

Free Trade Agreements and Their Controversial Nature: The Case of the US-South Korean FTA

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Abstract

The negotiations of the US-South Korean FTA (KORUS FTA) officially started in 2006 and were concluded and signed by the US and South Korean presidents quite quickly in 2007. Notwithstanding the fact that official negotiations lasted only one year, it took national parliaments of the US and South Korea 5 years to ratify this trade deal in 2011, before finally implementing it just about two months ago on March 15. This FTA is interesting not only because it is the second largest Free Trade Agreement in the world after the Korea-EU FTA, but KORUS FTA had the longest and dramatic ratification and implementation period for South Korea, followed by huge public and political opposition. Every Free Trade Agreement and its degree of complexity for analysis hinges on the countries that pursue it. Understanding of the KORUS FTA by the Korean society and government opposition as “not equal” and “favoring the US” became one of the main reasons for huge domestic opposition that hindered the ratification and implementation of a FTA that otherwise appeared beneficial from an economic point of view. Clearly, the FTA should be carefully framed and presented before society, because the societal factor can override political, security and economic rationale.

Table of Contents

Abstract.....	i
Table of Contents	ii
List of Abbreviations	iii
Introduction.....	1
CHAPTER 1. Literature Review and Methodology	4
1.1 Literature Review	4
1.2 Methodology.....	9
CHAPTER 2. Free trade agreement – what is it and why there are so many debates around it?	10
2.1 Trade Agreements.....	10
2.2 Free Trade Agreements.....	11
2.3 Conclusion.....	15
CHAPTER 3. Free Trade Agreements as a Foreign Policy Tool: the US and South Korea	16
3.1 South Korean Trade Policy	17
3.2 The USA Trade Policy.....	18
3.3 Conclusion.....	20
CHAPTER 4. Case Study: The US-South Korea FTA	22
4.1 Historical Ties	23
Table 1.	24
4.1.1 Societal and business linkages.....	25
4.1.2 Education	28
4.2 Security issues	30
4.3 Conclusion.....	32
CHAPTER 5. KORUS FTA - controversial FTA.....	34
5.1 Opposition in South Korea.....	37
5.1.1 Public opposition and the ‘Beef incident’	39
5.1.2 Government opposition and ISD Settlement System (Investor–state dispute settlement clause)	40
5.2 Conclusion.....	42
Conclusion	44
Appendix.....	46
Table 1.	46
Table 2.	49
Bibliography.....	51

List of Abbreviations

WTO	World Trade Organization
FTA	Free Trade Agreement
KORUS FTA	Korea-US Free Trade Agreement
KOREU FTA	Korea-EU Free Trade Agreement
NAFTA	North American Free Trade Agreement
USTR	United States Trade Representative
GNP	Grand National Party
DP	Democratic Party
ISD	Investor-State Dispute Settlement Clause

Introduction

The idea of a Free Trade Agreement between the US and South Korea appeared at the end of the 1980s. The negotiations of the US-South Korean FTA (KORUS FTA) officially started in 2006 and were concluded and signed by the US and South Korean presidents quite quickly in 2007.¹ A lot of changes happened in the Asian region for the last decade, like the economic rise of China and both South Korean and American economic dependence on it. The strong willingness of South Korea to become an equal partner and not be ‘squeezed’ by the two largest economies of the region - China and Japan and the willingness of the US to get back to the Asian-Pacific region² as well as security threat posed by North Korean nuclear crises influenced on the regional political and economic dynamics. As it will be shown, all these factors, in addition to security alliance and close historical ties that bound the U.S. and South Korea for more than 50 years, make the launch of the KORUS FTA logical from the governments’ point view.

Notwithstanding the fact that official negotiations lasted only one year, it took national parliaments of the US and South Korea 5 years to ratify this trade deal in October and November of 2011 respectively and, before finally implementing it just about two months ago on March 15. This FTA is interesting not only because it is the second largest Free Trade Agreement in the world³ after the Korea-EU FTA, but KORUS FTA had the longest and dramatic ratification and implementation period for South Korea,⁴ followed by huge public and political opposition.

¹ In comparison to some other FTAs that are still pending on the negotiations stage or were even stalled, for example, the Korea-Japan FTA. For details see Appendix Table 1.

² In the 1990s the US started to lose its influence because of the domestic economic problems and new growing regional power represented by China.

³ South Korea is the 15th largest economy in the world, 7th largest US’ trading partner and the overall Korea-US trade volume almost tripled between 1990 and 2010. See Yoon-shik Park, “Korea’s Elections and the KORUS FTA,” *The National Bureau of Asian Research*, NBR Analysis Brief, April 24, 2012, 1.

⁴ See Appendix Table 1.

The KORUS FTA met opposition from both participating sides: the US and South Korea. In both countries the agricultural sector was a very hot debate topic, as in many other free trade agreements.⁵ Some industries tried to lobby for their interests – in South Korea big conglomerates, such as Hyundai, were trying to push KORUS FTA through, while in the US car producers were the ones who demanded protection against competitive Korean vehicles. So, lobbying from industries and companies that cause conflicts are the part of almost every FTA in the process of negotiation. However, what makes KORUS FTA so controversial and unique among South Korean FTAs, is that opposition arose not only because of economic reasons, but because of the very nature of US-Korean relations in general.

The question is why when the trade agreement, which was economically beneficial and valid from both political and security stand points, took so much time and effort for the Korean and the American government to implement?⁶ Why was it so controversial? The results of my analysis imply that the reason is the overall sensitivity about US-South Korean relations in the Korean society and government.

In the first chapter, I will explore existing literature about this topic and place my argument within the academic debates. In the second chapter, I will provide general information about trade agreements and FTAs in order to make it clear why countries pursue FTA and what advantages and disadvantages they have. I then turn, in the third chapter, to the trade policy strategies employed by South Korea and the US to demonstrate that despite the divergence of their trade policies in the 1990s, the historical and security issues pushed the US and South Korea towards closer cooperation in the form of a FTA. My fourth chapter is my case study – the Free Trade Agreement between the U.S. and South Korea and the reasons why the KORUS FTA was logical and expected. In my last chapter I will analyze the ratification

⁵ Like Korea-Chile FTA, Korea-Japan FTA was even stalled because of the disputes over agriculture, etc.

⁶ In comparison, Korea-EU FTA, which is even bigger in its scope and was modeled according to the KORUS FTA, was ratified in one year.

process in South Korea, and answer why the ratification of the KORUS FTA was so controversial, long and dramatic. After that the conclusion will follow.

CHAPTER 1. Literature Review and Methodology

1.1 Literature Review

The main focus of this thesis is the Free Trade Agreement between the US and South Korea⁷, its contradictory nature, its impact on each country respectively and its consequences for the Asian region. FTAs have been under active discussion during the last decade, considering their increasing number and growing scope. In order to understand what FTAs are and why so many debates surround them, it is necessary to know how the historical pattern of trade evolved around the world, with particular regard to the US and South Korea.

As Bruce E. Moon states, there are two main standpoints in the scholarly debates about trade theory – orthodox trade liberal theory (which basically stands for free trade) on the one hand, and different ideas and theories that are associated with the mercantilist way of trade on the other.⁸ The paradigm of free trade took its form in opposition to the mercantilist and protectionist policies. The 20th century was a time for hectic debate between ideas for protectionist measures in the economic field (Keynes) and liberal ideas for free trade and government non-intervention (Friedman). As a result of this debate and the aftermath of World War II, the orthodox trade liberal theory prevailed during the second half of the 20th century. One of the reasons was the free trade foreign policy goals of the US, which was a main hegemonic power after World War II. The United States managed to liberalize its own trade policies by eliminating many trade tariffs and minimizing state interference in its economic processes. Moreover, the US was creating a global economic system that would stimulate other countries to follow the neoliberal ideas.⁹ As this thesis will show, in the 1990s

⁷ Which came was ratified in the end of 2011 and implemented in March 2012.

⁸ Brian Hocking and Steven McGuire, ed., *Trade Politics: International, Domestic and Regional Perspective* (1999): 40-51.

⁹ See Dominic Kelly and Wyn Grant, eds., *The politics of International Trade in the Twenty-first century: Actors, Issues and Regional Dynamics*, (New York: Palgrave Macmillan, 2005); Chung-In Moon and Sang-Young Rhyu, “Rethinking alliance: American Hegemony, path dependence, and the South Korean political economy,”

the US was using free trade policy as a policy to promote its own economic, political and security interests.

In the 1990s FTAs were seen as the promoters of liberalization,¹⁰ but this was contested later as it turned out FTAs promoted free trade only within a particular trading bloc.¹¹ Free Trade Agreements eliminate trade barriers between countries therefore promoting free trade and representing neoliberal trade theory. At the same time, scholars like Ross Garnaut and David Vinesthey¹² promote free trade only within the countries that are part of the agreement, hence, FTAs are seen as discriminatory in nature. As it will be shown in the next chapters, South Korea started to pursue an FTA with the U.S., because of this discriminatory nature, which grants favorable conditions to specific countries and makes others' products less competitive.

Another debate around FTAs is associated with the benefits and losses of the parties involved. Some scholars who research particular FTAs or their future possibilities, like Jeffrey J. Schott (Peterson Institute for International Economics) and Inbom Choi (Chief economist at the Federation of Korean Industries) have raised questions about US free trade policy as a whole.¹³ Were the FTAs concluded by the U.S. positive or not? Which country is the U.S. going to negotiate with next? This thesis will argue that the FTA between the U.S. and South Korea was logical and expected¹⁴ on the governmental level, evidenced by circumstances like China's rise and associated geopolitical threats posed by North Korea. As Yeongkwan Song writes, the fact that Korea started negotiating an FTA with the EU, gave the U.S. another reason to conclude their FTA faster as not to lose opportunities with the EU

International relations of the Asia-Pacific 10:3 (2010); Ross Garnaut and David Vines, "Regional Free Trade Areas: Sorting out the Tangled Spaghetti," *Oxford Review of Economic Policy* 23:3 (2007).

¹⁰ Jagdish N. Bhagwati, *Free Trade Today* (Princeton, N.J.: Princeton University Press, 2002).

¹¹ Garnaut and Vines, "Regional Free Trade Areas," 2007.

¹² Ibid.

¹³ Jeffrey J. Schott, ed., *Free Trade Agreements: US Strategies and Priorities* (Washington, DC: Institute for International Economics, 2004).

¹⁴ Yul Sohn and Min Gyo Koo, "Securitizing Trade: the Case of the Korea-US Free Trade Agreement," *International Relations of Asia-Pacific* 11 (2011).

producers.¹⁵ However, as the results will show, despite fast negotiations on the external or intergovernmental level, and calculated economic gains,¹⁶ the domestic ratification was the longest and most dramatic of all the FTAs concluded by South Korea at this time (See Appendix Table 1).

Some scholars¹⁷ believe that it is the United States who abandoned the policy of multilateralism pronounced by the WTO and decided to move towards discriminating Preferential Trade Agreements and Free Trade Agreements. In some cases, the United States used its economic power as political leverage in negotiations, in order to push the conditions that would be beneficial for them. For instance, Andrew G. Brown and Robert M. Stern use the case of US bilateral FTAs with the Dominican Republic and other Central American countries to raise the question of FTA ‘fairness’ in the US government’s actions.¹⁸ Brown and Stern try to assess “fairness” in more general and objective terms of equality of opportunity that is presented for countries that are pursuing FTAs. Using the case of the US and South Korean FTA, this thesis can contribute by stating that not only the general “fairness” of FTAs matter, but the ways in which the FTA is perceived by the domestic societies concludes them. The concept of “fairness” was not used so directly, but an understanding of the KORUS FTA by the Korean society and government as “not equal” and

¹⁵ Yeongkwan Song, “KORUS FTA vs. Korea-EU FTA: Why the Differences?” *Academic Paper Series* 6:5 (2011).

