



Ties That Bind?

Assessing the Impact of Economic Interdependence on East Asian Alliances

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Abstract

This article investigates how commercial ties affect the cohesiveness of U.S. alliances with East Asian nations. While the conventional wisdom views their effects as positive, we argue that economic interdependence does not markedly reinforce East Asian alliances because all those alignments have an asymmetrical structure. To evaluate these competing arguments, we examine the impact of bilateral trade on the U.S. alliances with Japan, Taiwan, the Philippines, as well as South Korea, over the past quarter-century. Our empirical analysis provides little evidence for the conventional view while supporting our own argument. Based on this finding, the article offers some practical implications for the free trade agreement and the security alliance between South Korea and the United States.

Introduction

There exists a widely held view that closer commercial ties (or greater economic interdependence) among allies tend to reinforce alliances in the East Asian region. This belief (which has its root in liberalist international theory emphasizing the positive international consequences of trade) also wields considerable influence in both academic and policy communities.

In academia, a number of scholars have accepted a sweeping generalization that economic interdependence positively shapes alliance politics,¹ and presume that it naturally holds true with respect to East Asian alliances as well.² According to the advocates, to the



extent that allies are economically dependent upon each other, interruptions in trade flows would be costly to them and jeopardize their economic welfare.³ Therefore, economically interdependent allies will be very reluctant to renege on security agreements, fearing that such an action would cause their lucrative commercial partnerships to break down. Furthermore, as allies are major trading partners, the defeat of one at the hands of an adversary would impose substantial economic costs on the other. Allies-cum-trading-partners then have an added incentive to protect each other because losing an alliance partner could undermine their prosperity as well as security. With these extensive economic ties, there will also be influential political groups with vested interests in preserving those relations. Such political groups are likely to engage in domestic and transnational lobbying for closer security cooperation in order to avoid costly trade disruptions. The result is an enhanced commitment to the alliance.

This view pervades in the policy community as well. To take a notable example, it is a common expectation that the KORUS FTA (Korea-United States Free Trade Agreement) would revitalize their security alliance, which has been in decline throughout the turbulent post-Cold War period.⁴ Many experts and ordinary citizens, regardless of their political affiliation and attitude toward the alliance, believe that closer commercial ties produced by an FTA would broaden and deepen common interests and thereby enhance security cooperation between the signatories. Consequently, the impact of the agreement would turnaround the alliance's steady decline. This expectation dominates the public discourse and partly motivates governments in Washington and Seoul to push for ratification of the KORUS FTA.⁵ For instance, the United States Department of State declares: "by boosting economic ties and broadening and modernizing our longstanding alliance, [the FTA] promises to become the pillar of our alliance for the next 50 years as the Mutual Defense Treaty has been for the last 50 years."⁶ A South Korean government think tank similarly reports: "besides its economic benefits, the ROK-U.S. FTA will also be significant on the diplomatic and security fronts, namely in terms of strengthening the ROK-U.S. military alliance."⁷

Despite its wide acceptance, however, few scholars have systematically evaluated this conventional view that commerce and alliance cohesion are positively associated in East Asia. Few studies offer a thorough logical analysis, and even fewer draw upon credible evidence from a comprehensive examination of regional alliances. Such a dearth of rigorous evaluation, which contrasts sharply with frequent applications of the proposition, is highly problematic. This unproven assumption, if false, could lead scholars down unproductive paths of inquiry, thereby hindering scholarly progress. The policy impact of this assumption might include costly miscalculations and blunders. For example, overstress-



ing the impact of trade on the alliance may lead to an overestimation of the KORUS FTA's value in general, while exposing the agreement unnecessarily to attack from anti-alliance groups. Conversely, the security alliance could draw fire from opponents of free trade, if strengthening the alliance is used as a major rationale for the KORUS FTA. In the worst case scenario, a powerful political coalition could emerge in both countries aiming to destroy the alliance and the FTA, thereby critically damaging the bilateral relationship. In any case, misunderstanding the security implications of the FTA could lead to unwise security policies by generating overconfidence in the strength of the alliance.

In an attempt to fill this void in the extant scholarship, this article investigates how economic interdependence affects U.S. alliances in East Asia, combining relevant insights from historical experiences as well as international relations theory. For a theoretical analysis, we combine relevant propositions drawn from previous studies on the relationship between international commerce and alliance to formulate a novel argument.⁸ For empirical analysis, we examine the impact of bilateral trade on the U.S. alliances with South Korea, the Philippines, Taiwan, and Japan over the past quarter-century.

Contrary to the conventional view, our analysis finds that economic ties do not markedly reinforce the security alliances of East Asia, because they have an asymmetrical structure. This does not mean that trade has little impact or any negative effect on alliances in general. Rather, the point is that its security effect is not as uniform as is commonly presumed: economic interdependence does not strengthen *asymmetrical* alliances—formed between a great power and a non-great power—to a marked extent.

This article is organized into three parts. The first reviews what realist international theory has to say about the impact of trade on alliance cohesion, and presents a new argument that economic interdependence does not increase the cohesion of asymmetric alliances. In the second section, we scrutinize how trade patterns have been associated with the strength of U.S. alliances with the four East Asian nations. The final section highlights key findings and offers implications.

Theoretical Analysis: Economic Interdependence and Asymmetrical Alliance

The extant realist literature offers a first cut in challenging the proposition that economic ties positively affect alliances, including those in East Asia. Realist scholars have refuted that economic interest is a primary determinant for security alliances. For them, the pri-



mary purpose of an alliance is to preserve security by pooling military resources against a threatening state.⁹ Realists contend that economic interactions (which constitute “low politics”) rarely decide the course of security affairs (or “high politics”) in a crucial way.¹⁰ Quite the contrary: “Politics, as usual, prevails over economics.”¹¹ Therefore, commercial partners do not necessarily turn into strategic allies. For example, South Korea and Japan have held strong economic ties but have avoided forming a security alliance.¹² To the extent that trade and security are interconnected, realists argue that the latter is in the driver’s seat: allies tend to trade more with each other than with neutral or hostile states.¹³ One reason is that commercial exchanges between allied nations benefit their security by increasing their wealth—the foundation of military strength. Also, the uneven distribution of trade benefits is less of a concern among allies, since they are unlikely to exploit any relative gain for the purpose of harming each other. Moreover, firms are more likely to establish trading relationships with the firms of an allied nation, anticipating less political risk.¹⁴ This line of argument implies that trade is not a primary factor in shaping the strength of East Asian alliances.

