

# **South Korea's Business Sectors and Transformation of ROKUS Alliance: A Case Study of KORUS FTA**

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## South Korea's Business Sectors and Transformation of ROKUS Alliance: A Case Study of KORUS FTA

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### I. Introduction

This article examines the influence and role of Korean businesses in shaping the ROKUS alliance, studying the case of KORUS free trade agreement (FTA). For more than a half century the ROKUS alliance has played a safety-pin role in preserving peace and stability on the Korean Peninsula and in the Northeast Asian region. Based on the common ideology and values, it also has functioned as an important institutional foundation for a strong bilateral economic and commercial relationship that underpinned common security and prosperity. Although the global security and economic conditions fluctuated, the bilateral partnership has been widened and deepened in all dimensions of inter-state relations through the security, economic, and cultural ties.

However, the last ten years has watched the ROKUS alliance seriously tested. The U.S began to reassess Korea's strategic values for the 21<sup>st</sup> century and tried to make some structural adjustments to the alliance. Similarly, responding to both domestic and external changes, Korea sought a more equal relationship with the U.S. In particular, differences between the two countries over the policy toward North Korea highlighted the conflicting views of the two.

Now, a new version of the ROKUS alliance is in the making. The main catalyst of such realignment of the alliance to a higher level allegedly is the KORUS FTA. The proposed KORUS FTA would serve as an agent of momentum which transforms its nature of solely a military alliance into a comprehensive security-economic alliance. High expectation of this strengthened Korea-U.S cooperation is that it will be a much stronger basis for peace and prosperity in Northeast Asia in the future.



The Korea-U.S. military alliance has been one sturdy pillar that secured peace and security on the Korean peninsula for more than 50 years. Security cooperation will continue to be a key pillar of the U.S.-Korea alliance in the twenty-first century. However, it is no longer the only pillar. The United States and Korea enjoy deep and strong economic ties, evidenced by the dramatic expansion of economic relationship.<sup>1</sup> The strong bilateral economic and commercial relationship is another pillar of the Korea-U.S. partnership.

So, the U.S and Korea are transforming both the military alliance and the economic ties. Then, what would be the domestic roots of the transformation of ROKUS alliance? More specifically what roles were played by Korean big businesses in the evolution of the alliance and the emergence of FTA? Of course the changing characteristics of the alliance should be traced to both international and domestic, on the one hand, and both political and economic forces, on the other.<sup>2</sup> It suggests that it is very difficult and even foolhardy to try to single out a few key variables with which we explain the emerging Korea-US relations.

In fact, many studies on Korea's foreign policy in general and the Korea-US relationship in particular, have gotten trapped in the so-called analytical double divide: between high and low politics, and between state and society as a key actor. The Korea-U.S relations have been considered, for the most part, as high politics in which security and strategic concerns dominate the discourse, and the decision-making powers resided in state actors, primarily top executives. Under the so-called imperial presidentialism, presidents have had overwhelming authority in making foreign policies. Thus, there was little room for an independent role of both low politics and societal actors like business interests in the formation of Korean foreign policy like the ROKUS alliance. To that extent, the need for studying the role of societal forces has been relatively minimal.

However, this neglect could not be valid any longer, since such a closed system of foreign policy making began to open under Kim Dae Jung administration. More fundamental changes were made under Roh Moo-hyun administration. Foreign policy had often been at the center of debate among Koreans, the examples of which were conflicts around troop dispatch to Iraq, rearrangement of the ROKUS alliance, and the KORUS FTA. As a consequence, a multi-stakeholder model becomes more relevant in explaining the Korean foreign policy behavior.<sup>3</sup>

With a case study of the development of KORUS FTA, this paper thus explores the Korean business stakeholders' influence on transforming the ROKUS alliance, which has been largely missed in the extant studies. Main finding is that, since the 1987 democratization, the Korean business community has increased its voice and influence on foreign policy toward the U.S, and contributed to strengthening the domestic support base for



KORUS FTA negotiations, mainly through building internal and external advocacy networks.

