

# US economic statecraft in East Asia<sup>1</sup>

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## Abstract

Linkage politics in the US were revived after the terrorist attacks in 2001 as the US endeavored to bolster its position in the international system. This paper examines current US economic statecraft in East Asia, particularly through the use of the preferential trade agreement instrument. As the US encounters increasing threats in the region through China's economic and military expansion, the emergence of Islamic militancy, and continuing tensions on the Korean peninsula, it is attempting to reinforce its strategic position through the economic reinforcement of its bilateral politico-military alliances. However, as the establishment of its recent free trade agreements has revealed, neo-mercantilist politics, as motivated by US Congressional attention to domestic lobbying, present a risk to this strategy. It is possible that this tendency to economic nationalism, as evidenced in the Australia–US Free Trade Agreement, will detract from the broader purpose of reinforcing the US strategic position in the region.

## 1 US economic statecraft in East Asia

In informal comments at the Institute for International Economics in May 2003, former United States Trade Representative (USTR) Robert Zoellick indicated that the selection criteria for potential US Free Trade Agreement

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(FTA) partners included collaboration on strategic concerns. Zoellick stated that the US sought ‘cooperation – or better – on foreign policy and security issues’ (Inside US Trade, 2003, p. 7). Moreover, penalties would apply to those who demonstrated contrary behavior. Zoellick informed to those present that the Bush administration had a ‘long memory’ of these misdemeanors (Inside US Trade, 2003, p. 8). As New Zealand discovered any country that had contested US strategic policy would be denied the opportunity to negotiate a preferential trade agreement. Neither was Cuba considered in any negotiation of the Free Trade Agreement of the Americas (FTAA). After World War II, the US had demonstrated its skills in utilizing trade policy as a tool of statecraft, and once again, after 1995, the US displayed an assiduous interest in reviving the art. Since that time, the rise of both strategic and international economic threats to the US has amplified the administration’s preparedness to combine policy in a more cohesive fashion.

This revived nexus between security and economics in US policy has particular relevance to the Asia Pacific region as the US is responding to specific perceived threats. These strategic threats emanate not only from China’s expanding military presence and from the continued tensions on the Korean peninsula, but also via the emergence of Islamic militancy through pockets of Southeast Asia. Though the Japanese economic threat has temporarily subsided as it struggles to revive its sluggish domestic economy, China’s economic expansion poses a new international economic threat to the US. Thus, the newly established FTA linkages that are becoming superimposed upon the US bilateral security arrangements across the Pacific have increasing strategic importance.

The study of these issues in this paper is divided into three sections. The first examines the political and security nexus and the second, the current US strategy of the establishment of FTAs in the East Asian region. Third section examines the risks inherent in the strategy for the US. Although the US intends that these trade agreements will enhance its regional security presence, the risk remains that the neo-mercantilist nature of some of the provisions of the agreements, as evident in the Australia–US FTA, will escalate tension in these bilateral relationships. Hence, the practice of US economic statecraft within the region needs to be conducted in an adroit manner.

## **2 The trade and security nexus**

For international political economists, it is axiomatic that there remain intimate connections between patterns of trade and the specific interests of the prevailing political system. As Robert Gilpin argued, in 1977, any economic system exists in conjunction with a specific political order (Gilpin, 1975). In the following year, it was observed that state interests and power were the determining features of the international trading system (Krasner, 1976). Some studies examined the patterns

of trade between allies and argued that free trade is more likely to occur within alliances than outside these structures. Joanne Gowa revealed that through an 80-year period between 1905 and 1985, alliances had a statistically significant effect on bilateral trade arrangements (Gowa, 1994). Moreover, she argued that with the onset of bipolarity, the Cold War politico-military alliances exerted greater sway on trading coalitions. This was because alliance patterns were less flexible, and market power was less diffuse at this time. Within the bipolar environment, trade with an ally produced a positive security effect; conversely, trade with a rival resulted in a 'security diseconomy'. International trade patterns in this period until 1985 tended to replicate security arrangements, with North Atlantic Treaty Organization (NATO) and General Agreement on Tariffs and Trade (GATT) partners' maintaining intra-trade arrangements with Western counterparts and as largely separate from those of the Warsaw Treaty Organisation and Council of Mutual Economic Aid members (Gowa, 1994).

However, David Baldwin deployed the term 'economic statecraft' in an analysis of the use of economic instruments to achieve foreign policy ends (Baldwin, 1985). Over a decade later, Diane Kunz examined US economic diplomacy during the Cold War and argued that it established the bonds for enduring alliances, both financially and economically. Indeed, she claimed that US economic statecraft operated as a primary offensive weapon through the Cold War (Kunz, 1997). Further, Michael Mastanduno also argued that policy tools could be used to 'satisfy the core objectives of nation-states in the international system' (Mastanduno, 1998, p. 826).

What then of international trade under the current unipolar environment? Mastanduno stated that under situations of unipolarity, trade is co-opted by the prevailing state to buttress its security strategy. It does this in order to preserve its strategic position. As Mastanduno argued:

Unipolarity motivates the dominant state to integrate economic and security policies. A unipolar structure tempts the dominant state to try to preserve its privileged position; that effort, in turn, requires its international economic strategy to line up behind and reinforce its national security strategy in relations with potential challengers (Mastanduno, 1998, p. 827).

Furthermore, this strategy becomes more pronounced as threats arise to challenge the national security strategy and in situations of increased international economic competition (Mastanduno, 1998). During the latter half of the 1990s, the Clinton administration eventually moved to re-establish the connections between the two. In its international relations, the administration sought to 'direct foreign economic policy to complement and reinforce their preferred national security strategies' (Mastanduno, 1998, p. 826).

