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## **Korea, Colombia and Panama FTA Outcomes: U.S. Exports to Korea Are Down, Imports from Korea Are Up, Anti-Unionist Threats in Colombia And Panamanian Tax Haven Policies Continue**

In 2011, the Obama administration promoted free trade agreements (FTA) with Korea, Colombia and Panama as a way to create American jobs, promising that the pacts would increase U.S. exports. The administration also promised a concrete benefit for each pact on the date of their passage: “greater U.S. access to the Korean auto market, significantly increased labor rights and worker protections in Colombia, and enhanced tax transparency and labor rights in Panama.”<sup>1</sup> The pacts were passed with strong GOP support, while many congressional Democrats opposed the deals, which are based on the model of the North American Free Trade Agreement (NAFTA).<sup>2</sup>

**One year into the Korea FTA, U.S. goods exports to Korea have declined by 10 percent (a \$4.2 billion decrease) in comparison to the year before FTA implementation. U.S. meat producers lost a combined \$206 million in beef, pork and poultry exports in the first year of the Korea FTA relative to the year before FTA implementation, while the U.S. auto and auto parts industries suffered a 16 percent increase in the U.S. auto trade deficit with Korea. Overall, the U.S. trade deficit with Korea has swelled 37 percent under the FTA.**<sup>3</sup>

- **Imports of cars and auto parts from Korea have soared 15 percent (more than \$2.5 billion) under the FTA, driving a 16 percent increase in the U.S. trade deficit with Korea in autos and auto parts relative to the year before FTA implementation.**
- **U.S. beef exports have declined by 8 percent under the FTA in comparison to the prior year, a \$48 million loss in beef exports under just one year of the Korea FTA.**
- **U.S. pork exports have fallen by 24 percent in comparison to the previous year, a \$102 million loss in pork exports since the deal went into effect.**
- **U.S. poultry producers have faced a 41 percent collapse of exports to Korea under the same FTA period – a \$55 million reduction.**<sup>4</sup>
- **Despite past Korean currency manipulation, the FTA did not include measures to counter devaluations that could effectively undo the FTA’s tariff cuts and under the FTA the Korean *won*’s average value in comparison to the dollar has been about 1 percent lower than during the comparable period before the FTA, which may explain some of the decline in U.S. exports.**<sup>5</sup>

**The combined U.S. trade deficit with Korea, Colombia and Panama under the FTAs has jumped 11 percent above pre-FTA levels for the same months as exports to Korea have declined and imports**

**from Korea and Panama have risen substantially.**<sup>6</sup> Using the same ratio employed by the Obama administration, **this \$2.3 billion combined trade deficit expansion implies the net loss of more than 12,000 U.S. jobs in just the first several months of the new FTAs.**<sup>7</sup>

**Unionist Death Threats and Assassinations Remain Rampant in Colombia:** More than a year after passage of the Colombia FTA and more than two years after the Obama administration announced a Labor Action Plan with Colombia to improve Colombia's labor protections, Colombia remains the world's deadliest place to be a union member. Death threats against unionists have persisted unabated. In the year after the launch of the Labor Action Plan, union members in Colombia received 471 death threats – exactly the same number as the average annual level of death threats in the two years before the Plan.<sup>8</sup> At least 20 Colombian unionists were assassinated in 2012 according to the data relied upon under the Labor Action Plan, while the International Trade Union Confederation reported the assassination of 35 unionists.<sup>9</sup> Meanwhile, many perpetrators of the over 2,000 existing cases of unionist murders remain free.<sup>10</sup> Colombian unions and human rights organizations had predicted that the Labor Action Plan would not alter on-the-ground realities. In addition, violent mass displacements of Colombians increased 83 percent in 2012 relative to 2011, when the U.S. Congress passed the FTA,<sup>11</sup> adding to the five million Colombians who have been displaced in the world's largest internal displacement crisis.<sup>12</sup>

**Panama Tax Haven Status Continues Unabated:** In June 2012, the Organization for Economic Cooperation and Development, which tracks countries' tax haven statuses, reported that Panama remains one of a handful of nations in the world that has not passed a first-stage review of its tax transparency measures, due to nearly unparalleled nonconformity on six of nine regulatory checks against tax evasion.<sup>13</sup> Even the Cayman Islands did not earn that dubious distinction. To counter criticism that the Panama FTA would assist corporations seeking to dodge U.S. taxes via secretive Panama-based subsidiaries and bank accounts, in late 2010 the Obama administration announced a new Tax Information Exchange Agreement with Panama. However, a loophole in that agreement allows Panama to sidestep new tax transparency provisions if they are "contrary to the public policy" of Panama, an interesting concept for a country that earns much of its revenue by providing strict banking secrecy and tax-free status for foreign firms incorporated there.<sup>14</sup>