¹⁶ Yoon-shik Park, “Korea’s Elections and the KORUS FTA.” The National Bureau of Asian Research, NBR Analysis Brief. April 24, 2012. Accessed May 26, 2012. <http://www.nbr.org/publications/element.aspx?id=594>

¹⁷ Garnaut and Vines, “Regional Free Trade Areas,” 2007.

¹⁸ Andrew G. Brown and Robert M. Stern, “Issues of Fairness in International Trade Agreements,” *The Journal of Applied Economic Research* Vol.1:1 (2007).

“favoring the US”¹⁹ became one of the main reasons for a high level of domestic opposition in Korea that made the KORUS FTA so controversial and unique.

Another dimension of the FTA debate revolves around the US-South Korean FTA and its impact on the future geopolitics within the East Asian region. Scott Snyder,²⁰ for example, looks at the relationships between the U.S., China, the Koreas and Japan. He is not looking at the FTA itself, but contextualizing the trends in relationships between the above mentioned regional states. During his research he comes up with several questions: what agreements are possible? What are the general consequences of concluding FTAs in the East Asian region? What is the possible development of the relationships between those countries? His conclusions why South Korea decided to pursue an FTA with the U.S. center around its heavy economic dependence on China, which at the beginning of the 20th century became the main trading partner of South Korea. Moreover, through this FTA Korea is trying to present itself as an independent player and balance American and Chinese power in the region. Though it is not the main focus of my work, the security concerns of the US and South Korea played a significant role in the establishment of KORUS FTA.

A general understanding of the correlation between economy (trade in particular) and security is given by Barry Buzan.²¹ He shows that there is a link between economic and military capability and power and socio-political stability. State power in terms of military power and political stability, in part rely on economic success and sustained growth. The

¹⁹ Chi-wook Kim, “How a Shift in South Korean Attitudes and Electoral Politics May Trip Up the KORUS FTA,” *Council on Foreign Relations*, November 2011. <http://www.cfr.org/south-korea/shift-south-korean-attitudes-electoral-politics-may-trip-up-korus-fta/p26446>. Mary Swire, “South Korean Politicians Remain Deadlocked Over KORUS FTA,” *Tax-News*, 21 November 2011. http://www.tax-news.com/news/South_Korean_Politicians_Remain_Deadlocked_Over_KORUS_FTA_52567.html; Hwang Joon-bum and Jung Eun-joo, “GNP Pushes for Concurrent KORUS FTA Ratification,” *The Hankyore*, October 5, 2011. http://english.hani.co.kr/arti/english_edition/e_business/499356.html

²⁰ Scott Snyder, *China’s rise and the two Koreas: Politics, Economics, Security* (United States of America: Lynne Rienner Publishers, Inc. 2009).

²¹ Barry Buzan, *People, States and Fear: an Agenda for International Security Studies in the Post-Cold War Era*; (New York: Harvester Wheatsheaf, 2nd ed., 1991).

KORUS FTA reveals that this is especially vital for export-oriented countries like South Korea that are very vulnerable to the volatility and fluctuations of the global market.

As this thesis will argue, security should be considered one of the important factors that led to the conclusion of an FTA between the U.S. and South Korea. Reading some interviews and statements of the United States Trade Representative (USTR) officials, like the one made by deputy USTR Karan Bhatia, pointed out that the KORUS FTA represented a broader historical, geopolitical and strategic opportunity.²² It is clearly seen that they pursued an FTA with South Korea not only because of economic reasons, but because of strategic interests as well.²³

To summarize, there are many works dedicated to the topic of free trade and unilateral trade agreements in general. Jagdish N. Bhagwati and Jeffrey A. Frankel, for example, look at PTAs, Free Trade and FTA and try to figure out what the nature of these agreements is, and what are their advantages/disadvantages for the countries that are negotiating or have concluded FTA. The main question is whether the Free Trade Agreements are beneficial for the world trading system or not. It is hard to make judgments about the US-South Korean FTA because it was implemented only a couple of months ago, but what is clear from the KORUS FTA is that one FTA can affect trade in many other countries, for example: North American Free Trade Agreement (NAFTA) and the US-Australian FTA affected trade between the US and South Korea, and led to other FTAs. The results of this analysis can be used in order to evaluate other possible FTAs for South Korea. It is the first country in the Asian region that concluded an FTA with the U.S. Now there are raised questions about the Japan-China-Korea FTA by the leaders of these governments.²⁴ However, results of this analysis suggest that South Korea is very sensitive about its national sovereignty and

²² Ibid.

²³ Sohn and Koo, "Securitizing Trade," 2011.

²⁴ The first meeting of China-Japan- Korea Joint Study Committee was held in August 5, 2010. See "China's FTA network" available at <http://fta.mofcom.gov.cn/topic/chinarh.shtml>

independence. Taking into account the Chinese influence over Korea and occupation by Japan in 1910, the FTA with these countries can lead to a huge domestic opposition within the Korean society and put the pressure on, the government to deliver the conditions of the agreement in a proper way.

1.2 Methodology

Every FTA is truly hard to evaluate. Firstly, because the growth of FTAs started recently and there has not been enough time to assess them thoroughly, as not all the effects, (positive or negative) have shown up yet. Secondly, every FTA and its degree of complexity for analysis hinges on the country which pursues it, since every FTA depends on the specific trade patterns that those countries share. Therefore, a qualitative analysis is more suitable for this research project.

My research question arose out of this empirical puzzle: how it is possible that the FTA between the US and South Korea (countries that have strong historical, political, security and economic ties) experienced such dramatic processes of ratification on the domestic level coupled with public outcries in the Korean society? Even though the results imply that the KORUS FTA is a unique case, we can see the implications for future FTAs and how they should be framed and delivered to the public.

CHAPTER 2. Free trade agreement – what is it and why there are so many debates around it?

2.1 Trade Agreements

To understand why Free Trade Agreements exist and why countries are pursuing them, first of all, we need to understand what trade agreements in general are. Donald H. Regan emphasizes that the debate about trade agreements is ongoing and dynamic; however, there is no generally accepted account of what trade agreements are for. From Regan's point of view "trade agreements promote global economic efficiency by restraining certain sorts of national behavior."²⁵ He distinguishes two different ways of understanding how trade agreements function. The one is that trade agreements are supposed to suppress protectionism, while second is that trade agreements should suppress deliberate market power exploitation. Nevertheless, Regan argues that in trade agreements the protectionism story is superior to the terms-of-trade manipulation. Free Trade Agreements mainly directed at eliminating protective barriers in trade between the countries and 'protectionism story' of trade agreements is also more common view among scholars;²⁶ therefore it will be explored next in more detail.

Regan describes protectionism as a 'regulation adopted for the purpose of improving the competitive position of some group of domestic economic actors vis-à-vis their foreign competitors.'²⁷ As he explains, traditional instruments of protection are tariffs and quotas, with the important remark that they have to have a protectionist purpose when implemented. Other instruments like export subsidies (or so-called 'export promotion') can also be in use.

²⁵ Donald H. Regan, "What are Trade Agreements for? – Two Conflicting Stories Told by Economists, With a Lesson for Lawyers," *Journal of international Economic Law* 9:4 (2006)

²⁶ See Jagdish N. Bhagwati 'Protectionism' (Cambridge, Mass.: MIT Press, 1989), Paul Krugman 'What Should Trade negotiators Negotiate About' (*Journal of Economic Literature*, March 1997).

²⁷ Regan, "What are Trade Agreements for," 962.

Generally, the main point in implementing these measures is that all of them are aimed at helping and protecting the domestic producer.²⁸

If one will look at the connection between protectionist behavior and a country's welfare, scholars usually define this behavior as domestically irrational, because it distorts national welfare, influence the other economies in a negative way and, hence, inefficient in a global scope.²⁹ In order to prevent such domestically irrational (in case of protectionism) or even rational (in case of above mentioned 'terms-of-trade manipulation'), but globally inefficient behavior, we need trade agreements or Free Trade Agreements in particular, which are the main focus of this work.

2.2 Free Trade Agreements

Free Trade Agreements are part of several contemporary debates, for example, they are actively discussed in reference to free trade as a paradigm in general or in reference to the debates around regionalism, regional blocs and globalization.³⁰ On top of that, as the number of FTAs drastically increased at the beginning of the 21st century, and some countries have included them in their trade development strategies, Free Trade Agreements during last decade have become the main topic of hectic disputes in social and academic fields in terms of their consequences for the global economy and their impact on each country separately.

But what is a Free Trade Agreement? There are different descriptions of it. For example,

Free Trade Agreement is a treaty (such as FTAA or NAFTA) between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but (in contrast to a common market)

²⁸ Ibid, 962-963.

²⁹ See Jagdish N. Bhagwati, *Free Trade Today* (Princeton, N.J.: Princeton University Press, 2002) where he is looking at the whole debate around inefficiency of the protectionist policies, which sometimes can be understood in the context and even considered to be rational from some point of view, but again it is globally inefficient and therefore should be

³⁰ See Shaun Breslin, et al., eds., *New Regionalism in the Global political Economy* (New York: Routledge, 2002); R. Stubbs, "Asia-Pacific Regionalization and the Global Economy: a Third Form of Capitalism?" *Asian Survey* 35:9(1995) etc.

capital or labor may not move freely. Member countries usually impose a uniform tariff (called common external tariff) on trade with non-member countries.³¹

What is important in this definition is that FTAs, as it was mentioned already, are used by countries to trade without “tariffs or hindrances” or, to put it simply, to eliminate according to neoliberal theory ‘inefficient’ protectionism. But the problem is that FTAs suppress protectionism only between those countries which are part of the agreement. As Ross Garnaut and David Vines describe FTAs (bilateral or regional) as discriminatory blocs because the trade is liberal only within that particular bloc, but not outside of it.³² Thereby, FTA (whether it is bilateral or regional agreements) is almost a direct violation of the World Trade Organization (WTO, hereafter) principle of Most-Favored-Nation (MFN).³³ According to this, countries should not pursue bilateral or regional trade agreements because of the WTO negotiations and expressed devotion of its participants to spread multilateralism throughout the world. However, that is not the case. Some scholars even argue that exactly the failures at the WTO round of Multilateral Trade negotiations in Uruguay (1986-1994) and at the Seattle Ministerial Meeting (1999) gave realization to the country leaders that it became harder to reach any compromise in the trade area during the WTO multilateral talks as the number of the WTO members increased so dramatically. Therefore it is much easier and more realistic in this context to pursue bilateral and regional trading blocs,³⁴ as for example, the United States did, actively pursuing and concluding free trade agreements since the 1990s.

The reason why the US went against the WTO principles is that there was a view among American respected scholars, such as Jagdish Bhagwati, that bilateral and regional trade agreements, like FTAs, by removing trade barriers and protectionist tariffs, promote free

³¹ Business Dictionary, “Free Trade Agreements.” <http://www.businessdictionary.com/definition/free-trade-agreement.html>

³² Garnaut and Vines, “Regional Free Trade Areas,” 2007.

³³ Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favor (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members. See “Understanding of WTO: Basics,” WTO. http://www.wto.org/english/thewto_e/whatis_e/tif_e/tif_e.htm

³⁴ See Joost Pauwelyn, *New Trade Politics for the 21st Century* (Oxford University Press, 2008), Brown and Stern, “Issues of Fairness,” 2007; Garnaut and Vines, “Regional Free Trade Areas,” 2007 etc.

trade.³⁵ Notwithstanding that, while some barriers are eliminated, others are not; because not all the sectors are included in the trade agreement.³⁶ This, in turn, can lead to trade diversion and to economic distortion in general.