By the early 2000s, the perception of threat to US pre-eminence increased. This threat perception derived both from the escalation of the direct terrorist

threat to the US, via China's rise in the international system, and through the continued tensions on the Korean peninsula. These threats brought simultaneous challenges to US security strategy and to its international economic position. Consequently, the US response has endeavored to synchronize both trade and security policies. In addition to furthering its pre-eminent international economic place, one aspect of this response has been to utilize its new policy of bilateral and regional trade bargaining to shore up existing security alliances or to foster new ones. Hence, one of the uses of the FTA (or more precisely, preferential agreement) mechanism is to deploy its economic allure to strengthen its strategic position in key geopolitical areas.

Nevertheless, while any US administration may wish to deploy its economic instruments in the pursuit of broader foreign policy goals, the conclusion of any FTA negotiation is subject to approval by a diverse range of interests. It is a process where a plurality of interests is engaged and the compromise struck reflects the bargaining outcomes from a plethora of sectoral interests. Though Jeffrey Schott claims that Congress has been persuaded to approve most US trade proposals of any significance, including North American Free Trade Agreement (NAFTA), because of their foreign policy benefits (Schott, 2007, p. 11), this does not necessarily apply to prospective US trade partners. While the elites in partner governments may perceive benefits broad in scope, by necessity they too must contend with similar domestic lobbying by special interest groups, but also by local opponents of greater integration with the US.

### **3 Current FTA motivations**

To be sure, there exists a range of motivations for the current upsurge in regional and bilateral trade negotiations. Traditionally, countries enter into these trade negotiations with the view that through a reciprocal reduction in trade barriers that country will be afforded greater access to its partner's markets. This approach is sometimes coupled with smaller countries seeking security in access to a larger partner's markets (Whalley, 1998). It is also the case that some have entered into negotiations to ensure the success of internal reforms. This operates in two ways. A government interested in domestic policy reform can fasten its reforms to international agreements, thereby ensuring a greater chance of success. Arguably, this type of reform was central to the Mexican negotiating position in the NAFTA (Whalley, 1998). However, larger powers can seek to influence and impose domestic policy reforms within another state by offering access to its markets as the incentive to do so (Feinberg, 2003). The recent US FTA negotiations remain as a prime example of this style of bargaining. Other factors at work in the region since the Asian Financial Crisis of 1997–1998 that have influenced states to bargain bilaterally include the weakness of existing institutions, changing domestic interests, and

the perception of positive demonstration effects of agreements (Ravenhill, 2003).

There exists, however, a significant body of literature to suggest that these preferential trade agreements currently framed as bilateral or regional trade agreements are stumbling blocks to the promotion of free trade (Bhagwati *et al.*, 1999). Although some barriers are removed in these trade negotiations, others remain in sectors excluded from the deal. Where trade diversion occurs because of increases in preferred trade from free trade area members, the broad extension of free trade is degraded. Moreover, the principal World Trade Organization (WTO) operating norm, that of most favored nation (MFN) status for all members, is violated (WTO, 2007). Further, the WTO retention of concerns that the ‘psychology’ of trading blocs can detrimentally affect these MFN systemic goals and operations is exacerbated by the inability of smaller states in the system to conduct multiple trade negotiations from a limited resource base.

Yet, after the collapse of the multilateral negotiations in Seattle in 1999, much was made of the argument that these new agreements act to spur greater motivation to solve the current gridlock in the multilateral negotiations (Baldwin, 1997; Stoler, 2003). In much the same way, the formation of the European Community was maneuvered to goad greater cooperation in the early rounds of the GATT, and later the threats of Asia Pacific Economic Cooperation’s (APEC) regionalization together with service negotiations through the Canada–US Trade Agreement (CUSTA) and NAFTA agreements were used to instigate greater cooperation in the Uruguay Round.

As a response to this perceived stalemate in 2001, the USTR announced: ‘(w)e’re trying to send a message of momentum abroad, that the US is prepared to move bilaterally, regionally and multilaterally.’ Through this strategy, he intended to produce a competitive liberalization process and one in which ‘good performers will get special treatment’ (Zoellick, 2001, pp. 3–4). It was also a process that ensured the centrality of the United States in any new trade deal.

William Kerr also argued that the US was making full use of the intransigence encountered in the WTO trade negotiation rounds to exploit the natural bargaining opportunities it has in bilateral and regional trade negotiations. Moreover, Kerr also contended that the alteration in the US policy approach was designed to break the extension of the WTO ‘club good’, that is, extension of nondiscriminatory access to the US market (the EU market could always be accessed through bilateral deals). If this is so, then not only is the cachet of the WTO eroded but also the desirability of negotiations with the US increases. Early access to the FTA or RTA (Regional Trade Agreement) negotiation process with the US becomes highly desirable because it affords an, albeit temporary, early advantage of preferential access to the US market.

The US, however, can utilize the power of its market to increase its bargaining advantage. And it has done so in waving ‘timely preferred access’ for less sensitive goods, rather than concessions for more sensitive goods such as agricultural products (Kerr, 2005, p. 6) and automotives. Yet, what is also clear is that the US, in choosing and prioritizing its partners, has included a foreign policy dimension in the calculations (Kerr, 2005).

Though economic gains have been prominent in the explanations of trading agreements, it is then evident that strategic rationales have been integral in their formation. Archetypically, the integration of European countries devastated by the wars in the early twentieth century was premised both on strategic and economic factors. As for the FTA itself, Richard Feinberg argues that ‘in the twenty-first century, FTAs are important tools of foreign policy that are intended to solidify partnerships, as military pacts did in earlier times’ (Feinberg, 2003, p. 1020). However, the security component may serve to ‘dilute’ the economic justification for trade agreement involvement with Jo-Ann Crawford and Roberto Fiorentino claiming that RTA partner choices are increasingly motivated by political and security concerns. Notwithstanding the possible detraction from ultimate economic gains, these RTAs are serving to craft fresh geopolitical associations and bolster diplomatic ties (Crawford and Fiorentino, 2005). John Ravenhill’s assertion that many of these agreements have only minor impact on the overall picture of trade or economic growth (Ravenhill, 2003) serves to bolster the argument that there exist other rationales for their negotiation.

