



# WASHINGTON MONITOR

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*A Weekly Review of U.S. Trade Policy Developments Affecting Japan*

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### The Week Ahead

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## Trade Briefs

### Coming Consumer Recession to Affect U.S.-Japan Trade

A growing majority of economists predict that the U.S. will face a consumer recession in the coming months that will have widespread effects on international trade. As Americans see their savings dry up and their wages stagnate due to the ongoing financial crisis, they will naturally spend less on nonessential items. In particular, Japanese producers that rely on exporting to the U.S. may be among of the hardest hit.

A *Wall Street Journal* forecasting survey of economists found that a majority of them expected the U.S. GDP to contract in the last two quarters of 2008 and the first quarter of 2009. Collectively, these economists put the odds of recession in the next year at 89%, significantly higher than the 60% in a similar survey from a month ago. Furthermore, these economists expect unemployment to rise to levels not seen since 1993. They expect this to curb consumer spending as households feel the stress of job losses and decreased purchasing power.

Merrill Lynch's October 10 economic forecast echoes these sentiments, predicting a downturn "that will rival the one of the early 1980s" and will feature an "intense" consumer recession. The forecast predicts that the consumer sector will begin to liquidate assets, repay debts, and save at a higher rate. Furthermore, Merrill expects unemployment to rise as high as 12%, further depressing consumer discretionary spending. This will result in declining household expenditures of greater than 1%.

Morgan Stanley's Global Economic Forum (GEF), which aims to provide a daily update on global financial markets, concluded on Tuesday, October 14, that a long-expected recession "has become a reality." Furthermore, the GEF economists said that data suggests that the U.S. economy was already in a recession even before the financial and credit crises arose. These complications have, of course, only served to exacerbate some latent imbalances. As institutions take action to deleverage themselves, these economists expect "severe dislocations" in the financial and credit markets. And along with Merrill Lynch, the GEF expect a consumer recession in which credit-sensitive products will decline, and soon.

The impact on Japan's export business will be substantial, as Japanese businesses that rely on certain kinds of exports to the U.S. will experience difficulties.

Japanese exporters of electronics, such as televisions and telecommunications equipment, will find a depressed U.S. market. Retail sales overall decreased 1.2% last month according to the Department of Commerce, nearly double the expected amount. And Mastercard reported last week that consumer spending on electronics and appliances dropped nearly 14% as compared with a year ago. Sales of nonessential items like DVD players and flat screen televisions will continue to suffer.

Japanese producers of computers, peripherals, and computer parts such as semiconductors will also face a shrinking U.S. market. Businesses will not be expanding and investing in new infrastructure. Also, holiday shopping will be depressed and families will probably avoid high-ticket items like desktop computer systems. The *New York Times*

reported recently that statistical and anecdotal evidence suggests a steep reduction in demand for such items already.

Japanese automobile manufacturers that rely on exports to the U.S. will take a hard hit. Sales of autos, a highly credit-sensitive product, will decline. And while Japanese auto manufacturers such as Toyota are producing the smaller, more energy-efficient vehicles Americans are increasingly buying, the market will be substantially depressed. According to Merrill Lynch's report, auto sales in September dropped to levels last seen in 1992, and they project this to result in a 4.5% decline in retail sales.

Some sectors will be less affected by the coming recession, such as basic necessities like food products and healthcare. However, it is unlikely that there will be strong growth in these areas as higher unemployment will exert downward pressure all parts of the economy.

In addition, in times of economic hardship there is often an increased level of action taken by domestic producers against importers. A shrinking domestic market promotes fierce competition, and trade laws are exploited to protect domestic business. Therefore, there could be a surge in complaints filed at the International Trade Commission and the World Trade Organization against those importing into the U.S. market.

### **U.S. Economic Woes Benefiting Democrats**

The ongoing volatility in financial markets in the U.S. is having ripple effects across the political landscape. With voters placing the blame on President George W. Bush and the Republican Party, it is now more likely that Democrats will win commanding majorities in the Congress and recapture the White House. An NBC News/Wall Street Journal poll found that nearly 6 out of every 10 Americans say that the economic issues will be the most important factors in making their choice for president. Foreign policy issues such as the wars in Iraq and Afghanistan are not nearly as high a priority for them at the moment. It is conventional wisdom that an economic focus in the election benefits Democrats while a foreign policy focus benefits Republicans. And this year, with a focus on the economy, the conventional wisdom appears to be holding true. A CNN/Opinion Research Poll found that voters blame Republicans two-to-one over Democrats for the current financial crisis. Furthermore, President Bush's approval rating has dropped to his lowest ever at 26 percent, and his disapproval rating of 70 percent is the highest ever recorded of any president since 1938. Therefore, it is not surprising to see the electoral prospects of Republicans fading as the prospects for Democrats improve.

