Pacific Focus
Inha Journal of International Studies

ISI listed

Free Trade Agreements and US Foreign Policy

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The United States has completed numerous free trade agreements (FTAs), but the pattern of these agreements defies conventional explanations. Arguments that are based on domestic interests and economic gains cannot explain the comparative under-performance of US trade agreements. The pattern of US trade agreements is also inconsistent with explanations that focus on state power, which depict FTAs as a "reward" for loyal clients. This article finds a better explanation for the pattern of the United States' FTAs by considering the systemic level of analysis, and in particular the dynamics of the international economic order. It illustrates that strong competition for bilateral trade agreements has resulted in patterns of agreements that the United States cannot easily dominate. This is not to say that the United States has no capacity to finalize trade agreements: the United States remains the world's most influential nation-state, but the constraints of the international system necessarily limit the degree to which FTAs can serve the interests of US foreign economic policy. The recent evolution of international trade politics, however, indicates that smaller states are comparatively less vulnerable to pressure from great powers, such as the United States.

Key words: *foreign economic policy, United States, free trade agreements.*

Why Sign FTAs?

This article analyzes the free trade agreements (FTAs), also known as regional or preferential trade agreements, that the United States has completed. The global trend towards FTAs – defined here as comprehensive agreements between two or more parties that cover trade in goods, services and investment – is unmistakable: more than 350 FTAs are operative and another 200 are proposed. The United States has completed 14 agreements with 20 states,[1] and is party to negotiations toward the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment

1. World Trade Organization, "Regional trade agreements," at <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> (searched date: 21 November 2014).

Pacific Focus, Vol. XXX, No. 2 (August 2015), 151–172.
doi: 10.1111/pafo.12048

Partnership (TTIP, with the European Union). An increasingly large share of economic activity is being conducted under preferential conditions. For states such as Singapore and Australia, the proportion of economic activity covered by FTAs – termed here the “FTA coverage ratio” – exceeds 50%. For the United States, by contrast, FTA coverage ratios are comparatively low: less than 40% of merchandise trade, and less than one-fifth of services trade and foreign investment, is conducted under preferential conditions. Seen in comparative perspective, therefore, the United States has under-performed in terms of its foreign economic policy (FEP). What is more, some military allies of the United States have completed FTAs with the world’s emerging superpower, China. In November 2014, Australia and South Korea completed negotiations for bilateral FTAs with China, and in March 2015 they announced that they would join the Chinese-led Asian Infrastructure and Investment Bank, despite the objections of the United States to the new body’s launch.[2] These developments defy conventional explanations of the United States’ FEP, in that they suggest that the allegedly strong link between security and trade may be breaking down.

Liberal theorists assume that the interests of societal actors, who see trade agreements as a means of increasing sales and profits, are the driving force in FEP.[3] FTAs open new markets and expose domestic firms to new competition, but liberals assume that trade agreements positively impact on the aggregated interests of the private sector. In other words, economic gains are the primary motivation for trade agreements, and states encourage economic interdependence with like-minded counterparts because this can solidify a “capitalist peace.”[4] Contemporary trade agreements, however, are an extended and intensified form of FEP, and provide less potential to exclude sensitive sectors, such as agriculture. As a result, they tend to be less attractive to the private sector as a whole, and there has been less impetus to finalize trade agreements. In the case of some East Asian states, substantial gains have resulted from FTAs,[5] but US agreements have not recorded similarly satisfactory results. The agreements that the United States has completed do not allow US firms to partake in economic activity under preferential conditions to the same extent as their overseas counterparts. Liberal analysts thus struggle to explain the pattern of US FTAs since the recent shift towards bilateralism.

In place of liberalism’s emphasis on societal interests, the statist perspective posits that the state is the primary actor in FEP. This perspective, whether in its

2. Sang-Hun Choe, “South Korea plans to join regional development bank led by China,” *New York Times* (27 March 2015), p. A12.
3. James N. Rosenau, *The Scientific Study of Foreign Policy* (New York: Nichols, 1980).
4. Erik Gartzke, “The Capitalist Peace,” *American Journal of Political Science*, 51-1 (2007), pp. 166–191.
5. Raymond Hicks and Soo Yeon Kim, “Reciprocal Trade Agreements in Asia: Credible Commitment to Trade Liberalization or Paper Tigers?” *Journal of East Asian Studies*, 12-1 (2012), pp. 1–29; Mark S. Manger, “The Economic Logic of Asian Preferential Trade Agreements: The Role of Intra-industry Trade,” *Journal of East Asian Studies*, 14-2 (2014), pp. 151–84.

realist, Marxist or liberal–institutionalist form, tends to adopt a one-dimensional view of power.[6] Bilateral FTAs require a significant degree of institutional, regulatory and governance convergence. If smaller states adapt their economic governance structures to those of their larger trading partners, they cede sovereignty to the larger state: A trade agreement "makes it hard for the contracting parties to cut off relations . . . no country has pursued an FTA with a country that may in future be a potential enemy."[7] Statists emphasize the role of US power in finalizing trade agreements, but pay insufficient attention to the interests of other states. They also fail to adequately account for the emergence of rivals to the United States' decades-long reign as the world's premier economic power. In an age when both China and the EU have economies of broadly similar scales to the United States, it can no longer be assumed that coercion can bring smaller economies into the United States' sphere. The completion of bilateral agreements between China, the presumed main rival to US leadership, and US military allies, such as Australia, Singapore and South Korea, undermines the statist perspective on FEP.

