

## Economic Interdependence, Alliance Cooperation, and Sino-U.S. Complex Interdependence

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Scott Snyder

China's rising economic strength has highlighted a need to understand in greater detail the impact of complex economic interdependence on prospects for alliance cohesion, especially when an ally comes to depend on a potential adversary as its leading trading partner and engine for economic growth. This is an issue that did not come into play to any significant degree in analyzing alliance dynamics during the cold war era precisely because the development of security and economic relationships during that period were aligned with and served to reinforce each other, and the level of economic ties among potential cold-war adversaries was minimal. Analysis of trade relationships among security allies from that period shows a clear correlation of preferences for trading relationships with security partners versus adversaries, but it is not clear based on that data alone that there was necessarily causality between economic trade patterns and security alliances. In fact, structural differences between market economies (that tended to be allied with each other) and non-market economies were a significant deterrent to the development of economic relations with non-security partners during the cold war. In the post-cold war era, economically interdependent trade and investment relationships have been relatively unconstrained by political and security considerations, resulting in a situation where non-security partners such as China, a potential challenger to U.S. power, have become actively integrated in global supply chains as a leading manufacturer of goods for the global market.

In considering this question, Dong Sun Lee and Sung Eun Kim have attempted to provide an empirical analysis of the influence of bilateral economic relations as a factor in shaping America's Asian alliances, concluding that "economic ties do not markedly reinforce the security alliances of East Asia, because they have an asymmetrical structure"(Lee and Kim 2010, 4). But in making the argument that asymmetry matters, Lee and Kim assume that the economic consequences of interdependence are negative for dynamics within the alliance and that these negative consequences may cancel out positive effects of economic interdependence, even though the main argument of that the paper proves is that economic ties do not necessarily reinforce security alliances. The authors' assertions regarding asymmetrical economic relations as having an impact on alliance dynamics are unproven and not dealt with to any significant degree by the evidence presented in the paper.

On the basis of the empirical conclusion that the intensity of economic interdependence and alliance

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The East Asia Institute  
909 Sampoong B/D, 310-68 Euljiro4-ga, Jung-gu,  
Seoul 100-786, South Korea  
Phone 82 2 2277 1683 Fax 82 2 2277 1697  
Email [eai@eai.or.kr](mailto:eai@eai.or.kr) Website [www.eai.or.kr](http://www.eai.or.kr)

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strength do not show any relationship to each other, the authors warn against overstating the policy impact of the KORUS FTA as a factor likely to influence alliance relations. I agree with the main part of the conclusion that economic ties do not necessarily directly reinforce security alliances and that security analysts have tended to overemphasize the importance of the KORUS FTA to the future of the security relationship, but I contend that the authors have misattributed asymmetry between alliance partners as a circumstance that might make economic interdependence have greater salience; i.e., asymmetry within alliances does not provide the larger power with special tools of economic coercion within the alliance. Existing literature addressing this issue concludes that economic dependency does not provide useful political leverage capable of changing behavior in a target state especially if the target state is a democracy; secondly, economic interdependence over the long-term may be able to transform foreign policy objectives of the target state when a broad consensus exists in the initiating state (Kahler and Kastner 2006, 523-541).

The pattern of post-cold war alliance-based economic interaction with China is different from patterns that occurred during the cold war, with both the United States AND its allies engaging with China economically without reference to whether or not China is also a security ally. This is reflective of the fact that factors of competition and comparative advantage in the post-cold war period have been primarily determined by market rather than by politics, and the market weighs security factors as relatively inconsequential in managing trade and investment relationships rather than privileging political or security factors as primary determinants of economic relations. The primary question for consideration then becomes whether economic interactions with China—as a potential ‘peer competitor’—might diminish the capability of the alliances in the event of a confrontation.