### **Why Did U.S. Exports to Korea Drop After an FTA that Cut Tariffs? Currency Manipulation?**

One plausible explanation for the drop in U.S. exports to Korea since the FTA went into effect is that Korea has once again been undervaluing its currency, the *won*. As critics of the Korea FTA warned before its passage, an undervalued *won* could effectively cancel the FTA's tariff cuts on U.S. exports and thus the FTA's promised gains in U.S. market access in Korea, which were sold to the members of Congress and the U.S. public as the key benefit of the deal. Although Korea is one of only three countries that have ever been formally listed by the Treasury Department as a currency manipulator, the Korea FTA includes no provision to address currency manipulation.<sup>15</sup>

In May 2012, two months after the Korea FTA went into effect, the Treasury Department's "Report to Congress on International Economic and Exchange Rate Policies" noted, "The Korean authorities continue to intervene in the foreign exchange market, and the won remains weak compared to its pre-crisis levels."<sup>16</sup> In September 2012, the International Monetary Fund reported that **Korea's real effective exchange rate remains 20 percent below where it stood in the pre-crisis years of 2005-2008.**<sup>17</sup> Under the Korea FTA, the *won* has depreciated even below the low pre-FTA levels. During the months in which the FTA has been in effect, the *won*'s average value in comparison to the dollar has been about 1 percent lower than during the comparable period in the previous year.<sup>18</sup> The most recent trend has been one of increasing *won* depreciation. In its April 2013 report on exchange rate policies, the Treasury Department stated, "The won depreciated by 6.9 percent against the dollar in 2013 through early April."<sup>19</sup>

During NAFTA, U.S. exporters and members of Congress were also given lists of tariff cuts for specific commodities as evidence of new market access that would result from NAFTA. Yet, the effect of the tariff cuts was eliminated when Mexico devalued the peso by 50 percent shortly after NAFTA went into effect. Due to the peso devaluation, U.S. products became much more expensive for Mexican consumers, and U.S. agricultural exports suffered. Members of Congress have expressed concern that if the *won* continues following a downward trajectory, so will U.S. exports. In a September 2012 letter to Treasury Secretary Tim Geithner and U.S. Trade Representative Ron Kirk, Congressman Mike Michaud (D-Maine), Chairman of the House Trade Working Group, stated:

I am writing to express concern about Korea's ongoing intervention in its currency and its impact on U.S. businesses and workers, particularly now that the Korea-U.S. Free Trade Agreement (FTA) has been implemented. The undervaluation of the won already gives Korean exports a competitive advantage over U.S.-made goods, and if left unchecked it will neutralize Korean tariff reductions included in the agreement. **Unfortunately, the FTA does not provide any protection for U.S. companies against a manipulated won...**<sup>20</sup>

### **U.S. Meat Exports Go Bad under the Korea FTA**

The Obama administration promised that U.S. exports of meat would rise particularly swiftly under the Korea FTA, thanks to the deal's tariff reductions on beef, pork and poultry. For example, in a factsheet used to promote the FTA, the White House claimed: "Tariff eliminations on Korea's existing 40 percent tariff will further boost beef exports, saving an estimated \$1,300 per ton of beef imported to Korea – savings that would total \$90 million annually for U.S. beef producers at current sales levels."<sup>21</sup>

**Ironically, U.S. meat exports to Korea have plummeted faster than many other exports**, showing even steeper declines in some sectors than the overall 10 percent export decline. (Meat imports have not been affected, since the United States does not import beef, pork or poultry from Korea.) In contrast to the administration's promise, U.S. pork producers have seen their exports to Korea crash by \$102 million – a 24 percent decline – in the first year of FTA implementation, in comparison to the year before the FTA took effect.

Poultry producers have faced a 41 percent collapse of exports to Korea under the same FTA period – a \$55 million reduction. U.S. beef exports to Korea have dropped by 8 percent under the FTA in comparison to the year prior to FTA implementation. That amounts to a \$48 million loss in beef exports under just one year of the Korea FTA – a cost to U.S. producers that rivals the amount the Obama administration said they would gain under each year of the deal. All told, **U.S. meat producers lost a combined \$206 million in beef, pork and poultry exports in just one year of the Korea FTA.**<sup>22</sup>

### **And Now, the TPP: A NAFTA Expansion to 10 Asian and Latin American Nations?**

The initial U.S. Commerce Department trade data on the Korea, Colombia and Panama FTAs provide just the latest evidence of the damage wrought by trade pacts based on the NAFTA model. Yet, despite the track record of NAFTA and numerous past U.S. FTAs based on it, the Obama administration has made its top trade priority the completion of an even more massive expansion of the failed NAFTA model through the Trans-Pacific Partnership (TPP). The TPP is a sweeping NAFTA-style pact under negotiation with ten Pacific Rim countries that the administration seeks to complete in 2013.