This article argues that the United States faces increasing competition for economic alliances, and that this competition is not the zero-sum game that some statists depict. Approaches that emphasize the interests of domestic interest groups or the state are not conducive to analyzing the FTAs that the United States has completed in an era during which multilateral trade talks have broken down. States play a purposeful albeit uneven and constrained role in shaping markets at the national and international levels. For Karl Polanyi, markets are political projects that states oversee.[8] Free trade tends to benefit the world's wealthiest states, which are also the main architects of the international financial system.[9] Pro-market states pursue neo-liberal policy initiatives, such as FTAs, but they do so in a fluid, competitive and dynamic international context. The General Agreement on Tariffs and Trade offered the United States, as hegemon, a means (albeit imperfect) of promoting international trade agreements that were generally favorable to its own interests. By contrast, in the World Trade Organization (WTO) era, large emerging economies, such as India and China, have refused to cede ground to the United

6. For the three varieties of statism, see respectively, Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978); Perry Anderson, "Imperium," *New Left Review II*, 83 (2013), pp. 5–111; and Robert O. Keohane and Lisa Martin, "The Promise of Institutionalist Theory," *International Security*, 20-1 (1995), pp. 39–51.
7. Yul Sohn, *The U.S. and China's FTA Networks in Northeast Asia: How Should South Korea Respond?* (Seoul: East Asia Institute, 2012), p. 2.
8. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957).
9. Ha-Joon Chang, "Kicking Away the Ladder: An Unofficial History of Capitalism, Especially in Britain and the United States," *Challenge*, 45-5 (2002), pp. 63–97; Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994).

States on sensitive trade issues like agriculture.[10] The competitive bilateralism of the past 15 years has thus been less favorable to the United States, and there has been a drift away from multilateral forums as the main conduit for trade liberalization. Since 1994, 10 regional trade deals have been completed, but the only multilateral agreement has been the WTO's "Bali package" in 2013, which entailed only a modest degree of liberalization.[11] Other states have completed bilateral agreements on terms that may not accord with US interests, as China's FTAs with close US allies, such as Singapore, illustrate. The weakening of US economic influence, and the rise of new economic powers, has resulted in a dispersal of economic power throughout the international political economy. In a multipolar global economy, it is easier for smaller states to avoid being excessively influenced by their larger counterparts. This is because, this article argues, economic power is less prone to dominance by specific nation-states. Analogies between economic and military power are misleading, in so far as military power belongs to specific states whereas economic power is less attributable to any particular state or society.

The article proceeds as follows. The next section identifies the hypotheses that are implicit in the statist and liberal approaches, and highlights their limitations. It also makes the case for an analytical framework that accounts for the dynamics of the competitive international system. In analyzing trade agreements, this article goes beyond a narrow focus on exports, or specific sets of economic relations, and instead considers the significance of FTAs to both the United States and its trading partners. It thereby avoids the statist tendency to view the power of the United States in one-dimensional terms. By assessing the overall impact of trade agreements in relative and comparative perspective, FTA ratios measure the effectiveness of trade negotiations. If the statist assumption that the United States is the world's most powerful economic and political actor is correct, the United States should be able to easily complete agreements with other states. To complement the economic analysis of trade agreements, the article also analyzes the political and security aspects of FTAs that the United States has completed. It illustrates that the systemic level of analysis offers a more convincing explanation for US FTAs than conventional means of understanding FEP, which focus on the state and sub-state levels.

Theorizing Trade Agreements

For liberals, FEP is an extension of domestic political processes. In a pluralist society, economic actors have defined interests that they seek to see reflected in the

10. James Brown, "Unravelling the Trans-Pacific Partnership Agreement," *The Saturday Paper* (28 March 2015), p. 7.
11. *The Economist*, "Game of Zones" (21 March 2015), p. 61.

making of economic policy, including trade agreements.[12] Interest groups lobby Congress and the executive branch to tailor economic policy to their specific interests and needs within a competitive political system, through exploitation of "veto points" in the polity.[13] Those sectors of the economy that favor liberalization will generally support the completion of FTAs, and those in favor of protectionism will tend to oppose such agreements. On balance, however, liberals assume that the main impetuses for FTAs are the interests of domestic lobbies (i.e., business elites) and that US policy-makers will be sympathetic to business interests. In the words of Michael Froman, the second Obama administration's US Trade Representative, when evaluating new trade agreements, the United States "must first and foremost evaluate their economic merits. Trade deals must promote U.S. economic growth, support jobs, and strengthen the middle class."[14]

Interest groups may prefer some types of trade agreements and partners more than others. Being a product of a democratic society, US firms prefer to trade with other democracies, which are deemed to be more reliable negotiating partners and allies. Policy-makers, similarly, envisage trade agreements to form part of a mutually reinforcing network of political–military alliances and cooperative relations at the multilateral level: a "capitalist" or democratic peace.[15] The democratic peace (DP) thesis argues that democracies complete preferential trade deals with each other rather than with hostile or neutral states. The more democratic states are, the less likely they are to go into conflict with each other. Economic interdependence reduces the prospect for conflict between states, because democracies tend to pursue FTAs with each other rather than non-democracies.[16] The DP thesis shapes the process of foreign-policy-making in the United States, as well as US views of itself and the world. There is a noticeable "regularity in how security threats are constructed,"[17] and the political character of particular states is central to how the United States views other states. Democracies tend to be peaceful, and thus FTAs are unlikely to empower potential enemies; democracies are accountable, and are thus likely to respect agreements that they finalize; and democracies see a national

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12. Mark L. Busch and Edward D. Mansfield, "Trade: Determinants of Policies," in Robert A. Denemark, ed., *The International Studies Compendium Project* (2010), at <http://www.isacompendium.com/subscriber/uid=5662/tocnode?id=g9781444336597_yr2014_chunk_g978144433659719_ss1-21> (searched date: 18 June 2015).
13. James N. Rosenau, *op. cit*.
14. Michael Froman, "The Strategic Logic of Trade," *Foreign Affairs*, 93-6 (2014), p. 111.
15. Erik Gartzke, *op. cit*.
16. Benjamin E. Goldsmith, Stephan K. Chalup and Michael J. Quinlan, "Regime Type and International Conflict: Towards a General Model," *Journal of Peace Research*, 45-6 (2008), pp. 743–63; Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence and International Organizations* (New York: W.W. Norton & Company, 2001).
17. Jarrod Hayes, "Identity and Securitization in the Democratic Peace: The United States and the Divergence of Response to India and Iran's Nuclear Programs," *International Studies Quarterly*, 53-4 (2009), p. 979.