One feature of the new agreements, particularly those being crafted by the US, has been an interest in securing ‘WTO plus’ agreements. These are agreements that extend further than the current WTO-negotiated arrangements. In particular, they extend down into partner country social policies or through to the new knowledge industries. Undoubtedly, there is much to be gained financially in securing the wealth from the new knowledge industries; however, this too speaks to the economic–security nexus. As Brendan Taylor and Bruce Luckham acknowledge:

the nature of the linkage between economic growth and security has changed. Wealth and power has ceased to be a simple function of territory, population, access to raw materials and manufacturing capacity. Economic development and wealth are increasingly reliant on information, education and the flow of capital and technology based on access, rather than territorial control (Taylor and Luckham, 2006, p. 143).

As has been demonstrated by the nature of the agreements the US has negotiated, it is vitally interested in securing its pre-eminent international economic position not only through the alteration of its macro policy approach, but also through the control of these specific aspects of trade.

#### 4 Alteration in the US policy approach

Without doubt, the US had unambiguously adopted a changed trade policy approach to suit its economic and financial aims: to encourage systemic growth, control the new technologies while continuing to protect its sensitive industries. Yet, it is also the case that it has utilized this policy to foster concurrently its security aims. In their recent assessment of US trade policy, WTO members have noted that ‘security considerations continued to play a prominent role in the formulation of U.S. trade and investment policy’. Moreover, they ‘urged the United States to ensure that security-related initiatives are non-discriminatory and as least trade-restrictive as possible’ (WTO, 2006).

The 1985 US–Israel FTA agreement had set the precedent for the US use of trade policy in pursuing foreign policy objectives. This was particularly evident as the FTA was signed during a period when, despite rising opposition to trade liberalization, Congress offered strong support for the agreement (Rosen, 2004). This interest in FTAs was resumed in the 1990s. Even though through its first term in office in a post-Cold War environment, the Clinton administration was concerned primarily to pursue market opening objectives, officials who eventually became members of the current Bush administration revealed their interest in shoring up the US hegemonic position. In 1991, the then Secretary of Defense Dick Cheney, together with Lewis Libby and Paul Wolfowitz, had tasked Zalmay Khalilzad (later US ambassador to Iraq in 2005) to construct a draft of the Pentagon’s Defense Planning Guidance (DPG), a document that guides policy and coordination of a range of agencies in the determination of capabilities. In addition to a statement on the need for US leadership to remind its potential competitors to refrain from any challenge to the international order, the authors also concluded that:

in the non-defence areas, we must account sufficiently for the interests of the advanced industrial nations to discourage them from challenging our leadership or seeking to overturn the established political and economic order. Finally we must maintain the mechanisms for deterring potential competitors from even aspiring to a larger regional or global role (Tyler, 1992).

Though the contents of this leaked draft were largely condemned at the time and the judgments replaced by a much more moderate and acceptable position and one emphasizing the value of allies, it was nonetheless indicative of the thinking of those eventually in positions of power in the next Bush administration of 2000. Indeed, this view of leadership was revived dramatically through the preemption strategy after the attacks of September 2001 (Huisken, 2003; Mann, 2004). As was manifest in the initial DPG draft, however, this was a comprehensive strategy, one that embraced non-defense approaches.



Thus, when Zoellick was appointed to the USTR role and subsequently devised his policy encouraging competitive liberalization, there was opportunity to incorporate the strategic dimension. The USTR was interested in 'explicitly including political-strategic criteria in the choice of partner nations' (Destler, 2005, p. 299). Indeed, after 11 September, this approach assiduously aimed to connect the two. Such was Zoellick's enthusiasm, however, that he erred tactically when initially in reaching out to Democrats he alienated those from the Republican Party. He thus failed to take Congress with him in early decision-making (Destler, 2005). Nonetheless, he retrieved support to secure Trade Promotion Authority (TPA) in 2002 after an 8-year lapse and subsequently engaged in negotiations for an array of free trade agreements.

Globally, since 2001 the US has concluded trade agreements with those countries linked strategically with the US or in areas of geo-strategic import. Following the NAFTA agreement, the US worked within its immediate region in the Americas to sign an agreement with Chile in 2003, the Central American countries, the Dominican Republic, and Peru in 2005, while negotiations were launched with both the Andean countries in 2004 and Panama. The US continues to consult on the FTAA, however, negotiations with Brazil, Argentina, and Venezuela remain problematic.

Recently, the US has stepped up its endeavors to negotiate agreements in the Middle East. Clearly concerned about its declining cachet in that region and its inability to enforce its objectives through its military operations, the US has embarked upon a strategy to shore up its association by proposing to negotiate a Middle East Free Trade Agreement (MEFTA) by 2013 (Lawrence, 2006). Signposting the way have been agreements with Jordan in 2001 and more recently with Morocco, Bahrain, Oman, together with the launch of talks with the United Arab Emirates (although these talks were delayed as a consequence of the Dubai ports dispute in the US). Trade and Investment Framework Agreements (TIFA) discussions also act as precursors to the FTAs. Talks with countries which included Saudi Arabia, Egypt, Algeria, Kuwait, Qatar, Yemen, and Tunisia aim to guarantee adequate legal protections particularly in areas such as intellectual property and ensure greater transparency for corporate and governmental practice.