These arguments, albeit useful in putting the trade-alliance nexus into perspective, do not take us far enough to dismiss the conventional view on the importance of trade. It merely argues that security interest is *more* important a determinant for alliance cohesion than is trade; the former overrides the latter when they contradict each other. The question still remains unanswered whether trade is a powerful—if not the most important—factor or not. In order to offer a satisfactory answer, the realist approach needs further specification. A logical starting point for this critical task is to bring the power structure of alliance into consideration. Realist theory, which regards power as crucial in alliance politics, should pay due attention to intra-alliance power distribution—e.g., whether any given alignment is symmetrical or not. Therefore, this section will develop a new theory that can explain how the structure of an alliance conditions the impact of economic interdependence on the cohesion of alliances—especially asymmetrical alliances, since all East Asian alignments fall into this particular subtype.

In an asymmetrical alliance, a minor power ally has reason to be particularly wary of growing dependence on its great power partner. While major powers usually can do without military assistance from minor powers, the latter would be more vulnerable without the external military support from the former.¹⁵ In other words, a junior partner is more dependent on allied security support than its senior partner. Such asymmetric security dependence imposes significant political costs on the lesser ally. Weak states are simply incapable of making any significant difference in the life-and-death struggle of a strong state. Therefore, instead of expecting military assistance, the senior partner seeks



political benefits in exchange for its security support.¹⁶ These political benefits include access to the weak ally's territory in the form of bases (often combined with preferential legal treatment for troops) and more importantly, political influence over the junior partner's policies.¹⁷ The major partner especially values political control since it reduces the risk of being "entrapped" in an undesired conflict initiated by the minor ally.¹⁸ Consequently, the lesser ally often grants considerable political influence to its major partner. This is not a desirable situation for most nation-states that embrace nationalism and cherish sovereignty. Whenever they enter into such arrangements, they warily do so out of strategic necessity.

Economic interdependence can add to the lesser state's dependence on its great-power partner, thereby raising the latter's political influence further. Economic interdependence between a great power and a lesser state tends to be asymmetrical: bilateral trade usually accounts for a significantly larger share of the latter's economic activities, since the size of the former's economy is bigger. According to notable studies, such unbalanced economic interdependence could result in a less dependent state exploiting its partner's heavy reliance on trade and extracting political concessions.¹⁹ Therefore, as economic interdependence increases, the major ally can have an even greater political influence over its minor partner.

The junior partner (which is already wary of security dependence) might find its senior partner's growing influence unbearable. Such a heavily dependent state could have a strong sense of subordination and vulnerability, and might pursue greater autonomy in response.²⁰ For the powerful ally, however, any reduced influence would diminish the benefit of an alliance while increasing the risk of entrapment. Consequently, the major ally might respond to its minor partner's claims for autonomy by reducing its security support. Such interactions would undercut alliance cooperation.²¹

These negative consequences of economic interdependence may cancel out any positive effects hypothesized by advocates of the conventional view. In the case that economic interdependence decreases, the negative impacts produced by asymmetric dependence are reduced, but so are any security benefits according to the liberalist logic. In light of this trade-off, we can conclude that economic interdependence does not markedly affect asymmetrical alliances. This hypothesis implies that the conventional view about East Asian alliances will have little empirical support, given that they are asymmetrical in nature.



Empirical Evaluation: Evidence from the U.S. Alliances in East Asia

This section examines empirical support for the conventional view that economic interdependence markedly affects the cohesion of East Asian alliances. In addition to the U.S.-ROK alliance, we will investigate the U.S. strategic partnerships with three other East Asian allies—Japan, Taiwan, and the Philippines. These alliances share some similarities in geographical scope and democratic political systems. Therefore, these cases offer a good opportunity to make valid inferences by controlling for those potential confounding factors. Each case is divided into periods of distinct commercial trends in order to increase the number of observations and the validity of inference. The period length ranges from 4 to 15 years, with an average of 8 years. We believe that the periods are long enough for economic ties to exert causal effect—if any—on alliances, even considering potential time lags.²² If commercial ties produce little observable effect over these relatively lengthy periods (especially periods of a decade or longer), then it would be reasonable to conclude that economic relations are not a powerful determinant of alliance cohesion in East Asia. Conversely, any such negative finding would corroborate our hypothesis that economic interdependence does not markedly shape asymmetric alliances.

In analyzing each of these cases, we observe whether each alliance partner's economic dependence co-varies with its security commitment, as assumed by the conventional view. In the case of the United States and South Korea, for example, we examine whether the former's economic dependence co-varied with its security commitment as predicted, and similarly investigate how the latter's economic dependence matches with its own commitment to the alliance. The best way to evaluate the conventional view is to examine the correlations of economic interdependence and alliance cohesion with a dyad as a unit of analysis. However, it is impracticable to code an overall trend of dyadic interdependence, since aggregating individual states' levels of commercial dependence is difficult—especially in cases where they follow divergent trajectories. A similar difficulty plagues the measurement of an alliance's strength: allies' security commitments frequently move in different directions. To overcome such difficulties, our analysis focuses on the monadic level—each individual alliance partner's trade dependence and security commitment. This is not problematic since dyadic economic interdependence and alliance cohesion depend essentially on monadic trade dependence and security commitments.