interest in FTAs, so they are good potential partners for such agreements.[18] The DP thesis, however, cannot accurately predict the behavior of all states. The United States, for instance, went to war with the Philippines in the late 19th century and abetted a coup in Chile in 1973, despite both societies being democracies.[19]

The statist perspective, meanwhile, emphasizes the interests of the state, or the executive branch of the US government, in the making of FEP. In this view, the executive branch adopts a more holistic approach to economic policy that is motivated by "national interests," such as the security of foreign investments by US firms.[20] FEP supports not only the narrow interests of US banks and firms, but also buttresses US hegemony and the capitalist system more broadly.[21] The United States has acted "not primarily as a projection of the concerns of US capital, but as a guardian of the general interest of all capitals, sacrificing – where necessary, and for as long as needed – national gain for international advantage, in the confidence of ultimate pay-off."[22]

National power is central to statist analysis of FEP, with scholars arguing that overwhelming US power in terms of security has been advantageous to economic ends. According to Richard Higgott, a proponent of the "securitization" thesis, a "hegemonic state [will] organize economic policy and practice 'to line up behind and reinforce its national security strategy'."[23] That is, the United States has the capacity to compel other states to accept the terms of trade agreements, or to accede to US priorities in economic policy. According to Glenn Hastedt, the United States has an "ability to attract other countries to [its] economic system and then trap them in it . . . International free trade systems exist because they serve the interests of the dominant power."[24] In this view, the United States possesses "the most successful tributary system the world has even seen . . . the most extensive network of formal and informal alliances ever built."[25]

The realist variant of statism argues that security is the main priority for all states, and that wealth is the material basis for military power. For realists, military alliances are "high politics" and thus the eternal priority of state leaders, while

18. A. Cooper Drury, Jonathan Krieckhaus and Chika Yamamoto, "How Democracy Facilitates South Korean Interest in Free Trade Agreements," *Korea Observer*, 45-1 (2014), pp. 39–60; Michael Froman, *op. cit.*, pp. 114–15.
19. Jaechun Kim and David Hundt, "Popular Consent and Foreign Policy Choices: War Against the Philippines and Covert Action in Chile," *Australian Journal of International Affairs*, 66-1 (2012), pp. 52–69.
20. Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975); Stephen D. Krasner, *op. cit*.
21. Charles P. Kindleberger, *The World in Depression, 1929–39* (London: Allen Lane, 1973).
22. Perry Anderson, *op. cit.*, p. 43.
23. Richard Higgott, "After Neoliberal Globalization," *Critical Asian Studies*, 36-3 (2004), p. 427.
24. Glenn P. Hastedt, *American Foreign Policy: Past, Present, Future*, 10th edn (Lanham: Rowman & Littlefield, 2015), pp. 289, 290.
25. Yuen Foong Khong, "The American Tributary System," *Chinese Journal of International Politics*, 6-1 (2013), p. 1.

commercial interests are "low" politics.[26] Defensive realists hypothesize that great powers consciously cultivate security ties with their allies in order to maintain their supremacy in the world system. Great powers do not sign trade agreements "purely on the basis of economic benefits," and instead reach such agreements "to reward military allies and strengthen their security status."[27] According to Bob Zoellick (then US Trade Representative), "A free trade agreement is not something that one has a right to. It's a privilege. But it is a privilege that must be earned via the support of U.S. policy goals. [The Bush administration] expects cooperation – or better – on foreign policy and security issues."[28]

Offensive realism, meanwhile, claims that states are motivated by more than merely their current position in the international system, and instead that they seek to maximize their relative power when it is possible to do so.[29] States attempt to exploit "windows of opportunity" during which they have power advantages over their rivals.[30] Even ambitious hegemons, however, are careful about how they expand their power.[31] To avoid antagonizing potential competitors, superpowers may seek "incremental, repeated and localized efforts to expand power when such opportunities arise."[32] Great powers may use a wider variety of tools, including FTAs, to expand their power, but in a less mechanistic way than defensive realists predict.

Statists tend to assume that US power is overwhelming or at least sufficient to enforce its will on other states. The empirical record of FEP in the United States, however, suggests that this claim is questionable. For this reason, this article argues that systemic-level factors provide a more convincing explanation for the formation of trade agreements by the United States. Statists risk creating an arbitrary divide between the domestic and international realms,[33] due to their focus on US power at the expense of the interaction of the United States with other states in the international system. It is quite possible, for instance, to accept the notion that great powers have a capacity to use alliances to reinforce their economic interests, but smaller alliance partners may be wary of their dependence on great-power protectors, which can incur political costs, such as demands for policy control and basing

26. Dong Sun Lee and Sung Eun Kim, "Ties that Bind? Assessing the Impact of Economic Interdependence on East Asian Alliances," *Pacific Focus*, 26-2 (2011), p. 210.

27. Seungjoo Lee, *The Evolutionary Dynamics of Institutional Balancing in East Asia* (Seoul: East Asia Institute, 2012), p. 7.

28. Cited in Richard Higgott, *op. cit.*, p. 436.

29. Eric J. Labs, "Beyond Victory: Offensive Realism and the Expansion of War Aims," *Security Studies*, 6-4 (1997), p. 4.

30. Jihwan Hwang, "Offensive Realism, Weaker States and Windows of Opportunity: The Soviet Union and North Korea in Comparative Perspective," *World Affairs*, 168-1 (2005), pp. 39–48.

31. Jaechun Kim and David Hundt, "US Policy toward Rogue States: Comparing the Bush Administration's Policy toward Iraq and North Korea," *Asian Perspective*, 35-2 (2011), pp. 239–257.

32. Eric J. Labs, *op. cit.*, p. 12.

33. Nitsan Chorev, "A Fluid Divide: Domestic and International Factors in US Trade Policy Formation," *Review of International Political Economy*, 14-4 (2007), pp. 653–89; James N. Rosenau, *op. cit*.

rights.[34] By introducing a stronger element of contestation and competition to the analysis of US foreign policy in general, and FEP in particular, this article provides a more convincing explanation for the FTAs that the United States has – and has not – completed.

