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Free Trade Today - -
Are We Becoming More Realistic?

Recently, in a rare spasm of bipartisanship, the Congress agreed to the implementation of free trade agreements with Korea, Columbia and Panama. These agreements have been on the table since 2007, when President George W. Bush first submitted them for congressional action. Since then, they have been the subject of fierce argument, further negotiations and a good deal of rhetoric about their utility and wisdom.

In certain respects, the delay in approving these agreements was due to the typical problems confronted in any legislation on international trade. The auto sector was particularly concerned that elimination of duties on cars imported from Korea would be much more valuable than their enhanced access to the Korean market. Labor unions were upset about giving benefits to Columbia, a country where dozens of labor organizers had been murdered. These issues had been addressed in further negotiations conducted by the Obama administration, and, in the end, those improvements resulted in labor's acquiescence, and in the case of the UAW, in support.

As a sweetener for labor, the Congress also approved an expansion of a benefits program for workers laid off as a result of import competition.

Still, from the historical point of view, it seems surprising that the agreements, which were strongly supported by both Republican and Democratic Presidents, would be so long delayed. The International Trade Commission had concluded that the agreements would have minimal economic impact – an increase of about $14 billion in U.S. economic output, about one-tenth of one percent. The ITC also estimated that the effects on employment in the U.S. would be negligible. Moreover, prior to 2007, the Bush administration had made trade deals with 14 countries without significant opposition in Congress.

No doubt the economic downturn and the recent intensity of partisanship in Washington played a part in making these run-of-the-mill trade deals more controversial than they might otherwise be. But, it is also likely that there has developed a more critical analysis of the economic theories that underlie these agreements.

Heretofore, at least since the mid-1930s, there has been general acceptance among economists that free trade will bring benefits to all countries. Market forces will cause each country to develop its economy by relying on its competitive advantages – natural resources, efficient labor, highly trained workforces, etc. In this theoretical world, it makes more sense for labor intensive products, like textiles, to be made in low wage countries, while sophisticated products, like computer programs, would be made in the developed world.

More recently, this fairly simplistic analysis has been called into question. First of all, the myriad of rules and agreements supposedly implementing the free trade ideal have not resulted in free trade. Countries still engage in trade distorting practices, like subsidization and currency manipulation. Secondly, studies have shown that, in today's world, there are few industries that are invulnerable to low wage foreign competition. The U.S. developed and refined the television industry, but makes no television sets today. We started the personal computer industry but no longer make them. Even where we retain sophisticated domestic producers, like automobiles and aircraft, no one would argue that they have not been severely and adversely affected by foreign competition. Finally, there is a new economic reality that makes it more difficult for workers hit by foreign competition to transition to new job opportunities. A study by the Joint Economic Committee of the Congress recently noted that the vast majority of workers in the manufacturing sector do not have college degrees and tend to be older. Those are the groups whose employment opportunities generally lie in the sectors with the lowest expected rates of growth. Simply stated, the workers displaced by import competition are the ones most likely to become chronically unemployed.

Protectionism is not the answer. The world tried that approach in the beginning of the Depression, and it just made things much worse. We must always be seeking ways that we can expand trade, but we must also address the effects of that expansion. One thing that should go without saying is that we should be vigilant in assuring that free trade is fair trade. But we should go beyond to adopt policies that will take into account the hard realities of today's world economy. For example, we should be focusing on rebuilding our infrastructure and schools, putting people to work and better educating our children.

Some say that every crisis is an opportunity. If so, we have plenty of opportunities today. What remains to be seen is whether we will seize or squander those opportunities.

Here are this month's cost data:

- Scrap and Pig Iron For ten months, now, scrap prices have remained somewhat steady. In October, the trend continued – #1 dealer bundles and #1 busheling (Chicago) were down $5 and $10 per mt respectively, to $490 and $500. The spot price for Brazilian pig iron (cif New Orleans) was down $20 per mt to $528. Again, this price steadiness has been going on for ten months.

- Natural Gas The Nymex contract price is also following a trend, in this case a downward slope for five months. This month, the price fell by 32 cents to $3.57 per mmBtu.

- Ocean Freight The Baltic Capesize Index has been going up for a couple of months now. In October, it stood at 3546, up about 75% from August. We are still at fairly low levels, but the trend may suggest increased international carriage of bulk goods like iron ore.

- Exchange Rates The day to day soap opera in the Eurozone has caused the euro to bounce around like a Ping Pong ball. At this writing, it stands at $1.39, up three cents from where it stood at the time of last month's letter. However, the swings have been remarkable, from $1.45 at the end of August to $1.32 in early October. The pound was up two cents to $1.58 and the Canadian dollar dropped two cents to $.99.

Please let us know what you think about these issues; we always welcome your comments and opinions. As usual, we are posting this letter on our website www.coreysteel.com and on the international site www.steelonthenet.com.