Three sets of observations are viewed as providing empirical support for the conventional view: first, an increase in trade dependence coincides with a higher level of alliance commitment; second, a decrease in economic dependence coincides with a lower level of alliance commitment; and third, a constant or fluctuating level of trade dependence coin-



cides with little to no change in alliance commitment. Any observations deviant from these patterns would undermine the conventional view's empirical foundation. This is an application of the “congruence method” which examines how values on the independent and dependent variables co-vary and is a widely-accepted method for qualitative research.²³ The method is susceptible to spurious correlation and unable to provide a precise estimation of causal effect, since it does not control for potential confounding factors (such as security environment). However, it can determine whether a hypothesized cause is *powerful*: if we find little bivariate correlation, then we can infer that the independent variable does not have a powerful causal effect. We define alliance commitment in terms of the support that a state is willing to provide for its ally. One indicator of commitment is the degree of political support for a partner's security policy. Another indicator is the resources that a state is willing to commit for its ally's security—for example, the size of the military presence and the amount of host nation support.²⁴ Policymakers as well as scholars frequently use these indicators in operationalizing alliance commitment. For instance, Washington shows a deep-seated interest in South Korea's host nation support, while Seoul pays close attention to the size of United States Forces in Korea (USFK) and U.S. approval of its North Korea policy.²⁵ When this support diminishes, both capitals express concern about the other's commitment to the alliance.

A country's economic dependence on its ally is measured using the ratio of bilateral trade volume (the sum of total export and import) to GDP.²⁶ This indicator captures the cost of possible trade disruption or the degree of vulnerability (or sensitivity), which is central to the political effects of economic dependence. Figures 1 and 2 present the economic dependence data produced by employing this indicator. In addition, we employ the bilateral trade volume and its share of a country's total international commerce, but do so only as a secondary indicator of dependence, since the comparison is not as effective at measuring the impact of lost trade on national economic welfare.²⁷ A simple volume of trade comparison cannot capture this crucial aspect of economic dependence: when bilateral trade accounts for only a tiny fraction of a country's national wealth, then lost trade would impose little strain on its economy even if the trade volume is quite large in absolute terms. The share of bilateral trade of a state's total international commerce is a good indicator for measuring that state's economic dependence on a specific trading partner in comparison with other partners. However, it does not effectively measure how costly an interruption of bilateral trade would be to the state concerned. For instance, even if a state relies wholly on one partner for trade, that state could be invulnerable to trade disruptions because trade involves an infinitesimal portion of total economic activity.



Figure 1: Asian Allies' Economic Dependence on the U.S., 1985-2007

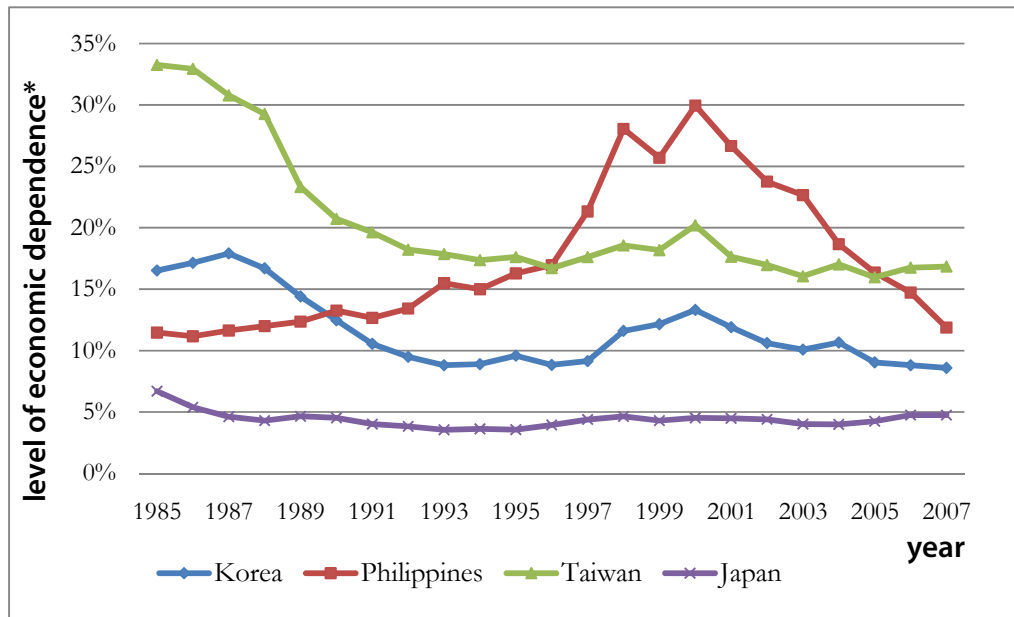
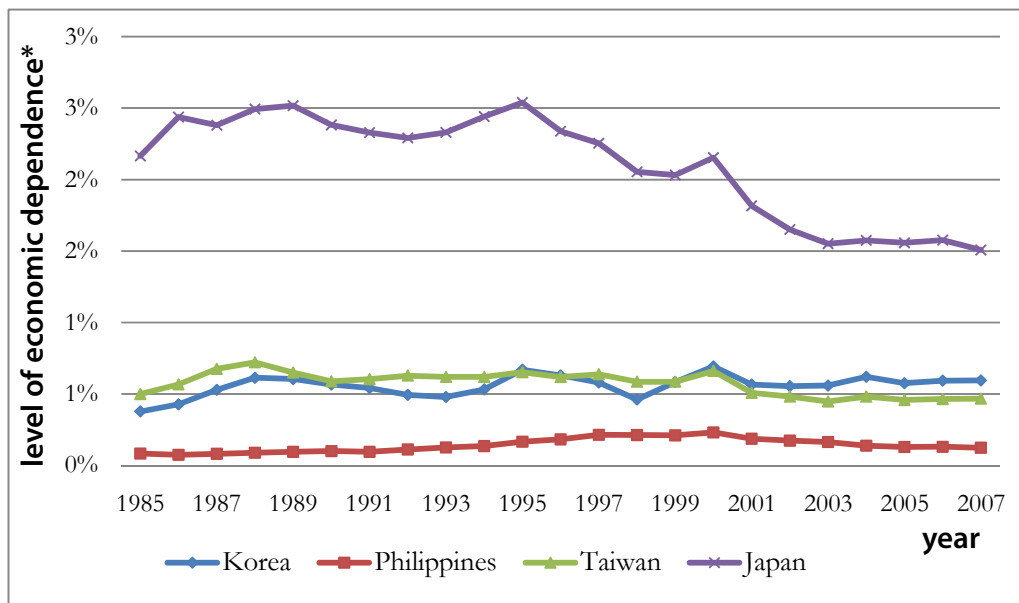


Figure 2: U.S. Economic Dependence on Asian Allies, 1985-2007



Sources: Trade data are from U.S. Trade in Goods (Imports, Exports and Balance) by Country. The GDP data are from International Monetary Fund (2008).