Because of this environment, it is now highly likely that the next president will be Senator Barack Obama (D-IL) and that he will preside over a Democratic-majority congress. FiveThirtyEight.com, a website that tracks polling information and makes electoral projections, projects that Obama has a 96.7% chance of winning on November 4<sup>th</sup>. Another source, the Princeton Election Consortium (PEC), a website featuring polling analysis by Princeton professors, uses state polls to show where the presidential race stands at any given time. As of today, the PEC has Obama with a commanding lead in decisive electoral votes with 364 for Obama and 174 for McCain. 270 are needed to win.

Regarding the Congress, FiveThirtyEight.com projects that Democrats will win 57 Senate seats, just three short of a filibuster-proof majority. However, the polling momentum for Democrats at this point has raised the probability of Democrats capturing a filibuster-proof majority from 10% to 32%. In terms of governance, a filibuster-proof majority would give Democrats power to pass legislation with only the votes of their own caucus, greatly diminishing the power of Republicans to stage procedural battles and slow the action of the congress. Republicans are visibly worried about this scenario, and some have called on the Republican National Committee to divert extra funds into senate races to “save the filibuster.”

It is impossible predict how an Obama Administration or an McCain Administration would act on economic matters when it assumes office next year because the economy is so unstable. However, McCain is, in general, in favor of free market principles while Obama is, in general, more amenable to government intervention and regulation of the market. With the current crisis, though, the two candidates seem to be arguing over who would be a harsher regulator. Quite simply, the current crisis is so large and so deep that it trumps ideology. For example, if McCain were to allow cascading bank failures in the name of the market “fixing itself,” it could be politically fatal. And if Obama were to sign into law enormous new spending programs that put the country into unmanageable debt, he could be punished in his bid for re-election.

A McCain administration acting in opposition to a Democratic congress would probably restrain Democrats’ efforts at passing economic stimulus legislation, possibly frustrating necessary efforts to boost the economy. On the other hand, an Obama administration would likely approve significant spending increases and risk overreaching, gratuitously expanding government’s role in the economy. David Brooks, conservative columnist at the *New York Times*, argues that the confluence of a recession with Democrats running the government would result in massive corporate bailouts, more stimulus packages, and a revival of Keynesian economics in which the government engages in debt-spending to stimulate economic growth. While this would exacerbate America’s debt obligations, it would probably reinvigorate consumer spending and make the U.S. market more amenable to Japanese goods.

## Dumping Watch

### DOC Extends Limit for Results of Review of AD Duty on Korean Cut-to-Length Carbon Steel Plate

On October 21, the Department of Commerce (DOC) gave notice that it would extend the time limit for preliminary results of an administrative review of the antidumping (AD) duty on certain cut-to-length carbon-quality steel plate products from Korea.

The DOC determined that it was not practicable to complete the administrative review by the deadline of October 31, 2008. The DOC found that it would take additional time to review and analyze the supplemental questionnaires submitted by Dongkuk Steel Mill Co., Ltd. (DSM). Also, the DOC requires more time to review DSM's corporate affiliations as well as alterations to DSM's product-coding system. Consequently, the DOC extended the deadline until December 15, 2008.

### ITC Gives Notice of Remand of Affirmative Determinations in Reviews of the AD Orders on Ball Bearings from Japan and the UK

On October 20, the ITC gave notice of the court-ordered remand of its affirmative determinations in the five-year reviews of the antidumping orders on ball bearings from Japan and the United Kingdom.

The ITC's original determinations were appealed to the Court of International Trade (CIT), and the CIT issued a decision remanding the matter to the ITC for further proceedings. The CIT instructed the ITC to conduct a *Bratsk* analysis of non-subject imports, to reassess domestic supply of ball bearings, and to reexamine the likely impact of imports from the UK.