The paper is organized as follows. The next section reviews the footprints of Korean business sector's influence on the alliance. I underline that there was a historical affinity between the growth and interests of Korean businesses, on the one hand, and the ROKUS alliance as well as the government, on the other. Then, along with discussion of strengths and weaknesses, I sketch the background, process, and current status of KORUS FTA. Section III analyzes what roles the Korean business community has played in moving forward KORUS FTA, with focus on the Federation of Korean Industry (FKI), a representative organization of business interests in the country. Also, it is followed by inquiry into FKI's priority concerns and strategies to expand Korea-U.S business interests and involvement in the alliance. In Section IV, I try to draw some implications of Korean businesses' increasing influence for the deepening of Korea-U.S cooperation. I conclude it by discussing the potential benefits of KORUS FTA on the bilateral, regional, and global dimension.

## II. Historical Overview

### Korean Business Sector and ROKUS Alliance

Historically reviewing the influence of Korean business sectors on the ROKUS alliance, I found that it had been, at best, marginal until the 1990s, but turned relatively striking in the 2000s. One reason was that the Cold War and inter-Korean division did not allow any government to seriously challenge the reason of existence of the alliance. Also, for the most period of time under analysis, the Korean government had been a patron vis-à-vis the business community. The latter was simply a client whose life and death were heavily dependent upon the benefits provided by the alliance and the Korean government as a patron. Therefore, supporting the alliance was the default position of the businesses and other societal actors, and as far as the alliance was concerned, it was the area of government monopoly. The only difference we could see in the new millennium was that, as KORUS FTA signified, the businesses' voice became more assertive in emphasizing the need for a strengthened Korea-U.S cooperation than ever before.



The post-1945 evolution of Korea-U.S relations illustrates well the development of a unique interaction between military alliance and economic cooperation. During the Cold War, close security cooperation actually led to friendly political relations between the two countries. And the relative benefits of South Korea's military alliance were not confined solely to the area of security, but extended to the economic realm as well. The bilateral relationship between the U.S and Korea during that period represents some characteristics of a "patron-client relationship" in which the client state receives security assistance at the cost of political autonomy, and the patron supports the client's economy for military and ideological reasons.<sup>4</sup>

The patron-client relationship at the inter-state level was exactly reproduced in the government-business relations of Korea. Very few Koreans had owned or managed large corporations under the Japanese colonial rule. The birth of Korean capitalists was directly linked to the military alliance between Korea and the U.S, in the sense that they came into being under the shield of the U.S and Korean governments. After the departure of the Japanese in 1945, the American military authority allowed some Korean businessmen to obtain the assets of some of the Japanese firms, many of which grew into the *chaebol* (business conglomerates) of the 1990s. Also it helped large companies to recover the damages inflicted by the Korean War which changed the purpose of U.S assistance from relief aid to military support. There were two channels through which American assistance helped Korean big businesses to take off. First, the firms could either get aid money directly or purchase aid materials by rationing or competitive auction bidding. They could acquire resource materials and facility equipments necessary for production activities. At that time the difference between real and nominal exchange rates was so large that they made big profits. Second, of more importance were the counterpart funds which were formed with U.S economic aid, and managed by the Korean government. The funds were the main source of Korea's treasury loans and investments, most of which were provided to the large firms.<sup>5</sup>

In fact, this U.S economic aid played a role of military assistance since the use of the counterpart funds was thoroughly controlled by the U.S. The "Meyer Agreement" of 1952 on economic coordination between ROK and US stipulated that the operation and disposal of the funds were under control of the Combined Economic Board. In particular, the military purpose of the funds appeared clear in the article 1(a) of the Agreement's guiding principles. It says that "The Board will consider all economic aspects of the Unified Command programs for assistance to the Republic of Korea and all pertinent aspects of the economy and programs of the Republic of Korea, in order that each of the Board's recommendations may be a part of a consistent overall program designed to provide



maximum support to the military effort of the United Nations Command in Korea, relieve the hardships of the people of Korea, and develop a stable Korean economy.” Thus, in the 1950-60s, Korean big businesses were one-sided beneficiaries and hence important supporter of the ROKUS alliance, which thereafter was the continuing watermark of Korean business groups’ attitude toward Korea-US relations.