*Note: The level of economic dependence is measured by the ratio of bilateral trade volume (the sum of total export and import) to a country's GDP.



South Korea

Our analysis begins by tracing the past trajectories of commercial and security ties between Seoul and Washington—a case of direct relevance. The case of South Korea challenges the conventional view of economic interdependence: two of three examined periods fail to match its predictions, while only one period (2001-2007) provides mixed support.

1987-1993. As shown in Figures 1 and 2, the economic interdependence between the United States and South Korea declined considerably during this period. Although the U.S. economy became slightly more dependent on South Korea in the late 1980s, the early 1990s saw a decline in absolute trade volume with South Korea as well as in the trade-to-GDP ratio. From the South Korean side, there occurred a more significant change in economic dependence. Although Seoul's total trade with the United States increased by 27 percent, its GDP more than doubled during this period, and its U.S. trade-to-GDP ratio declined from 17.9 percent in 1987 to 8.81 percent in 1993.

Such declining commercial interdependence notwithstanding, this period did not see a lessening in the cohesiveness of their bilateral alliance. Although in 1989 Washington established a three-stage plan for reducing its military presence in South Korea, as well as in other East Asian countries (the East Asian Security Initiative), the troop drawdown in South Korea soon came to a halt as the international crisis erupted over North Korea's nuclear program.²⁸ South Korea's commitment to the alliance also did not diminish, even though its economic dependence on the United States declined. Seoul even began to pay direct financial support for USFK beginning in 1989 and signed a multi-year cost-sharing agreement in 1991. Host nation support increased over the subsequent years. Also, despite subtle differences over tactics, Seoul and Washington effectively coordinated their broad strategies for dealing with the North Korean nuclear crisis.²⁹

1994-2000. Throughout this period, South Korea's economic dependence on the United States increased, while the U.S. dependence on South Korea fluctuated. Primarily due to the Asian financial crisis of 1997, South Korea's trade ties with the United States became vital for its economy. Even when the trade volume in absolute terms decreased by US\$8,849 million between 1996 and 1998, South Korea's trade with the United States compared to its GDP increased from 8.83 percent in 1996 to 11.6 percent in 1998. Also, trade with the United States began to expand in 1998 and the total trade volume reached US\$68,137.7 million in 2000, when the trade-to-GDP ratio climbed to 13.31 percent. For



the United States, its South Korean trade-to-GDP ratio was 0.67 percent in 1995, decreasing to 0.46 percent in 1998 and increasing to 0.69 percent in 2000.

Despite its growing dependence on the U.S. economy, South Korea did not increase its support for the alliance with the United States over this period. Seoul did endorse the Agreed Framework that Washington signed with Pyongyang in October 1994 for the denuclearization of North Korea. However, the allies soon were at odds over policy toward North Korea: while Washington intended to make its engagement policy conditional on Pyongyang's compliance and reciprocation, Seoul, especially during the Kim Dae-jung presidency, hoped to accelerate inter-Korean economic cooperation without any pre-conditions.³⁰ With respect to material support, South Korea annually increased its host nation support as a share of GDP until 1998 (except for 1995), but significantly reduced its contribution for the remainder of the examined period (1999-2000).³¹

The U.S. alliance commitment declined somewhat, even with no significant change in its economic dependence on South Korea. While there were no remarkable changes in U.S. material support, e.g., the size of USFK presence, Washington became less willing to support Seoul's North Korea policy toward the end of the examined period, even though U.S. economic dependence actually increased.

2001-2007. This period witnessed a reduced level of South Korea's economic dependence on the United States. The bilateral trade volume as a share of South Korea's GDP decreased from 11.9 percent in 2001 to 8.6 percent in 2007. As South Korea's trade with China increased fourfold, China became its largest trade partner during this period, which decreased the importance of the United States as a commercial trade partner. Figure 2 indicates no significant change in the U.S. dependence on South Korea.

Perhaps reflecting its decreasing dependence on the United States, Seoul showed less willingness to support Washington's policy over this period. The South Korean government opposed—oftentimes publicly—the hawkish North Korean policy adopted by President George W. Bush.³² The rift came to the fore in the 2001 summit, in which President Kim Dae-jung criticized Bush's uncompromising posture toward Pyongyang. The Roh Moo-hyun government (which came to power in February 2003) was even more reluctant to support the confrontational U.S. policy toward North Korea. Seoul's host nation support as a share of GDP remained largely the same throughout this period (at approximately 0.09 percent), although South Korea made financial and troop contributions to assist U.S. efforts in Afghanistan and Iraq.³³

Despite no significant change in U.S. economic dependence on South Korea, the Bush administration reduced its commitment for the defense of South Korea: USFK troop



strength shrank and pressure for greater burden-sharing mounted.³⁴ Washington decided to pull 12,500 troops and one attack helicopter battalion out of the Korean Peninsula and withdraw prepositioned equipment and ammunition. The USFK was redeployed to positions south of the Han River, relinquishing its traditional function as a “trip-wire” for a North Korean invasion and reducing associated risks. The United States also agreed to transfer Wartime Operational Control of ROK forces wholly to South Korea and assume a secondary role in the defense of South Korea centered on less hazardous air and naval operations.³⁵ Also, Washington’s support for Seoul’s foreign policy lessened. The Bush administration disapproved of President Kim’s Sunshine Policy and was highly critical of President Roh’s unconditional engagement policy toward Pyongyang.