If GATT/WTO universalist rules have sought to bar political and strategic statecraft at this level, the current preferential trading arrangements are more concerned to incorporate these linkages. Through the Bush administration, USTRs Robert Zoellick, Robert Portman, and more recently Susan Schwab have actively fostered these linkage politics. Throughout East Asia, the first attempted port of call for the US has been to reinforce its security relationships, initially within its system of Pacific alliances, but more broadly with those states integral in assisting with its security concerns. Two of those East Asian states which comprise the US hub-and-spoke security structure across



the Pacific, Australia, and South Korea have been considered as suitable candidates for FTAs. However, two traditional partners who provided obstacles for US defense policy in recent years were temporarily excluded from the process. The Philippines' closure of US bases at Subic Bay and New Zealand's prohibition of US nuclear powered ships to its harbors in 1986 met with an interruption in their trade aspirations. In the following section beginning with Australia and South Korea, and then the broader Northeast Asian and Southeast Asian regions, I examine the specific strategies deployed by the US to enhance its foreign policy objectives.

## 5 The Australia–US Free Trade Agreement (AUSFTA)

During the lead up to the AUSFTA, Australian Foreign Minister, Alexander Downer, departed from the usual rejections of linkage diplomacy in Australia–US relations by suggesting that the agreement would assist in fostering an understanding of the purpose of the bilateral security alliance and the role of the San Francisco alliance system to gird a secure and prosperous environment within the region (Downer, 2002). This point was echoed in Robert Zoellick's comments that Australia's motivations were not just economic (Zoellick, 2002). As the AUSFTA was in its final negotiations, one commentator claimed that the deal was signed 'for one reason only – because of its security alliance with the US and the close ties between Howard and President George W Bush' (Kelly, 2004, p. 17). Although from the Australian government perspective this linkage may serve to round out the relationship and bolster security ties, there was little enthusiasm to utilize the security component as a bargaining chip for better economic gains. Indeed, this approach would most likely be a counterproductive ruse as the security alliance remained far too significant for any government to use as leverage. Moreover, as former diplomat Greg Wood argued, the problem for Australia is that the more that 'negotiations are presented as being crucial for strategic or similar reasons,' the greater the risk of incurring damage to the 'wider bilateral relationship' (Wood, 2002, p. 6). The difficulty of negotiations in the bilateral forum in some sectors too, such as agriculture, also raised the domestic stakes. Instead of choosing the multilateral forum, which offers the only possibility for negotiating barriers such as export subsidies, the bilateral arena reduces the likelihood of success. In doing so, there is an increased need to ensure that the tension does not extend into the ANZUS (Australia, New Zealand, United States) alliance (Garnaut, 2002).

This is not to note, nevertheless, that Australia's contributions to the US security operations in both Afghanistan and Iraq did not provide some impetus in Congress for the initiations of talks. However, it was not of sufficient weight to extract greater gains in the bargaining process and the

*savoir-faire* of the US negotiators meant that in understanding that there were domestic political motives for the Howard government's interest in stitching up the deal, the US could offer less.

Even though the US had clearly utilized linkage politics to achieve its foreign policy aims in many regions of the world, both Australia and the US had sought overtly to separate both trade and security. As competitor economies, the US had resiled from the creation of situations where claims could be made on the US economy. Australia, too had endeavored to publicly detach disruptive trade clashes from security relations as it valued the alliance too highly. However, the public commentary on the FTA negotiations perceived an alteration in approach.

Amid the government's rhetoric of the benefits of the FTA, the concurrent theme that the agreement was being negotiated in part as a response to the government's loyalty to US military aims raised public expectations that the deal would be responsive to Australian interests. This view was particularly evident in the inflated expectations for agricultural access. This strategy was not failsafe, however, as the benefits of the FTA were not immediately obvious to all. Given that the Howard government signed off on the deal even though Australian trade negotiators were prepared to walk away at the final point of the negotiations is simultaneously an illustration of elite interest in alliance politics and an indication of the prospective costs of a strategy of bandwagoning with an asymmetrically powerful United States.

Three years on, the questions of the agreement's benefits were still debated. Proponents argued that it remained too early to assess the overall effect of the agreement, pointing to the dramatic commercial benefits that eventually accrued from both NAFTA and the Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) (Baume, 2006). Niche exporters were still to fully explore their options. However, its detractors were similarly vocal. Critics had immediately observed that in its initial year Australian exports to the US dropped by 4%, whereas US imports into Australia increased by the same margin (Costello, 2006). As a case in point, where GM's Monaro was touted initially as a recipient of the AUSFTA's benefit for Australia, Bob Lutz, GM Vice President, Product Development, suggested that with the potency of the Australian dollar and the recent AUSFTA, it was now more commercially viable for the Monaro to be constructed in the US and exported to Australia. More broadly, Lutz also indicated his view that unless the government intervened or the Australian dollar weakened, the Australian manufacturing industry was at risk (Dowling, 2006). Certainly exchange rates feature significantly in the determination of trading accounts; however, any deterioration of the trade balance would not assist in a favorable perception of this preferential agreement. By 2007, the trade between the two states had increased, up 12% to AUD\$47.5 billion. While

exports had grown by 9% to AUD\$15.6 billion, imports also rose 13% to AUD\$31.9 billion (DFAT, 2007).

Evolution of the agreement, as planned by the negotiators, would be subject to annual review. It is also possible, however, that these annual meetings may continue to drive expectations and might also serve to highlight trade disputes and thus continue to publicly raise the tensions in the economic relationship. Given the warnings noted earlier that trade tensions may detrimentally affect the security relationship and that this would be an anathema to the government's intentions of binding the ties with the US more firmly, the wisdom of the linkage strategy in the Australian example where the economies compete is yet to be realized. Similarly, the US is keen to maintain public support for the alliance, particularly in its political support for US military operations via the Howard government. Recently, the US intensified its military links with Australia through its new basing arrangements in northern Australia. Australia has some valuable assets for the US in a region that is of rising politico-military significance. In addition to defense-related support, its intelligence collection capability, diplomatic access and expertise, and leaders' relations add to its worth for the US (Albinski, 2002). Australia's increasing economic and political ties with China are also piquing the interest of analysts in the US. Australia's vast resource deals, particularly in hydrocarbons, and also as a supplier of industrial raw materials, increasingly connects Australia to China. That the Howard government has also expressed confidently that it has relations with China broader than those confined simply to the economic sphere (Howard, 2005b) and that as a mature nation it can simultaneously manage relations with both China and the US (Howard, 2005a) has raised concerns in Washington. Negotiations for a preferential trade agreement with China have also sparked commentary on the nature of China's construction of FTAs in the region. One commentator suggests that they have 'an overt political purpose which is to challenge US supremacy in Asia and Japan's position as the dominant economic power' (Dupont, 2004, p. 4). As any contest for Asia deepens, analysis such as this drives the US to shore up its position in the region.