To clarify this, there are two basic concepts, welfare-improving trade creation and welfare-distorting trade diversion, which are used by economists in order to analyze the impacts of the FTAs.³⁷ The former means that a participant of an FTA replaces “domestic production of a good with imports of the good from another member of the FTA, because the formation of the FTA has made it cheaper to import rather than produce domestically.”³⁸ The latter means when an FTA member replaces import from the efficient producer (but not the party in the pact) to less efficient member of an FTA, since the dismantling of the tariffs made it cheaper to do that. This process distorts trade because it allocates resources not in the natural way as they should be distributed. When country concludes an FTA it creates both. Notwithstanding that, as Ross Garnaut and David Vines argue, it is believed that trade creation after conclusion of these bilateral and regional trading blocs outbalance trade diversion and hence the effects are supposed to be positive.³⁹ For example, integration of the EU led to significant trade creation. However, it also led to a substantial trade diversion in agriculture and other sectors, which is often simply ignored. Nevertheless, there are some positive points in FTAs; otherwise countries would not pursue them so actively.

If one wants to make any conclusions regarding any particular FTA, it is necessary to understand why countries like the US and South Korea sought to pursue particularly FTAs, what the impact of FTAs is and what are the advantages or disadvantages of these trading

³⁵ See Jagdish N. Bhagwati et al., *Trading Blocs: Alternative Approaches to Analyzing Preferential Trade Agreements*, (MIT Press, 1999).

³⁶ For example, if the issue is too sensitive, countries might agree on excluding it from the agreement, like it happened with rice in the US-South Korean FTA.

³⁷ Mike E. Manyin and William H. Cooper, “The Proposed South Korea-U.S. free Trade Agreement (KORUSFTA),” *CRS Report for Congress*, 2006.

³⁸ *Ibid*, 24-25.

³⁹ Garnaut and Vines, “Regional Free Trade Areas,” 2007.

pacts. There is a range of motivations for countries to pursue bilateral or regional Free Trade Agreements like the change in the domestic interests or understanding of FTAs as a positive event for their country or perception of FTA's effects as positive in general.⁴⁰ Moreover there are also several other reasons that have more economic or political rationale that played a significant role in the conclusion of the US-South Korea FTA as well which will be discussed more thoroughly in the next chapters. The reasons are the following:

1. Access to the market

Countries believe that reciprocal reduction in the barriers will grant better access to the market of its partner. For small countries, an agreement of this kind can simply secure the access to the market of its bigger partner.⁴¹

2. Internal reforms

Some countries seek FTAs in order to ensure internal reforms by tying them to international agreements, which can guarantee greater success (locked-in effect). At the same time, larger powers through the agreements can also influence internal reforms within another state, whether by giving incentives, like better access to the market or by threats that this access would be restricted.

3. Trade-security nexus

It is quite obvious that trade patterns of any particular country will depend on the political system and the preferences of the government. Countries can use their economic power or trade ties, in order to strengthen existing alliances and to foster new ones. In support of this point, Richard Feinberg states that in the 21st century, Free Trade Agreements are important tools of foreign policy that are intended to solidify partnerships, as military pacts did in earlier

⁴⁰ Maryanne Kelton, "US Economic Statecraft in East Asia," *International relations of the Asia-Pacific* 8(2008): 151-152.

⁴¹ Ibid. See also John Whalley, "Why do Countries Seek Regional Trade Agreements," in *The Regionalization of the World Economy*, ed. Jeffrey A. Frankel, (Chicago: University of Chicago Press, 1998).

times.”⁴² As the next chapter will show, this relationship between political system-trade-security not only important for understanding free trade agreements in general, but it is crucial aspect of the US-South Korean FTA.

2.3 Conclusion

This chapter explains the main features of trade agreements and free trade agreements in particular, what are they and why countries pursue them. It demonstrates the discriminatory nature of the FTAs which, as it will be shown in the next chapter, became one of the reasons why South Korea initiated FTA talks with the United States. In this work we are going to talk about US-Korea FTA (KORUS FTA, hereafter) and it is going to be explored why KORUS FTA was such a controversial agreement with a lot of consequences which affect not only the United States and South Korea, but a lot of other countries, even regions, such as East Asia or Pacific. Therefore, the next section of this chapter will discuss trade policies of the United States and South Korea, to make it clear why they decided to employ preferential trade agreements as an instrument of their foreign policy and why to pursue FTA with each other.

⁴² Richard E. Feinberg, “The Political Economy of United States’ Free Trade Arrangements,” *The World Economy*, 26:7 (2003): 1020.

CHAPTER 3. Free Trade Agreements as a Foreign Policy

Tool: the US and South Korea

2001 was the time when active discussions about the gains and losses of a possible Free Trade Agreement between the US and South Korea started. This happened after the publication of the work written by Inbom Choi and Jeffrey J. Schott,⁴³ which gave rise to a lot of conferences and discussions of this issue during the following years, till the start of exploratory trade talks between the officials of these two countries. By this time both South Korea and the US had concluded or were negotiating bilateral and regional trade pacts.⁴⁴ In addition, even though the US had a much richer experience in concluding FTAs, the idea of FTA was not completely new for the Korean government either.

At the end of the 20th century, the FTA policy for the United States was very diverse, consisting of initiatives in the Western Hemisphere, East Asia and Oceania, Middle East and North Africa, and Southern Africa.⁴⁵ On the other hand, Korea took an active part in participating in the GATT and WTO trade negotiations until failure in Ministerial Meeting of the WTO members in Seattle in 1999, but it was one of the last countries among the major trading partners in its pursuing FTAs.

The reason for such a big difference between the US and South Korea's trade policies regarding FTAs is that they employed different foreign strategies during the 1990s. The moment of this divergence in foreign policy for United States and Korea was the failure of the Uruguay talks (1986-1994), as it was already mentioned in the previous chapter, which showed that the WTO negotiation rounds became very difficult owing to the huge number of

⁴³ Jeffrey J. Schott et al., *Free Trade between Korea and the United States? (Policy Analyses in International Economics)* (USA, New York: Peterson Institute, 2001).

⁴⁴ South Korea by that time South Korea concluded Korea-Chile FTA, the US concluded the US-Israel FTA, NAFTA etc. For more details see Appendix Table 1, 2.

⁴⁵ Schott, *Free Trade Agreements*, 2004.

members with very diverse economies. Due to this ‘system failure’, countries around the world started to pursue liberalization in smaller groups. The paths that the US and South Korea chose after the WTO failures from the outset were different in their goals, at the beginning of the 21st century they converged in the strategy of pursuing FTAs. What were the trade policies of these two countries during the 1990s and how did they end up concluding FTA with each other? This is what this section is going to explore.

3.1 South Korean Trade Policy

As it was already mentioned, the unsuccessful WTO trade talks triggered a lot of changes in different parts of the world. During APEC meetings in 1996 (Osaka, Manila) by the member-countries it was decided that “moving towards an FTA, with discrimination against outsiders, was not what APEC would do, and that the way forward really was ‘open regionalism.’”⁴⁶ ‘Open regionalism’ or ‘concerted unilateral liberalization’, which means “a group of countries seeking to liberalize trade collectively,”⁴⁷ became the strategy that was employed by the Asian-Pacific countries during the 1990s as a response to the WTO failures. The Asian Financial Crisis of 1997-98 only strengthened the process of proactive regional cooperation, since inability to cope with the crisis singly pushed states towards closer cooperation with one another, to prevent future financial crises or at least to be prepared and deliver more sufficient responses next time. At the time of crisis in 1997, Japan proposed the establishment of an Asian Monetary Fund (AMF). Eventually, this plan was not realized, partly because of US opposition.⁴⁸ This example shows that despite all the efforts and

⁴⁶It was initiated as a strategy by the Prime Minister of Australia Bob Hawke in a speech in Bangkok in 1983 and then used in the Asia-Pacific Economic Cooperation (APEC) creation in Seoul in 1989.

⁴⁷ Garnaut and Vines, “Regional Free Trade Areas,” 510-511.

⁴⁸The US and Japan had different degree of involvement and hence and different views on the reasons of the Asian crisis. According to the structure of the International Monetary Fund (IMF), the US has the strongest voting power, so the ‘rescue packages’ were followed by the US preferences and demands. Japan’s weak institutional leverage led to the idea of the AMF. For more details see Phillip Y. Lipsy, “Japan’s Asian Monetary Fund Proposal,” *Stanford Journal of East Asian Affairs* 3:1 (2003).

initiatives in the region, the countries in the Asia-Pacific region were still dependent on the US.

After unsuccessful attempts to cooperate within the region during the crisis, the enthusiasm of the Asia-Pacific countries for integration slowly diminished. During the Cold War and even at its end the US was still a very profound trading partner for a lot of countries in the Asia-Pacific region, for South Korea in particular. Considering export-oriented character of Korean economy and its need for the American market as the main destination for export, in the aftermath of the Asian crisis of 1997-98, an FTA became a possible alternative to the multilateral talks that failed in the 1990s. President Kim Dae-jung (1998-2003) was the first who looked at FTAs as a better way to promote export than ‘open regionalism’. The next Korean president – Roh Moo-Hyun decided to follow the same policy course. He made several crucial improvements. He expanded authority of the Office of the Minister of Trade (OMT, hereafter) created by Kim Dae-jung,⁴⁹ so that it became the center of the trade policy and decision-making, relatively independent from other Ministers and societal actors.⁵⁰ Thus, South Korean trade strategy evolved and developed, leading the country towards FTA-centered policy-making, following the trend that had been set by the US in the first place.

3.2 The USA Trade Policy

During the so-called ‘open regionalism’ period in the Asian-Pacific region, North America had its own foreign policy strategy, which included plan for conventional FTAs. In the 1990s, with the end of the Cold War, the US focused on ‘fair trade’ with Asian countries in order to recover its own economy. This was necessary because by that time the US had suffered from big trade deficits with Asian countries like Japan and South Korea because during the Cold War period the US had granted them access to its market under good conditions in exchange

⁴⁹ It was established under Ministry of Foreign Affairs and Trade (MOFAT) instead of previous Ministry of Trade, Industry, and Energy (MOTIE).

⁵⁰ Sohn and Koo, “Securitizing Trade,” 2011.

for security alliance against communist regime. Therefore, the trade between some Asian countries (like Japan and Korea) and the US was boosted and forced artificially for security reasons at the expense for the US economic gains. Moreover, the series of the oil shocks and crises⁵¹ during 1970-80s only worsened the US economic state of affairs. As a consequence, the US started to pursue an 'aggressive unilateralism' strategy, e.g. "opening specific foreign markets under the threat of closing US market,"⁵² thus paving the way for American products. Trading blocs, in particular FTAs, became for the US the way of opening up other markets in exchange for granting or restricting access to its own market.

In addition to that, in the US there was a belief that free trade agreements can actually become some sort of stepping stone to more liberalized trade. In comparison to failed multilateral talks at the WTO, they can create a shorter way towards liberalization through agreements within smaller groups that will eventually spill over to the global level and hence lead to a freer trade in general. That initial understanding of free trade agreements as a way to promote further liberalization reconciled the course of the contemporary foreign policy and the prevailing neoliberal ideas in the American elite. That justified actions of American government against accepted during the WTO rounds of negotiations multilateralism and discriminatory nature of FTAs.

Because of this discriminatory nature, countries⁵³ initiated FTA talks with the US, because of the bilateral fast-track authority (Trade and Tariff Act of 1984) that shifted the initiative of pursuing trade agreements from the US to other countries. Consequently, other countries were requesting the US to conclude an FTA in order to ensure access to the US market after NAFTA and US-Canada FTAs, and were trying to attract more foreign investments for their development. The US pushed the same process in the East Asian region by creating trade

⁵¹ See Eric Helleiner, *States and the Reemergence of Global Finance* (United States of America: Cornell University Press, 1994), 169-195.