The Philippines

The U.S.-Philippine case contradicts the conventional view as well: economic and security ties showed negative associations in all of the examined periods.

1986-2000. Bilateral trade ties between Manila and Washington significantly expanded over this period, according to Figures 1 and 2. The Philippines became economically more dependent on the United States due to the increased importance of trade for the Philippine economy. Philippine trade with the U.S.-to-GDP ratio increased almost three-fold from 11.17 percent in 1986 to 29.95 percent in 2000. The U.S. economic dependence on the Philippines increased as well. Washington’s trade volume with Manila rose seven-fold during this period. The U.S. trade volume with the Philippines as a share of GDP also indicated increased dependence on the Philippines—the ratio increased from 0.07 percent in 1986 to 0.23 percent in 2000.

Strengthening economic ties notwithstanding, the U.S.-Philippine alliance went through a steep decline. The Philippine government demanded greater compensation for American use of military installations at Subic Bay Naval Base and Clark Air Force Base, which were the linchpins of American power projection in the Southwest Pacific. Manila refused to renew the leases for the bases in 1991, and later enacted a constitutional ban on foreign military bases within its territory.³⁶ Washington, for its part, swiftly withdrew its forces with little hesitation, and cut its military and economic assistance programs to Manila.³⁷ The allies suspended joint military exercises in 1996 due to a dispute over the legal jurisdiction of U.S. troops on Philippine soil. These developments turned the decades-old alliance into a hollow shell.



Both governments then made only tepid responses to various proposals for salvaging their security ties.³⁸ In 1995, after the Chinese occupation of the disputed Mischief Reef in the South China Sea, the Philippines expressed a renewed interest in security cooperation with the United States. Consequently, the allies signed a Visiting Forces Agreement and resumed joint military exercises in 1998.³⁹ However, this initiative did not go far enough to repair the damage inflicted upon the alliance over the previous years. The Clinton administration was reluctant to expand the scope of its security commitment to the Philippines for fear of antagonizing China.

2001-2007. Figures 1 and 2 show the rapidly declining economic dependence between the United States and the Philippines during this period. The bilateral trade volume in absolute terms diminished from US\$18,986 million in 2001 to US\$16,146 million in 2005 and slightly expanded to US\$17,120 million in 2007. While the Philippine GDP increased twofold during this period, its U.S. trade volume-to-GDP ratio markedly decreased from 26.7 percent in 2001 to 11.9 percent in 2007. The U.S. economic dependence on the Philippines also diminished; its Philippine trade volume-to-GDP declined from 0.19 percent in 2001 to 0.12 percent in 2007.

Despite weakening economic dependence, the U.S.-Philippine security alliance strengthened to a remarkable extent during this period. Manila and Washington engaged in joint anti-terrorism efforts after the 9/11 attacks. For instance, the U.S. military supported Philippine counterterrorist operations against Abu Sayyaf Islamic militants in Mindanao and conducted joint exercises with the Philippine armed forces as well. The United States designated the Philippines a “major non-NATO ally” in 2003, signaling a revitalization of the alliance.

Taiwan

There is no support for the conventional view in the U.S.-Taiwan case as well, since none of its predictions are borne out in any of the periods examined below.

1985-1996. During this period, Taiwan became less dependent on trade with the United States, while U.S. trade dependence on Taiwan showed short-term fluctuations. According to Figure 1, the Taiwanese economy was highly dependent on the United States in 1985 when its U.S. trade volume was 33.3 percent of GDP. But this ratio declined throughout this period, dropping to 16.7 percent in 1996. On the other hand, the United



States became more dependent on the Taiwanese economy during 1988, but U.S. trade with Taiwan as a share of GDP began to drop in the following two years. From 1991 to 1996, the U.S. economic dependence on Taiwan showed minimal change.

The U.S.-Taiwan alliance seems to have strengthened during this period, despite minimal changes in economic ties. On the one hand, the United States showed visible signs of increasing security commitment to Taiwan during the early to mid-1990s, at a time when U.S. trade dependence on Taiwan remained steady. The U.S. government decided to sell Taiwan 150 F-16 fighter jets in 1992 and Patriot missile defense systems in 1993.⁴⁰ Furthermore, Washington allowed high-level Taiwanese officials—most notably, President Lee Teng-hui—to enter the United States for personal visits and transit purposes, despite Beijing’s protests. When China conducted missile tests and military exercises in 1995-1996 in an apparent attempt to influence the Taiwanese presidential election, the Clinton administration dispatched two aircraft carrier battle groups and issued forceful warnings, demonstrating its commitment to the defense of Taiwan, codified in the Taiwan Relations Act. Despite its declining economic dependence on the United States, Taiwan also continued steadfast efforts to strengthen the security partnership with the U.S., for example, by avoiding any direct challenge to Washington’s policy of maintaining the status quo in the Taiwan Strait.

1997-2000. While Taiwanese commercial dependence on the United States somewhat increased, U.S. dependence on Taiwan showed no clear trend. Taiwan’s U.S. trade-to-GDP ratio rose from 17.6 percent to 20.2 percent, as the bilateral trade volume expanded 22.5 percent while GDP increased 6.8 percent over the period examined. The U.S. ratio of Taiwan trade-to-GDP declined slightly from 1997 to 1999, but considerably increased in 2000.

Washington’s security commitment to Taiwan slightly weakened during this period, despite no clear change in economic dependence. The Clinton administration sought to reestablish the traditional U.S. policy of strategic ambiguity, thereby reducing the danger of entrapment in a conflict with China. When President Bill Clinton visited China in 1998, he announced a “three no’s” policy (no support for Taiwanese independence, no support for two Chinas, and no support for Taiwan’s membership in international organizations) and thereby delineated the scope of American commitment. Taipei’s commitment to Washington showed few noticeable changes, even as it became more dependent economically.