## **6 The Korea–US Free Trade Agreement (KORUS FTA)**

United States Trade Representative Portman stated early in 2006 that in addition to engaging China, the US focus should be to ensure that it remains an active and influential economic and trading power in the Asia Pacific region (USTR, 2006). On the trade front, the US continued to operate through its FTA vehicle and by doing so Christopher Hill, Assistant Secretary for State for East Asian Affairs, argued that the KORUS would ensure that the US–Korea partnership

remains a vital force for stability at a time of change and challenge on the Korean peninsula and in the broader Northeast Asian region. It will be concrete proof to South Korea that we are committed to broadening and modernizing our alliance (Hill, 2007).

By February 2006, the US had launched FTA negotiations with South Korea, and on 30 June 2007 the deal was signed off. This means that the KORUS FTA may qualify for inclusion under the TPA of 2002. Notwithstanding the ongoing US difficulties in securing greater access to the Korean beef market, in his 2008 State of the Union address, Bush asked Congress to approve the agreement because of its commercial and strategic benefits (Bush, 2008). Two-way goods trade amounted over US\$75 billion in 2006, with the US exports to Korea of US\$30.8 billion and imports of US\$44.7 billion. South Korea was the seventh largest US export destination. At the announcement of the talks, Portman acknowledged the intentions and benefits beyond trade:

Our countries have been allies for over a half century, and with this agreement, we can strengthen our alliance, reaffirm our commitment to remain vigorously engaged in Asia, and create new opportunities for prosperity and peace for the people of both our countries (Office of the USTR, 2006a).

Though at the time of writing the KORUS FTA has not yet been ratified, Jeffrey Schott expects that despite some Congressional concerns with adjustment costs, the security dimension will again prove persuasive. Additionally, its passage will be assisted by the need to act in order to avoid exclusion from South Korean markets as a consequence of other preferential trade deals. A prospective EU deal with South Korea in 2008 will provide further impetus for ratification (Schott, 2007).

As a consequence of the KORUS FTA, the Korean service industry was expected to be a major beneficiary, however, in both the agricultural and auto sectors the US will be advantaged. Again, special interest groups in South Korea will have cause for angst. Cause for executive concern in the US will be whether these concerns will exacerbate any aversion to the US at a local level as Congressman Ed Royce has argued (Royce, 2007). Poor US status has been reflected in South Korean attitudes to the US. Surveys of attitudes to the US revealed that over 50% of 20- and 30-year-old Koreans polled in 2002–2003 favored 'adequate distance in relations' with the US, and 52.6% were not concerned by US force reduction. It is worth noting that these figures were generationally skewed. Younger Koreans were much less likely to support the US presence there and more likely to regard the US presence negatively. This anti-Americanism has been exacerbated by the changes in regional security since 2000 and a perception that the US contributes to tension in either East Asia or the Korean peninsula. It has also been aggravated by the politicization

of security in recent election campaigns, which included responses to specific incidents involving US military personnel (Kim and Kim, 2005). Further, as South Korea continues on its path as a mature democracy, any antipathy to trade agreements that reflect the greater relational power of the US is increasingly likely to be heard.

## 7 US strategy in Northeast Asia

Tension in the US–Japan trade relationship has been an ongoing feature of relations since Japan’s emergence as an economic force in the 1970s. Through the 1990s, the Clinton administration’s trade policy of aggressive unilateralism practiced throughout Asia targeted Japan’s market regulation and protection measures. During Japan’s economic crisis in the 1990s, the US adhered to the view that liberalization within the Japanese economy remained as the solution. However, later in that decade the onset of deflationary pressures in Japan and subsequent economic stagnation eased the aggression with which the US approached Japan. By 2000, it was the continuing rise of China that reinforced US interest in Japanese strength. China’s rising power, together with instability on the Korean peninsula, refocused the importance of Japan as US ally in Northeast Asia.

At present, nevertheless, the prospects for a US–Japan FTA appear distant. While the US–Japan Economic Partnership for Growth oversees the bilateral relationship for the US, an FTA with Japan would need to include the elimination of nontariff barriers that protect local companies, in addition to the liberalization of agricultural markets and reform of the farm sector. An entrenched bureaucracy within Japan would most likely assiduously resist changes in these areas (and recent elections in Japan only confirm this view). Conversely, Washington would contest Tokyo’s moves to dismantle US anti-dumping legislation and reforms to the Jones Act’s protection of US shipping between domestic ports. Though talks in April 2007 between President Bush and former Prime Minister Abe canvassed the possibility of an FTA, the mid-year elections in Japan revealed a reassertion of the strength of the agricultural lobby which effectively delay any prospects of an FTA.

Launching talks with Taiwan, however, was much more complicated. As Chinese foreign trade minister, Shi Guangsheng reiterated,

The countries which have established diplomatic ties with China must observe the One-China principle while developing economic and trade relations with Taiwan . . . if such countries sign free trade agreement [*sic*] with Taiwan authorities, they are bound to bring political troubles to themselves (Shi, 2002).