⁵² Jagdish Bhagwati and H.T. Patrick, eds., *Aggressive Unilateralism: America's 301 Trade Policy and World Trading System* (Ann Arbor, M.I.: University of Michigan Press, 1991).

⁵³ Like Mexico, Canada, Australia etc.

diversion with concluding NAFTA (for instance, Mexican textiles replaced Chinese ones).⁵⁴ In the 1990s, the countries in the Asia-Pacific region were ready for multilateralism, but their intentions were altered by the US decision to act according to its own interests its influence on the foreign policy-making in other countries, like South Korea, which were dependent on the US, its investments and market.

Notwithstanding the fact that initially FTAs were part of a foreign policy tool for dealing with developing countries,⁵⁵ in order to ensure its political, economic and security interests, the US used FTA as a carrot and stick policy, by supporting some countries and punishing others.⁵⁶ Later on, the FTA trade strategy became the primary one after the presidential elections in the year 2000, marking the period of ‘competitive liberalism’, in which the US Trade Representative (USTR hereafter) Robert Zoellick has seen global, regional and bilateral trade agreements as “having geopolitical significance”⁵⁷. Consequently, during the Bush presidency the US’ ‘trading partners were explicitly considered in a way that connects security with economic cooperation.’⁵⁸ Like in the case of KORUS FTA, as the motivations from both sides were not only about economic benefits and gains.

3.3 Conclusion

This is how in the 1990s the US developed its FTA strategy and selection criteria for FTA partners and because of its hegemonic power ‘forced’ other countries like South Korea to follow its lead. The US has had different attitudes towards Asia and Europe, which stem from the Cold War and have influenced the contemporary way of dealing with these regions:

⁵⁴ The Australian-US FTA was concluded in 2004.

⁵⁵ Schott, *Free Trade Agreements*, 2004.

⁵⁶ Robert Zoellick (USTR) said that New Zealand, which debated the US strategic policy, would be denied in negotiating FTA with the US in contrast to Australia that concluded FTA with the US 2005. See Kelton, “US Economic Statecraft in East Asia,” 150.

⁵⁷ Sohn and Koo, “Securitizing Trade,” 438.

⁵⁸ *Ibid*, 439.

multilaterally, region-wide with Europe and bilaterally with its Asian allies.⁵⁹ Therefore, the US tried to negotiate with the EU through the multilateral WTO rounds, in contrast to bilateral talks with, for example, Japan or South Korea.

Despite this divergence in foreign policy strategies between the US and South Korea in the 1990s, as it will be shown in the next chapter, the artificially created political and economic historical ties during the Cold War period, which connect these two countries played pivotal role in bringing the US and South Korea to the FTA negotiating table once the security and economic threats were posed to them by China and North Korea. The next section will explain what kind of historical ties and what kind of security issues drew these countries together again.

⁵⁹ See Mark Beeson, "Hegemonic Transition in East Asia? The dynamics of Chinese and American power," *Review of International Studies* 35 (2009); or Peter J. Katzenstein, *A World of Regions: Asia and Europe in the American Imperium* (the United States: Cornell University Press, 2005).

CHAPTER 4. Case Study: The US-South Korea FTA

Taking into account all aforesaid in the previous section about proactive regional integration decisions in the Asia-Pacific countries, it can be understood why some scholars framed the decision of the two governments to negotiate the US-South Korean FTA as a ‘surprise launch’ of the KORUS FTA.⁶⁰ However, if one looks more attentively at the history of the US-South Korea relations and its consequences on their contemporary position, considering all the circumstances, KORUS FTA is not so surprising. South Korea and the United States have close links that have tied them together for more than half a century and that had significant impact on the South Korean ‘economic miracle’.⁶¹

Before becoming a significant global economic actor, at the end of the World War II and Japanese occupation Korea was a very poor country. After the end of the Korean War (1950-1953) the US signed the Mutual Defense Treaty in 1953 with South Korea, in order to contain the communist regime in the region. The United States offered access to its market and financial assistance to South Korea with the condition that South Korea will become the US’ security ally. Hence, the US played a pivotal role in reemergence of Korean economy, as Mark Beeson mentions: “Without American aid and investment, there is no doubt that East Asia’s remarkable development would have occurred in the pace it did.”⁶² The following section will argue that these historical ties in general and their ‘security’-orientation in case of the US and South Korea, made negotiations of the KORUS FTA not so ‘unexpected’ as, for example, Yul Sohn and Min Gyo Koo state.⁶³

⁶⁰ Sohn and Koo, “Securitizing Trade,” 201.

⁶¹ It is important to mention positive role that government and policy-makers played in emergence of recovery of these ‘miracle’ economies. See, for example, Peter Evans, “The State as a Problem and Solution: Predation Embedded Autonomy, and Structural Change,” in *The Politics of Economic Adjustment*, ed. S. Haggard and R.R. Kaufman (1992), 139-181.

⁶² Beeson, “Hegemonic Transition in East Asia,” 98.

⁶³ Sohn and Koo, “Securitizing Trade,” 2011.

4.1 Historical Ties

Historical ties “represent certain types of relations, formal or informal, that develop between countries.”⁶⁴ For instance, informal ties between South Korea and China evolved naturally during many centuries due to whose geographic and cultural proximity. In contrast, historical ties that characterized the US-South Korean relations were formal, represented by economic assistance and political involvement of the US in South Korea was based on a security alliance. Through these formal ties South Korea, as well as other countries and regions like Europe, became a part of ‘American imperium’ as Peter J. Katzenstein argues.⁶⁵ The US has territorial and nonterritorial power over South Korea, which defines ‘imperium’ according to Katzenstein. The US still has its military bases on the territory of South Korea, which is territorial power. During the Cold War the US interfered into political, economic and military spheres of South Korean government, which can be perceived as a form of nonterritorial power. This type of ‘imperium’ ties between the US and other regions in the world, like Asia and Europe, had influenced and still have impact on pattern of political-economic relations, including trade between them. For South Korea these historical ties stem from the Korean War (1950-1953).

Korean War (1950-1953) was a turning point in the relationship between South Korea and the US. The threat from North Korea during the Cold War gave the US an excuse to station its military bases on the territory of South Korea (and to have them there permanently according to the Mutual Defense Treaty of 1953, which is still in force).⁶⁶ Because of the military tension on the Korean Peninsula, the US provided military aid to South Korea in the form of Military Assistance Programs and Military Assistance Services, which constituted more than

⁶⁴ Shige Makino and Eric WK Tsang, “Historical Ties and Foreign Direct Investment: an Explanatory Study,” *Journal of International Business Studies* 42 (2011): 546.

⁶⁵ Katzenstein, *A World of Regions*, 2005. See also Geir Lundestad, *The American “Empire”: and Other Studies of Foreign Policy in a Comparative Perspective* (Oxford and Oslo: Oxford University Press and Norwegian University Press, 1990) etc.

⁶⁶ United States Department of State, “Treaties in Force,” January 2010, 156.
<http://www.state.gov/documents/organization/169274.pdf>

100% in ratio to total South Korean military expenditure between 1954 and 1968. Additionally, \$4.5 billion was given to South Korea as an economic aid in between 1945 and 1971.⁶⁷ This data demonstrates how the US through formal security alliance created close ties with South Korea through. These ties important for trade, as a lot of researchers have proved that historical ties or colonial rule have crucial, generally positive and long-lasting effect on trade, which is shown in the Table 1.⁶⁸

Table 1. Effects on Trade by distance Variables⁶⁹

Distance Attribute	Change in International Trade (%)
Income level: GDP per capita (1% increase)	+0.7
Economic size: GDP (1% increase)	+0.8
Physical distance (1% increase)	-1.1
Access to ocean	+50
Common border	+80
Common language	+200
Common regional trading bloc	+330
Colony-colonizer relationship	+900
Common colonizer	+190
Common polity	+300
Common currency	+340

Table 1 reveals that bilateral trade between two countries is boosted for 900% if they have a connection of an ‘imperium’ and its ‘spheres of influences’. This means that countries involved in “imperial” relations are 9 times more likely to trade with one another than with a country with which they do not have such relations. To make a reference to Katzenstein’s

⁶⁷ For more details see “Agreement providing for the disposition of equipment and materials furnished to Korea under the mutual defense assistance agreement” in force since 1956 in United States of Department, “Treaties in Force”, 2010. See also Moon and Rhyu, “Rethinking alliance and the economy,” 2010.

⁶⁸ Nathan Nunn, “The Importance of History for Economic Development,” *The Annual Review of Economics* 1 (2009). See also Kris J. Mitchener and Marc Weidenmier, “Trade and Empire,” *The Economic Journal* 118 (2008); Pankaj Ghemawat, “Distance Still Matter: the Hard Reality of Global Expansion,” *Harvard Business Review*, September 2001.

⁶⁹ Source: Jeffrey Frankel and Andrew Rose, “An Estimate of the Effects of Currency Unions on Growth,” unpublished Working paper, 2000. [cited by Pankaj Ghemawat, “Distance Still Matter,” 138].

theory of American ‘imperium,’⁷⁰ that South Korea as well as Japan, for example, is a part of that ‘imperium’ and thus, historical ties that link the US and South Korea should have affected current bilateral trade between these countries, bringing them together in a positive way. Moreover, as was mentioned in the previous section, the bilateral approach of the US towards Asian countries is very important,⁷¹ which should have influenced the US attitude towards Asian states in a long-term perspective as well. This makes trade between the US and South Korea not only 9 times more likely to happen than with countries that do not have such historical ties with the US but also makes it more likely to take a bilateral form. These factors make KORUS FTA not so “unexpected”.

4.1.1 Societal and business linkages

Another significant connection between the US and South Korea that should have affected their current trade is the economic and societal linkages that were evolving and growing over time based on the formal ties that the US and South Korea shared. According to the US Census Bureau, the United States is the second destination after China for Korean immigrants.⁷² Inbom Choi gives estimates made by Korean government that show that the US has the largest Korean population, accounting for 38% of all Korean overseas⁷³ (See table 2). Since 1980, Korean population in the US increased four times, accounting for 25.5 % increase between the year 2000 and 2009. Moreover, according to the research conducted in the US,

⁷⁰ Katzenstein, *World of Regions*, 2005.

⁷¹ If you will look at the history, the US and other western countries when opening Asian countries like Japan and China in the 19th century were also dealing with them in a bilateral way.

⁷² Aaron Siirila, “America is second largest home for Koreans living abroad,” Korea matters for America, accessed on May 20, 2012, <http://www.koreamattersforamerica.org/2011/11/america-is-second-largest-home-for-koreans-living-abroad/>

⁷³ He explains the difference by the fact that minorities are not always respond to the census, which can lead to the underestimation of the data. See Inbom Choi, “Korean Diaspora in the Making: Its Current Status and Impact on the Korean Economy,” In *The Korean Diaspora in the World Economy*, ed. by Fred Bergsten and Inbom Choi, (Institute for International Economics, 2003), 17

76.7% percent of American Korean is foreign-born, 95.5 percent of them were born in Korea.⁷⁴

The fact that the US is the second or even the main destination for Korean immigrants, despite the fact that they have absolutely different culture and language, which is usually, considered being additional stimulus to migration flows between the countries,⁷⁵ shows the strong ties between these countries. The fact that number of immigrants started to grow promptly after the Korean War, proves that historical ties between these countries were not evolving naturally over time, like between China and Korea, but stemmed from the formally concluded security alliance between the US and South Korea.