### The Limits of the Theoretical Framework

Theoretical literature on the relationship between economic interdependence and alliances provides a mixed picture, in part because there is still a limited data set for analyzing behavior of allies against the backdrop of complex economic interdependence. The prioritization of security over economics that prevailed in the cold war context tended to justify assumptions that “security externalities” shape and reinforce trade between allies dampening impulses to trade with potential adversaries (Gowa 1989, 1245-1256). Theories of relative gains further supported the desirability from a realist perspective of privileging economic interactions within alliances versus with non-security partners or potential adversaries (Grieco 1993, 729-743). But the developing post-cold war pattern of economic integration without regard to security boundaries that had been previously imposed by alliances during the cold war is not rational or desirable behavior from the perspective of the need to utilize economic means to conserve power or to avoid providing potential adversaries with the economic foundations that might allow them to develop into a potential threat. Richard Betts puts a fine point on the dilemma for realists posed by the phenomenon of economic interdependence, especially as it relates to China’s rise, when he asks, “Should we want China to get rich or not? For realists, the answer should be no, since a rich China would overturn any balance of power”(Betts 1993, 55). Yet the United States, South Korea, and Japan all count China as their number one trade partner and leading supplier of low-cost consumer goods to industrialized markets. This fact suggests that these countries have either forsaken realist strategic logic or those short-term transactional benefits of trading with China, even at the cost of allowing China to get rich, outweigh longer-term strategic considerations as a factor in these relationships.

Liberal views of economic interdependence emphasize the benefits to be gained by rising trade and investment, in the form of reduced risks of conflict



derived from economic self-interest in political restraint to avoid the respective costs to one's own self-interest that derive from the web of interdependence. (Rosecrance 1986). But these views are also challenged by the fact that political tensions in China's relations with South Korea, Japan, and the United States have been on the rise, and in some recent cases such as the apparent cut-off of exports to Japan of rare-earth metals at the height of a September 2010 dispute over the Senkaku/Diaoyutai islands, China has appeared willing to utilize economic leverage as a tactical measure to press for political gains (Mo 2010). It appears unlikely that China-centered economic integration within Asia will lead to the end of political conflict in the region; in fact, there is growing concern that China might continue to utilize economic dependency of its neighbors on the China market as leverage to gain the political upper hand, a factor that poses a fundamental problem for liberal theorists.

A hypothesis that Lee and Kim put forward in their paper but do not develop in any significant fashion is that economic interdependence within alliances should be considered in the context of asymmetry within the alliance relationship; i.e., economic dependency of the weaker ally might be a tool by which the stronger ally might heighten the junior partner's sense of entrapment and therefore seek alternatives to the alliance. But this view is also challenged by dramatic shift in economic patterns that has occurred in the transition from the cold war to the post-cold war period, which has arguably lessened any prior correlation that might have existed during the cold war between economic patterns of interaction and security imperatives within alliances. This means that the senior partner's leverage to request security assistance in out-of-area conflicts or to demand support in a bilateral context would decrease as a result of a shift in the relative importance of the senior ally as a trading partner. Yet despite the diminished economic role of the United States as a trading partner with its allies, there has not been a reduction in U.S. demands for assis-

tance from Asian allies, and the absolute levels of contribution that both South Korea and Japan have made have increased in the post-cold war period at the same time that economic interdependence within the alliances has lessened. Lee and Kim suggest that economic interdependence within alliances might matter while at the same time arguing that economic interdependence and security imperatives are not directly linked, but these conclusions are self-contradictory.