2001-2007. The ratio of bilateral trade to GDP declined for both countries during this pe-



riod, with a slight increase in 2004 and 2006-2007, as shown in Figures 1 and 2. The Taiwanese economic dependence ratio slightly decreased from 17.6 percent in 2001 to 16.9 percent in 2007, and the U.S. economic dependence ratio declined slightly from 0.51 percent in 2001 to 0.47 percent in 2007.

This period of weakening economic dependence, however, saw a noticeable rise in alliance cohesion. During its early months in office, the Bush administration moved to strengthen American commitment to Taiwan's security. In 2001, President George W. Bush made a public pledge to do "whatever it took" to help Taiwan defend itself, and expressed his opposition to forceful reunification by China.⁴¹ In 2002, Washington agreed to sell Taipei early warning and reconnaissance aircraft, four *Kidd*-class destroyers and eight diesel submarines in order to help Taiwan counter China's growing air and naval power. Additionally, Washington adopted measures to expedite the arms sales process. There were also more high-level visits involving American and Taiwanese officials. In 2002, the Taiwanese defense minister visited the United States for the first time since 1979, meeting with the United States Deputy Secretary of State. For its part, Taiwan made efforts to strengthen the alliance with the United States.⁴² President Chen Shui-bian supported development of a joint missile defense system with the United States and Japan. Also, his government refrained from aggressively pursuing formal political independence, which Washington had long opposed.

Japan

The case of the U.S.-Japan alliance also refutes the conventional view: only the period 1996-2000 provides mixed support for the conventional view, while the other two periods challenge it.

1985-1995. During this period, Japan became economically less dependent on the United States, while the United States' trade dependence on Japan fluctuated, ending up with a slight increase. The bilateral trade volume between Japan and the United States doubled in absolute terms, and Japan's trade with the United States accounted for around 30 percent of Japan's total trade volume. However, Japan's economic size quadrupled during this period, making it less dependent on trade with the United States. Japan's economic dependence on the United States declined over this period from 6.7 percent in 1985 to 3.6 percent in 1995. The U.S. economic dependence on Japan showed a slight increase from 1985 to 1989, a minor decrease from 1990 to 1992, and a slight uptick again from 1993 to



1995.

This period of weakening economic dependence saw a drift in the U.S.-Japan alliance, but no significant decline overall.⁴³ Economically less dependent, Japan showed no great interest in global security cooperation with the United States. Despite paying over US\$13 billion, Japan failed to make any substantial military contribution to the American war effort in the Persian Gulf War in 1991. Tokyo's contribution consisted of dispatching three minesweepers only after the end of hostilities. During the North Korean nuclear crisis of 1993-1994, Japan not only recoiled at the prospect of joint military operations, but also refused to join U.S. efforts to apply sanctions on the recalcitrant Pyongyang by making its participation conditional upon United Nations authorization, which was unlikely due to China's opposition. Tokyo merely provided funds to help implement the Washington-sponsored Agreed Framework. However, Japan's "checkbook diplomacy"—the substitution of financial contributions (e.g. host nation support and overseas development aid) for military assistance—did not mark a decline in its alliance commitment: this Japanese policy has been in place since before 1985.⁴⁴ Moreover, toward the end of the examined period, Japan searched for ways to revamp its alliance with the United States and expanded the scope of collaboration by publishing the National Defense Program Outline in 1995. Against the backdrop of slightly increasing economic dependence, the United States began to neglect its security alliance with Japan following the end of the Cold War. For instance, troop levels of U.S. Forces in Japan declined during the first half of the 1990s, although Washington worked to offset this decline by launching the Nye Initiative in 1994 to reinvigorate defense cooperation with Japan.

1996-2000. The United States and Japan went in opposite directions regarding bilateral economic dependence during this period. As Figures 1 and 2 show, Japan became more economically dependent on the United States, while the United States became less economically dependent on Japan. During this period, the Japanese economy underwent a recession. Particularly, from 1996 to 1998, as Japan's GDP declined 17 percent, its U.S. trade-to-GDP ratio increased from 3.94 percent to 4.64 percent. The ratio dropped again in 1999 to 4.3 percent, but then increased to 4.53 percent in 2000. Washington's trade with Japan-to-GDP ratio decreased from 2.34 percent in 1996 to 2.03 percent in 1999, but then slightly increased to 2.15 percent in 2000.

During this period, the U.S.-Japan security alliance was revitalized. Despite decreasing economic dependence, the United States continued with its initiative to reinvigorate security cooperation with Japan. The effort culminated with a Joint Security Declaration by President Bill Clinton and Prime Minister Ryutaro Hashimoto in 1996, which recog-



nized the continuing importance of the alliance and redefined its functions. One year later, the United States adopted new defense cooperation guidelines for Japan. Cooperation was further enhanced by the U.S. military establishing an “Early Warning Information System,” which routinely provides critical information to the Japanese Self Defense Forces (SDF).⁴⁵ Washington also pledged to maintain a forward military presence in Japan, and U.S. troop strength remained steady throughout this period. In this case, Japan’s rising economic dependence coincided with its positive response to the U.S. initiative for strengthening security ties. Having revised the Defense Guidelines in 1997, the SDF assumed a more expansive role of providing logistical support for U.S. military operations in “the areas surrounding Japan.”⁴⁶ Tokyo also agreed with Washington to deepen research cooperation on ballistic missile defense in 1999.

2001-2007. Tokyo’s trade dependence on the United States declined from 2001 to 2004 and then increased from 2005 to 2007, while Washington’s trade dependence on Japan decreased throughout the period. Japan’s trade with the United States-to-GDP ratio decreased from 4.49 percent in 2001 to 3.95 percent in 2004. From 2005 to 2007, on the other hand, Japan’s trade-to-GDP ratio rose, reaching 4.75 percent. For Washington, its trade with Japan-to-GDP ratio steadily declined from 1.82 percent in 2001 to 1.51 percent in 2007, a 17 percent decrease in seven years.