The anti-communist and authoritarian regimes of Korea considered the ROKUS alliance as the most important pillar of peace and prosperity for Koreans, and pushed the strategy of export-oriented industrialization (EOI). Since 1973, the Park Chung-Hee government emphasized greater economic independence as well as military build-up, and promoted heavy and chemical industries. Main instruments included encouraging monopolistic production, reducing tariffs on capital equipment, raising tariffs to protect infant industries, and providing favored sectors with privileged access to bank loans. These shifts in economic policy favored large firms, the result of which was that the top 30 *chaebol*’s share of manufacturing shipments amounted to 35% and their share of total exports was 41.3% in 1985(Jee 1997). Taking the leading role in promoting economic growth and holding huge economic resources, they began to have a greater influence on the Korean political economy.

The 1980s saw the previous patron-client relationship transforming into a symbiotic one in which the government still played a leading, yet not unilateral, role in decision making of both domestic and foreign affairs. As trade friction in the mid-1980s showed, the Korea-US relations also was diverging from the patron-client relationship. After the democratic transition in 1987 and the subsequent collapse of the USSR, the state-society relations were realigned relatively in favor of societal actors including business sectors. At the same time, low politics seemed to emerge important in the form of economic cooperation with former communist countries and Korea-US trade conflicts.

However, the foreign policymaking process has remained largely intact. As long as the Korea-US relations were concerned, high politics was still dominant over low politics issues. Foreign policymaking remained in the secret garden of the president, who was largely insulated from democratic control and public involvement (Jaung 2005: 51). There were no serious conflict of interests about the indispensability of the alliance between the government and societal actors, so the concerns of the Korea business community kept confined to the economic arena. In reality the Federation of Korean Industry, the umbrella interest group of large firms, showed little interests in foreign policy and even looked incompetent to push their agenda to the government. Although the portion of FKI’s policy proposals with international orientation was only 0.7% in the 1995-2000 years, its overall rate of acceptance was as high as 70% (Choi 2005).



During the 2002 presidential campaign, Korea-U.S alliance issues emerged all of a sudden politically salient. When a U.S Military Court found not guilty the soldiers who accidentally had killed two middle schoolgirls during off-base training exercise, it triggered nationwide candle-light vigils against the seemingly irresponsible actions of both the American and Korean governments in November 2002. Henceforth, the role of Korea-stationed American troops and the future of the ROKUS alliance became crucial in the campaign. It was the first democratic election in which foreign policy played a major role (Jaung 2005). Since the beginning of the Roh Moo-hyun administration, foreign policy issues have often been at the center of debate in Korea. The examples were troop dispatch to Iraq, the rearrangement of the ROKUS alliance, and the KORUS FTA negotiations.

Now, societal stakeholders got actively involved in foreign policy debates. Particularly the Korean big businesses functioned as a stronghold of justifying the ROKUS alliance. It was never an accident that Samsung Economic Research Institute (SERI) published a paper on the ROK-US relations for the first time in 2004 (SERI 2004).<sup>6</sup> The gist of the report was that the then looming cracks of the alliance might have detrimental effects on the Korean economy, and that Korea should strengthen the Korea-US cooperation at the security, economic, and social levels. It emphasized that a free trade agreement between the two nations would expand the previous security-oriented alliance to a more comprehensive framework of cooperation. As discussed below in detail, Korean business groups have argued that the KORUS FTA would be strengthening the Korea-US relations by transforming the military alliance to a military-economic alliance.

## Progress of KORUS FTA

The idea of a Korea-US FTA is traceable back to the 1980s when Korea's accessibility to the U.S markets was increasingly squeezed by the U.S trade laws and the conclusion of the Canada-U.S FTA. The Korean government had interests in a bilateral trade pact as a means to avoiding further discrimination against Korea exports to the U.S market. But U.S interests centered mainly on how a FTA could open Korean markets more and utilize it in promoting the multilateral process of trade liberalization at the GATT rounds. The initial FTA talks failed to go beyond informal discussions, although a number of studies in both nations explored the potential economic and geopolitical implications of a FTA (Choi and Schott 2001).<sup>7</sup> While these early attempts bore no fruits, the late 1990s witnessed interest in a bilateral pact surfacing again.