Although the US assisted Taiwan and China with their accession to the WTO in 2001 and it has negotiated a number of specific bilateral agreements with Taiwan such as the Understanding on Government Procurement, signed in 2001, it has declined to pursue any overarching free trade agreement. This is so despite its security arrangements with Taiwan and its reaffirmation with Japan, through the US–Japan Security Consultative Committee 2005, that Taiwan was an area of ‘common strategic concern’ (US–Japan Security Consultative Committee, 2006).

Unquestionably, US acknowledgment of the implications of China’s role as the fastest growing industrial economy has affected US regional, political, and economic policies. However, the US has two very different but parallel threats with which it needs to deal: those posed by radical Islam and the rise of China. As has been suggested, a more creative approach would be to involve China into the strategy to deal with the terrorist threat (Campbell, 2004, 2005). There is some evidence that in sections of the administration this is taking hold. Former Deputy Secretary of State, Robert Zoellick, pursued this line through 2005 by rejecting the competitor language and substituting this with the need for China to become a stakeholder in the world system. To some extent, this reframing served to ameliorate the rancour arising from (a) the public perceptions of the Chinese threat in the form of the China National Offshore Oil Company’s bid for US resources company Unocal, (b) its escalating trade surplus with the US (despite the irony of US company Wal-Mart’s integral role in the enlargement of this imbalance through its sourcing of Chinese products), and (c) the latent power of China’s holdings of US debt securities. On the latter, new US Federal Reserve Chairman, Ben Bernanke, has acted in concert with Zoellick in attempting to deflate the threat. Despite China’s 2006 holdings of US\$820 billion, (Japan’s holdings total US\$830 billion), Bernanke was not anticipating a dramatic change in the pattern of holdings. He also argued that the current account deficit (US\$726 billion) largely comprising the trade deficit is a debt that ‘can and should come down gradually over a period of time’ as a consequence of exchange rates alterations (including Chinese adjustments), greater US national savings, and increased demand for US goods in Japanese and German domestic economies (US Department of State, 2006b).

There are those in Congress, however, who do not share the same sanguine view. Testimony provided during the 2005 Congressional Armed Services Committee revealed the depth of fear derived from Chinese expansion (US House Armed Services Committee, 2005). This was reinforced later in the year by the Pentagon’s annual report assessing Chinese military expansion. Reputedly, this report was delayed by some four months as the State and Defense Departments debated the assessment. Though State argued for a more benign interpretation, the Pentagon promoted more threatening analysis.



Clearly, the hawks in the administration had bought into an analysis that played on the development of China's nuclear arsenal and the accumulation of missiles that could target the majority of the US mainland. More broadly, Kurt Campbell interpreted the change ominously:

I think we will look back on 2001–04 as the high point in US-Sino relations. We are entering a new period where trade tensions, macro-economic disputes and strategic worries are animating the larger picture (Hartcher and Metherell, 2005, p. 32).

This more assertive approach was also evidenced in the 2006 USTR analysis of the trade relationship with China. Though US exports to China have grown by approximately 20% over the past 2 years, and since 2001 five times faster than to any other country in the world, escalating China from the ninth to the fifth largest export destination for the US over this period (USTR, 2006, p. 3), Portman flagged that it was time to 'readjust' trade policy to China. He stated that '(a)s a mature trading partner, China should be held accountable for its actions and required to live up to its responsibilities ... (w)e will use all options available to meet this challenge' (Office of the USTR, 2006b). This alteration in the tenor of the trade policy approach reflected the broader attempt by the administration to respond to the economic and political concerns posed by China. It also revealed the comprehensive nature of the administration's strategy in the region.

Others are less optimistic of the prospects for the US in the region. Yoichi Funabashi documents that the US standing in the region was dramatically and detrimentally affected by its ideological reaction to the Asian Financial Crisis. Furthermore, he claimed that the Chinese intent is to utilize both the deterioration in the US status together with the explosive power of its economic growth to marginalize both the US and Japan (Funabashi, 2004).

## 8 US strategy in Southeast Asia

As a key sphere for influence and as 'economic and political swing states', Southeast Asia has become an area in which the US, Japan, and China have increasingly invested. Each of the major powers is keen to connect the region to their interests and is loathe that Southeast Asia fortify ties with either of the other powers (McIntyre, 2004). The importance of Southeast Asia is further emphasized as the Northeast Asian states pursue economic regionalism, but as a group appeared to fragment politically in the early part of the new century (Australian Strategic Policy Institute, 2004). Though it seems that Sino-Japanese relations have improved more recently, the stronger economic but weaker political relations duality appears to be impelling the US toward greater integration with the region.



Coupled with these twin processes, the rise of fundamentalist terrorist networks with destructive intent beyond local concerns is of increasing disquiet in the US. These nonconventional and transnational groups operating within the region present an increasing threat to the US. US military presence in the Middle East, regarded as both a slur against sovereignty and religion for some Islamic radical and political groups, is being utilized as a recruiting force in Southeast Asia. Where in the past local groups, such as those insurgent clusters with secessionist interests in The Philippines and Southern Thailand, may have operated in isolation there are escalating fears that these groups are being infiltrated by those with grander intent (Wright-Neville, 2006). Terrorist bombings on western targets in the Balinese resorts of Jimbaran Bay in October 2005 following on from previous attacks in Bali, the Jakarta Marriott, and Kuningan bombings stand as testimony to the capacity of local networks to inflict violence within the region. Moreover, there exist mounting fears in Washington that the next major attack on the US may originate in Southeast Asia (Dibb, 2006). Thus, the region assumes greater prominence for the US. Accordingly, Philip Crane, Chair of the US House of Representatives Subcommittee on Trade, stated that:

the importance of the ASEAN region to American political, economic and security is increasing. US policy must continue to recognize our growing interests in the region, and do more to expand our engagement of ASEAN and its member nations (Crane, 2003).

