

May 31 2012

The Political Economy of Trade Policy in the KORUS FTA

LSE IDEAS

By **Steven C. Denney and Brian D. Gleason**, Master's Candidates at the Graduate School of International Studies, Yonsei University.

This is an abridged version of the winner of the best paper award at the 2011 Seoul inter-GSIS competition at the Korean Institute for International Economic Policy (KIEP). The full and original paper can be found [here](#).

Understanding the nexus between trade and security in asymmetric trading relationships in Northeast Asia is central to comprehending the shifting balance of power in the region. In order to understand the trade-security nexus, this article analyzes the effect of trade interdependency on state behavior with a focus on the Korea-US Free Trade Agreement (KORUS FTA). Contrary to conventional economic analysis, we find that the motives behind the US effort to sign an FTA with South Korea are predominantly political and strategic, which reflects the changing geopolitical environment in Northeast Asia—particularly the US effort to balance against China's rising power and influence in the region.



Although most analysis of FTAs tends to focus primarily on economic costs and benefits, a political economy perspective emphasizes the security component. Classical economist Albert Hirschman and other contemporary scholars, such as Amy Searight, contend that trade is often motivated by political and strategic goals.^[1] More specifically, Hirschman finds that large states in asymmetric trading relationships use economic incentives to influence the smaller state's domestic politics, as a way of advancing its political and strategic goals. Against the backdrop of Hirschman and Searight's conceptualization of the trade-security nexus, we analyze the political and strategic motivations behind the KORUS FTA.

During the Cold War, "securing security" through prosperity was the primary motivation behind US trade relations with countries in Northeast Asia, since US policymakers were concerned with containing the spread of Communism throughout the region.^[2] Through the US-centric hub-and-spokes system, the US opened its market to exports from its Northeast Asian allies as a means to increase its political leverage in those countries.^[3] The US maintained a close relationship with these allies throughout the Cold War, and even after the Cold War ended, the US-centric system has endured. However, in the post-Cold War era, China's rise has presented a new challenge to US hegemony in the region. Thus, the US strategy has shifted from containing the spread of Communism to balancing against the "rise of China" through free trade agreements and asymmetric trading relationships.

Since the turn of the century, Sino-US competition in Northeast Asia has rapidly intensified as both nations vie for economic and political influence, especially in South Korea. In 2005, the tide began to turn as China became South Korea's largest trading partner, usurping the position traditionally held by the US. This change did not go undetected in Washington. The US strategic response to South Korea's changing trade patterns can be found in a 2006 report presented to the US Congress by the Congressional Research Service (CRS) entitled, "The Rise of China and Its Effect on Taiwan, Japan, and South Korea: U.S. Policy Choices," which highlights how the economic rise of China and its growing network of trade and investment relations in Northeast Asia are causing major changes in human, economic, political and military interactions among countries in the region. These changes have serious implications for US economic and security interests in Northeast Asia, and "... have increasingly impacted policy deliberations in Taipei, Tokyo, and Seoul. For China's trading partners, dependency on the Chinese market means that Beijing is looming larger in all aspects of policy making." Clearly, the CRS report invokes Hirschman's contention that trade relations affect domestic politics in numerous areas, including foreign policy.

Throughout the report, the CRS contemplates how to explicitly address the greater weight given to Beijing in policy deliberations in Taipei, Tokyo and Seoul. One of the major proposals advises US policymakers to "actively counterbalance the rising economic influence of China and the trading networks it is building by pursuing free trade agreements and closer investment relations with Japan, South Korea, and Taiwan" The final update of the report was issued in January 2006, and by February 2006, the US had initiated a free trade agreement with South Korea.

It is clear that the KORUS FTA is not simply a matter of economic costs and benefits. South Korean president Lee Myung-bak reinforced this notion before his October 2011 visit to Washington, stating: "... the FTA is not just simply a trade agreement or an economic agreement. It really is much more than that ... [It] will play a very important part of the Obama administration's

new Asia policy as well.” In reality, the KORUS FTA is part of the US strategy to use its asymmetric trading relationship with South Korea as a means to maintain its political influence in Seoul while simultaneously balancing against China’s increasing power and influence in the region.