For Korea, the economic crisis in late 1997 forced a thorough review of her development strategies. The government thought that new trade agreements could help make the Korean economy more efficient by encouraging inflows of foreign capital and management skills, and by infusing new competition into the domestic market. At the same time, there has been a dramatic resurgence of bilateral trade deals in the Asia-Pacific region. Japan and Singapore began FTA talks in January 2001. Japan also has held extensive consultations with Korea on the possibility of entering free trade negotiations within the a few years. Japan and Mexico have explored the idea of bilateral talks and have received support from a bilateral business working group. At the APEC summit meeting in 2000, Singapore agreed with Australia and with the U.S to launch FTA talks.

Nonetheless, as of December 2000, the subject has not been discussed formally between the two governments. This time, the U.S business community in Korea promoted the idea of a bilateral FTA in a letter to President Clinton in June 1999.<sup>8</sup> Also, leading businesses of Korea and the U.S expressed their support for a potential Korea-U.S FTA.<sup>9</sup> In addition, Senator Max Baucus, ranking minority member of the Senate Finance Committee, introduced a bill - the United States-Republic of Korea Free Trade Agreement Act of 1999 - in November 1999 that would authorize FTA negotiations with Korea as well as “fast-track” procedures to implement the resulting agreement.

For the U.S, a FTA with Korea would increase bilateral trade and investment, in particular, increase agricultural and services exports to Korea. The US could also use its expanded access to the Korean market as a platform for sourcing throughout Northeast Asia. Further, it could use the Korea-US FTA as a catalyst to jump-start the next stage of regional free trade movement within APEC and as a building bloc to the further progress of the multilateral trading system. Politically, the US could benefit from a further strengthening of its security ties with Korea that could result from an FTA. Such an agreement would send a signal of firm US commitment to a prosperous Korea and to peace and stability on the Korean peninsula and in Northeast Asia.

The Korean Ministry of Foreign Affairs and Trade (MOFAT) proposed a free trade agreement to the US government in 2004. After the four preconditions such as rice, beef, screen quota, and emission standards of imported cars were cleared, the both governments announced the launch of the first official round of FTA negotiations on February 3, 2006. The KORUS FTA was signed on June 30, 2007, but ratification of the agreement stalled when President George W. Bush's fast-track trade authority expired. In particular, a Democrat-controlled U.S. Congress expressed objections to the treaty related to concerns over bilateral trade in automobiles and U.S. beef exports. For instance, President Obama recalled that “the deal wasn’t good enough for American workers.”<sup>10</sup> Nearly three



years later, on June 26, 2010, President Barack Obama and President Lee Myung-bak agreed that they would direct their governments to resolve remaining obstacles to the agreement by November 2010. After intensive discussions including the November 2010 G-20 Seoul summit, the two presidents announced on December 4, 2010, that a deal had been reached.<sup>11</sup> On February 10, 2011, the U.S and Korea exchanged the legal texts – signed by U.S. Trade Representative Ron Kirk and Korean Trade Minister Kim Jong-Hoon – setting the stage for Congressional consideration of KORUS.

The pending KORUS FTA is supposed to bring benefits to both sides. The view that South Korea wants greater access to the world's richest market and that the FTA will help revive its economy, is generally accepted in Korea. President Lee Myung-bak in his National Assembly address in July 2008 said that the KORUS FTA “will boost the nation's economy.” The Korea's interest in better access to the U.S market was confirmed by Susan Schwab, U.S trade representative, saying that it would exchange much higher Korean barriers for access to the American market. Also, the U.S would like to use the FTA to prevent its own exclusion from Asia, a potential reality with the formation of Asian regional groupings. The FTA also provides the U.S a way to move Korea towards a more open economy and away from its past practices of regulation and industry protection. The increasing importance of the G20 framework offers Korea a chance to play a more significant role in international affairs. Korea's willingness to embrace this role offers another rationale for a stronger alliance between South Korea and the United States.

Apart from the opportunities the FTA provides, there still exist the challenges to be coped with by both governments. Among others, ratification of the FTA has been delayed in both countries longer than expected. There is also strong opposition to it from the potential losers in both Korean and the U.S. Furthermore, the nature of the issues has turned ideological rather than economic in Korea, so pro-Americanism and the conservatives collided with anti-Americanism and the progressive. The following section analyzes the impact of the KORUS FTA and overviews the distribution of business sector interests. Then, it discusses the priorities of leading Korean businesses and their roles in pushing forward the FTA.