Shortly after her appointment with USTR, Schwab confirmed that Southeast Asia remained a 'top priority' for both economic and strategic reasons (Office of the USTR, 2006c). Acknowledgement of this importance had previously been reflected in the US Enterprise for ASEAN Initiative (EAI) and the ASEAN Cooperation Plan (ACP) in 2002, which aimed to facilitate greater cooperation between the US and the ASEAN states. Two-way trade amounted to US\$120 billion and ASEAN collectively was the US' fifth largest trading partner. In particular, these agreements aimed to improve trade and investment flows between the two groups. Initially, the EAI plan embodied proposals to allow individual ASEAN states to develop TIFA arrangements and then eventually FTAs. The US also assisted Cambodia with accession to the WTO (a prerequisite for an FTA with the US) and signaled its willingness to aid Laos and Vietnam in this process. Opportunity was provided for the ASEAN states to act individually in the negotiation of agreements. Already in place were TIFA agreements signed with The Philippines, Thailand, and Indonesia, and by May 2003, the 'model' FTA with Singapore was signed (US Department of State, 2002b). By August 2006, the US and ASEAN had agreed to a 'Joint Vision Statement on the Enhanced Partnership' not only to strengthen the EAI but to cooperate more closely on transnational security

threats which included terrorism, WMD (weapons of mass destruction) proliferation, drug trafficking, and illegal migration (Office of the USTR, 2007). Moreover, that a number of ASEAN states oversee the security of crucial sea-lanes including the Straits of Malacca intensifies the magnitude of the security agenda. The US administration has thus argued that a strong US–ASEAN relationship ‘is a force for stability and development in the Southeast Asian region’ (US Department of State, 2002a).

For the US, trade strategy in Southeast Asia has a number of prongs. Not only does the US believe that this integration will assist it to solidify its association with a region where the threat of terrorism remains high, it also considers that these trade arrangements will enhance the development of economic growth (and, *inter alia*, greater demand for US goods). Presumably though, this strategy will be a crucial weapon in the terrorist fight as US partners may develop the capacity and inclination to contribute more substantially to the Long War and it may lessen the proclivity for the disadvantaged and disaffected to be recruited (Yeung and Kerr, 2003).

The US is aware that China has already signed an agreement with ASEAN that aims to create free trade by 2010. ASEAN countries are keen to ensure that their specialized high-end manufactures have assured and established markets in China prior to the internationalization of local Chinese products. With increasing skill development with also a commensurate rise in labor costs ASEAN countries need to ensure preferential access to Chinese markets as early as possible (DeRosa, 2004).

Although some of the ASEAN states experienced their highest growth in Foreign Direct Investment (FDI) in 2004, both China (with US\$72 billion) and Hong Kong remained as the largest and second largest recipients of FDI (UNCTAD, 2006). ASEAN thus has a particular interest in fostering its associations with the US as it competes with China (and increasingly India) in this marketplace. Specifically, it has interests in liberalizing its domestic economy and taxation regulations in raising its magnetism for US FDI (DeRosa, 2004). For ASEAN, the necessity for a rapid recovery to the Asian Financial Crisis also heightened the FDI imperative and sharpened ASEAN’s interest in trade agreements with the US. Responding to questions regarding the competition for influence in Southeast Asia and an appropriate US response to Chinese clout in the region, the USTR argued that the US ‘should be active in our own right. Our response to others’ activism should be activism, not negativism’ (Hartcher and Metherell, 2005, p. 32).

US relations with Malaysia demonstrate the extent to which the US has prioritized its anti-terrorism agenda and its preparedness to use its economic statecraft to serve those ends. US–Malaysian relations have endured a roller coaster ride over the past decade. Tensions relaxed after early support for the US post-September 11; however, they were revived after the US invasion of

Iraq. Malaysia perceived the US operations as damaging to normative behavior in international system and as an assault against Muslims. However, Malaysia has actively cooperated with the US in the apprehension of alleged Islamic extremists and suspects in nuclear proliferation networks. Consequently, the US remains prepared to weather criticisms over its defense policy in order to retain Malaysian cooperation in anti-terrorist activities (Nesadurai, 2006). Integral in maintaining this level of Malaysian support has been continued US attention to trade matters. The US signed off on TIFA arrangements in 2004 and launched FTA negotiations in March 2006. The US remains Malaysia's largest single country export market with export increases of 5.3% recorded in 2006 (Malaysia External Trade Development Corporation, 2007). The US is the fourth largest investor in Malaysia and its trade deficit since 1992 endures.

## 9 Risks in the preferential trade agreement strategy

The recurring pattern of US interest in establishing preferential trade agreements in the Asia Pacific region is, where possible, to overlay trade agreements upon the established system of security arrangements. The overarching purpose of the economic and security linkage is to shore up US engagement in a region where China is regarded, particularly by the Pentagon, as an increasing threat to US hegemony. It is a method by which the US can reinforce its dominance as the hub of both security and economic arrangements. As FTA negotiations are subject to political and bureaucratic influences, where the domestic elite value US relations over any Congressional attempt to exacerbate the US gains in an agreement, the FTA will most likely be signed. Thus, for the US linkage strategy to be set in place, the regional domestic elite payoffs must be perceived as significant enough to override any losses sustained through a separate neo-mercantilist agenda.

However, there are risks for both the US and domestic political elites attached to the extension of these neo-mercantilist tendencies. Recent US regional trade agreements have revealed the US propensity to exercise its relational power in FTA negotiations. Singapore bent to US will in the US–Singapore FTA in agreeing to privatize some state-owned enterprises and in relenting on the application of currency market capital controls (Dent, 2006).

