

# AFL-CIO ♦ The Korea-U.S. FTA

The United States economy remains mired in a jobs crisis, following the deepest recession in generations and decades of wage stagnation. Our current trade policy has rewarded and accelerated the offshoring of U.S. jobs, by granting multinational corporations extraordinary protections for their investments overseas, locking in low tariffs on U.S. products, and doing too little to end unfair trade practices abroad and to protect workers' rights and environmental standards. Trade deals have therefore exacerbated the jobs crisis, especially in the manufacturing sector – which has lost 6 million jobs since 1998.

## Why a trade agreement with Korea?

The U.S.-South Korea Free Trade Agreement (KORUS FTA) is the most economically significant U.S. trade agreement negotiated since NAFTA – and could potentially displace tens of thousands of good jobs in the United States. Korea is a major trading partner and an industrial powerhouse. In 2010, the United States ran a goods trade deficit with Korea of more than \$10 billion – that is, we imported \$10 billion more worth of goods from Korea than we exported. Our major imbalances are in autos and advanced technology products.

## Likely impact of KORUS FTA

The KORUS FTA commits both countries to reducing their tariffs over a period of several years, but it also contains major new protections for multinational corporate investors in the areas of investment policy, government procurement, and services. **The Economic Policy Institute estimates that if past investment and offshoring trends hold, then a growing trade deficit with Korea could displace 159,000 U.S. jobs after implementation of the KORUS FTA, mostly in manufacturing.**

[http://www.epi.org/economic\\_snapshots/entry/free\\_trade\\_agreement\\_with\\_korea\\_will\\_cost\\_U.S.\\_jobs/](http://www.epi.org/economic_snapshots/entry/free_trade_agreement_with_korea_will_cost_U.S._jobs/)

Key problems:

- **Weak rule of origin** – In order to qualify for the reduced tariffs under the KORUS FTA, automobiles only need to have 35% U.S. or S. Korean content – so up to 65% of the content of the autos traded under the deal could be from other countries (including China and North Korea, with abysmal labor standards and conditions). There is no guarantee that the 65% content is produced in countries that are allowing our products access into their markets, or complying with minimum labor and environmental standards.
- **No protection against currency devaluation** – Our negotiators did not protect against currency manipulation or devaluation. This means that if the Korean currency were devalued, our products would be at a competitive disadvantage – and we could not raise tariffs in response.
- **Investment** – The KORUS agreement grants sweeping new rights to multinational corporations, allowing them to bypass U.S. and Korean courts and take investment disputes (over contested regulations) directly to unaccountable and secretive international tribunals (through an investor-to-state dispute resolution mechanism similar to that included in NAFTA).
- **Services** -- Public services provided on a commercial basis or in competition with private providers could be subject to possible challenge under the service provisions of the agreement, meaning that private foreign service providers could undermine the standards or public protections we now take for granted.

The last thing we need right now – with the U.S. economy weak and job creation unacceptably slow is a new trade deal that will put more stress on manufacturing jobs.

## **The KORUS FTA as a job creation plan?**

The Obama Administration claims that the KORUS FTA would support at least 70,000 jobs, based on projections by the U.S. International Trade Commission (see U.S.ITC, “U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects,” Investigation No. TA-2104-24, March 2010). **But the ITC estimates have been wildly optimistic in the past, missing the mark on the projected job impact of NAFTA and China’s accession to the World Trade Organization, among others.**

- The ITC actually finds that the U.S. global trade deficit could increase after implementation of the KORUS FTA – which would lead to a net job loss.
- The ITC also projects growing trade deficits in several key manufacturing sectors, including auto parts, textiles, apparel, and metal products.
- The ITC projection does not take into account likely shifts in investment and offshoring that have occurred in most past trade deals.
- The ITC does not account for the potential impact of currency devaluation.

In fact, Nobel Laureate Paul Krugman, a world-renowned expert on trade economics, criticized the general argument that trade deals are job-creating:

If you want a trade policy that helps employment, it has to be a policy that induces other countries to run bigger deficits or smaller surpluses. A countervailing duty on Chinese exports would be job-creating; a deal with South Korea, not.

While we appreciate President Obama’s renegotiation of key provisions affecting the auto sector, based on our experience with past trade deals, we respectfully disagree that this deal will improve the overall U.S. trade performance or create new jobs through increased net exports.

## **Labor Laws and Practice in Korea**

The International Labor Organization (ILO) reports that South Korea is not in compliance with core labor rights regarding freedom of association, collective bargaining and the right to strike. In practice, workers are routinely fired for forming a union. Employers have opted to use temporary and subcontracted “irregular” workers, under far inferior wages and working conditions, often in open defiance of legal restrictions on hiring workers under these modalities. Workers undertaking legal and peaceful strikes can find themselves subject to substantial fines and imprisonment. Despite this, our government has not committed to press the government of South Korea to address these concerns before implementation of the agreement.

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