Table 2. The Korean Diaspora by country and region of residence, 2001.⁷⁶

Country, Group or Region	Number	Percentage Share
Major Country or Group		
United States	2, 123, 167	38
China	1,887, 558	33
Japan	640, 244	11
CIS	521, 694	9
Canada	140, 896	2

These migration and societal ties alludes to research that found the connection between the ‘diasporas’ and trade.⁷⁷ For example, Joel Kotkin emphasizes the positive influence of ‘diasporas’ on trade and investment flows between the host country and home country. The

⁷⁴ Larry H. Shinagawa and Chang Won Lee, “Korean Americans in a new century,” University of Maryland, 2011.

⁷⁵ Axel Dreher and Panu Poutvaara, “Student Flows and Migration: an Empirical Analysis,” Discussion Paper # 1612, 2005.

⁷⁶ Source: Korean Ministry of Foreign Affairs and Trade Website [cited by Inbom Choi, *The Korean Diaspora in the World Economy*, 17].

⁷⁷ See Joel Kotkin ‘The New World Order’ (Lugatum Institute, 2011); [edited by] Fred Bergsten and Inbom Choi, *The Korean Diaspora in the World Economy*’ (Institute for International Economics, 2003) etc.

more people immigrate, the more likely they will promote trade with their country of origin.⁷⁸ As Inbom Choi writes: “by doing business through the network of a ‘diaspora’, one [businessman] can reduce risk significantly.”⁷⁹ Not only Koreans Americans sustain strong connections with Korea, moreover, Korean diaspora in the US considered being very active economically: “There is the correlation between the presence of Korean immigrants and state economic performance, and if this were interpreted as a causal relation, it would suggest that a doubling of the Korean immigrant population would increase national per capita income growth by 0.1-0.2 percentage points.”⁸⁰ Since the majority of Korean Americans were born in South Korea, connections with their country of origin are very strong. That is proved by the trade connections between state California and South Korea.

The largest Korean ‘diaspora’ located in the state California (See Table 3). According to the statistics, California is the not only the biggest exporter to Korea but also the biggest importer from Korea (See Table 4). All the other 3 main importers among the states of the US from Korea are on the “top 8” list of the states with biggest Korean American population (Table 3). Considering strong trade connection between Korean Americans and South Korea and the fact that Koreans immigrants prefer to import and sell the products from Korea and sell them in the country of their residence, in our case in the US Korean, than vice versa, says that the FTAs concluded by U.S. before KORUS FTA negotiations could affect imports from Korea, creating trade diversion and making Korean products less competitive and incline producers towards FTA with the US.

⁷⁸ Joel Kotkin, *The New World Order: A Report on the World's Emerging Spheres of Influence* (Lugatum Institute, 2011). Accessed May 8, 2012. <http://nwo.li.com/>

⁷⁹ Bergsten and Choi, eds, *The Korean Diaspora in the World Economy*, 20.

⁸⁰ Marcus Noland, “The impact of Korean immigration on the US economy,” in *The Korean Diaspora in the World Economy*, ed. by Fred Bergsten and Inbom Choi, (Institute for International Economics, 2003), 61.

Table 3. Korean Americans 2009 ⁸¹

State	Population
California	410, 566
New York	129,458
New Jersey	84, 525
Virginia	62, 389
Illinois	60, 066
Texas	58,596
Washington	57,507
Georgia	46,047

Table 4. State-by-state import from Korea ⁸²

State	2000	2004	2006	2008	2010
California	6,917,399,863	5,962,945,389	7,045,226,060	7,746,936,673	8,027,398,678
Texas	2,116,499,260	5,033,788,495	5,341,172,586	5,150,718,925	6,442,945,216
Washington	1,743,433,028	1,835,252,598	2,272,012,877	3,260,959,831	2,718,851,439
New York	902,917,668	1,170,803,392	1,273,367,956	1,736,407,568	1,992,303,098

4.1.2 Education

Education is a profound factor for trade and policy making because Korean students that were getting education in economics (which is the majority among Korean students that are

⁸¹ Source: US Census Bureau [Cited on Korea matters for America Website <http://www.koreamattersforamerica.org/2011/07/koreans-make-up-10-of-the-asian-american-population/> Accessed May 20, 2012.]

⁸² Source: U.S. Department of Commerce, International Trade Administration. <http://trade.gov/>

getting their degrees in the US)⁸³ are influenced by the ideas that are spread and prevail in the US. The ideas, that prevail in the US about the economic and trade policy, e.g. neoliberalism (as it was mentioned in the first and second chapter FTAs were considered to promote neoliberalism), through the students can influence economic and trade relations between the US and South Korea. The number of Koreans after the formation of Alliance increased drastically from 258 students in 1949-1950 to 41,191 students in 1999-2000.⁸⁴ The largest number of foreign students in the US is coming from China and India, but after adjustments to the population, South Korea takes the lead in the number of students studying in the US (see Table 6).⁸⁵ Even if the students are becoming US residents and are not coming back to South Korea, as it was above in the previous section, they preserve very strong connections with their home country, hence, we still have to consider their impact on the economic relations between the US and South Korea.

Table 5. Number of International Students in the US, adjusted for population⁸⁶

Country	Students in US per 300.000 source country population
South Korea	150.4
Taiwan	115.7
Canada	82.7
China	9.6
India	9.5

⁸³ Institute of International Education, Open Doors Data, International Students: Fields of Study by Place of Origin. <http://www.iie.org/Research-and-Publications/Open-Doors/Data/International-Students/Fields-of-Study-Place-of-Origin>

⁸⁴ Institute of International Education, Open Doors Data, International Students: All Places of Origin 1950-2000. <http://www.iie.org/Research-and-Publications/Open-Doors/Data/International-Students/All-Places-of-Origin>

⁸⁵ The influence of ideas and education are mentioned by Eric Helleiner, *States and the Reemergence of Global Finance* (1994).

⁸⁶ Source: International Institute of Education 2009-2010 academic year

Taking into account such an active participation of Korean Americans in the US economic and educational spheres, one can expect Korean lobbies to promote the KORUS FTA and prone the US and Korean governments to the conclusion of an FTA, because FTAs are first concluded on the federal level⁸⁷ where lobby groups nowadays play an important role in the US politics,. This agreement is especially beneficial for the big corporations that usually have a good representation or lobby groups in the government and additional support from the former fellow-citizens can only strengthen their position and influence, considering that Korean lobby in the US already have experience of influence in the US government.⁸⁸ One could have expected these factors to fasten the KORUS FTA ratification process.

4.2 Security issues

Economic performance of the country is essential for the security issues as well because economy can pose serious threats to political stability.⁸⁹ For South Korea the problem is even worse, because it is already geographically situated between two big rivalry economies – Japan and China, whose economic power can be used as political leverage.⁹⁰ If Korea wanted to be heard and perceived as an equal partner – economic growth is an indispensable condition for it. This part of the work will show how the security issues that appeared in the end of the 20th and in the beginning of the 21st centuries made KORUS FTA not unexpected at all.

During the second half of the 20th century, the US market became the main export destination for South Korea. The fact that the US started to pursue FTAs with other countries

⁸⁷ First the governments discuss the possibility of the official negotiations and conduct an analysis of possible outcomes. Then they launch official negotiations. Only after the end of official negotiations and after the country leader sign it, proposed FTA goes for ratification to the national Parliaments.

⁸⁸ Chung-in Moon, “Complex Interdependence and Transnational Lobbying: South Korea in the United States” *International Studies Quarterly* 32:1 (1988).

⁸⁹ Barry Buzan, “National insecurity: Threats and Vulnerabilities” in *People, states, and fear: an agenda for international security studies in the post-cold war era* (New York : Harvester Wheatsheaf, 1991).

⁹⁰ South Korea already was under influence of both China and Japan. For many centuries it was a part of Chinese Tribute system and in 1910 it was occupied by Japan, which only strengthening the political and economic threat for South Korea posed by these two countries.

created trade diversion for Korean producers, as it was mentioned in the previous sections. Consequently, the FTA with the US became an issue of economic prosperity, development and political stability, therefore becoming an issue of security for South Korea.

Despite profound influence of the United States in East Asian region after the end of World War II, with the end of Cold War the US economic situation worsened, facing trade deficits in general and with Japan and South Korea in particular. Due to that, American foreign policy strategy in the region changed in 1990s, giving up the first place to economical concerns rather than strategic ones.⁹¹ The dramatic events of 11 September 2001, urged the US policy-makers to rethink their foreign security. In particular, the US had to turn their focus back to the East Asian region because of the nuclear threat posed by North Korea and because of the new rising economic power represented by China. Logically thinking, it is easier to recover the connections that were already built and sustained for several decades than to build new ones. In line with the new U.S. foreign policy strategy, the best way to do that was to facilitate economic connections and resume security cooperation with its allies, e.g. Japan and South Korea. Since the US used FTAs not only out of economic considerations, but also as a tool to reassure strategic concerns, as was discussed in the previous sections – FTA could have been a perfect solution to get back to the region.

Japan would be the first candidate for the US to conclude an FTA with, considering that it was the central state in and main ally in the region for the US during the Cold War period. But Japanese producers did not show a lot of interest in FTA with the US, because the US trade tariffs for Japan were already low and politically active in Japan agricultural sector, which would be the sector that would lose in case of FTA, opposed the idea of FTA with the US.

⁹¹ Barry K. Gills explicitly stressing the point that during its interventions in East Asian region (Korea in particular), that end of Cold war marked the shift of the US interests from the strategic to economic. This, from his point of view, explains the change in the US attitude from tolerance towards deviation from liberal norms in allied East Asian states to critical intolerance and demands for greater liberalization. For details see Barry K. Gills, "The Crisis of Postwar East Asian Capitalism: American Power, Democracy and the Vicissitudes of Globalization" *Review of International Studies* 26:3 (2000).

Moreover, at the beginning of the 21st century, the US already succeeded in an integrated bilateral alliance with Koizumi administration.⁹² Therefore, when South Korea initiated FTA talks with the US in order to reassure the export market⁹³ and to secure its position in the region, the US followed.

Notwithstanding all intra-regional activities happening in the Asia-Pacific region in the 1990s, which were fully supported by South Korea in line with China, Japan and ASEAN. The economic connections with the US are still very strong, and American market still plays a crucial role in Korean economic development, especially considering Korean export-oriented economy and its heavy-dependency on the export market. Even when China replaced United States in 2002 as the main Korean export market⁹⁴, from some scholar's point of view, in order to balance this interdependence with China and not allow China to use its economic power as a political leverage, pushed South Korea into the US 'arms' again. This is how threats posed by North Korean nuclear crisis and China's economic rise led to FTA between the US and South Korea, which by the governments was perceived not only as economic pact, but the option through which each country pursued its own security goals.

4.3 Conclusion

This chapter has shown how the trade patterns and strategies of the US and South Korea evolved over time and that despite the divergence of trade policies in the 1990s between South Korea and the US, by the end of the 20th century this historical ties pushed these countries towards cooperation. The economic and security-oriented nature of this formal ties and bilateral attitude of the US towards Asian Countries that was formed during the Cold War logically led to the idea of KORUS FTA. With successful economic development in China arose questions about a new hegemonic power. This led to ideas that it is the time of decline

⁹² Sohn and Koo, "Securitizing Trade," 2011.

⁹³ BBC News Video, "South Korea-US Free Trade Agreement Comes into Effect," March 2012.

<http://www.bbc.co.uk/news/business-17376536>

⁹⁴ See Schott, *Free Trade Agreements*, 175.

for American ‘imperium’.⁹⁵ However, the ‘US retains an enduring capacity to influence international economic, political and cultural practices in ways that are not captured easily by an exclusive focus on foreign policy or strategy.’⁹⁶ Because of the historical connections between the US and South Korea: political, security, business and societal linkages, and also considering the economic and security threats posed by Japanese-Chinese rivalry, North Korea nuclear problem, Korean economic interdependence with China and fear of the possibility to lose American export market, KORUS FTA is not a completely unexpected decision. These reasons, and also the countries’ size, economic stability and income level, which positively influence trade (See Table 1),⁹⁷ should have made the process of KORUS FTA conclusion easier and faster. However, as the next Chapter will show, this was not the case. In contrast to that, the KORUS FTA became the most publicly contentious FTA that was ever concluded by South Korea and the US.