How Well do FTAs Deliver?

The FTA partners of the United States are Israel, Canada, Mexico, Jordan, Chile, Singapore, Australia, Bahrain, Morocco, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Oman, Peru, Panama, Colombia and South Korea. Of these, only Canada, Mexico, Australia and South Korea are among the largest 20 economies in the world, and only nine partners are among the 50 biggest economies. The majority are quite small, and almost half of these FTA partners have economies that are less than 1% of the size of the United States'.[35] Even the North American Free Trade Agreement, completed with Canada and Mexico, has not delivered the economic benefits that its supporters had anticipated at the time of its launch in the early 1990s.[36] In other words, the United States' FTA network does not have the potential to deliver substantial economic gains. Furthermore, these economic partners generally do not belong to the regions of greatest economic importance to the United States. For instance East Asia accounts for 36% of US merchandise trade, but the United States has completed only two FTAs with states in that region. More than half (11 of 20) of the United States' FTA partners are located in Central and South America, but only 9% of US trade is conducted with those sub-regions.[37]

Canada and Mexico conduct two-thirds of their trade with their North American neighbor, so their economic orientation is predominantly towards the United States. These partners account for about one-third of US trade with the rest of the world. As its closest neighbors, Canada and Mexico are closely intertwined with the United States. The United States' economic relations with Australia and South Korea, by contrast, reveal another side to the role of FTAs in US foreign policy. These are two of the largest economies in the US FTA network, and they have well-developed FTA networks. South Korea has FTAs with most of its biggest trade partners, and as Table 1 illustrates, these agreements cover almost 60% of its foreign trade. Australia, similarly, has FTAs with its most significant economic partners. These agreements cover almost 70% of Australia's merchandise trade, if the recently completed agreements with Japan and China are included.

34. Dong Sun Lee and Sung Eun Kim, *op. cit.*, pp. 209–211.
35. Central Intelligence Agency, "World Factbook: GDP (Purchasing Power Parity)," at <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html> (searched date: 22 May 2014).
36. *The Economist*, "Ready to Take Off Again?" (4 January 2014), pp. 28–30.
37. World Trade Organization, *International Trade Statistics 2013* (Geneva: World Trade Organization, 2013).

The United States' FTA with South Korea accounts for 2.8% of total US merchandise trade, and Australia just 1% (see Table 1). Furthermore, these economic relationships are in relative decline. In 1990, the United States accounted for 18% of Australia's foreign trade, but its share declined to just 10% in 2009.[38] In terms of importance to Australian trade, the United States and China have switched positions: 23% of Australian exports went to China in 2009–2010, more than double

Table 1. *Economic Partners and FTA Coverage*

Australia		**South Korea**		**United States**	
Merchandise trade (2011)					
China	23.7	China	20.8	European Union	17.2
ASEAN	14.6	ASEAN	11.8	Canada	16.2
Japan	14.1	Japan	10.2	China	14.0
European Union	12.8	European Union	9.8	Mexico	12.4
United States	7.7	United States	9.6	ASEAN	5.4
South Korea	6.3	Saudi Arabia	4.2	Japan	5.4
India	3.5	Hong Kong	3.2	South Korea	2.8
New Zealand	3.2	Australia	3.2	Brazil	2.0
FTA coverage ratio	**69.9%**		**59.8%**		**38.6%**
Services trade (2011)					
European Union	19.8	United States	21.7	European Union	32.8
ASEAN*	17.8	European Union	14.5	Canada	8.2
United States	14.7	China	13.3	Japan	6.9
China	6.8	ASEAN*	12.5	Mexico	3.8
New Zealand	6.0	Japan	9.6	China	3.7
Japan	3.7	Hong Kong	4.2	Brazil	2.8
Hong Kong	3.4	Saudi Arabia	3.1	South Korea	2.7
India	2.6	United Arab Emirates	1.9	Australia	2.2
FTA coverage ratio	**51.5%**		**66.6%**		**18.4%**
Inbound FDI (2012)					
United States	23.9	Japan	27.9	European Union	63.4
United Kingdom	14.4	China	24.6	Japan	11.6
Japan	11.1	United States	22.6	Canada	9.9
ASEAN	9.0	European Union	16.6	British Caribbean	4.6
FTA coverage ratio	**48.2%**		**67.0%**		**18.5%**

* Singapore, Philippines, Indonesia, Malaysia, Vietnam, Thailand.
Sources: Trade, European Commission, "Australia: EU Bilateral Trade and Trade with the World" (26 April 2012), at <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113346.pdf> (searched date: 27 May 2013). Trade, European Commission, "South Korea: EU Bilateral Trade and Trade with the World" (26 April 2012), at <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113448.pdf> (searched date: 27 May 2013). Trade, European Commission, "United States: EU Bilateral Trade and Trade with the World" (26 April 2012), at <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113448.pdf> (searched date: 27 May 2013); OECD, *FDI Flows by Partner Country* (Paris: OECD, 2014).

38. James Cotton, "Australia–America 2006–2010: Waiting for Obama," in James Cotton and John Ravenhill, eds., *Middle Power Dreaming: Australia in World Affairs, 2006–2010* (Melbourne: Oxford University Press, 2011), p. 65.

the figure from two decades earlier.[39] South Korea's pattern of trade with the United States is similar to that of Australia, in that China has supplanted the United States as the major trading partner. In 2000, the United States accounted for 19.8% of South Korean foreign trade, but in 2011 the United States' share was just 9.4%. China's share, by contrast, increased from 9.2% to 20.2% in the same period.[40]

A different picture emerges if we consider trade in services. The US share of world services trade is 26.9%, behind only the EU (36.4%). In 2010, the United States enjoyed a surplus in services trade of $164bn.[41] Services trade has traditionally been less well regulated and protected in international trade regimes, compared to trade in goods. For these reasons, the United States has a strong interest in negotiating FTAs that include services. A quasi-FTA in services trade may emerge in the form of the Trade in Services Agreement (TISA). The 22 states who are negotiating TISA account for more than two-thirds of the global trade in services.[42]