As Australia discovered too, the US was a formidable partner to negotiations. The Australian model reveals that problems may arise from this attempt at linkage politics. First, the US has been criticized in the past for its aggressive unilateral trade policies in the region, including the use of its section 301 trade remedy tools. Should these transgressions detract from the security arrangements, then the linkage policy approach will be antithetical to US regional interests. Second, this possibility may be compounded by US

attempts to implement 'WTO plus' aspects in the preferential trade deals it is currently negotiating. The drive into domestic social policy through the international trade deals may ultimately militate against US aims as local populations seek to maintain some control over local policy including health costs, with pharmaceutical costs and availability as demonstrative of this. Similar public policy and national sovereignty concerns exist through intellectual property rights, cultural industries, and the preservation of sensitive manufacturing industries (Capling, 2005). Although elites in a number of regional countries maintain significant support for their US alliances, trade disputes have the effect of heightening domestic opposition to perceptions of US dominance. There is no doubt that while the US administration may have political reasons for the pursuit of these preferential arrangements, US commercial interests, such as the Pharmaceutical Research and Manufacturers Association (PhRMA), are vigorously hunting down international profit opportunities. So too, the US domestic manufacturing industry lobbies persuasively for expanded and ambitious market access internationally. Congress remains extraordinarily sensitive to these concerns (Wood, 2002). As William Kerr has argued, 'In the political system of the United States, selective sectoral trade policy allows the full brunt of the Congress's protectionist instincts to be realized in trade agreements with less economically powerful trading partners' (Kerr, 2005, p. 3).

These protectionist instincts were becoming increasingly evident in Congressional debates through 2007–2008. Some were asserted in House resolutions, such as the proposal to deny the renewal of fast track authority (US House of Representatives Resolution 587, 2007). Other Congressional legislation likely to be debated in 2008 includes: more stringent trade enforcement provisions, lowered thresholds for antidumping and anti-subsidy provisions, reviews of China's 'normal trade relations' status, actions to achieve better trade balances with surplus countries and panels to review unfavorable WTO decisions (Ikenson, 2007). Similar expressions of rising protectionist impulses were voiced in Committee hearings. Congressman Brad J. Sherman, Chairman of the House Subcommittee on Terrorism, Nonproliferation and Trade, remarked at the 'Trade, Foreign Policy and the American Worker' Hearing in March 2007, that 'NAFTA era' trade policy had failed to provide for the American worker (Committee on Foreign Affairs Hearing, March 2007, pp. 1–6). At these same hearings, Thea Lee of the AFL-CIO argued that US trade policy had 'utterly failed to ensure that American producers and workers are able to compete successfully in the global economy' (Committee on Foreign Affairs Hearing, March 2007, p. 40). Further, the role China played in exacerbating domestic economic problems were reiterated (Committee on Foreign Affairs Hearing, March 2007, pp. 40–50). Georgia Democrat David Scott repeated these concerns at the Congressional Hearings

on the KORUS FTA where he outlined the negative impacts for American industries and workers as a consequence of trade agreements (Committee on Foreign Affairs Hearing June, 2007, pp. 7–8).

Congress was also aware that any opening of international markets also provides a chance to recoup something of the budget deficit sustained through the recent massive military expenditure. Indeed, any US attempts at recovery from its twin trade and budget deficits will only increase pressure on trade partners. Thus, the fears expressed in Australia of the spill over of trade tensions, which are highlighted in bilateral negotiations, into the security domain are applicable to the region.

Third, if questions remain as to whether these FTAs ‘will add to the stock of security-creating political assets in the region’, then economic cooperation based on nondiscriminatory principles may be more effective (Findlay *et al.*, 2003, p. 5). Fourth, it is also evident that the US is not always unified in its approach. Although Robert Portman and now Susan Schwab have actively sought trade agreements with Asian capitals and Robert Zoellick has attempted to counter Department of Defense warnings of China as an adversary with efforts to engage China as a partner, there remain inconsistencies in the approach. Despite Rice’s appointment as Secretary of State, tension with the Pentagon continues. Recent criticisms too of Rice, by former Deputy Secretary, Richard Armitage, that she has failed to focus sufficiently on the region have also highlighted the intense demands on US attention in the current climate (Elliott, 2006).

In sum, these considerations add weight to the argument that the US remains as an incomplete hegemon. While most regional states still prefer US engagement in the region rather than withdrawal, criticism of particular policies remain. Moreover, US behavior complicates the twin dilemmas of entrapment or abandonment for US Pacific allies (Mastanduno, 2005). More broadly, many of the criticisms of preferential trade agreements have been that they constitute an erosion of the proper functioning of the multilateral trade institution that has at its heart the goal of creating the conditions for international peace. That the present jumble of limited trade agreements coupled with the US drive to competitive liberalization has not spurred greater cooperation in the Doha trade round only adds weight to these concerns. It would be an unfortunate irony if the current US deployment of economic statecraft, aimed to bolster its own security, served detrimentally to erode the conditions for global security.

## 10 Conclusion

Since 2001, US security concerns have focused on both the rise of Islamic terrorism and China’s economic and subsequent military expansion. As a

response, the US has attempted to utilize economic policy instruments, in particular the FTA, to bolster its security position in East Asia. Its deployment of FTAs for this purpose has intersected with commensurate commercial interests to open markets; establish the rules in the new knowledge sectors and model agreements for trade global trade with the US at its hub. As special interest groups thus have some say in the negotiation of these agreements, the situation arises for neo-mercantilist politics to be played out from within the Congressional system. Conversely, while regional elites have an interest in US security relationships, they are often unable to deliver expected benefits for their domestic constituencies in all sectors through the FTA negotiation process because of US relational power. Thus, US strategy to galvanize its support in Asia via its linkage politics risks overplaying its hand by demanding greater outcomes be delivered to the larger power in the trade negotiations. Possible erosion of the potency of the multilateral trade institutions, which may attend the conduct of its particular variety of economic statecraft, may also function in ways counter to the US executive's quest to enhance US security in the longer term.

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