Despite the US government’s effort to promote the KORUS FTA as mutually beneficial, economic projections and polling data suggest that economic and domestic political gains are not the primary motives. Numerous reports project contradictory macroeconomic effects for the US.^[4] Moreover, polling data indicates that free trade agreements are viewed negatively by a majority of US citizens. A September 2010 NBC News-Wall Street Journal poll found that fifty-three percent of Americans believe “free trade agreements have hurt the U.S.,” while sixty-nine percent of Americans think that “free trade agreements between the United States and other countries cost the U.S. jobs.”^[5] This is a new high. Furthermore, 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.^[6] Perhaps the most interesting aspect of the polling data is that although US citizens spanning the socioeconomic spectrum—and on both sides of the political aisle—are opposed to free trade agreements, President Obama was willing to flip-flop on the issue with an election approaching in order to pass the free trade agreement. Moreover, the overwhelming majority of the US Congress ratified the KORUS FTA while the majority of their constituents criticized free trade agreements. Even if the KORUS FTA is economically beneficial to both sides, politicians tend to choose what is politically popular over what is economically sensible. Thus, from a domestic political perspective, the ratification of the KORUS FTA on economic grounds does not make sense.

Apparently, we need to look at the KORUS FTA from a geopolitical perspective: the bipartisan US political support for the KORUS FTA signals the overriding importance of maintaining US power and influence in Northeast Asia within the context of China’s rise. The Obama administration and the US Congress came together to ratify the KORUS FTA with an unusual degree of bipartisan political support. To understand why, consider Lee Kuan Yew’s 2010 warning that, “There is still time for the U.S. to counter China’s attraction by instituting a free-trade agreement with other countries in the region. This would prevent these countries from having an excessive dependence on China’s market.... Without an FTA, Korea, Japan, Taiwan and the ASEAN countries will be integrated into China’s economy—an outcome to be avoided.”^[7]

In November 2011, South Korea’s National Assembly ratified the KORUS FTA, thus strengthening the trade-security nexus with the US. In response, China renewed its efforts to negotiate an FTA with South Korea, indicating that free trade agreements in Northeast Asia are indeed motivated by broader political and strategic concerns. As the balance of power rivalry between the US and China intensifies, each country will continue to use their asymmetric trading relationships to advance political and strategic goals.

Steven C. Denney and Brian D. Gleason write and edit for SinoNK.com, a website that covers Sino-Korean and other peninsula-related issues.

[1] Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945); Amy Searight, “Emerging Economic Architecture in Asia: Opening or Insulating the Region?,” in Michael J. Green and Bates Bill, ed., *Asia’s New Multilateralism: Cooperation, Competition, and the Search for Community* (New York: Columbia University Press, 2009).

[2] Kent Calder, “Securing Security Through Prosperity: the San Francisco System in Comparative Perspective,” *The Pacific Review* 17, no. 1 (March 2004): 135-157.

[3] Victor Cha, “Powerplay: Origins of the U.S. Alliance System in Asia,” *International Security*, 34, no. 3 (Winter 2009/2010): 158-196.

[4] For example, compare the official USITC report with another, non-governmental report from the Economic Planning Institute (EPI). For the USITC report, see: *U.S.-Korea Free Trade Agreement: Potential Economy-wide and Selected Sectoral Effects*, Investigation NO. TA-2104-24, USITC Publication 3949, September 2007. For the EPI report, see: Robert E. Scott, “Trade Policy and Job Loss,” *EPI Working Paper*, February 25, 2010, <http://www.epi.org/temp727/WorkingPaper289-2.pdf>.

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

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

[7] Lee Kuan Yew, “China’s Rise: A Shift in Global Influence – Forbes.com.” *Information for the World’s Business Leaders – Forbes.com*. December 2, 2010, <http://www.forbes.com/forbes/2010/1220/opinions-lee-kuan-yew-current-events-china-rise.html>.

This entry was posted in [East Asia](#). Bookmark the [permalink](#).