In 2011, the FTA coverage ratio for the United States in terms of services trade was only 18.7%, compared to 38.6% in merchandise trade (see Table 1). One reason for this discrepancy is that Canada and Mexico constitute almost one-third of US merchandise trade, but only 12% of its trade in services. Furthermore, the EU accounts for almost twice the proportion of US trade in services compared to trade in goods (32.8% vs 17.2%). As most FTA partners of the United States are small economies with under-developed service sectors, the overall FTA coverage ratio for services is low. For Australia, the coverage ratio for services is more than 50%. The relative importance of Japan and China is much lower for services than for goods, and the proportion of services trade that the EU and the United States constitute is higher. South Korea's FTA coverage ratio is 66.6% for services, in large part because two of South Korea's FTA partners, the EU and the United States, are leaders in the world services trade. ASEAN, South Korea's third largest services trading partner, further bolsters the FTA coverage ratio.

Patterns of foreign direct investment (FDI) conducted under FTAs are broadly similar to trade in services. As Table 1 shows, almost two-thirds of FDI in the United States is sourced from the EU, and only 18.5% originates from FTA partners. Almost 10% comes from Canada, while South Korea (3.1%), Singapore (1.7%), Mexico (1.8%) and Australia (1%) provide small shares.[43] Just as the

39. Jian Zhang, "Australia and China: The Challenges of Forging a 'True Friendship'," in James Cotton and John Ravenhill, eds., *Middle Power Dreaming: Australia in World Affairs, 2006–2010* (Melbourne: Oxford University Press, 2011), p. 83.
40. Heajeong Lee, *A Gilded Alliance: Global Korea's G-20/Yeonpyeong Moment Revisited* (Seoul: East Asia Institute, 2012), p. 5.
41. Gregory P. Corning, "Japan and the Liberalization of Trade in Services," paper presented at the International Studies Association Annual Convention, Toronto (26 March 2014), pp. 5, 16.
42. Pierre Sauve, *A Plurilateral Agenda for Services? Assessing the Case for a Trade in Services Agreement (TISA)* (Geneva: Swiss National Center of Competence in Research on Trade Regulation, 2013).
43. Organization for International Investment, *Foreign Direct Investment in the United States: 2013 Report* (Washington, D.C.: OFII, 2013).

United States is a more significant partner to Australia and South Korea in services trade than in merchandise goods, so too is the United States a more important partner in terms of investment. The United States provides about one-quarter of FDI to Australia, compared to 14% for the UK and 11% for Japan. Over 48% of FDI in Australia is sourced from FTA partners. The level for South Korea is 67%, and the United States – as the third-largest source of inbound FDI, slightly behind Japan and China – plays a relatively prominent role.

FDI is more significant for Australia than South Korea. From 2008 to 2012, FDI was between 2.7% and 4.5% of Australian GDP, a level similar to other resource-rich economies, such as Canada and South Africa. In South Korea, by contrast, FDI inflows equated to less than 1% of GDP, a similar level to Japan. The cumulative stock of FDI amounted to about one-third of Australian GDP from 2008 to 2012, but less than 15% for South Korea.[44] Inbound FDI has enabled the extraction of natural resources and the creation of wealth in Australia, but for South Korea it has been perceived as an exploitative force that was accepted under duress after the Asian economic crisis. The share of the stock market held by foreign investors more than doubled between 1997 and 2006. Substantial stakes in iconic South Korean firms, such as Hyundai Motor and Samsung Electronics, fell into non-South Korean hands.[45]

The FTA coverage ratios of US trade agreements are relatively weak. The United States conducts only 39% of merchandise trade on preferential terms, and the proportion of trade in services and FDI is less than 20%. The comparative ratios for Australia and South Korea are stronger for merchandise trade, services and inbound FDI, especially once the FTAs with China are included in the analysis. In comparative terms, the United States' FTA strategy has not been particularly effective. In general, therefore, the United States' FTAs do not support the liberal assumption that FTAs are completed with economic interests in mind. Australia and South Korea do not offer significant potential for increased economic gains in terms of merchandise trade, although the United States' dominant position as a provider of FDI and as a supplier of services offer some scope for gains. The assumption on the part of realists that FTAs are a reward for allies can also be questioned, given that the United States has less economic leverage over its allies than in previous decades. To the extent that FTAs act as a form of leverage for larger states over their smaller counterparts, this leverage is uneven. These findings support the claims in this article that a more convincing explanation for the US record of completing FTAs can be found at the systemic rather than state or sub-state levels.

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44. OECD, *FDI in Figures* (Paris: Organization for Economic Co-operation and Development, 2014).

45. Thomas Kalinowski and Hyekyung Cho, "The Political Economy of Financial Liberalization in South Korea: State, Big Business and Foreign Investors," *Asian Survey*, 49-2 (2009), pp. 228, 234.

Democracy and US FTAs

In this section, the article uses data supplied by Freedom House to analyze the relationship between FTA partners of the United States and regime types. Freedom House rates polities by two measures: their political rights (the capacity of ordinary citizens to contest political power, by for instance forming political parties), and their civil liberties (the degree to which citizens enjoy social freedoms, such as the rights to assembly and free speech). Societies that achieve a score of 1 or 2 are considered to be "free," societies with scores of between 3 and 5 are "partly free," and those societies with scores of 6 or 7 are "not free." We combine the scores for political right and civil liberties to create a composite *political rating*, in order to measure how democratic the United States' FTA partners are.

The average political rating for the United States' preferential trade partners in 2013 is 2.98, which falls just inside the free end of the Freedom House scale (see Table 2). Ten of the 20 FTA partners (50%) were free, seven (35%) were partly free, and three (15%) were not free. By way of comparison, Freedom House rated 45% of all states as free, 30% as partly free and 24% as not free.[46] So the average FTA partner of the United States is a comparatively free society.

