

Korean Agreement Latest Fiasco in 'Free Trade' Deals

An interview with economist Ian Fletcher

BY PETER B. GEMMA

In October 2011, Congress ratified a “Free Trade” agreement with Korea, first negotiated by President George W. Bush and a priority in the Obama administration, in what the *New York Times* described as, “a rare moment of bipartisan accord at a time when Republicans and Democrats are bitterly divided over the role that government ought to play in reviving the sputtering economy.” A majority of Democrats and a few Republicans voted against the proposed treaty. Opponents cited it as managed commerce not free trade, a sweetheart deal for multi-national corporations, and a threat to sovereignty by ceding commerce controls and accountability to such international agencies as the World Trade Organization—details buried in 1,000 pages of fine print.

The pact brought together unusual coalitions. Support for President Obama ranged from Senator Mitch McConnell (R-KY), the Senate Minority leader, to Jamie Dimon of JPMorgan Chase. Opponents included Congressman Ron Paul (R-TX), who warned that the Korea deal was, “a sneaky form of international preemption, undermining the critical checks and balances and freedoms established by the U.S. Constitution’s reservation of many rights to the people or state governments.” The Korea Confederation of Trade Unions said that the pact was, “based on an economic model that has privileged investor rights over workers’ rights, public services, and the environment.” The final vote however was 278 in favor and 151 opposed in the House, and 83 to 15 in the Senate. Senator Harry Reid (D-NV), the majority leader, voted against the measure.

Contributing Editor Peter Gemma interviewed Ian Fletcher, Adjunct Fellow at the U.S. Business and Industry Council, about the impact of such trade agreements.

TSC: *Your latest book, Free Trade Doesn’t Work, has just been published. Tell me something about the premise—I do not usually see the issues of globalization, free markets, and trade deficits framed that way.*

It has been taken for granted by our government for decades now that free trade is a good idea. But in reality, as soon as one makes the effort to dig beneath the surface of the economics that supposedly proves free trade is best, one discovers that free trade has enormous drawbacks—and that for most of American

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history, our government was well aware of this and America did not have free trade.

TSC: *Isn’t “free trade” a good idea in general?*

No, it isn’t. Trade is a good idea, but that’s not the same thing as free trade. We haven’t taken pure *laissez faire* seriously in our domestic economy in over 100 years, so why should we take it seriously internationally? You can’t even have real free trade except in a perfect world with no political interference, which is not even remotely the reality.

TSC: *Why do most conservatives, libertarians, and Republicans support free trade?*

For a start, the libertarian answer to this question isn’t the same as the conservative or Republican answers. The conservative answer is that America’s tradition in

trade policy, which goes back to Alexander Hamilton, the man on the \$10 bill, is protectionism. And for the Republican Party, prior to World War II, protectionism was one of its major political principles. Do you know that Karl Marx was a free trader? Libertarianism is totally naïve about the reality of foreign mercantilism, currency manipulation, state subsidies for industry, and all the other ways foreign nations decline to play by our rules. And given that China, for example, is kicking our behinds economically right now, why should they believe our rules are better?



TSC: *Times are tough; won't pro-business trade agreements give the economy a boost?*

Depends what kind of businesses you're talking about. If you're talking about multi-national corporations that have no loyalty to the U.S. and call themselves "American" just to get in the door on Capitol Hill, then sure. President Obama, the Republican Congressional leadership, multinational corporations and their clubs—the U.S. Chamber of Commerce and the National Association of Manufacturers—and the big retail chains like Wal-Mart support such deals. These people don't give a fig about American decline. Big retailers like Wal-Mart, now mainly sell imported goods. But if you're talking about Main Street business or the kind of small and medium-sized manufacturing companies that still produce in the U.S., free trade deals are not pro-business at all.

TSC: *Don't free trade deals benefit the U.S. by eliminating tariffs on U.S. goods?*

On paper, yes, sure. But in reality, we've been through these games with over a dozen other nations before, and it always seems to turn out that the U.S. actually

respects its market-opening agreements, while foreign nations game the system. How many times do we have to get burned before we learn? A big part of the problem is that many foreign trade barriers are not tariffs, or indeed any formal legal barrier at all—they're covert policies and understandings that foreign governments have with their own corporations which enable them to keep out American goods without violating the letter of any treaty they sign with us.

