."

He further pledges to investigate what he terms "the hemorrhaging that continues within the U.S. steel industry, and introduce new legislation that will provide quick and effective relief to steelworkers and manufacturers from unfair imports."

The commission left in place existing antidumping and countervailing duty orders and findings on imports of carbon-steel plate products from Belgium, Brazil, Finland, Germany, Great Britain, Mexico, Poland, Romania, Spain, Sweden, and Taiwan. ITC also lifted antiumping duties imposed on the carbon-steel plate products from Canada.

Bethlehem Steel CEO Duane Dunham expressed disappointment with the commission's decision on carbon-steel plate imports from Canada and cold-rolled sheet steel from the other countries. "All of the affected products—plate, coated steel, and cold-rolled steel—continue to enter our country at rates equal to the devastating impact on the industry caused by the high level of imports during the Asian crisis in 1998."

January 2001

Agreement with China Opens Door For U.S. Construction Markets

By Steven J. Storts
Dublin, Ohio

As China prepares for membership in the World Trade Organization, some tough challenges lie ahead, particularly the improvement of the quality of residential community life. To this end, the U.S. and China have signed an agreement on the construction of demonstration housing projects.

Under the new pact, the two countries will cooperate on the planning and design of the second-phase construction of Beijing's Longzeyuan and Shanghai's Pudong Xinlucheng housing projects. The U.S. contingency is donating materials to the projects in Beijing and Shanghai, which will be used for demonstrative purposes.

Several design institutes from the U.S. and China are participating in the procurement process, with design completion expected toward the end of this year and construction closeout scheduled within three years.

A recent forecast shows that in the coming five years, the total construction areas completed will exceed 2.5 billion square meters in urban areas and 3.5 billion square meters in rural areas. In response, the China Ministry of Construction has stepped up efforts to promote the modernization of the housing industry, support the organization of housing industry groups, and expand the computer information networks of housing industry cooperatives, while making concerted efforts to make housing construction more technology intensive and of higher quality.

Nie Meisheng, director of the China Housing Industrialization Promotion Center, which operates under the Ministry of Construction, notes that the current contribution of science and technology to the industrialization of housing in China is less than 30%, which is not only lower than that in developed countries, but is also lower than that of the agricultural sector.

To achieve sustained development in its housing industry, China will need to overcome several obstacles. For instance, in the U.S., it takes only three months to complete a well-fitted and ready-to-use building, accomplished largely through the use of labor-saving, state-of-the-art equipment and prefabricated construction products. But, in China, it takes 10 months to complete a project, requiring large quantities of manpower, concrete, and ballast materials.

Labor productivity is also very low in China. The annual per capita completed construction is only one-fifth that of the U.S. and one-sixth that of Japan, and the added value of the construction industry is only 5% and 2.38% of the U.S. and Japan, respectively.

According to the latest statistics, contractors in the U.S. have access to more than 50,000 kinds of housing industry products, materials, and auxiliary products; Japan has more than 10,000 from which to choose. China has less than 2,000 types of construction products available, which are considered to be of lesser quality, having poor ability for structural support and general utilization.

On the environmental front, China's energy consumption is three times that in developed countries, primarily the result of poor performance of heat insulation and heating efficiency of buildings. The country's per capita water resources are only a quarter of the world average level, but its recycling rate is only 60% percent that in developed countries, and the recycled city sewage is only 25%.

Commerce officials point out that the new housing project agreement will offer some good opportunities for U.S. companies, with building materials and products manufacturers leading the way. For example, household central heating equipment imported from the U.S. sells at a per unit cost of 10,000 yuan, plus tariffs. However, in China, only one company can produce such equipment—at a set price of 20,000 yuan to 30,000 yuan per unit.

Additionally, it is expected that China's accession to the World Trade Organization will further cut the tariff rate, thus sharpening the edge of competition of imported products.

Nevertheless, even with the modernization challenges that China faces, the Ministry of Construction contends that strong economic growth, combined with a large-scale national project to develop the country's lagging Western regions, will help boost the domestic construction industry.

Zeng Xuemin, deputy director of planning and development for the China Administration of Building Materials Industry, reports that China's gross domestic product will maintain a higher growth rate over the next five years, and that fixed asset investment will grow at a rate in the double digits. He also forecasts that the country's construction industry will grow at a rapid pace, creating more demand for building materials.

However, Xuemin emphasizes that the industry will have to improve its

products selection and upgrade building technology to keep pace with the growing market demand. He predicts that the use of traditional building materials such as concrete and glass will rise at a slower rate, while the incorporation of more innovative products and nonmetallic materials in housing and commercial building design and construction will witness more rapid growth.

October 2000

Federal Reserve Says Maquiladoras Help Expand Industry Base

By Steven J. Storts
Dublin, Ohio

MAQUILADORA factories located along the southern border are yielding better-than-expected results for the U.S. and Mexican economies, the Federal Reserve Bank of Dallas reports, as both nations continue to experience growth and development in the industrial sector.

