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REPORTERS' MEMO

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2010 Election Focus on Trade and Job Offshoring Exposes Obama's G-20 Political Peril: Pushing Bush's Korea Trade Pact Endangers Obama's Re-election

President Barack Obama set a deadline to announce the fate of the George W. Bush-negotiated Korea Free Trade Agreement (FTA) that Congress has been unwilling to approve: the Seoul G-20 summit, a week after the midterm elections. At issue is whether the Obama administration will remove the investment rules, which promote offshoring of jobs, and the financial deregulation requirements, while fixing the pact's unbalanced commercial terms. Pursuing this option means key Democratic validators – members of Congress, unions and other base groups – would declare the pact a first step toward the trade reforms Obama promised so he could win key swing states during his 2008 presidential campaign. Alternatively, he could pursue a second option: slapping his own base and voters in key swing states by announcing that he will submit the old Bush text for congressional passage without deNAFTAizing it. This would betray the campaign promises he used in 2008 to win over key swing voters in Ohio, Pennsylvania, North Carolina and Virginia, thereby damaging his re-election prospects.

In this contentious election cycle, congressional candidates on both sides of the aisle are pledging to fight for fair trade, and those who have supported unfair trade pacts are running away from their records. The morning after the midterm elections, Public Citizen will publish a detailed report on the importance of trade in the campaigns – and the fortunes of those who have supported and opposed fair trade.

Lori Wallach, Public Citizen's Global Trade Watch director, and Todd Tucker, research director, are available to comment on the political and economic implications of whatever announcements President Obama makes at the Seoul G-20 meeting regarding the Korea FTA. To schedule an interview with Wallach or Tucker, please contact Bryan Buchanan, press officer for Public Citizen's Global Trade Watch, at (202) 454-5108 or e-mail him at bbuchanan@citizen.org.

Add to that the economic bankruptcy of the Korea FTA effort. The U.S. International Trade Commission has announced that the pact will increase the U.S. global trade deficit in goods, and a recent Public Citizen report showed that U.S. export growth to non-FTA countries was more than double that to the 17 U.S. FTA partners. Undermining his goal of doubling U.S. exports in five years to create two million jobs, and instead increasing the trade deficit that drags down growth and displaces U.S. jobs, is not a winning hand for Obama. And it's hard to argue that the

pact is a winner for the U.S., thanks to the occasional honest admission of Bush's trade negotiators. (See below.)

The stakes are high for the Obama administration, since the Korea FTA would be the first trade pact submitted to Congress under Obama's watch. Bush negotiated the deal and based it on the North American Free Trade Agreement (NAFTA) model. Although Bush signed the Korea deal in 2007, he never submitted it to Congress, as it faced widespread opposition from lawmakers who recognized that it was untenable to have more FTAs styled after NAFTA, a larger trade deficit and continued trade-related U.S. job loss.

A recent *New York Times Magazine* profile indicates that White House advisors may still be underestimating the bipartisan rejection of the Bush-Clinton-Bush trade policies.¹ American public opposition to more of the same trade policies (and related job offshoring) is spread across stunningly diverse demographics. And again, trade and offshoring are playing a huge role in the midterm elections, with congressional candidates running more than 170 fair trade-themed television ads – double the already high number from 2008.

Five economic and political factors make it perilous for the Obama administration to decide not to renegotiate the pact and take ownership of Bush's Korea FTA.

1) Unfair Trade Deals Becoming Even More Unpopular

Recent polling indicates that American public opinion over the past few years has intensified from broad opposition to *overwhelming* opposition to NAFTA-style FTAs.