As the second column of Table 2 shows, some difference is evident between the political ratings of FTA partners at the point of enactment of their trade agreements with the United States (year$_t$) and their 2013 ratings. There is almost no difference, however, between the political ratings of FTA partners 3 years prior to enactment of their FTAs with the United States, year$_{t-3}$, (3) and their most recent ratings (2.98, for 2013). As the third column of Table 2 illustrates, the political rating at time of enactment was 2.88, which is slightly better (that is, lower) than for 2013. In

Table 2. *Political Ratings for FTA Partners of the United States*

Category	**Year$_{t-3}$**	**Year$_t$**	**2013**
All FTA partners	3	2.88	2.98
Western democracies	1.33	1.33	1
Arab states	5	5	5.38
East Asia	3.25	3	3
Latin America	2.68	2.5	2.64
Pre-2001	2.88	3	2.63
Bush era	3.23	3	3.19
Obama era	2.17	2.17	2.5

Average of Political Rights and Civil Liberties scores.
Source: Freedom House, *Freedom in the World 2014: The Democratic Leadership Gap* (New York: Freedom House, 2014).

46. Freedom House, *Freedom in the World 2014: The Democratic Leadership Gap* (New York: Freedom House, 2014).

other words, FTA partners as a whole have experienced a modest deterioration in political openness since their agreements with the United States came into force. However, political ratings at the time of enactment were slightly better than 3 years earlier. This may indicate that the prospect of finalizing a trade agreement is an incentive for autocratic trade partners to democratize.

Table 2 disaggregates the data on FTA partners in order to identify regional variation. The three "Western democracies" (Australia, Israel and Canada) had the highest political ratings. In 2013, the group achieved the highest possible scores: 1 for both political rights and civil liberties. The group's score of 1.33 in $year_t$ and $year_{t-3}$ were a result of Israel's scores being 2 in the early–mid 1980s. The "Arab states" (Bahrain, Jordan, Morocco and Oman) had a score of 5.38 in 2013, which qualified them as not free. Their score is slightly worse than in $year_t$ and $year_{t-3}$ (5). The fall in the Arab group's political ratings was attributable to a deterioration in Bahrain and Jordan's ratings. Oman's remained the same (5) across all three points in time, and Morocco recorded a slight improvement (to 4.5 in 2013), making it the only Arab FTA partner to fall outside the category of not free. The East Asian states (Singapore and South Korea) had a political rating in 2013 of 3, which was slightly higher than for FTA partners as a whole (2.98). The East Asian average was the same as at the time of FTA enactment, and somewhat better than 3 years prior to enactment (3.25). The improvement was attributable to a shift in Singapore's political rating (from 5 to 4, partly free), and despite a slight deterioration in South Korea's rating (from 1.5 to 2, free). The Latin American group had 11 members and a political rating in 2013 of 2.64. There has been relatively little change in this group's rating compared with the time of FTA enactment (2.5) or 3 years prior to that point (2.68). These ratings qualify the Latin group as being free. Only four of these FTA partners (Colombia, Guatemala, Honduras and Nicaragua) fail to qualify as free in the 2013 ratings.

Table 2 also disaggregates the data on FTA partners on a temporal basis, to analyze trade agreements under different US administrations. It divides trade agreements into three categories: those finalized (if not enacted) prior to the Bush administration coming to power in 2001; those signed during the Bush era; and those signed during the Obama era. The first group consists of Israel, Canada, Mexico and Jordan (whose FTA came into force in early 2001). The 2013 political rating for this group is 2.63, which qualifies it as free. This is an improvement on the group's average in $year_t$ and $year_{t-3}$ (3 and 2.88, respectively). The only state in this group to not qualify as free on its own accord is Jordan, which alternated between the partly and not free categories. The Bush-era group consists of 13 states, including Peru, Costa Rica and Oman, whose agreements came into force in early 2009. The political rating of this group in 2009 is 3.19, which qualifies the group as partly free. This rating is almost identical to the rating for 3 years prior to FTA enactment (3.23), and slightly worse than at the time of enactment (3). Between the time that their FTAs were enacted and the most recent ratings, four states (Bahrain, Dominican Republic, Honduras and Nicaragua) experienced a deterioration in their individual ratings, and only Singapore recorded an improvement. The Obama-era group consists of Colombia, Panama and South Korea, and it had a political rating of 2.5 in 2013. This was a deterioration from a rating of 2.17 at both the time of FTA enactment and also 3 years prior to that point. Panama and South Korea both experienced slight deteriorations in their political ratings during this time, from 1.5 to 2 (free), while Colombia remained steady at 3.5 (partly free).

FTA partners of the United States are generally situated towards the more democratic end of the political spectrum, but not to the extent that supports a strong reading of the democratic peace thesis (that a common democracy legacy encourages states to complete FTAs, and conversely that states do not finalize FTAs with potential adversaries). There are numerous long-standing democracies with which the United States has yet to finalize preferential agreements. A weaker form of the argument may apply, in that the United States' FTA partners are for the most part democratic. The Arab cohort's political ratings are worse than any other cohort discussed above, which suggests that the United States, under George W. Bush, completed some FTAs without consideration of the political development of the partner in question. That is, some administrations may ignore the democratic credentials (or lack thereof) in potential FTA partners. Rather than relying on the DP thesis to explain the pattern of US FTAs, these findings reinforce the main claim of this article: that a more complete explanation can only be found by considering the systemic level of analysis.

Strategic Aspects of FTAs

The United States engages in collective defense arrangements with formal allies, both a bilateral basis (for example with Australia, South Korea and Japan) and multilaterally (the North American Treaty Organization). Some formal arrangements, however, lack substance. For instance the State Department refers to the Rio Treaty (1947) as a collective security agreement, "which provides that an armed attack against any American State shall be considered as an attack against all the American States,"[47] even though the United States abetted a coup in one signatory state (Chile, 1973), invaded another (Panama, 1989), and trained and funded anti-government forces in a third (Nicaragua, 1983–1984). So in measuring the strength of strategic–defense relations between states, it is necessary to distinguish between alliances that are functional and substantial, and those that are merely symbolic. Informal security relations may be at least as strong as formal ones. Of the United States' 20 FTA partners, only Australia, Canada and South Korea are formal military allies who are tied to the United States through fully functioning collective arrangements. Ranked someway below this group is a second set of states – Israel, Singapore, Bahrain and Jordan – with which the United States has

47. U.S. Department of State, "U.S. Collective Defense Arrangements," at <http://www.state.gov/s/l/treaty/collectivedefense/> (searched date: 23 June 2014).