The maquiladora framework, more commonly known as production sharing, enables foreign manufacturers—predominantly U.S. companies—to locate labor-intensive operations in labor-abundant Mexico, thus achieving lower labor costs in the overall production process. Mexico, in turn, receives investment—factories, machinery and equipment, and state-of-the-art production technology—from countries that have a relative abundance of capital.

In a recent issue of *Southwest Economy*, published by the Dallas Federal Reserve, senior economist Lucinda Vargas says that the maquiladora industry's importance to the Mexican economy has been increasing as a key component of the nation's export platform, enhancing Mexico's place in the world economy, lessening border unemployment, and promoting technology upgrades.

When Mexico's maquiladora program began in 1965, Vargas notes, most maquiladora companies were basically assembly operations requiring unskilled labor. "The industry has evolved significantly over the years to where the maquiladora factory floor now involves more sophisticated production techniques," she adds. "As a result, maquiladora operations have increasingly required more skilled labor."

For example, Vargas explains, from January through June 1999, technicians represented 12.1% of maquiladora employment, compared with 8.8% in 1975. Moreover, the skill level of the maquiladoras' labor force has been upgraded to suit newer technologies.

Vargas emphasizes that some of the highest state-of-the-art production technology in Mexico today is found in maquiladora companies. Research and design centers are now part of the maquiladora landscape as well. A key example of this, she says, is the Delphi Mexico Technical Center in Ciudad Juarez.

"This center, which until recently was part of the General Motors maquiladora production infrastructure, is dedicated to the research and design of auto parts used by GM cars throughout the world," Vargas reports. "Considered the most advanced of 27 such centers around the world, it employs some 21,500 workers at 15 plants in Ciudad Juarez. Opened in April 1995, the center doubled capacity within four years."

Southwest Economy further observes that maquiladoras have offered an important investment option for U.S. companies wanting to locate in Mexico. Since its inception, the maquiladora program has allowed the duty-free importation of materials into Mexico in addition to 100% foreign ownership of operations. These features, plus Mexico's availability of low-cost labor in relation to that of the U.S., have resulted in American companies creating maquiladoras primarily for their labor-intensive manufacturing processes.

Examples of industries that have a labor-intensive work component are the top three maquiladora production sectors: electronics, transportation equipment, and textiles and apparel. "By generating important labor-cost reductions through their maquiladora operations," Vargas contends, "U.S. companies have been able to remain competitive in the world marketplace and, thus, have retained or even increased their world market share in the production of goods in these and other sectors."

She cites a case in point—the U.S. auto industry. During the middle to late 1970s, U.S. auto manufacturers faced intense competition from the Japanese auto industry and, as a result, saw its world market share fall. In response to these developments, the U.S. auto industry restructured to become more competitive internationally, and part of its restructuring strategy involved more use of production-sharing operations.

"As their maquiladora operations grew from the early 1980s onward," Vargas explains, "U.S. automakers were able to regain some of the market share they had lost and maintain a stable share since then—despite increased competition from Asian and other foreign vehicle manufacturers."

Mexico's maquiladoras are just one example of the production sharing that takes place between U.S. companies and countries throughout the world. However, maquiladoras represent the preferred production-sharing strategy of U.S. producers, according to *Southwest Economy*. Given the proximity of maquiladoras to the U.S., these operations have a high

degree of raw materials and components originating in America.

In 1997, over 36% of total U.S. production-sharing imports came from Mexico, Vargas reports, noting that the next highest source was Japan (20%), followed by the Dominican Republic (3.4%). “For certain products, the maquiladora share of U.S. imports coming from Mexico is almost absolute,” she says. “For example, 99.7% of the total 1997 U.S. imports of motor vehicles from Mexico and 99.8% of television receivers came from maquiladoras. Indeed, through its maquiladora industry, Mexico is the leading exporter of television sets to the U.S.”

Mexico’s use of U.S. components relative to U.S. production-sharing operations in other parts of the world is also substantial, Vargas points out. In 1997, 58% of the value of U.S. components incorporated in worldwide production-sharing operations was derived in Mexico. In the case of motor vehicles, she explains, while American-made parts represented 56% of the value of finished vehicles imported from Mexico under production sharing, American-made parts represented only one percent of the value of vehicles imported from Japan and Germany.

Moreover, Vargas contends that given the important linkages between maquiladoras and U.S. producers nationwide, maquiladoras have helped preserve American jobs and generate new employment opportunities. However, she emphasizes, “Maquiladora production ultimately garners the largest benefits for the U.S. consumer—indeed, the world consumer—since this strategy results in lower-priced consumer goods than would be the case if the goods were produced entirely in the U.S.”

April 2000