TSC: *Do free trade agreements threaten U.S. sovereignty as some claim?*

The issue is the WTO [World Trade Organization], because our Constitution says treaties are the supreme law of the land—overriding our right to make our own laws on environmental standards, worker safety, and anything else.

TSC: *In the debate over the Korean Free Trade pact, opponents said that Korean companies operating here could sue us in foreign courts. Is that true?*

Yes, Korean businesses and other multi-national corporations can take any dispute with federal or state laws, regulations, or rules to the WTO. Federal or state courts could see their authority overruled. There are over a two hundred corporate affiliates of Korean firms in the U.S. that can obtain these new rights under the free trade agreement to challenge local, state, and national laws.

TSC: *President Obama said he fixed the problems in the previous free trade agreement with Korea signed by President Bush. Was that true?*

No, the changes were window dressing. They mollified the auto manufacturers sector a bit. But the U.S. shouldn't be signing any more free trade agreements at all. The Economic Policy Institute has estimated the Korea deal will cost America over 150,000 jobs.

TSC: *What are some examples of industries that you believe will be hardest hit by the Korean agreement?*

The American automobile industry continues to suffer from the fact that Korea sells us something like nine cars for everyone one we sell over there. This is unlikely to change by much, though the car companies welcome the opportunity to produce in Korea for the U.S. market.

TSC: *Free trade agreements end up costing more than Washington bargains for, yet Congress goes ahead full steam embracing such policies. When will it end?*

A majority of the public is now against more free trade agreements. An NBC-*Wall Street Journal* poll in September 2010 found 53 percent of Americans believing free trade agreements hurt the U.S., with only 17 percent believing them beneficial; the split had been 30 vs. 39 percent in 1999. The Korea deal was opposed

by much of the President's own party, many trade unions, and some Republicans like Ron Paul (TX) and Walter Jones (NC), who didn't consider the agreement genuine free trade. A recent poll showed most Tea Party sympathizers against free trade agreements, [and then there are] Main Street businesses and the domestic manufacturing community. Even the official U.S. International Trade Commission says free trade pacts will increase America's trade deficit. The public is getting more skeptical of free trade every day. ■

What they are saying about free trade and globalization

"The great, unreported story in globalization is about power, not ideology. It's about how finance and business regularly, continuously insert their own self-interested deals and exceptions into rules and agreements that are then announced to the public as 'free trade.'"

—William Greider, author, *Secrets of the Temple*

"Some people foolishly call our relationship with China 'free trade.' But there is nothing free or fair about it—we are in a trade war between a militantly protectionist communist government and a U.S. shackled by obsolete illusions about trade."

—Phyllis Schlafly, columnist and conservative political activist

"To hear the Japanese plead for free trade is like hearing the word love on the lips of a harlot."

—Lane Kirkland (1922-1999), President, AFL-CIO

"Transferring our sovereignty and decision-making power to the WTO [World Trade Organization], to the United Nations, or any other international body is not in the long-term interests of our people."

—Congressman Dana Rohrabacher (R-CA)

"Millions of manufacturing jobs in this country have been shipped overseas. This transfer was supposed to be part of the 'win-win' process of free trade. But 27 straight years of growing trade deficits makes one wonder: who's winning?"

—Ralph Nader, political activist; author, *Cutting Corporate Welfare*

"America's 20th century economic success was based on two things. Free trade was not one of them."

—Paul Craig Roberts, Assistant Secretary of the Treasury in the Reagan administration; author, *How the Economy Was Lost: The War of the Worlds*

"The call for free trade is as unavailing as the cry of a spoiled child for the moon. It has never existed; it will never exist."

—Henry Clay (1777-1852), Secretary of State, 1825-1829

"Old-fashioned comparative advantage in international trade has been swamped by foreign industrial policy. The only way to save our economy is for the U.S. to counter trade with industrial policies designed to correct the defects of free trade."

—former U.S. Senator Ernest "Fritz" Hollings (D-SC), 1966-2005

"In early 2010 it was reported that Detroit, forge and furnace of the Arsenal of Democracy in World War II, was considering razing a fourth of the city and turning it into pastureland. Did that \$1.2 trillion trade deficit we ran in autos and auto parts in the Bush decade help to kill Detroit? This is our reward for turning our backs on the economic nationalism of the men who made America, and embracing the free-trade ideology of economics and academics who never made anything."

—Patrick J. Buchanan, commentator; author, *The Great Betrayal*