### The Limits of the Empirical Data

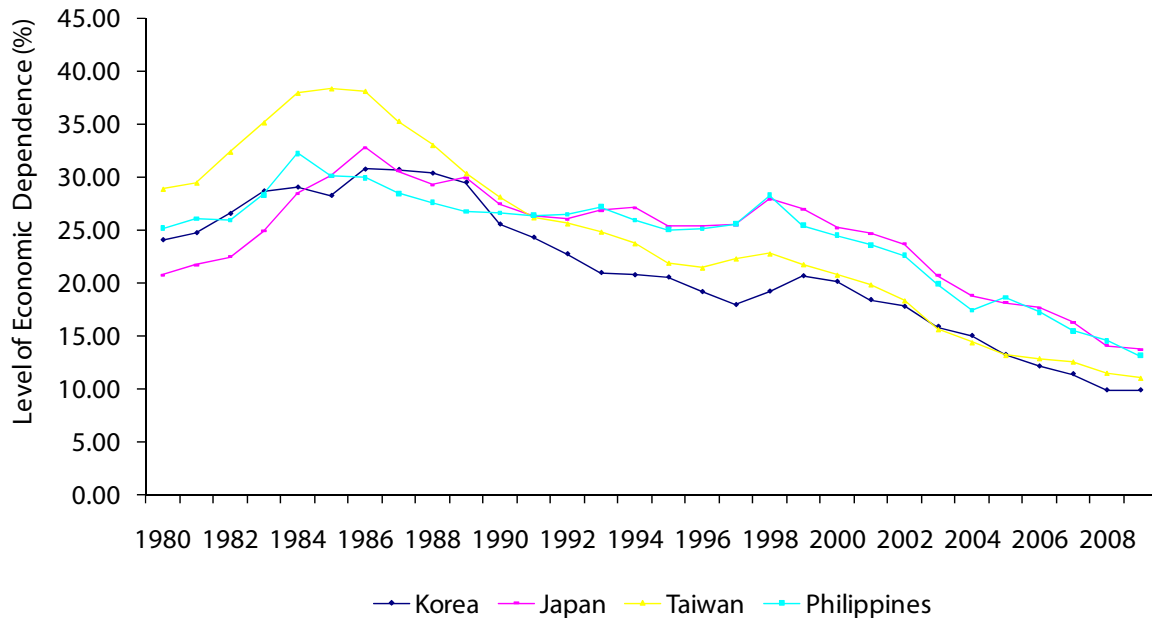
The paper challenges conventional wisdom that economic interdependence and security alliance preferences are co-related. But the data upon which the authors draw is primarily from the post-cold war experience, while the theoretical conclusions that trading preferences and security allies are correlated are primarily based on data from the cold war era. The data presented covers the period during which economic relationships were no longer limited by security alliance preferences, but does not go a step further to ask whether there are any potentially damaging implications for the durability of alliances that might result from the delinking of trade and investment preferences from political and security considerations. This is a critical question that requires much closer analysis than it has received to date.

It is worthwhile to revisit data showing the levels of cold-war economic interdependence with the United States to understand where the conventional wisdom comes from, especially since the authors successfully argue that recent data shows a clear shift to a situation where economic and security factors are clearly not correlated. Table 1 shows that during the 1980s, the United States was the dominant trading partner with Taiwan, Korea, Japan and the Philippines, representing at least one quarter of overall trade in each case. But with the end of the Cold War—and especially in the past decade as China's trade with its neigh-



bors has rapidly increased—the share of Asian allies' trade with the United States has dropped considerably.

Table 1. Asian Allies' Economic Dependence on the U.S., 1980-2009



The results of the analysis show a lack of correlation between economic interdependence and political commitment, but the authors also attempt to argue that economic interdependence has an impact on behavior internal to each of the alliances. However, the data provided in each case is insufficient to draw conclusions regarding the impact of economic dependency on dynamics within the alliances, especially given the fact that the assumptions the authors make regarding economic interdependence and asymmetrical alliance relations essentially are in contradiction with the broader conclusions the authors have drawn that

economic interdependence and political/security relations are not highly correlated.

The authors hint at but do not explore data that might show how specific economic factors may influence cohesion when they suggest that levels of U.S. troop presence and burden sharing/out of area contributions are potential indicators that may influence alliance dynamics, especially in the post-cold war period. An examination of this data set may yield a clearer understanding of the role of economic factors in post-cold war management of America's Asian alliances.