**Opposition to such pacts is one of few issues on which independent, Democrat and Republican voters agree.** For instance, a May 2012 Angus Reid Public Opinion poll found that U.S. respondents who

believe that the United States should “renegotiate” or “leave” NAFTA outnumbered by nearly 4-to-1 those that say the country should “continue to be a member” of NAFTA (53 vs.15 percent). Support for “leave” or “renegotiate” positions dominated among Republicans, independents, and Democrats alike. Just 1 in 3 U.S. respondents thought that NAFTA benefitted the overall U.S. economy, and only 1 in 4 saw the pact as having benefitted U.S. workers.<sup>23</sup> A *National Journal* survey taken immediately after passage of the Korea, Colombia and Panama FTAs showed a plurality of U.S. voters expressing opposition to the pacts, with Republicans and Democrats showing equivalent levels of opposition. Republicans without a college degree opposed the FTAs by a nearly 2-to-1 margin, and women expressed especially high opposition.<sup>24</sup>

## ENDNOTES

<sup>1</sup> Office of the U.S. Trade Representative, “Statement By U.S. Trade Representative Ron Kirk On Congressional Passage Of Trade Agreements, Trade Adjustment Assistance And Key Preference Programs,” published Oct. 12, 2011, accessed Nov. 15, 2012. Available at: <http://www.ustr.gov/about-us/press-office/press-releases/2011/october/statement-us-trade-representative-ron-kirk-congres>.

<sup>2</sup> Two-thirds of Democrats in the U.S. House of Representatives opposed the Korea FTA, and 82 percent opposed the Colombia FTA – the largest percentages to ever vote against a Democratic president on trade pacts. (Global Trade Watch, “Job-Killing Trade Deals Pass Congress Amidst Record Democratic Opposition,” Public Citizen press release, Oct. 12, 2011. Available at: <http://www.citizen.org/documents/gtw-statement-job-killing-trade-deals-pass-10-12-11.pdf>.)

<sup>3</sup> For this paragraph and the following bullet points, autos and auto parts are defined as a 3 in the one-digit end use system; beef is defined as SITC 011; pork is defined as SITC 0122, 0161, and 0175; and poultry is defined as SITC 0123 and 0174. All data is inflation-adjusted. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 6, 2013. Available at: <http://dataweb.usitc.gov/>.

<sup>4</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 6, 2013. Available at: <http://dataweb.usitc.gov/>.

<sup>5</sup> International Monetary Fund, “IMF Exchange Rates,” accessed May 6, 2013. Available at: <http://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx>.

<sup>6</sup> U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 6, 2013. Available at: <http://dataweb.usitc.gov/>.

<sup>7</sup> The President’s 2013 Trade Policy Agenda estimates that a \$185,185 increase (decrease) in goods exports is equivalent to gaining (losing) one U.S. job. The President’s 2013 Trade Policy Agenda, Office of the U.S. Trade Representative, Mar. 2013, at 2. Available at: <http://www.ustr.gov/sites/default/files/AnnualReport%20Final2013.pdf>.

<sup>8</sup> Escuela Nacional Sindical, data provided upon request, April 8, 2013.

<sup>9</sup> The ITUC reports 35 assassinations while Colombia’s National Union School (ENS) has documented 20 assassinations. International Trade Union Confederation, “Annual Survey of Violations of Trade Union Rights: Colombia 2012,” accessed Nov. 15, 2012. Available at: <http://survey.ituc-csi.org/Colombia.html?lang=en>. Escuela Nacional Sindical, data provided upon request, April 8, 2013. The ENS methodology is extremely conservative, only counting assassinated unionists when they are members of unions that are officially recognized by the government (the government has refused to recognize numerous worker attempts to form a union), and when there is absolute certainty that the worker’s union affiliation was the motive behind the assassination (the government alleges ulterior motives for many other murdered unionists). As such, the ENS-reported number should be considered the lowest possible number of targeted unionist assassinations in Colombia.