⁹⁵ See Chalmers Johnson, *Nemesis: The Last Days of the American Republic* (New York: Metropolitan Books, 2006) etc.

⁹⁶ Beeson, “Hegemonic Transition in East Asia”, 96.

⁹⁷ All these features: bigger size of the country, higher GDP per capita, Income level, Infrastructure (see Table 1) mentioned by researchers, like Pankaj Ghemawat, as features that will proliferate the trade between two countries. See Ghemawat, “Distance Still Matter,” 138.

CHAPTER 5. KORUS FTA - controversial FTA

Free Trade Agreements are generally complicated deals, due to the fact that they cover many complex points such as trade in services, goods, investment and rules of origin, patents and other barriers to trade. To reach agreement can be harder in case the countries participating in negotiations countries are on different levels of economic development.⁹⁸ However, considering all the factors described in the previous two chapters, such as historical ties between the US and South Korea, Korean economic dependence on export market, trade diversion as an outcome from other FTAs concluded by these countries, geopolitical considerations and security threats, make the KORUS FTA a logical decision made by the government officials. One of the reasons behind that logic is that guaranteed national security and sustained economic growth can provide political stability and national support, thus reassuring position the of the ruling party.

From an economic point of view, KORUS FTA is also beneficial for South Korea, since the main exporters and, hence, main drivers of Korean economy are big conglomerates or chaebols, like Hyunday or Samsung, which according to the KORUS FTA conditions will gain better access to the American market. As Pankaj Ghemawat states, governments are more likely to use protectionist measures in case the domestic industry is a large employer, if it is seen as a national champion, or is vital for national security. In all these cases it will be beneficial for South Korea to conclude the KORUS FTA. The point of natural resources exploitation can be an issue as well, but it is not touched by the US-South Korean FTA.⁹⁹ Agricultural sector that is as New Zealand ambassador in South Korea Patrick Rata¹⁰⁰ points

⁹⁸ Unless it is a deal where one country with more economic and political power is imposing its interest at the expense of the other country's preferences. Brown and Stern discuss the example of the US-Costa Rica FTA. They conclude that FTAs involve countries that are unequal in its position. Then the conditions can be imposed by more powerful country on a 'take-it-or-leave-it basis. See Brown and Stern, "Issues of Fairness," 2007.

⁹⁹ See Pankaj Ghemawat "Distance Still Matters", 2001, 143.

¹⁰⁰ He worked in the New Zealand Ministry of Foreign Affairs and Trade as a head of Korea and Japan Unit in 2009-2010. Right now he is in the group of people who is evaluating future Korea-New Zealand FTA.

out very sensitive area for South Korea, and the main loser from the Korean side according to the US-South Korea FTA¹⁰¹ can be a source of the problem. But the most sensitive areas such as rice were excluded from the agreement, and also to mitigate the negative effects of the KORUS FTA for agriculture government plans to grant financial assistance and subsidies to agricultural sector to compensate the losses and to raise the competitiveness of the sector.¹⁰²

Basically from the national security, political and economic perspective KORUS FTA is an expected and beneficial deal, which including all the historical ties between South Korea and the US should make the process of conclusion quite fast. The official negotiations on the intergovernmental or external level were fast. The official negotiations were launched on February 3 in 2006 and they were concluded in April 2007, which is very fast for both South Korea and the US in comparison to some other official negotiations of FTAs they have (See Appendix, Table 6 and 7). For example, the EU-South Korea (KOREU FTA, hereafter) negotiations started in 2006 as well, but were concluded only in 2009.¹⁰³

The comparison of KORUS and KOREU FTAs is justifiable in a sense that both these agreements were major agreements both for South Korea as for the US and the EU. They share a lot of similarities, as Scott Snyder writes, KOREU FTA was “modeled on KORUS and contains many of the same provisions.”¹⁰⁴

However, after the external or intergovernmental negotiations, come domestic ones, because governments need to pass and thereby ratify the agreement through national parliaments – Congress in the US and National Assembly in South Korea. Despite the fact that it is bigger in scope¹⁰⁵ and share a lot of similarities with KORUS FTA, ratification and

¹⁰¹ Kirsty Taylor, “Ambassador swings into new position, commits to FTA,” *Korea Herald*, April 15, 2012. Agricultural sector is always a sensitive issue. For example, South Korea-Chile FTA.

¹⁰² Song Su-hyun, “Korus FTA to take effect at Midnight,” *Korea JoongAng Daily*, March 14, 2012.

¹⁰³ For more details see Robert E. Kelly, “Korea-European Union relations: beyond the FTA?” *International Relation of Asia-Pacific* 12 (2012).

¹⁰⁴ Scott Snyder, “South Korea’s Mayoral Election: Setback for KORUS-FTA?” *Council on Foreign Relations*, November 4, 2011. <http://blogs.cfr.org/asia/2011/11/04/south-koreas-mayoral-election-setback-for-korus-fta/>

¹⁰⁵ The KOREU FTA is the biggest world’s trade agreement since NAFTA (1994). See Yeongkwan Song, “KORUS FTA vs. Korea-EU” (2011).

implementation period for KOREU FTA was only one year long, while it took 5 years to ratify and implement KORUS FTA (See Table 6), which was the longest and dramatic FTA for South Korea.

Table 6. South Korea's FTAs¹⁰⁶

ID	Title	Scope	Type	Signed in	Status	Year	Notification	Year
KFTA	Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Co-operation Among the Governments of the Member Countries of the Association of Southeast Asian Nations and the Republic of Korea	Country - Bloc	FTA	2006	In force	2010	No notification	
EFTA-KOREA	Free trade agreement between the EFTA States and the Republic of Korea	Country - Bloc	FTA & EIA	2005	In force	2006	GATT Art XXIV, GATS Art V	2006
KOREA-CHILE	Free Trade Agreement between the Republic of Korea and Chile	Bilateral	FTA and EIA	2003	In force since	2004	GATT Art XXIV, GATS Art V	2004
KOREA-EU	Free Trade Agreement between the European Community and its Member States and the Republic of Korea	Country - Bloc	FTA & EIA	2010	In force since	2011	GATT Art XXIV, GATS Art V	2011
KOREA-INDIA	Korea - India Comprehensive Economic Partnership Agreement	Bilateral	FTA	2009 ¹⁰⁷	In force since	2010	No notification	
KOREA-PERU	Free Trade Agreement between Republic of Korea and	Bilateral	FTA & EIA	2011	In force since	2011	GATT Art XXIV, GATS Art V	2011
KOREA-SINGAPORE	Free Trade Agreement Between the Government of the Republic of Korea and the Government of the Republic of Singapore	Bilateral	FTA & EIA	2005	In force since	2006	GATT Art XXIV, GATS Art V	2006
KORUS	Korea - USA Free Trade Agreement	Bilateral	FTA	2007	In force since	2012	GATT Art XXIV, GATS Art V	2012

The KORUS FTA was supposed to bring economic benefits to South Korea such as

“increase of 0.42%–0.59% in Korean GDP according to a static analysis and 1.99%–2.27%

¹⁰⁶ This table only consists of the agreements that were concluded and ratified on the domestic level in order to make a proper comparison. For more details see Appendix Table 1.

Source: 1) United Nations ESCAP (Economic and Social Commission for Asia and the Pacific) “Asia-Pacific Trade and Agreements Database (APTIAD).” http://www.unescap.org/tid/aptiad/agg_db.aspx

2) Asia Regional Integration Center (ARIC), “Free Trade Agreements.”

<http://aric.adb.org/ftatrends.php>

¹⁰⁷ Kelly Olsen, South Korea, India sign trade agreement, August 7, 2009.

<http://www.livemint.com/2009/08/07220752/South-Korea-India-sign-trade.html>

according to a dynamic analysis.”¹⁰⁸ As well as greater political ties in terms of Korean national security threatened by the dynamics in the Asian region. Nevertheless, despite fast negotiations on the external level, the KORUS FTA ratification and implementation were the longest and the most dramatic for South Korea, encountered by serious obstacles posed by two oppositions within the country – government opposition and public opposition, which turned the KORUS FTA into the main issue of hectic debates South Korea All these factors, followed by the biggest protest demonstration in South Korea since 1987, make the US-Korea FTA so controversial and unique. Why it happened and what was the reason for such a dramatic course of events?

5.1 Opposition in South Korea

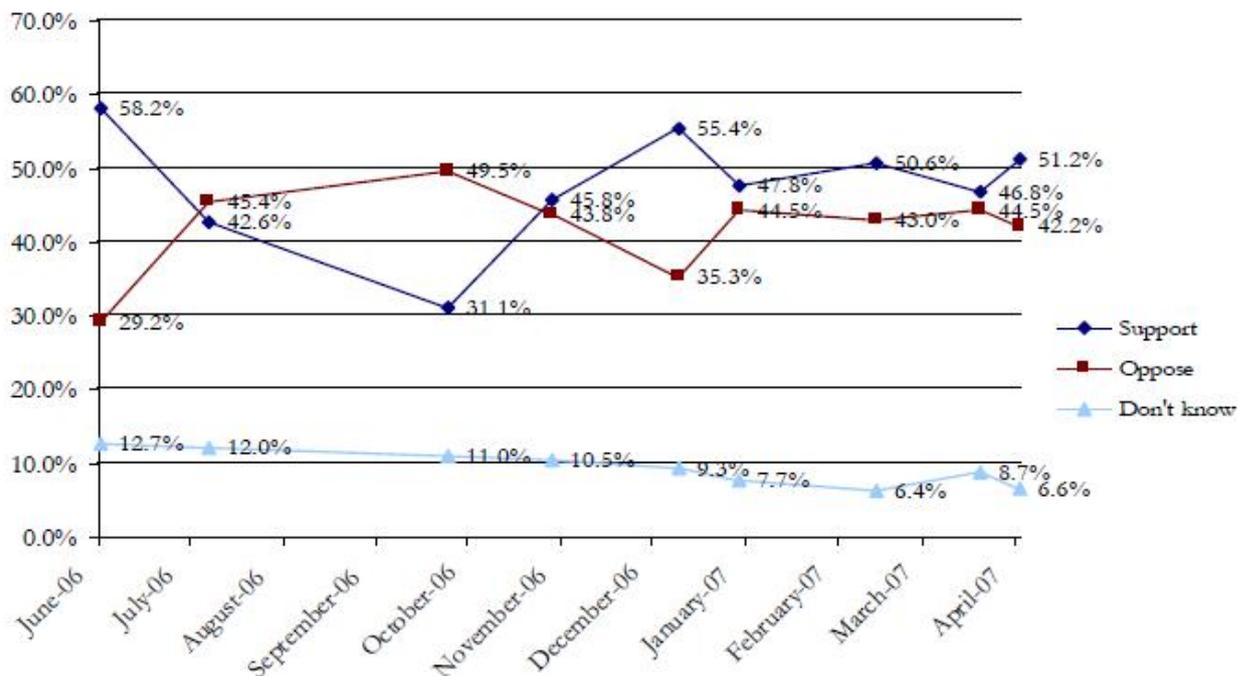
The US-South Korean relations are a very sensitive issue in South Korea. Research shows that at the beginning of the 21st century especially during the elections in 2002, there was a quite clear division within the public about the nature of the relations between South Korea and the US.¹⁰⁹ The division was based mainly on age. Older people (in their 50s or 60s), who still remember the Korean War times and poor condition of the country after the war and who still remember American help and protection against North Korea – this group of people have conservative or right-wing views. The younger people (in their 20s and 30s), who only heard about the Korean War and were living in a better conditions, but at the same time still heard about accidents¹¹⁰ that American government was involved in, represent the progressive of left-wing views. KORUS FTA was not an exception for this division. The instability of Korean public opinion around KORUS FTA during the negotiation time, shows that the issue was truly sensitive for South Koreans (See Figure 1).