### III. Korean Businesses and Politics of KORUS FTA

#### Sectoral Impact of KORUS FTA

A trade pact has significant distributional implications because it is likely to change the previous allocation of benefits and costs among domestic interests. The preferences of different domestic stakeholders in foreign economic policy making can be analyzed with Rogowski's (1989) commerce and coalitions model. The premise of this model is that economic cleavages between stakeholding constituencies are formed on the basis of their exposure to trade which is assumed to have either beneficial or adverse effects upon them.

A number of studies have estimated the economic impact of a possible U.S.-Korea FTA in the last decade, performed by the U.S ITC, several Korean research groups, and unaffiliated researchers. Wang and Cheong (1998) produced the first published computable general equilibrium analysis of the topic in 1998. Both the Peterson Institute for International Economics and the U.S ITC in Washington also have published a series of estimates for a U.S.-Korea FTA.<sup>12</sup> Regardless of model, base year, and liberalization scenario, they predicted that total U.S. exports to Korea would increase by more than total imports from Korea, in both percentage and value terms.

For Korea, the sectors of agriculture and service are expected to be on the losers' side, whereas manufacturing industries, except pharmaceuticals,<sup>13</sup> are relatively intact from the negative effects of the FTA (see table 1). Under the KORUS FTA's provisions on agricultural trade, Korea immediately would grant duty-free status to almost two-thirds of current U.S. agricultural exports. Tariffs and import quotas on most other agricultural goods would be phased out within 10 years, with the remaining commodities and products subject to provisions that phase out such protection. Korea also agreed to eliminate its 40% tariff on beef muscle meats imported from the U.S over a 15 year period, with holding right to impose safeguard tariffs on a temporary basis in response to any potential surge in imports of US beef meats above specified levels. For the U.S, as the American Farm Bureau Federation estimated, the KORUS FTA, once fully implemented, could increase U.S farm exports to Korea by \$1.6 billion. That may explain why the KORUS FTA is supported by more than 40 U.S agricultural and food associations.<sup>14</sup> On the contrary, Korea's farmers would be the biggest losers from the FTA. Some experts estimated 1 million job losses in Korea's agricultural sectors.<sup>15</sup>



**Table 1** Sectoral Effects of KORUS FTA

Sector		Export	Import	Losses
Agriculture		X	●	●
Manufacturing	Textile/clothing	●	X	X
	Automobile	○	○	X
	Electronics/IT	◐	○	X
	Pharmaceutical	X	●	●
Services	Finance	X	●	◐
	Education	X	●	◐
	Legal/medical	X	◐	◐

Source: SERI(2006), ● = very great, ◐ = great, ○ = small, X = negligible.

Trade in autos and autoparts proved to be among the most difficult issues tackled by U.S and Korean negotiators, pitting an increasingly competitive Korean industry seeking to increase its market share in the U.S and a U.S industry that wants Korea to eliminate policies and practices that seemingly discriminate against U.S auto imports. Under the renegotiated agreement the U.S car tariff - currently 2.5 percent - will be maintained for four years until January 2016 and then eliminated. In turn, for Korea, the 8 percent Korean car tariff will be reduced to 4 percent upon entry into force of the pact and then eliminated at the same time as the U.S car tariff. Also rather than a 10-year tariff phase-out, tariffs on electric cars and plug-in hybrids will be phased out in five years. In addition, the U.S tariff on light trucks will be maintained for seven years until 2019 and then phased out over the next three years. Originally, the light truck tariff was to be phased out in 10 equal annual increments. However, Korea did not slow its own tariff reform, meaning that the 10 percent Korean truck tariff will be eliminated upon entry into force of the agreement.

The KORUS FTA would cover a broad range of other areas. Most US-Korean trade in consumer and industrial products would become duty-free within three years after the agreement enters into force, and virtually all remaining tariffs would be lifted within 10 years. The two countries agreed to liberalize trade in services by opening up their markets beyond what they have committed to do in the World Trade Organization (WTO). About 60% of US-Korea trade in textiles and apparel would become duty-free immediately, and the KORUS FTA would provide a special safeguard mechanism to reduce the impact textile and apparel import surges.



In sum, the Korean producers of autos, textiles and clothing, electronics will be on the winners' side, while farmers on the losers' side. It suggests that most Korean export-oriented, especially large multinationalized, manufacturing businesses will benefit from and hence strongly support the KORUS FTA.