A September NBC News-Wall Street Journal poll found that the impact of trade and outsourcing is one of the only issues on which Americans of different classes, occupations and political persuasions agree. Eighty-six percent said outsourcing of jobs by U.S. companies to low-wage foreign nations is a top cause of our economic woes – by far the top concern, with deficits and health care costs well behind. Interestingly, the only causes that got a majority of support were related to corporate greed, not excessive regulation. Sixty-nine percent of Americans think that “free trade agreements between the United States and other countries cost the U.S. jobs.” This is a new high. Among those surveyed, Republicans are even more concerned than Democrats. Also noteworthy is that those who find no real impact from trade deals have overtaken those who feel that trade deals have been beneficial.²

Fifty-three percent of Americans believe “free trade” agreements have hurt the U.S., up from 30 percent in 1999, with the shift mostly attributable to a change in thinking by upper-income Americans. Only seventeen percent now believe that “free trade” agreements have benefited the United States. An NBC News-Wall Street Journal poll asking the same question in 2007 found that 46 percent of respondents believed FTAs were harmful compared to 28 percent who believed they were helpful. In other words, sentiment against FTAs shifted from a 3-to-2 margin in 2007 to a 3-to-1 margin in 2010. Another notable fact from the September 2010 poll is that 61 percent of self-identified Tea Party supporters believe “free trade” agreements have hurt the U.S.

And the Korea FTA, specifically, has political liability. Polling on strategic messaging for the midterm elections has found that voters respond enthusiastically to candidates' statements in opposition to NAFTA-style FTAs. In the course of testing Democratic messages for voter

response, Democratic polling firm Greenberg Quinlan Rosner Research found that 45 percent of voters are much more likely or somewhat more likely to support a Democratic candidate if he or she were to highlight an opponent's support of the Bush-negotiated Colombia, Panama and South Korea FTAs.³ Of four possible messages, the anti-FTA message was just as powerful in swaying voters as a statement in support of tax cuts for the middle class rather than rich Americans. The anti-FTA message was more powerful than a message on opposing tax breaks for companies outsourcing American jobs and statements linking the opposing candidate to former President Bush's policies. Indeed, these data points show that congressional candidates who can tout a strong fair trade record will have a distinct advantage in the midterm elections.

2. Political Liability and Controversy Surrounding Korea FTA Builds

During the 2008 presidential campaign, candidate Obama pledged to chart a new course for American trade policy. He said that he would include strong, enforceable labor and environmental protections in trade pacts and exclude the damaging foreign investor rights enforcement that threatens public interest regulations.⁴ The campaign lobbed paid ads and serial mailings at working-class households in Ohio and North Carolina (among other states) focused on differentiating Obama from McCain on this issue.

Advocates for the Korea FTA within the Obama administration who believe in only cosmetic changes to the agreement seem to be underestimating both the enormous political liability a flip-flop on these commitments would cause and the depth of the opposition to the NAFTA model in Congress and among the voting public.

Within a few weeks of Obama's announcement at the G-20 summit, 110 members of the House of Representatives sent a letter to Obama warning that they could not support the Korea FTA in its current form. The signatories included leadership, New Democrats and Blue Dogs – atypical of critical letters on trade pacts. They cited the FTA's unacceptable provisions on labor rights, foreign investment and financial services, and its unbalanced commercial terms. The letter noted that moving forward with “another job-killing FTA” was “unthinkable” in the current economic climate.⁵

After Obama's announcement, labor unions and environmental groups also quickly voiced their opposition to the Korea FTA and urged deep changes to the text of the agreement. AFL-CIO President Richard Trumka stated, “We remain deeply concerned about and strongly opposed to the U.S.-South Korea trade agreement as negotiated by the Bush Administration. ... Our negotiators should go back to the table to address the imbalanced market-access provisions in the agreement and to revisit the flawed investment, procurement and services provisions as well.”⁶ The Sierra Club declared, “As it stands, the U.S.-Korea FTA poses a significant threat to our democracy and to environmental protections. We must fix the investment chapter as well as rework the text with an aim to protect workers' rights.”⁷ In addition, a coalition of more than 550 faith, family farm, environmental, labor, manufacturing, consumer protection and civil society organizations signed a letter opposing the agreement in its current form.⁸

3) NAFTA-Style Trade Pacts Associated With Lower Export Growth

It is not only political reality but also economic reality that could impact Obama's Korea FTA push. A study conducted by Public Citizen found that U.S. exports to countries that are FTA partners have grown at less than half the rate of exports to all other countries.⁹ The study found

that if U.S. exports to trade deal partners had simply grown at the rate of exports to other countries, the U.S. would have exported \$72 billion more over the past 10 years, which could have supported tens of thousands of high paying jobs.