¹⁰⁸ Park, “Korea’s Elections and the KORUS FTA”, 2.

¹⁰⁹ Andrey Lankov, The Roots of Antiamericanism, Seoul Herald [<http://vestnik.tripod.com/articles/anti-us.html>]

¹¹⁰ Like the Kwangju massacre in 1980 when the Major General Chun Doo-hwan announced martial law and sent paratroopers to deal with the demonstration against his actions in Kwangju which ended up with quite a lot of victims. The American government was blamed for not preventing or even stopping it, because at that time it had operational control over Korean military forces. See Lee, “Trust in Government and Protectionism,” 2010.

Figure 1. Changes in public opinion concerning KORUS FTA during the time of negotiations.¹¹¹



After the deal was signed by the US and South Korea presidents, there were several main issues the public opinion was opposing the KORUS FTA the most: agriculture, ‘beef incident’ and ISD settlement system. Since agriculture is almost always a contentious issue in FTA agreements,¹¹² the protests around agriculture do not make the case of KORUS FTA unique. However, two other topics are not usual for FTA discussion and characterize particularly Korean public and governmental opposition to KORUS FTA, based, as some western news articles¹¹³ present it, on nationalism. These two issues: the so-called ‘beef incident’ and ISD settlement system will be explored next in more detailed, because they demonstrate the nature of the opposition that stems not from economic considerations.

¹¹¹ The figure was cited in Hyunji Lee, “Trust in Government and Protectionism,” 2010.

¹¹² South Korean National Assembly rejected ratification of Korea-Chile agreement because of the agricultural issue and the Korea-Japan FTA negotiations got stalled because of the agricultural opposition. Agriculture was also one of the reasons why Japan was not interested in negotiating FTA with the US, as it was mentioned in the previous chapter.

¹¹³ See, for example, “Seoul’s Beef Beef,” *Washington Post*, June 14, 2008. <http://www.washingtonpost.com/wp-dyn/content/article/2008/06/13/AR2008061303223.html>; Sang-Hun Choe, “Protests in Seoul more about nationalism than U.S. beef,” *The New York Times*, June 11, 2008. http://www.nytimes.com/2008/06/11/world/asia/11iht-seoul.1.13635643.html?_r=1,

5.1.1 Public opposition and the 'Beef incident'

The US beef export to South Korea was banned in 2003, after the so-called mad cow disease, which can be fatal for humans, was discovered in some American cows. In spite of announcement issued by Paris-based World Organization for Animal Health that the US beefs was safe by the year 2008, the decision made by Lee Myun-bak to resume the US beef import was perceived as a health security threat and was followed by the biggest demonstrations in Seoul since 1987.¹¹⁴ The beef issue itself was not a part of the official FTA negotiations, but it was “discussed in parallel with the negotiations because resuming importation of the US beef was one of the alleged preliminaries demanded by the US as prerequisites for the opening of FTA negotiations.”¹¹⁵

The president's decision was perceived as kowtowing towards the US. As New York Times puts it,

Mr. Lee, elected on a promise to mend fences with Washington, failed to anticipate that some of his people would see lifting the ban not as a sensible policy gesture but as a form of tribute to a foreign power with a troop presence that still gives it great influence over the country's fate.¹¹⁶

The fact that the decision to lift the ban for the US beef import just before the visit of Korean president to the US only intensified public concerns. This action was understood not even as an economic threat, but as a threat to Korean national sovereignty. The fact that it drastically affected the overall attitude of Korean people towards ratification of the KORUS FTA, because around the time of 'beef accident' the percentage of people favoring KORUS FTA promptly dropped from 53.5 to 29.8, while the percentage of people opposing FTA increased from 24.5 to 58.6 (See figure 2). These results lead to the point that the KORUS

¹¹⁴ Aljazeera News, “South Korea beef protests escalate - June 11 2008,” June 10, 2008.

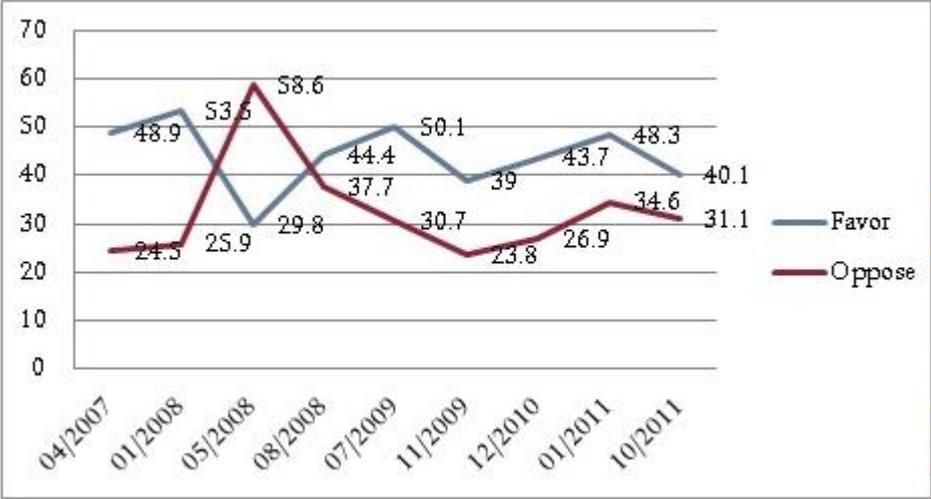
<http://www.youtube.com/watch?v=x2m3bI52dww>

¹¹⁵ Lee, “Trust in Government and Protectionism,” 10.

¹¹⁶ Sang-Hun Choe, “Protests in Seoul more about nationalism than U.S. beef,” *The New York Times*, June 11, 2008.

FTA ratification process was indeed encountered by the opposition based on nationalism within the South Korean society.

Figure 2. South Korean’s attitude towards the US-South Korean FTA ratification¹¹⁷



5.1.2 Government opposition and ISD Settlement System (Investor–state dispute settlement clause)

Another main issue regarding KORUS FTA opposition is political opposition in the Korean government. The ratification of trade agreements and other international conventions, like KORUS FTA, should go through the National Assembly to be ratified and then the president has to sign it into law in 15 days after it was passed in National Assembly. Members of National Assembly are elected out of the political parties for four-year term. There are several parties in South Korea, but it is only two parties that have been the main rivals at the elections in 2008 and were present in National Assembly during the ratification process of the KORUS FTA – these are Grand National Party (GNP) and Democratic Party (DP).¹¹⁸ The

¹¹⁷ Realmeter Survey [cited by Kim, “Shift in South Korean Attitudes and Electoral Politics,” 2011].
¹¹⁸ Both main parties of South Korea changed their names. Democratic Party after unification with Citizens Unity Party and Federation of Korean Trade Unions became Democratic United Party. Grand National Party also changed its name in February (2012) to Saenori. For more details see Kangeun Jeong, “Problems of Korean Domestic Politics – The KORUS FTA as a case study,” *Political Cartel Foundation*, February 3, 2012.

former or the conservative party is considered to be pro-American, while the latter or the progressive party is for greater Korean independence, hence against strong South Korean relations with the US. It is normal for Korean ruling party not to have a strong majority in the legislative body, which as it is described by some scholars¹¹⁹ can lead to conflicts in the Parliament that happened during the KORUS FTA negotiations.

The KORUS FTA in 2008 became a topic of main conflicts of the above mentioned two Korean parties. After the agreement was signed by president Bush and Roh Moo-hyun (DP member), during the elections that followed in 2008 the GNP candidate Lee Myun-bak won the presidential elections and the GNP got the majority (164 out of 299) in National Assembly. Despite the fact that KORUS FTA was signed during the presidency of the DP candidate Roh Moo-hyun, when the time for ratification came, DP opposed it. They demanded renegotiation and gave the list of “10+2” issues that should be renegotiated. One of the most contentious issues was the ISD settlement mechanism, which means that it “would allow U.S. investors who judged that they had incurred damages in a Korean court to sue the Korean government before an international arbitration body.”¹²⁰ As DP members argue, the “agreement is unequal, as it includes content that is unilaterally disadvantageous to South Korea”¹²¹ and it will allow US companies to attack domestic enterprises on local regulations, which were implemented to protect domestic industries. They were also stating that South Korea is abandoning its economic sovereignty to the US.¹²² This view was also supported by the public opinion: 49.3 percent respondents in South Korea concerning KORUS FTA ISD system answered that renegotiated KORUS FTA is “humiliating” and favors the US, while only 38.3% respondents

But in this work I will call them by their old names, not by new ones, because when the KORUS FTA ratification process was in place they have not changed their names yet.

¹¹⁹ See Cheol Hee Park, “Institutionalization of Party Political Democracy and the Challenges of Stable Governance in South Korea,” *International Political Science Review* 30 (2009).

¹²⁰ Tae-hee Lee, “Final KORUS FTA battle centers on investor-state dispute provision,” November 1, 2011 http://english.hani.co.kr/arti/english_edition/e_national/503461.html

¹²¹ Joon-bum Hwang and Jung Eun-joo, “GNP pushes for concurrent KORUS FTA ratification”, October 5, 2011. <http://www.bilaterals.org/spip.php?article19411&lang=en>

¹²² Associated Press Video, “Congress passed Korea-US FTA,” November 22, 2011. <http://www.youtube.com/watch?v=DaHmSfGzARw&feature=related>.

answered that it reflects “a range of interest.”¹²³ The way how strongly politicians were stressing Korean subordination in the negotiations of the KORUS FTA, the way how dramatically the agreement was finally ratified with tear gas canister in the Parliament thrown by the opposition lawmaker¹²⁴ on the day of ratification¹²⁵ and opposition party members blocking the cabinets demonstrates that the issue of the KORUS FTA was revolving not only about economic aspect of the agreement, but around South Korean government dependence and surrender to the US government. That makes the nationalistic element one of the most important problems that hindered the KORUS FTA ratification for so long.

5.2 Conclusion

Free Trade Agreements themselves cause conflicts on the domestic level because there will be winners and there still be losers, even if the agreement is beneficial for the country in general. In case of the KORUS FTA the deal met a huge domestic opposition posed by society and government opposition, which were only intensified by ‘not transparent’ actions of the government.¹²⁶ If one looks at Figure 3 (follows after the conclusion), one will notice that the general attitude towards KORUS FTA was quite positive. However, in the Figure 2 (Koreans’ attitude towards ratification of the KORUS FTA, see p. 40) the number of people favoring ratification of the KORUS FTA is lower than majority, which is lower than on the graph with the general attitude towards KORUS FTA. That can mean that the way Korean government was negotiating or framing the message to the public could have only intensified already existing nationalistic ideas. The fact that Korean political party very often funded by

¹²³ Kim, “Shift in South Korean Attitudes and Electoral Politics,” November 2011.

¹²⁴ Myo-ja Ser, “GNP brings FTA to Committee Vote,” *JongAng Daily*, November 3, 2011.

<http://koreajoongangdaily.joinsmsn.com/news/article/article.aspx?aid=2943646>; Press-TV News, “Rising protests against S.Korea-US FTA,” November 15, 2011. <http://www.youtube.com/watch?v=KOjSrGn-Qbk>

¹²⁵ CNN News, “Legislator Opens Tear Gas Canister In South Korean Parliament,” November 22, 2011.