<sup>10</sup> Gimena Sanchez and Dan Kovalik, “Obama’s Second Term: Time to take affirmative steps to ensure labor, human rights in Colombia,” Colombia Reports, January 29, 2013. Available at: <http://colombiareports.com/opinion/guests/27919-obamas-2nd-term-time-to-take-affirmative-steps-to-ensure-labor-human-rights-in-colombia.html>.

<sup>11</sup> Consultancy for Human Rights and Displacement, *El Desplazamiento Masivo y la Situacion Indigena*, December 18, 2012. Available at: [http://www.codhes.org/index.php?option=com\\_docman&task=cat\\_view&gid=64&Itemid=50](http://www.codhes.org/index.php?option=com_docman&task=cat_view&gid=64&Itemid=50).

<sup>12</sup> Internal Displacement Monitoring Centre, “Global Statistics,” accessed February 1, 2013. Available at: [http://www.internal-displacement.org/8025708F004CE90B/\(httpPages\)/22FB1D4E2B196DAA802570BB005E787C?OpenDocument](http://www.internal-displacement.org/8025708F004CE90B/(httpPages)/22FB1D4E2B196DAA802570BB005E787C?OpenDocument).

<sup>13</sup> Global Forum on Transparency and Exchange of Information for Tax Purposes, “Progress Report to the G20,” Organization for Economic Cooperation and Development, June 2012, at 11 and 23. Available at: [http://www.oecd.org/ctp/exchangeofinformation/G20\\_Progress\\_Report\\_June\\_2012.pdf](http://www.oecd.org/ctp/exchangeofinformation/G20_Progress_Report_June_2012.pdf).

<sup>14</sup> Global Trade Watch, “Testimony of Todd Tucker: House Ways and Means Committee’s Subcommittee on Trade Hearing on the Pending Free Trade Agreement with Panama,” Public Citizen, March 30, 2011, at 2. Available at: <http://www.citizen.org/documents/panana-testimony-march-30-2011.pdf>.

<sup>15</sup> For more background, see “Korea Free Trade Agreement: More NAFTA- More NAFTA-style Damage for America’s Farmers.” Available at: <http://www.citizen.org/documents/korea-trade-deal-fact-sheet-farmers.pdf>.

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<sup>16</sup> Office of International Affairs, “Report to Congress on International Economic and Exchange Rate Policies,” U.S. Department of Treasury, May 25, 2012, at 18. Available at: <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Foreign%20Exchange%20Report%20May%202012.pdf>.

<sup>17</sup> International Monetary Fund, “Republic of Korea: 2012 Article IV Consultation,” September 2012, at 9. Available at: <http://www.imf.org/external/pubs/ft/scr/2012/cr12275.pdf>.

<sup>18</sup> International Monetary Fund, “IMF Exchange Rates,” accessed May 6, 2013. Available at: <http://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx>.

<sup>19</sup> Office of International Affairs, “Report to Congress on International Economic and Exchange Rate Policies,” U.S. Department of Treasury, Apr. 12, 2013, at 22. Available at: <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Foreign%20Exchange%20Report%20April%202013.pdf>.

<sup>20</sup> Congressman Mike Michaud, “Michaud Expresses Concern over South Korea’s Currency Manipulation,” Sep. 20, 2012. Available at: <http://michaud.house.gov/press-release/michaud-expresses-concern-over-south-korea%E2%80%99s-currency-manipulation>.

<sup>21</sup> The White House, “The U.S.-South Korea Free Trade Agreement: More American Jobs, Faster Economic Recovery through Exports.” Available at: [http://www.whitehouse.gov/sites/default/files/09272011\\_wh\\_overview\\_fact\\_sheet\\_us\\_korea.pdf](http://www.whitehouse.gov/sites/default/files/09272011_wh_overview_fact_sheet_us_korea.pdf).

<sup>22</sup> For this entire section, beef is defined as SITC 011; pork is defined as SITC 0122, 0161, and 0175; and poultry is defined as SITC 0123 and 0174. All beef, pork, and poultry data is inflation-adjusted. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed May 6, 2013. Available at: <http://dataweb.usitc.gov/>.

<sup>23</sup> Angus Reid Public Opinion poll, May 7-8, 2012. Available at: [http://www.angus-reid.com/wp-content/uploads/2012/05/2012.05.17\\_NAFTA.pdf](http://www.angus-reid.com/wp-content/uploads/2012/05/2012.05.17_NAFTA.pdf).

<sup>24</sup> United Technologies / *National Journal* Poll, Oct. 13-16, 2011. Available at: <http://www.nationaljournal.com/daily/in-both-parties-a-schism-on-trade-20111017>.