Table 2. U.S. Troop Presence in Japan and South Korea

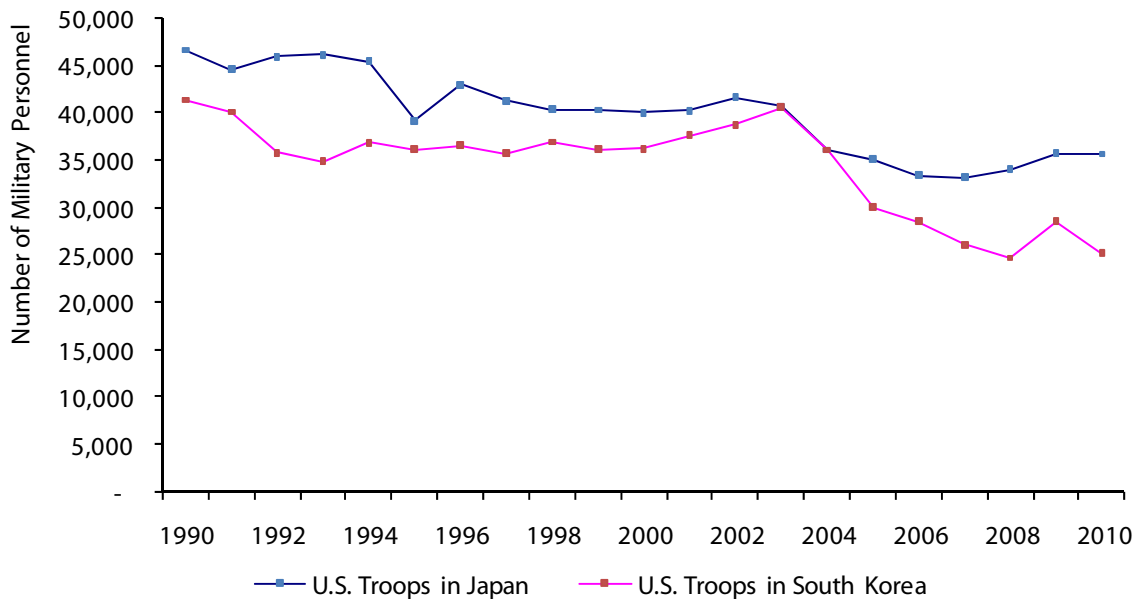


Table 2 shows U.S. troop levels in South Korea and Japan from 1990-2009. The level of U.S. troop presence might be considered as a proxy for levels of economic costs the U.S. incurs in support of the alliances and has long been interpreted in Asia as an indicator of U.S. commitment to the alliances. Table 2 shows an initial drop in troop levels in the early 1990s following the end of the cold war, but a stabilization of U.S. troop numbers in the aftermath of the Nye Initiative of the mid-1990s, at which time the United States pledged to retain 100,000 troops in Asia. This commitment remained in place until the advent of the U.S. Global Posture Review under Secretary of Defense Rumsfeld and the start of the Iraq War, which clearly resulted in reductions in numbers of troops in Japan and South Korea. The approximately thirty percent reduction in the number of U.S. troops in South Korea shows the effect of the transfer of a brigade from the Second Infantry Division to Iraq, but the number of

troops in South Korea has stabilized at around 25-27,000, but there is no indication at present that there will be further reductions. The reduction in the numbers of forces in Japan and South Korea might be taken as evidence of a lessened U.S. economic commitment to sustaining the alliances, but the respective responses in South Korea and Japan to the respective declines in U.S. force presence in the early 2000s were contradictory with each other despite the fact that the U.S. troop presence in both countries was being reduced. Because of tensions between the conservative Bush administration and the progressive Roh administration, there were perceptions that a reduced U.S. troop presence in South Korea represented a weakening of the U.S. alliance commitment and the possibility of the eventual unraveling of the alliance, whereas U.S.-Japan security cooperation under President Bush and Prime Minister Koizumi appeared to be continuously reaching new heights.