"strategic partnership" or "defense cooperation" agreements. In these cases, the commitment of the signatories to the defense of each other is ambiguous. A third category consists of states with which the United States has treaties of a more general nature (Oman, Morocco), but which may have security implications. The final category consists of states who are party to the non-functioning Rio Treaty, who include all the Latin American FTA partners except Mexico and Nicaragua, who no longer recognize the validity of the treaty.

Other studies of the United States' relations with its security partners confirm this apparent mismatch between economics and security. Sylvan and Majeski argue that 97% of states in the Western hemisphere qualify as US clients.[48] Other regions with substantial proportions of US clients are the Middle East/North Africa (55%), Europe (43%) and East Asia/Oceania (43%). These regional rates of concentration do not, however, correlate well with a state's likelihood of being an FTA partner of the United States. The United States has no FTA partners in Europe, only three in East Asia and Oceania, and just five in the Middle East and North Africa. Aggarwal, meanwhile, contends that security influences the shaping of only some of the United States' FTAs. Security was paramount to the agreements with Israel, Jordan, Bahrain, Morocco and Oman. Security considerations influenced the FTAs signed with Singapore, Australia, Chile and South Korea, but were no more important than economic and regional-diplomatic objectives. In the cases of Canada, Mexico and Dominican Republic–Central American FTA, however, economic considerations and non-traditional security issues were the primary motivations for the agreements.[49] Security issues may influence some trade agreements, but not all. A recent study of the US tributary system failed to reveal a strong correlation between FTA partnership with the United States and loyalty as a tributary state. Of the six bands (where 1 is the most loyal tribute and 6 the least), more than half of the United States' FTA partners fell in the lowest two bands.[50]

The alleged correlation between alliances and FTAs is questionable, but small states may bind themselves to a superpower in order to enhance their security (or perceived sense of security). One way to do this is through FTAs with great powers, even if trade agreements are not favorable to smaller states. Critics of the AUS FTA argued that the agreement would damage Australia's interests. The Howard government defended the agreement by arguing that it would bolster Australian exports to the United States and increase US investment in Australia. The positives would outweigh the negatives.[51] Australia was the first ally to

48. Cited in Yuen Foong Khong, *op. cit.*, p. 9.
49. Vinod K. Aggarwal, "Linking Traditional and Non-traditional Security in Bilateral Free Trade Agreements: The US Approach," in Vinod K. Aggarwal and Kristi Govella, eds., *Linking Trade and Security: Evolving Institutions and Strategies in Asia, Europe and the United States* (New York: Springer, 2013), p. 195.
50. Yuen Foong Khong, *op. cit.*, pp. 22, 43–45.
51. Derek McDougall, *Australian Foreign Relations: Entering the 21st Century* (Sydney: Pearson Education Australia, 2009).

officially join the US-led operations,[52] and in 2011 the United States announced that a Marine Air Ground Task Force would begin rotations through northern Australia, thereby enhancing "the capabilities of both partners by increasing opportunities for combined training, [and] deepening interoperability."[53] The US Senate's approval of a defense trade agreement in 2012 that granted Australia and the UK access to US military technology without export licenses has enhanced the linkages between the militaries of the two states. About 50% of Australian war-fighting assets are sourced from the United States.[54]

Lee Myung-bak, South Korea's president at the time that the KORUS FTA was being finalized, emphasized the agreement's strategic importance: "The United States should always keep in mind China, which is growing fast, militarily and economically. The ratification of the KORUS FTA has a much more important meaning than simple economic cooperation between two allies."[55] A US diplomat recounted that: "We asked for changes in labor and environment clauses, in auto clauses, and the Koreans took it all"[56] due to fears that failure to complete the FTA would adversely affect bilateral political and security ties. In 2011, South Korea contributed $743m, or 42% of the total cost of hosting US forces on its soil. The South Korean share was expected to rise to at least 50%. South Korea also bought $966.9m worth of US arms in 2010.[57] The United States has been the largest exporter of weapons since 2004, accounting for about 30% of global sales. Its two largest customers are Australia and South Korea, each of which consitutes about 10% of total US sales from 2009 to 2013. Australia and South Korea are two of the largest importers of arms in the world, with each constituting a 4% share of arms imports from 2009 to 2013. The United States was the largest source of imports for both states, with a 76% share of Australia's arms imports and an 80% share of South Korea's.[58]

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52. Bruce Vaughn, *Australia: Background and US Relations* (Washington, D.C.: Congressional Research Service, 13 January 2012).
53. Barack Obama, "Prime Minister Gillard and President Obama announce Force Posture Initiatives" (16 November 2011), at <http://www.whitehouse.gov/the-press-office/2011/11/16/prime-minister-gillard-and-president-obama-announce-force-posture-init-0> (searched date: 25 April 2015).
54. Department of Foreign Affairs and Trade, Australia, "Australia–United States Defence Trade Cooperation Treaty" (2010), at <http://www.dfat.gov.au/geo/us/ausmin/Defence-Trade-Cooperation-Treaty-fact-sheet.pdf> (searched date: 14 February 2013).
55. Cited in Troy Stangarone, "President Lee pushes for KORUS FTA, China could be Korea's next FTA partner" (3 May 2010), at <http://newsmanager.commpartners.com/kei/issues/2010-05-03/1.html> (searched date: 24 May 2010).
56. Cited in Stephen G. Brooks, G. John Ikenberry and William C. Wohlforth, "Lean Forward," *Foreign Affairs*, 92-1 (2013), p. 140.
57. Mark E. Manyin, Emma Chanlett-Avery and Mary Beth Nikitin, *U.S.–South Korea Relations* (Washington, D.C.: Congressional Research Service, 28 November 2011), pp. 21–22.
58. Siemon T. Wezeman and Pieter D. Wezeman, *Trends in International Arms Transfers, 2014* (Solna: Stockholm International Peace Research Institute, 2015), pp. 2, 4.

