

Smart Talk
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**U.S. Trade Linkage Strategies in Free Trade Agreements and
A Comparison to the EU**

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On July 11, 2013, the East Asia Institute invited Vinod Aggarwal, professor at the University of California at Berkeley, to discuss different types of U.S. trade linkages and how they are made in both the domestic and international political contexts, in addition to comparing U.S. trade linkages to those of the European Union (EU). The following are some of the presentation's main points and the subsequent discussion with experts and scholars.

Summary

Free trade agreements (FTAs) often involve much more than economic and trade interests. Scholars such as Dr. Richard Higgott have claimed that FTAs pursued by the U.S. during the War on Terror are clearly linked to security interests. Aggarwal, however, argued that the securitization of FTAs is not a new or uncommon phenomenon; linking security issues to trade agreements has a history going back to even before the 19th century.

According to Aggarwal, there are a wide range of linkages in FTAs besides traditional security concerns. He codifies different types of linkages in FTAs into three categories: traditional economic issues, traditional security issues, and environmental and social issues. The linkages can be both incentives and barriers to signing FTAs between countries. Economic linkages are concerned mainly with classical gains from trade and investment, while traditional security linkages refer to balance of power considerations vis-à-vis other powers or political support of allies. Lastly, environmental and social issue linkages deal with the environment, human rights, and

democracy promotion.

Based on these different types of linkages, U.S. FTAs can be categorized into five groups according to motivations and constraints. Group 1 FTAs, such as the Canada-U.S. FTA, are mainly driven by economic considerations. There are Group 2 FTAs, including the North America Free Trade Agreement (NAFTA), which have been central to bringing labor and environmental issues into FTAs. As in the case of U.S. FTAs agreed upon with Singapore, Chile, Australia, and South Korea, Group 3 FTAs are motivated by a desire to promote broader agreements in the region with a heavy focus on economic and security issues. Another category, Group 4 FTAs, focuses on security considerations, which were witnessed in agreements with Israel, Jordan, Morocco, Bahrain, and Oman. Security considerations outweigh economic gains in this category. Lastly, Group 5 FTAs, consisting of the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), and U.S. FTAs with Peru, Colombia, and Panama, are result from mixed motivations but are constrained by labor and environmental issues.

Aggarwal pointed out that linkage formation is based on the three following theoretical elements: a "top-down or bottom-up" process, tactical versus substantive linkages, and international bargaining and the strength of linkages. Whether the approach is top-down or bottom-up depends on how the U.S. executive branch decides with which countries it will pursue negotiations and on which issues it will focus. A top-down approach is led by the executive branch, while a bottom-up approach is fueled by a process of

lobbying by business and other interest groups. The second theoretical element – choosing between tactical and substantive linkages – pertains to how U.S. negotiators convince their counterparts to include non-trade economic considerations and security, environmental, and social issues. If linkages are based on power considerations, then it is tactical. Substantive linkages, on the other hand, are based on an underlying consensual knowledge that “linked” issues should be dealt with together. The third issue is the strength of issue linkage, which is related to the impact of power asymmetry between the initiator and the target state in the negotiation process. Factors like domestic pressure on policymakers to implement linkages or power asymmetry perceived between the involved countries influence the extent to which the strength of issue linkage varies.

In comparing U.S.-led FTAs with their EU counterparts, Aggarwal emphasized that while the EU elucidates security and social issue linkages such as human rights, democracy promotion, and a ban on weapons of mass destruction in trade agreements, the U.S. is hesitant to make any direct statements on these issues. However, the EU has been relatively free to insert non-economic issues into trade agreements precisely because the EU is signing FTAs with neighbors, countries in relatively close proximity, and developing countries with little political weight in international affairs, including former colonies. It remains to be seen how linkage to political issues affects EU FTAs with distant but economically stronger economies.

The discussion concluded with a question of how U.S. trade linkages are significantly different from other cases. Aggarwal responded that while the EU is explicit in its use of political issue linkage, the U.S. does not explicitly link traditional security issues in trade agreements. Instead,

the U.S. includes more clauses on environment and labor issues in its FTAs as a result of greater lobbying activities. Countries who seek FTAs with the EU or U.S. are usually driven by tactical, and not substantive, motivations, a desire to get preferential access to the large U.S. or European markets. Aggarwal remained doubtful whether U.S. trade linkage strategy is successful in altering other countries’ policies. Unless countries perceive trade linkages imposed by the U.S. to be substantive rather than tactical, the role of trade linkages in significantly changing other countries’ perceptions will remain minimal. ■

About the Speakers

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