Table 3. Japan's Burden-Sharing Level

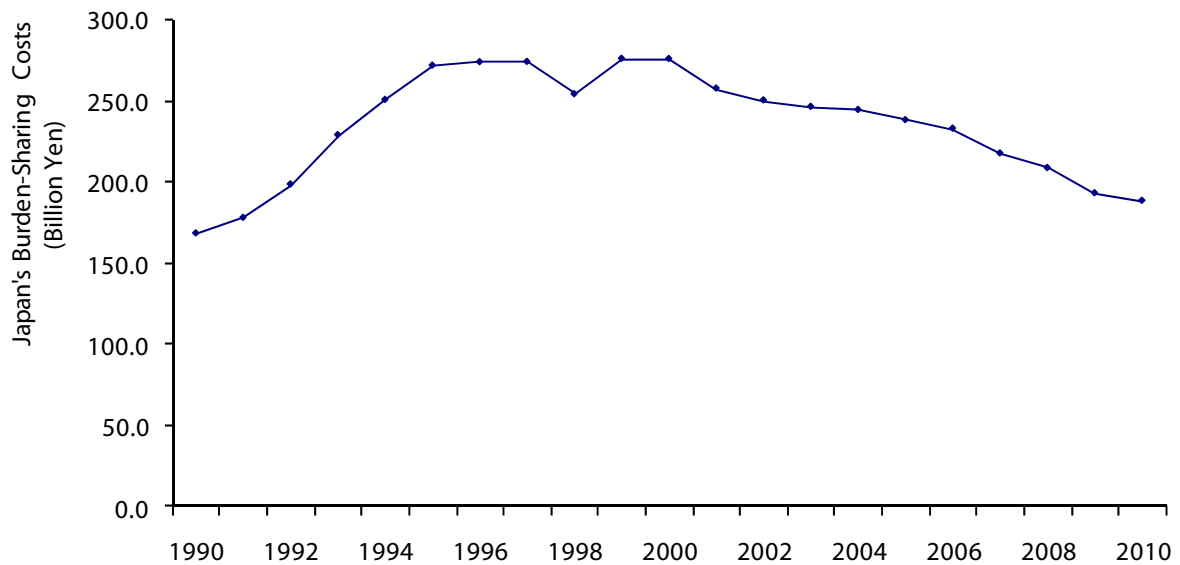
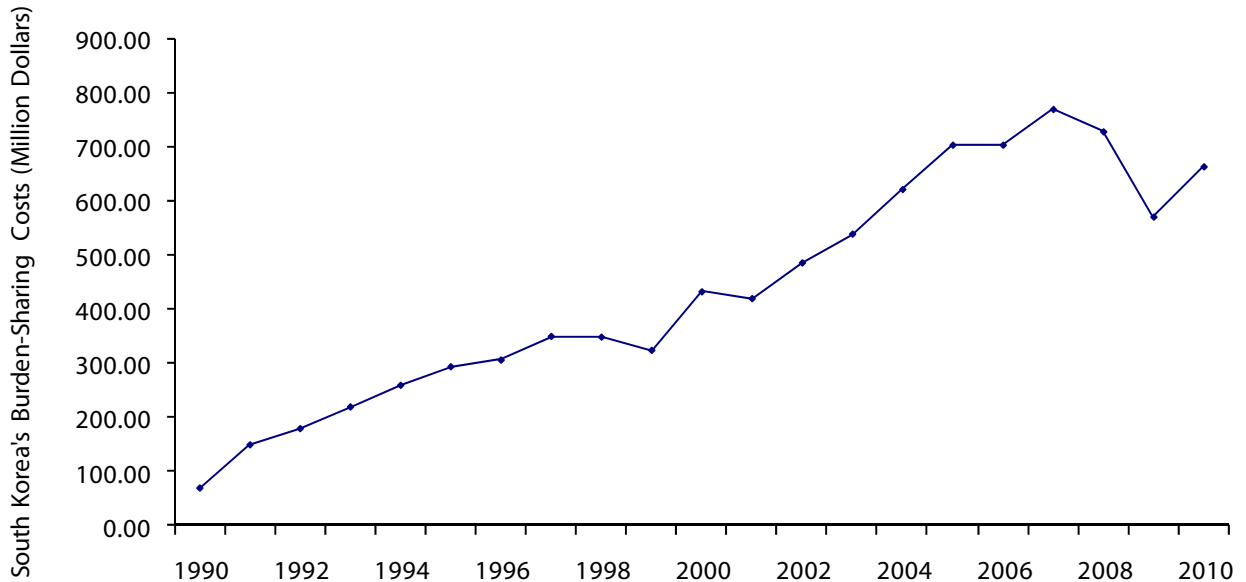


Table 4. South Korea's Burden-Sharing Level



Given the contradictory public perceptions of alliance cooperation between the Bush administration and his Japanese and Korean counterparts, respectively, the real takeaways regarding the role of economic contributions on the alliance comes in tables 3 and 4. Ta-

ble 3 shows that rapid growth in Japanese financial support for the alliance came in the early 1990s, at a time when many analysts questioned the durability of the U.S. alliance presence in Asia. Despite perceptions that Japan exceeded American expectations for securi-



ty cooperation after 9/11, Japan's economic commitments in support of the alliance with the United States steadily declined from its peak of 275.6 billion yen in 1999, whereas South Korean financial commitments in support of the U.S.-ROK alliance rose by almost 50 percent during the 'anti-American' Roh administration. South Korean financial commitments peaked at the end of the Roh administration and have begun to decline under the Lee administration despite Lee Myung-Bak's strong rhetorical commitment to sustaining the U.S.-ROK 'Strategic Alliance.'

These two tables suggest that economic factors within the alliance reflect a different dynamic from that which the authors hypothesize when they assert that economic dependency creates a sense of entrapment among smaller allies and thus might lead to a search for alternatives to the alliance. Instead, economic patterns of investment in the alliance between the United States and South Korea seem to suggest that the smaller partner is motivated to invest in the alliance as a result of fears of abandonment rather than a sense of entrapment. In the case of the U.S.-Japan relationship, which enjoyed a period of high political confidence during the Bush and Koizumi administration, it appears that there was less concern in Japan about U.S. abandonment and thus a willingness to decrease investment in the alliance, especially compared to the early 1990s, when Japanese fears of abandonment were high and investments in the alliance rose dramatically.

