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Obama's Korea Trade Deal Undermines Future of U.S. Auto Industry, Government Report Finds

WASHINGTON, D.C. – A newly released study by the U.S. International Trade Commission (USITC) on the U.S.-South Korea Free Trade Agreement's (FTA) supplemental auto deal found that the already hard-hit U.S. auto industry is in for more pain if the FTA is approved by Congress. The study was requested following a December 2010 "supplemental deal" that exempted some U.S. autos from having to meet stringent Korean auto safety and environmental standards.

"The latest study confirms that, even with the supplemental agreement, very few U.S. autos will be sold in Korea, and a huge increase in Korean auto imports into the U.S. is predicted," said Todd Tucker, research director of Public Citizen's Global Trade Watch. "Moreover, the new study did not alter the previous findings that the bilateral and global balance in autos will worsen under this agreement, nor that the U.S. will see an increase in its overall global trade deficit."

The USITC's newest findings were not unexpected because, in undertaking its congressionally mandated studies of each trade pact, the agency assumes an agreement is fully implemented and tariff reductions are already phased in. The December supplemental deal did not change the ultimate tariff phase-outs – just the timelines over which tariffs go to zero. The USITC's initial 2007 study on the Korea FTA found that the U.S. auto deficit would increase by $531 million to $708 million as a result of the pact. "The House GOP leadership didn't like that finding, so they requested a new one that incorporated the changes made to the pact in 2010," said Tucker.

In the new study, the USITC noted that slightly improved numbers on U.S. net exports to Korea "stem from changes to the economic environment (e.g., the recent economic downturn) and declines in trade flows in 2009."

"It is bizarre that House Ways & Means Committee Chairman Dave Camp (R-Mich.) celebrated this new study," said Tucker. "While touting an estimate that the supplemental deal will increase U.S. auto exports to Korea by between $48 million and $66 million, Chairman Camp fails to note that his new study does not change the initial troubling finding that U.S. imports from Korea will also increase $907 million."

The findings of the new USITC study, though already bad news for U.S. autoworkers, are also likely to be underestimating the actual damage and inflating the prospective benefits of the FTA and supplemental agreement, for several reasons:

- The USITC refused to incorporate into its modeling more realistic assumptions about Korean consumer preferences, which are overwhelmingly biased in favor of domestically made goods.

- The USITC also did not incorporate into its model the fact that "South Korean" autos can be made with up to 65 percent Chinese or North Korean content and still receive the privileges of the deal.

- The USITC did not address the concern that members of Congress, industry and unions had that the "transplant" Korean companies now producing in the U.S. South might reduce their employment there, as tariffs are phased out and it becomes easier to simply ship Korean-made cars to the United States.

- The USITC also does not attempt to model the specific non-tariff barriers that Korea promised to remove in the December negotiations, for instance exemptions from safety standards for U.S. automakers that sell below 25,000 cars a year in the Korean market and the exemptions from environmental standards from 2012 to 2015. The agency simply assumes that *all* non-tariff barriers are removed. (The USITC's model assumes that any difference between the price of U.S. autos in the world market and the price of U.S. autos in the Korean market are attributable to a black box that is deemed one big "non-tariff barrier." That price differential is simply assumed to disappear.)

"Given that Koreans already are disinclined to buy foreign cars, a high-profile exemption of U.S. cars from having to meet Korea's strong safety and environmental standards will only exacerbate Korean consumers' notions that imports are inferior," said Tucker.

President Barack Obama campaigned and won on overhauling our unfair trade policies. Instead, what Americans face with the Korea FTA is the same George W. Bush NAFTA-style agreement, with slightly altered auto tariff schedules, Public Citizen maintains. The Korea trade deal is still projected to increase the overall U.S. trade deficit and cost 159,000 U.S. jobs. The Korea deal requires the kind of financial deregulation that contributed to the economic crisis. The FTA's labor chapter still contains Bush's ban on reference to the International Labor Organization conventions when enforcing its weak labor standards. This agreement even allows South Korean goods to be given the benefits of the agreement even if such goods contain inputs or parts from North Korea, despite our sanctions on trade with that country. And it still has sovereignty-eroding, public-interest-policy-chilling rules that allow multinational corporations to sue governments in private, foreign tribunals for taxpayer money. There are nearly $9.1 billion in claims in the 14 so-called investor-state cases outstanding under NAFTA-style deals. None relate to traditional trade concerns; all relate to environmental, public health and transportation policy.

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