Prior to the release of the study, corporate lobbyists had tried to frame the passage of a NAFTA-style Korea FTA as a measure that would help double exports over the next five years, a goal set by Obama in his State of the Union address.¹⁰ For example, Frank Vargo of the National Association of Manufacturers in an April op-ed wrote, “To achieve his goal [of doubling exports], the president must call for immediate passage of the three pending FTAs and open more foreign markets through rapid negotiation of additional fair and reciprocal trade agreements.”¹¹ With the release of Public Citizen’s new study, lobbyists can no longer argue that more NAFTA-style FTAs will serve the goal of U.S. export growth.

4) The USITC Projects A Rising Deficit With Bush’s Korea FTA Text

The U.S. International Trade Commission, an independent agency tasked with providing Congress impartial analysis of trade policy, conducted a study on the probable economic effects of the Korea FTA. The results of the study are not helpful to those seeking to pass the FTA without the modifications Obama described during his campaign – and that Democrats, Congress and Democratic base groups have been demanding.

The USITC study predicted that implementation of the Korea FTA would lead to an increase in the overall U.S. trade deficit in goods.¹² A growing deficit is a drag on U.S. economic growth and leads to further job losses as imported goods displace domestic production. Furthermore, the USITC estimated that the U.S. trade deficit in motor vehicles and parts could rise by as much as \$700 million if the Korea FTA were to be implemented using Bush’s text, jeopardizing thousands of auto manufacturing jobs that help support the American middle class.¹³

The USITC study did not directly deal with the Korea FTA’s effects on the overall number of jobs in the U.S. The Economic Policy Institute conducted its own study on the Korea FTA based on the historical experience with NAFTA and China’s entry into the World Trade Organization. The study predicted that the implementation of the Korea FTA in its current form would lead to the net loss of 159,000 American jobs in the first five years of its implementation.¹⁴

Proponents of the Korea FTA in the administration have touted figures in the USITC’s study but have done so in a selective way that conceals the main findings of the report. In a speech delivered on July 30, U.S. Trade Representative Ron Kirk claimed, “Increased exports due to the Korea deal alone may support as many as 70,000 additional jobs nationwide.”¹⁵ The claim that the Korea FTA would support 70,000 jobs is apparently derived from the USITC’s projection of the increase in exports to Korea under the Korea FTA, but it ignores the effect of increased imports and the influence the Korea FTA would have on U.S. trade with the rest of the world. As noted above, the USITC study predicts that the U.S. goods deficit would increase under the Korea FTA, which would destroy more jobs than it creates.

5) Trade Negotiator Admits Little Potential for U.S. Gains in Korea FTA

Ambassador Karan Bhatia offered a frank assessment of the impact of FTAs upon the U.S. while he served as Bush’s Deputy U.S. Trade Representative. In an October 2006 speech to a Korean audience, Bhatia said that it was a “myth” that “the U.S. will get the bulk of the benefits of the

FTA.” He went on to say, “If history is any judge, it may well not turn out to be true that the U.S. will get the bulk of the benefits, if measured by increased exports.” He added that, in the instance of Mexico and other countries, “the history of our FTAs is that bilateral trade surpluses of our trading partners go up,” meaning that the U.S. trade deficit with those countries increased.¹⁶

To Avoid Serious Political Fallout, the Obama Administration Must Make Key Changes to Bush’s FTA Text

Those observing the run-up to the Korea G-20 summit are split between two camps.

Among Democrats in Congress, there is disbelief that the Obama administration officials could possibly make the catastrophic political error of pushing Bush’s Korea FTA without real reforms, and dread that they may, with the foreseeable political bloodbath ensuing. They hold out hope that the administration will seize the opportunity offered to them to start implementing Obama’s promised reforms. In so doing, he would gain support for a new model of trade expansion from the majority of Americans opposed to the NAFTA model, and he would re-energize union members, environmentalists and other progressives who are key to the Democrats’ political success.