### The Limits of the Policy Conclusion

The authors argue correctly that on the basis of their study that the future of the KORUS FTA is likely to have a low impact on the quality of the security alliance. But this does not mean that the existence of the KORUS FTA might not have a significant political and psychological effect on actors within the alliance or that the respective efforts to align and promote economic interdependence might not play a role in de-

pening the perceived strategic value of the alliance. A stronger investment in alliance ties can act as a vehicle for providing reassurance to political leaders on both sides and can serve as a signal that the two countries are tied together comprehensively, including by common economic interests. An FTA may also represent an increasing level of sunk costs that strengthens the institutionalization of the relationship in the face of countervailing factors or influences, for instance, serving as a hedge against the unknown effects of a transformational change in the economic relationship with China.

One significant implication of the KORUS FTA is that it can serve as a template for other FTAs that the United States would like to see in the Asia-Pacific region, thereby providing an essential road map or template for other initiatives such as the Trans-Pacific Strategic Economic Partnership (TPP) negotiations or the initiative to establish a Free Trade Area in the Asia-Pacific (FTAAP). Moreover, the KORUS agreement clearly served as the benchmark for South Korea's free trade agreement with the European Union, even if the Korea-EU FTA comes into effect prior to the ratification of the KORUS FTA. To the extent that the KORUS FTA can contribute to the shaping of an open versus a mercantilistic approach to international trade in East Asia, such developments are in the interest of both countries and set the stage for both regional and multi-lateral discussions on these issues that can assist in promoting development of a new global standard that is favorable to Korean and U.S. interests. This is a strategic argument that the two countries are able to make on the merits, but it has little impact on the level of security cooperation in the U.S.-ROK alliance relationship.

Finally, the United States and South Korea will accrue political benefits from the KORUS FTA that further bind the two societies together in ways serve their mutual interests. The U.S.-ROK security relationship may have been initiated on the relatively narrow platform of security at a time when the two countries had little in common. But South Korea's economic development and political democratization have enabled



full-scale cooperation that is overwhelmingly in the mutual interest of both countries. This is in part because such cooperation reinforces the characteristics of an international political and economic environment that continues to be overwhelmingly favorable to South Korea's own development and prosperity. Broadened cooperation with the United States on a comprehensive basis serves to reinforce that structure based on shared mutual interest.

### **Conclusion: Will China's Economic Rise Result in a Paradigm Shift for the Structure of Security Relations?**

Both the United States and South Korea face an unanswerable question regarding the impact of China's rise on the global system that will have a direct impact on both the alliance and the structure of the international community; i.e., will China's rise reinforce global norms or introduce changes in the international system that are contrary to U.S./ROK collective interests? The phenomenon of delinking economic interdependence from a purely security-oriented view that has in the past constrained the development of economic relations with non-security partners is both evidence of China's willingness to embrace the existing international order as a vehicle by which to secure its own economic development and an opportunity to break out of a situation in which overt economic competition in strictly realist terms served only to reinforce national power in a zero-sum fashion that may make conflict inevitable. But the diffusion of economic prosperity across traditional political and security dividing lines also carries with it a certain level of political risk if indeed the international structure that has enabled China's rise is then used to make new global rules that privilege self-advantage or compromise efforts to promote a market-based level playing field that has been a hallmark of the post-war international system. The KORUS FTA deepens U.S.-ROK economic

integration in ways that might serve to buttress an open trading system on the U.S. model, but such integration is not likely to have a major impact on the U.S.-ROK security alliance. However, it remains to be seen whether China-centered economic integration may eventually constrain the U.S.-ROK military alliance in other ways, by shifting perceived interest in ways that raise the cost and effectiveness of political-military cooperation within the alliance while creating new patterns of interaction and self-interest that weaken the efficacy of alliance ties. ■

### **Acknowledgement**

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——— Scott Snyder is Director of the Center for U.S.-Korea Policy at The Asia Foundation and Adjunct Senior Fellow for Korean Studies at the Council on Foreign Relations.

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