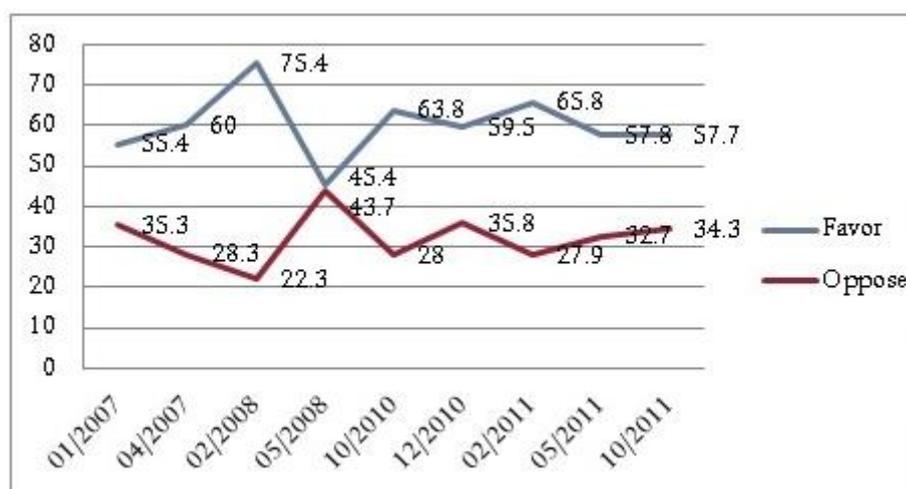
<http://www.youtube.com/watch?v=3DWFIXfCLsQ&feature=related>.

¹²⁶ As Lee Kyung-tae (President of the Korea Institute for International Economic Policy) pointed out in the interview “US is not a model for Korea,” *Korea Times*, June 13, 2008.

http://benmuse.typepad.com/koreaus_fta/2008/06/korean-economists-on-trade-and-other-issues.html#more.

big business¹²⁷ could have made the situation even worse, making people believe that the agreement, which is very favorable to big conglomerates, was pushed through by lobbies and bribes. This specific characteristic of the parties, which in addition are considered being not good intermediates between the public and the government,¹²⁸ and the fact it was happening during the negotiations with the US, only strengthened nationalistic nature of the opposition and led to a lot of conflicts and protests in the governments as well as in the society, turning KORUS FTA, in comparison to all other FTAs pursued by South Korea, into the most controversial free trade deal.

Figure 3. General Attitude of South Koreans towards KORUS FTA¹²⁹



¹²⁷ See Youngmi Kim, “Intra-Party Politics and Minority Coalition Government in South Korea,” *Japanese Journal of Political Science* 9:3(2008).

¹²⁸ Ibid. See also Park, “Institutionalization of Party Political Democracy and the Challenges of Stable Governance in South Korea,” 2009.

¹²⁹ Source: East Asia Institute/Gallup Survey [cited by Kim Chi-wook “Shift in South Korean Attitudes and Electoral Politics,” 2011]

Conclusion

What makes the KORUS FTA so interesting and unique is that for economic, political and security reasons this agreement was both logical and expected. Judging by the official negotiations the agreement was reached quite quickly. As the results of this work indicate, FTA for the US and South Korea not only provided an answer to the economic problems of the export market and welfare problem, but also constituted a strategic pact that was supposed to strengthen the security cooperation between the US and South Korea, which was grounded by the joint opposition to the growing threat posed by North Korean nuclear tests and the challenge sent by growing economic and political Chinese power. Why did KORUS FTA become a solution to such security issues and why this agreement was expected? The answer is that there were already public outcries in South Korea about the US military presence on the Korean territory. In South Korea people saw American military sentiments as encroachment on their freedom. Therefore, if South Korean and the US government would have openly started new security talks, that could have led to serious societal repercussions. The FTA looked like a good opportunity for Korean and American policy-makers, to secure their alliance through economic pact.

However, the ratification process was the most complex and controversial for South Korea in particular. The research question was why when the trade agreement, which was economically beneficial and valid from the political and security stand point, took so much time and effort for Korean and the US government to implement?¹³⁰ The findings demonstrate that the answer is that the nationalist sentiment in the South Korean society around the US-South Korean relations in general was the core reason for opposition towards the KORUS FTA ratification. In South Korea debates around the US-South Korean FTA and delays in

¹³⁰ In comparison, Korea-EU FTA, which is even bigger in its scope and was modeled according to the KORUS FTA, was ratified in one year.

ratification were caused neither by the losses in agricultural sector nor by the idea of FTA per se, but by opposition in South Korean society and government to FTA with the US, because it was perceived that the conditions of the FTA favor the US. These results allude to the idea that it is early to evaluate FTAs in general, because every FTA and its degree of complexity for analysis hinges on the countries that pursue it. Clearly the FTA should be carefully framed and presented before society, because the societal factor, as this case has shown, can override economic rationale.

The findings of this thesis can contribute to the future research regarding the issue of FTA ‘fairness’¹³¹ by stating that not only the general “fairness” of FTAs matter, but the way in which the FTA is perceived by the society in the country that concludes it is also very important. Understanding of the KORUS FTA by the Korean society and government opposition as “not equal” and “favoring the US” became one of the main reasons for huge domestic opposition that hindered the ratification and implementation of a FTA that otherwise appeared beneficial from an economic point of view.

In addition, the results of this thesis can be used to evaluate the FTAs that Korea is going to pursue and to foresee the obstacles that the Korean government can encounter. For example, South Korea, China and Japan are discussing a possible joint FTA.¹³² As it has been demonstrated, Korean society is very sensitive about its national and economic sovereignty. Taking into account that Korea was a part of Chinese Tribute System for many centuries and afterward was occupied by Japan in 1910, the China-Japan-Korea joint FTA may face a lot of obstacles in Korea during the process of negotiations and ratification, if the Korean government will not consider the societal factor and frame the results of FTA negotiations and conditions properly. Therefore, the results of this thesis can also have practical application.

¹³¹ The question about fairness was researched by. Brown and Stern, “Issues of Fairness,” 2007.

¹³² See “China’s FTA network”

Appendix

Table 1. South Korea's FTAs

ID	Title	Scope	Type	Signed in	Status	Year	Notification	Year
KFTA	Agreement on Trade in Goods under the Framework Agreement on Comprehensive Economic Co-operation Among the Governments of the Member Countries of the Association of Southeast Asian Nations and the Republic of Korea	Country - Bloc	FTA	2006	In force	2010	No notification	
AUSTRALIA-KOREA	AUSTRALIA-KOREA	Bilateral	FTA		Under negotiation since	2005	No Notification	
CHINA-KOREA	China - Korea Free Trade Agreement	Bilateral	FTA		Under negotiation since	2005	No Notification	
EFTA-KOREA	Free trade agreement between the EFTA States and the Republic of Korea	Country - Bloc	FTA & EIA	2005	In force	2006	GATT Art XXIV, GATS Art V	2006
JAPAN-KOREA	Japan-Korea Free Trade Agreement	Bilateral	FTA		Under negotiation since	2003	Early announcement	
KOREA-CANADA	Republic of Korea and Canada Free	Bilateral	FTA		Under negotiation since	2005	Early announcement	

	Trade Agreement							
KOREA-CHILE	Free Trade Agreement between the Republic of Korea and Chile	Bilateral	FTA and EIA	2003	In force since	2004	GATT Art XXIV, GATS Art V	2004
KOREA-COLUMBIA	Korea-Colombia Free Trade Agreement	Bilateral	FTA		Under negotiation since	2009	No notification	
KOREA-EU	Free Trade Agreement between the European Community and its Member States and the Republic of Korea	Country - Bloc	FTA & EIA	2010	In force since	2011	GATT Art XXIV, GATS Art V	2011
KOREA-GCC	Korea-Gulf Cooperation Council Free Trade Agreement	Country - Bloc	FTA		Under negotiation since	2009	No notification	
KOREA-INDIA	Korea - India Comprehensive Economic Partnership Agreement	Bilateral	FTA	2009 ¹³³	In force since	2010	No notification	
KOREA-MEXICO		Bilateral	FTA		Under negotiation since	2006	Early announcement	
KOREA-PERU	Free Trade Agreement between Republic of Korea and	Bilateral	FTA & EIA	2011	In force since	2011	GATT Art XXIV, GATS Art V	2011

¹³³ Kelly Olsen, South Korea, India sign trade agreement, August 7 2009
(<http://www.livemint.com/2009/08/07220752/South-Korea-India-sign-trade.html>)

KOREA-SINGAPORE	Free Trade Agreement Between the Government of the Republic of Korea and the Government of the Republic of Singapore	Bilateral	FTA & EIA	2005	In force since	2006	GATT Art XXIV, GATS Art V	2006
KOREA-TURKEY	Korea-Turkey Free Trade Agreement	Bilateral	FTA		Under negotiation since	2010	No notification	
KORUS	Korea - USA Free Trade Agreement	Bilateral	FTA	2007	In force since	2012	GATT Art XXIV, GATS Art V	2012
MALAYSIA-KOREA	Malaysia - Korea Free Trade Agreement	Bilateral	FTA		Under negotiation since	2005	No notification	
NEW ZEALAND-KOREA		Bilateral	FTA		Under negotiation since	2009	No notification	



- FTA that were signed and in force now



- KORUS FTA

Table 2. The US's FTAs

ID	Title	Scope	Type	Signed in	Status	Year
KORUS	Korea - USA Free Trade Agreement	Bilateral	FTA	2007	In force since	2012
UNITED STATES - BAHRAIN	United States - Bahrain Free Trade Agreement	Bilateral	FTA	2004	In force since	2006
UNITED STATES - CHILE	United States - Chile Free Trade Agreement	Bilateral	FTA	2003	In force since	2004
CAFTA-DR	Dominican Republic - Central America - United States Free Trade Agreement	Country-Bloc	FTA	2004	In force since	2006 Dominican Republic 2007 Costa Rica 2009
UNITED STATES - ISRAEL	United States - Israel Free Trade Agreement	Bilateral	FTA	1985	In force since	1985
UNITED STATES - JORDAN	United States - Jordan Free Trade Agreement	Bilateral	FTA	2000	In force since	2001
UNITED STATES - OMAN	United States - Oman Free Trade Agreement	Bilateral	FTA	2006	In force since	2009
UNITED STATES - PERU	United States - Peru Trade Promotion Agreement	Bilateral	FTA	2006	In force since	2009
AUSTRALIA - UNITED STATES	United States - Australia Free Trade Agreement	Bilateral	FTA & EIA	2004	In force since	2005
NAFTA	North American Free Trade Agreement	Regional	FTA & EIA	1992	In force since	1994
UNITED STATES - SINGAPORE	United States - Singapore Free Trade Agreement	Bilateral	FTA & EIA	2003	In force since	2004
THAILAND - UNITED STATES	Thailand - United States Free Trade Agreement	Bilateral	FTA		Under negotiation since	2004
TPP	The Trans-Pacific Partnership	Cross-Continental	FTA		Under negotiation	2009

	Agreement	Plurilateral			since	
UNITED STATES-INDONESIA	United States - Indonesia Free Trade Agreement	Bilateral	FTA		Under negotiation since	2006
UNITED STATES-PHILIPPINES	United States - Philippines Free Trade Agreement	Bilateral	FTA		Under negotiation since	2006
UNITED STATES-PANAMA	United States - Panama Trade Promotion Agreement	Bilateral	FTA	2011		
UNITED STATES-COLUMBIA	United States - Columbia Trade Promotion Agreement	Bilateral	FTA	2011	In force since	2012

 - KORUS FTA

Source:

1) United Nations ESCAP (Economic and Social Commission for Asia and the Pacific), “Asia-Pacific Trade and Agreements Database (APTIAD).”

http://www.unescap.org/tid/aptiad/agg_db.aspx

2) Asia Regional Integration Center (ARIC), “Free Trade Agreements.”

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