This period witnessed the emergence of a robust strategic partnership between the Bush administration and the Koizumi government. Even with its economic dependence on Japan declining, Washington moved to make the security alliance with Tokyo the cornerstone for its security strategy in Asia, assigning comparatively less strategic value to China and other states in the region. Tokyo undertook determined efforts to strengthen the U.S.-Japan alliance, despite its decreasing trade dependence on the United States. After the 9/11 attacks, Japan dispatched combat support ships and three destroyers to support U.S. combat forces in Afghanistan and sent a contingent of 950 SDF personnel to assist in the occupation of Iraq in 2004.⁴⁷ Japan’s 2004 Defense Guidelines explicitly reaffirmed the centrality of the alliance with the United States, and even allowed the SDF to provide ammunition in the event of an armed attack.⁴⁸ In the same year, Tokyo decided to co-develop BMD with the United States and end its self-imposed ban on arms exports.



Summary

Table 1 summarizes the findings of the case studies presented above. The result of the analysis is straightforward: there is no strong empirical support for the proposition that economic interdependence is a powerful cause for alliance cohesion. None of the 11 periods examined present any clear-cut support, while only two provide mixed evidence. Even those periods of a decade or longer (which are more likely to produce supportive evidence) offer no support.⁴⁹ These findings in turn confirm our own hypothesis that economic ties do not markedly shape asymmetrical alliances.

Table 1: Summary of Empirical Evidence

Case (Alliance)	Period	Empirical Support
Korea—USA	1987-1993	No
	1994-2000	No
	2001-2007	Mixed
The Philippines—USA	1986-2000	No
	2001-2007	No
Taiwan—USA	1985-1996	No
	1997-2000	No
	2001-2007	No
Japan—USA	1985-1995	No
	1996-2000	Mixed
	2001-2007	No



Conclusion

So far we have assessed the conventional view that increasing economic interdependence markedly strengthens East Asian security alliances. Our critical scrutiny has revealed that there is a compelling logic for questioning this view. The empirical analysis has produced little supportive evidence: none of the examined cases offer any clear-cut support.

These findings have significant implications. For the academic community, our research suggests that a more rigorous empirical assessment, combining detailed case studies offering direct evidence of causation with statistical analysis that controls for potential confounding factors, be conducted. In addition, analysts should critically review those previous studies that accept the conventional view as their bedrock assumption. Particularly necessary is a precise estimation of the effect of trade on asymmetrical alliances, and a broader investigation on how intra-alliance power structures shape alliance politics.

Our research also warns the policy community against jumping to the conclusion that the FTA between Washington and Seoul would reinforce their security alliance to a marked extent. For it seems that the popular claim is based on a questionable assumption. Despite its limitations, our present research suffices to establish that the conventional view about East Asian alliances is debatable and requires a more thorough examination prior to acceptance. It also highlights the need for evaluating other key assumptions that underpin the high expectation that the FTA would strengthen the U.S.-ROK alliance. While our research cannot offer the final words on the FTA's security effects, it encourages experts to reinvigorate the currently stale debate on the important subject.

Our findings, however, do not imply that Washington and Seoul could scrap the FTA without causing damage to their alliance. While the agreement's potential economic effects may turn out to have little impact on the alliance, its psychological effects could be significant in the short run. It is widely believed that the FTA is essential for resuscitating the apparently weakened alliance, despite the conventional view's questionable foundation. Therefore, scrapping the FTA could be interpreted as a death knell to the alliance—thereby demoralizing advocates of closer security cooperation. Also, many Koreans and Americans appear to perceive that the current FTA favors the other side. Therefore, in the event that one country fails to ratify the agreement, the other side could construe that as a rejection of goodwill or a manifestation of greed. This could generate distrust and resentment leading to the potential loss of public support for the alliance. For these reasons, we do not advise the governments of the two countries to abandon the agreement outright



insofar as it provides significant economic benefits. Policymakers should not dismiss the fact that the KORUS FTA and the U.S.-ROK alliance are already closely linked in the public's perception.

In the long run, however, Seoul and Washington might be better off breaking the linkage between the FTA and the alliance. To the extent that this linkage is accepted, ratification of the FTA could provide a short-term psychological boost for the alliance. However, this potential benefit (which is bound to be ephemeral) may not be worth the long-term risks associated with allowing the linkage to persist. The unsubstantiated conviction that the FTA would strengthen the alliance will produce excessive expectations about alliance commitment. In the nearly inevitable event that actual support fails to satisfy these high hopes, such disillusionment could generate distrust and bitterness, thereby jeopardizing the alliance. Moreover, the overly high expectations might embolden the allies to adopt a risky foreign policy, thereby increasing the chance of entrapment in unnecessary international conflicts. Also, breaking the linkage would insulate the alliance from opposition to the FTA motivated by perceptions of its unfairness or grievances against its adverse sectoral effects. The current economic hardship in both countries threaten to activate these latent opponents to the FTA by elevating the priority of economic issues and diminishing both sides' patience and willingness to make concessions. By legitimizing the FTA on the grounds of its alleged strategic value, the two governments could be exposing the alliance to economically-motivated attacks. By delinking the FTA and the alliance, Seoul and Washington could minimize these risks to its long enduring security alliance. ■

Endnote

¹ See Paul A. Papayoanou (1999); Albert O. Hirschman (1980).

² For examples, see Patrick M. Morgan (2009); Uk Heo (2008).

³ See Robert O. Keohane and Joseph S. Nye (1977); Solomon W. Polachek (1980).

⁴ The KORUS FTA was signed in June 2007, but its ratification is still pending.



⁵ See U.S. Bureau of Economic, Energy, and Business Affairs (2008); Jeffery J. Schott, Scott C. Bradford, and Thomas Moll (2006); JunKyu Lee and Hongshik Lee (2005).

⁶ See U.S. Bureau of Economic, Energy, and Business Affairs (2008).

⁷ See Dong-hwi Lee (2006).