## Federal Register Notices

### *International Trade Administration*

#### **[A-552-801] Certain Frozen Fish Fillets from the Socialist Republic of Vietnam:**

Extension of Time Limit for Final Results of the New Shipper and Fourth Antidumping Duty Administrative Review *73 FR 63435*, October 24, 2008.

**[A-533-810] Stainless Steel Bar from India:** Extension of Time Limit for the Preliminary Results of the Antidumping Duty Administrative Review *73 FR 63435*, October 24, 2008.

**[A-122-840] Carbon and Certain Alloy Steel Wire Rod From Canada:** Extension of Time Limit for Final Results of Antidumping Duty Administrative Review *73 FR 63134*, October 23, 2008.

**[A-570-933] Frontseating Service Valves from the People's Republic of China:** Preliminary Determination of Sales at Less Than Fair Value, Preliminary Negative Determination of Critical Circumstances, and Postponement of Final Determination *73 FR 62952-62961*, October 22, 2008.

**[A-533-847] 1-Hydroxyethylidene-1, 1-Diphosphonic Acid from India:** Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination *73 FR 62465-62470*, October 21, 2008.

**[A-570-934] 1-Hydroxyethylidene-1,1-Diphosphonic Acid From the People's Republic of China:** Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination 73 FR 62470-62477, October 21, 2008.

**[A-580-836] Certain Cut-to-Length Carbon-Quality Steel Plate Products from the Republic of Korea:** Extension of Time Limit for Preliminary Results of Antidumping Duty Administrative Review 73 FR 62477, October 21, 2008.

**[A-583-833] Certain Polyester Staple Fiber From Taiwan:** Final Results of Antidumping Duty Administrative Review 73 FR 62477-62479, October 21, 2008.

**[A-552-803] Uncovered Innerspring Units from the Socialist Republic of Vietnam:** Notice of Final Determination of Sales at Less Than Fair Value 73 FR 62479-62481, October 21, 2008.

**[A-791-821] Notice of Final Determination of Sales at Less Than Fair Value: Uncovered Innerspring Units from South Africa** 73 FR 62481-62482, October 21, 2008.

**[A-570-898] Amended Final Results of Antidumping Duty Administrative Review: Chlorinated Isocyanurates from the People's Republic of China** 73 FR 62249-62250, October 20, 2008.

**[A-570-849] Certain Cut-to-Length Carbon Steel Plate from the People's Republic of China:** Initiation of Antidumping Circumvention Inquiry 73 FR 62250-62252, October 20, 2008.

**[A-427-827] Sodium Metal from France:** Notice of Final Determination of Sales at Less Than Fair Value and Negative Critical Circumstances 73 FR 62252-62255, October 20, 2008.

*International Trade Commission*

**[Investigation No. 337-TA-602] In the Matter of Certain GPS Devices and Products Containing Same;** Notice of Commission Determination To Extend the Deadline for Receiving Written Submissions on Remedy, the Public Interest and Bonding; Extension of Target Date 73 FR 63511, October 24, 2008.

**[Investigation No. 337-TA-648] In the Matter of: Certain Semiconductor Integration Circuits Using Tungsten Metallization and Products Containing Same;** Notice of Commission Decision Not To Review an Initial Determination Granting a Motion To Amend the Complaint and Notice of Investigation 73 FR 63195, October 23, 2008.

**[Investigation Nos. 731-TA-394-A & 399-A] Ball Bearings From Japan and the United Kingdom** 73 FR 62317-62318, October 20, 2008.

**[Investigation No. 731-TA-1012] Certain Frozen Fish Fillets From Vietnam** 73 FR 62318, October, 20, 2008.

**[Investigation No. 731-TA-752 (Second Review)] Crawfish Tail Meat From China** 73 FR 62318-62319, October, 20, 2008.

## **The Week Ahead**

- Tuesday, October 28, the ITC held a hearing on the general fact-finding investigation into sub-Saharan Africa and the effects of infrastructure conditions on export competitiveness.
- Thursday, October 30, the ITC will hold a vote on the final phase countervailing duty and antidumping investigation into certain lightweight thermal paper from China and Germany.
- Also on Thursday, the ITC will hold a hearing on the general fact-finding investigation into modifications to the Generalized System of Preferences.