At the U.S. Chamber of Commerce and other entities seeking more-of-the-same trade pacts, there is glee at the prospect that the administration will indeed do exactly what its fierce political enemies wish: take ownership of another Bush NAFTA-style trade pact that would simultaneously favor their offshoring agenda, while putting Obama’s re-election in peril.

ENDNOTES

¹ According to a story in the *New York Times Magazine*, “Rouse and Messina see areas for possible bipartisan agreement, like reauthorizing the nation’s education laws to include reform measures favored by centrists and conservatives, passing long-pending trade pacts and possibly even producing scaled-back energy legislation.... Obama expressed optimism to me that he could make common cause with Republicans after the midterm elections.” See Peter Baker, “The Education of a President,” *New York Times Magazine*, Oct. 12, 2010. Available at:

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² NBC News and Wall Street Journal, “Survey: Study #101061,” Hart/McInturff, September 28, 2010, Available at: <http://online.wsj.com/public/resources/documents/WSJNBCPoll09282010.pdf>

³ Greenberg Quinlan Rosner Research, “Democracy Corps: Frequency Questionnaire,” October 6, 2010, Available at: <http://www.democracycorps.com/wp-content/files/dcor100410fq10.pdf>

⁴ Public Citizen, “Selected Campaign Statements By President Barack Obama on U.S. Trade and Globalization Policy,” 2008, Available at: <http://www.citizen.org/documents/ObamaTradeCampaignStatementsFINAL.pdf>

⁵ “Letter to President Obama,” July 22, 2010, Available at:

<http://www.citizen.org/documents/KORUSLetterJuly2010.pdf>

⁶ Richard Trumka, “Statement by AFL-CIO President Richard Trumka on the U.S.- South Korea Trade Agreement,” Press Release, AFL-CIO, June 29, 2010, Available at:

<http://www.aflcio.org/mediacenter/prspmt/pr06292010.cfm>

⁷ Sierra Club, “Sierra Club Opposes the U.S.-Korea Free Trade Agreement,” Green Trader: Sierra Club’s Trade Campaign E-Newsletter, 2010, Available at:

http://action.sierraclub.org/site/MessageViewer?em_id=186683.0&dlv_id=160062

⁸ http://www.citizenstrade.org/pdf/Korea_Opposition_Final.pdf

⁹ Travis McArthur and Todd Tucker, “Lies, Damn Lies, and Export Statistics: How Corporate Lobbyists Distort Record of Flawed Trade Deals,” Public Citizen, September 2010, Available at:

<http://www.citizen.org/documents/FTA%20Penalty%20Paper%20FINAL1.pdf>

¹⁰ Barack Obama, “Remarks by the President in State of the Union Address,” January 27, 200, Available at:

<http://www.whitehouse.gov/the-press-office/remarks-president-state-union-address>

¹¹ Frank Vargo, “Free trade pacts have been good for U.S.,” The Hill, April 19, 2010.

¹² U.S. International Trade Commission. “U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects.” USITC Publication 3949. September 2007, Corrected printing March 2010, at 2-14, Table 2.3, Available at: <http://www.usitc.gov/publications/332/pub3949.pdf>

¹³ U.S. International Trade Commission. “U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects.” USITC Publication 3949. September 2007, Corrected printing March 2010, at 2-14, Table 2.3.

¹⁴ Robert E. Scott, “Trade Policy and Job Loss,” Economic Policy Institute, Working Paper #289, Feb. 25, 2010, Available at: http://www.epi.org/publications/entry/trade_policy_and_job_loss/

¹⁵ Ron Kirk, “Remarks by Ambassador Ron Kirk on Enforcement at Allegheny Technologies,” July 30, 2010, Available at: <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2010/july/remarks-ambassador-ron-kirk-enforcement-alleghn>

¹⁶ Remarks by Ambassador Karan Bhatia (Deputy U.S. Trade Representative) at Yonsei University, October 24, 2006, Available at: http://ustraderep.gov/assets/Document_Library/Transcripts/2006/October/asset_upload_file496_9901.pdf