⁸ The study of economic interdependence and international security has focused mostly on the occurrence of war, while the impact of economic ties on alliance relationships has received only limited attention. Our literature review primarily examines those works that explicitly deal with alliance politics, while referring selectively to relevant studies on trade and conflict: a complete survey of scholarship on international commerce and security is unnecessary for the purpose of our study and is available elsewhere. See Edward D. Mansfield and Brian M. Pollins (2001).

⁹ See Stephen M. Walt (1987).

¹⁰ See Barry Buzan (1984).

¹¹ See Kenneth N. Waltz (1999).

¹² See Victor D. Cha (1999).

¹³ Some qualified variants of this argument are also available. For example, studies have found that alliances in the bipolar system have stronger positive effects on trade than do alliances in multipolarity. See Joanne Gowa (1994); Joanne Gowa and Edward D. Mansfield (1993); James D. Morrow, Randolph M. Siverson and Tressa E. Tabares (1999). Another study reports that allies trade more with one another only when their alliance treaty includes explicit provisions stipulating economic cooperation. See Andrew G. Long and Brett Ashley Leeds (2006).

¹⁴ See Edward D. Mansfield and Rachel Bronson (1997).

¹⁵ See Robert L. Rothstein (1968).

¹⁶ See James D. Morrow (1997).

¹⁷ See George Liska (1962).



¹⁸ The minor partner also risks being dragged into an unwanted war by partly relegating its control over security policy; however, this risk of entrapment tends to be outweighed by that of abandonment. In contrast, the major power is less concerned about being abandoned, and entrapment is its primary concern.

¹⁹ See Albert O. Hirschman (1980). This view is challenged by R. Harrison Wagner (1988).

²⁰ See Peter Liberman (2000).

²¹ Barbieri reports that asymmetrical trading relationships are conflict-prone. See Katherine Barbieri (1996).

²² Given the possible time lags, it would be unreasonable to expect that trade affects diplomatic relations on a daily basis. We avoid this pitfall by examining considerably longer time periods.

²³ See Alexander L. George and Andrew Bennett (2005); Stephen Van Evera (1997); James Mahoney (2000).

²⁴ In measuring the level of host nation support, we use the ratio of direct financial contribution to GDP. This is a better indicator of alliance commitment than an absolute amount of payment, since the true magnitude of shared burden depends crucially on the ability to pay: any given amount is less burdensome to a richer nation. We exclude indirect support, comprised of forgone taxes and rents from contributed lands and facilities, because it varies according to the appraised values of the properties more than to the willingness to support the ally.

²⁵ See Chang-Keuk Moon (1994).

²⁶ We rely on trade data compiled by the U.S. Census Bureau, which provides the amount of trade in goods between the U.S. and trading partners. Regarding the GDP data, we use International Monetary Fund October edition (2008). The data are presented according to current prices in U.S. dollars. See U.S. Trade in Goods (Imports, Exports and Balance) by Country is available online at <http://www.census.gov/foreign-trade/balance/index.html> (accessed January 8, 2009).



²⁷ Although investment may also reflect important aspects of economic interdependence, our analysis excludes investment for two reasons. First, most studies on economic interdependence and international security conventionally rely on trade data to measure the degree of economic dependence between nations. Second, there are few reliable data sources on foreign direct investment (FDI) because different FDI regulatory frameworks and different reporting standards across the countries result in inconsistency and incomparability of FDI statistics, as well as large discrepancies at the aggregate level. See Jimmy J. Zhan (2006).

²⁸ See Jin-Young Chung (2003).

²⁹ See Sung-han Kim (2007).

³⁰ See B.C. Koh (1999).

³¹ Host Nation Support Statistics is available online at <http://www.index.go.kr/egams/default.jsp>; See International Monetary Fund (2008).

³² See Hakjoon Kim (2003).

³³ For reconstruction of Afghanistan, the ROK assisted with US\$66 million during 2002-2008 and dispatched 210 troops, which were withdrawn in December 2007. Also, the ROK had the second largest contingent of foreign troops (1,200) in Iraq and contributed US\$460 million in aid to the coalition and UN/World Bank Trust Fund. See the Trade Country Information Database; Jeremy M. Sharp and Christopher M. Blanchard (2007).

³⁴ *Yonhap News*. 2005. "Differing Assessments on the U.S.-ROK Alliance: Under Crisis or Readjustment? [In Korean]" April 17.

³⁵ *Agence France Presse*. 2006. "US General Confirms Plan to End Joint Command in South Korea." July 13.

³⁶ See Philip Shenon (1991).

³⁷ See Don Oberdorfer (1992).



³⁸ See Renato Cruz De Castro (2003).

³⁹ See William T. Tow (1999).

⁴⁰ See Philip Y. M. Yang (2000).

⁴¹ See David E. Sanger (2001).

⁴² See Michael D. Swaine and Roy D. Kamphausen (2005).

⁴³ See Michael J. Green (2004).

⁴⁴ See Sheila A. Smith (2003).

⁴⁵ See Toshiyuki Shikata (2000).

⁴⁶ See Sheila A. Smith (1999).

⁴⁷ See Michael Yahuda (2004).

⁴⁸ See Richard J. Samuels (2007).

⁴⁹ There is a possibility that it takes even longer (two decades or more) for economic ties to have observable effects on alliances. However, this argument cannot save the conventional wisdom for two reasons. First, accepting the argument practically amounts to admitting that the KORUS FTA could strengthen the U.S.-ROK alliance in the very long run at best. But this is not what advocates of the conventional view argue; they typically do not specify the time span over which the FTA would produce hypothesized security benefits, thereby creating an impression that the benefits could come shortly (see endnote 2). If the advocates expect only long-term effects, then they should make that clear. But doing so would virtually destroy or considerably modify the conventional view. Second, the argument is nearly unfalsifiable; it is extremely difficult to establish causation between phenomena separated by a huge gap in time. And the burden of carrying out this challenging task is on supporters of the view, not on its skeptics.



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