The correlation between security and economic ties is less than might be expected given the overwhelming economic and military superiority of the United States since the end of the Cold War. Australia and South Korea are both formal allies and FTA partners of the United States, but they are in some senses the exceptions to the rule. Despite its heavy reliance on the United States for security, for instance, Japan is not an FTA partner of the United States (but may become one through the TPP). The near-complete incidence of clientelism in the Western hemisphere should also, according to realist logic, result in a significant number of FTAs, but there are many states in Latin America who are not preferential trading partners of the United States. What is more, seven states (Singapore, Malaysia, Vietnam, Brunei, Australia, New Zealand and Japan) are negotiating simultaneously the US-led TPP and the China-led Regional Comprehensive Economic Partnership, a development that defies realist expectations that smaller states will bandwagon with one great power against another. A similar pattern of US allies flouting the preferences of their great-power ally can be found in the Asian Infrastructure and Investment Bank case: in addition to the aforementioned Australia and South Korea, core NATO allies Britain, France, Germany and Italy have agreed to join the China-led initiative.[59] Once again, this article has illustrated that a convincing explanation for the pattern of FTAs that the United States has completed requires analysis of events beyond the state and sub-state levels.

Conclusions

This article illustrated that existing explanations do not fully capture the motivations for completing trade agreements. Contrary to liberal explanations, US FTAs do not reflect underlying trade patterns. If economic interests were a primary motivation for FTAs, then we should expect to see quite a different pattern of trade agreements. In comparative terms, other states have proven to be more adept at negotiating trade agreements than the United States. Rather than serving as an accurate depiction of actual policy behavior, the democratic peace thesis, and liberal theory more generally, may be best thought of as a guide to the *thinking* of US policy-makers, and to their worldview. Even if these values are not implemented faithfully or consistently, they describe the type of world – one populated by liberal-democratic states allied to the United States – in which most administrations would prefer to operate. Just as FTAs have not been pursued to the extent that liberals would predict, so too has the the United States not always pursued trade agreements with like-minded states. Most of the United States' FTA partners of the United States are situated towards the more democratic end of the political spectrum, however, and completion of the TTIP would enhance the democratic character of its FTA partners as a whole. Completion of the two mega-regional

59. Sang-Hun Choe, *op. cit*.

deals now under negotiation would also substantially benefit US economic interests to a degree that existing preferential trade deals have not.[60]

Statist theories fared relatively better than liberal ones, in that there is a degree of congruence between states that are formal allies and FTA partners of the United States. This is, however, less than might be expected given the overwhelming economic and military superiority of the United States since the end of the Cold War. The relative economic decline of the United States, however, is likely to further undermine US capacity to leverage security in trade negotiations. It will become increasingly difficult for the United States to offer security-related inducements if China deploys similar tactics. The seemingly inconsistent pursuit of FTAs by the United States conforms to a pattern of behavior typified by "incrementalism" and "opportunism."[61] The United States has attempted to use FTAs as a means of increasing its influence over other states, including military allies, but it has become increasingly constrained in its ability to finalize trade agreements. Not only does the relative decline of the United States reduce its capacity to leverage its security alliances for economic gain, but other major economic powers, such as China, India, Brazil and the EU, offer alternative (although less attractive) mass markets for potential FTA partners. Furthermore, the US Congress has often failed to grant the executive branch fast-track authority since 2002, hindering the government's capacity to complete trade agreements.

This article concludes, therefore, that both liberal and statist interpretations of FEP have failed to reflect the underlying reality of US agreements, especially since the shift to a period of competitive bilateralism since the early 21st century. Conventional explanations for FTAs, which draw on state- and sub-state-level factors, have over-estimated US power, and cannot explain why the record of the United States in completing FTAs are comparatively poor. The new bilateralism in FTA politics illustrates that smaller states retain some – though not unlimited – room for maneuver. Singapore, Australia and South Korea have FTAs with both China and the United States, and these developments defy the conventional wisdom that smaller states face difficult choices between their security alliances and economic relations. It is beyond the scope of this article, however, to provide a complete explanation for how and why the "abandonment/entrapment" dilemma that trade-dependent client states face has been partially resolved. The article, nonetheless, arrives at the following findings.

First, US leadership may remain largely intact, despite the adverse developments detailed in this article, such as the growing ability of China to draw US security partners into economic relations that potentially are detrimental to US interests. The United States may remain the world's (and the Asia–Pacific region's)

60. Peter A. Petri and Michael G. Plummer, "The TPP and China–US Economic Relations," *APEC Currents* (March 2015), at <http://us9.campaign-archive1.com/?u=6fc18e2d4abd250eb5f7b2445&id=cde6b80ebc&e=27079bc822#HumanResourceIssues> (searched date: 25 March 2015).
61. Jaechun Kim and David Hundt, *op. cit*.

most influential actor, albeit in a somewhat diminished form. The United States was by some measures the most powerful state the world had ever seen as recently as the first term of the G.W. Bush administration, and it remains far more powerful than even its putative challenger, China. The US alliance system is unlikely to disappear, but its utility as a whole, and specifically its value to smaller states, is less self-evident than in previous decades.[62] Second, the economic–security nexus that realist scholars presume to exist in the international system appears to be loosening. In other words, globalization may make great-power rivalry less important, or shift competition away from the military sphere and towards the economic one. If all states accept the capitalist system, then the costs of military conflict may become prohibitive. Third, because the United States is less dependent on trade than most societies, the attraction of FTAs is becoming comparatively weaker. Compared to most states, the proportion of GDP that trade accounts for in the case of the United States is low: at 23%, this figure is a long way behind Australia and South Korea, for instance, at 49% and 64.4%, respectively.[63] So it may be that the United States need not be overly concerned if its more trade-dependent allies sign FTAs with China or other states. These findings illustrate the value of analyzing the FEP of the United States at the level of the international system.

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