### **Roles of Korean Big Businesses**

The main concerns of the Korean business community were whether a FTA would provide increased access to the U.S market and hence realize the economy of scale. Until the first half of the 2000s, Korean big businesses seemed very cautious about a free trade deal with the United States. For example, LG Economic Research Institute (1998) concluded that a Korea-US FTA would aggravate the current account deficits of Korea, but the positive effect of improving the deficits was not certain. Samsung Economic Research Institute (SERI 2003) also pointed out in its FTA roadmap that of the strongest candidates for a FTA partner were Japan, China, and that a FTA with the U.S should be approached in a strategic manner and was put aside as a long term project. In a similar vein, Korea Economic Research Institute (KERI) published a policy brief that a lineup for FTA candidates should be ordered from Japan, Mexico, ASEAN, BRICs then to the U.S (Kwon 2004). Thus, at the early stage, Korean big businesses did place quite a low priority on the U.S.

Nonetheless, once a FTA negotiation between Korea and the U.S was officially launched on February 3, 2006, they took various and proactive steps to move it forward. The following section analyzes two dimensions - i.e., key players and activities - of pro-KORUS FTA movements, as shown in table 2. The form of players includes organizations and networks as well. Among others, notable were the five biggest business organizations - i.e., the Federation of Korean Industry (FKI), the Korea Chamber of Commerce and Industry (KORCHAM), the Korea Federation of Small and Medium Business (Kbiz), the Korea International Trade Association (KITA), and the Korea Employers Federation (KEF). Of FTA-related networks, the KORUS FTA Industry Alliance and the Korea-U.S Business Council played an important role in pro-FTA campaigns either within Korea or between the two nations.<sup>16</sup>

Meanwhile, the activities are categorized into advocacy and education. According to Duverger (1972: 121-125), the modes of political participation are either direct or indirect. Direct participation is associated with policymaker-oriented, advocacy activities, whereas indirect participation is related to mass-level, educational ones. Advocacy is performed through both open and private channels which link business leaders to various decision



makers such as government ministers, bureaucrats, legislators, and regulators. Their basic objective is to change the government's policy positions in accordance with the business interests. Widely used methods of engaging policy makers are to organize meetings and to place policy inputs in the form of petitions, recommendations, and proposals. Educational activities are to widen the support base of the mass public by holding public hearings, issuing statements, publishing reports, and sponsoring scholarly conferences so forth.

**Table 2** Key Player and Activity of Pro-KORUS FTA Campaign

Player		Activity	
Organization	Network	Advocacy	Education
FKI (KORCHAM, Kbiz KITA, KEF)	KORUS FTA Industry Alliance	Petition	Statement
		Proposal	Report
	Korea-U.S Business Council	Meeting	Public hearing, conference, seminar, forum

Thus, the subsequent analysis focuses on the advocacy and educational roles played by the FKI, which has been not only an umbrella organization of Korean business conglomerates, but also the focal point of pro-KORUS FTA movement networks including the Industry Alliance and the Korea-US Business Council.<sup>17</sup> Table 3 shows the FKI's pattern of political participation between 2003 and 2010. First of all, the portion of FKI's advocacy activities directly engaging policymakers has ranged from 17% (2008) to 31% (2010). The FKI's main focus has been overwhelmingly on the executive branch during the whole period under study. But the legislative branch received relatively weaker spotlight than the executive counterpart from the FKI in that only the years 2004 and 2009 witnessed the weight go beyond 6%.

It was not until 2003 when establishing the BIT/FTA Task Force under the Korea-US Business Council that the FKI entered into the landscape of KORUS FTA politics in Korea. Also, signing a Memorandum of Understanding with the Ministry of Foreign Affairs and Trade (MOFAT) in March 18, 2003, the FKI opened an official circuit through which its voice was transmitted into the foreign economic policy-making procedures. In addition, April 23, 2004 saw the FKI establishing an internal agency, the Committee on Commerce and Trade, which, with MOFAT officials taking official part in, aimed at preparing business-level strategies to cope with international economic challenges and voicing the business circle's concerns at the phase of not only negotiating a FTA deal, but also



selecting a FTA partner country. Six month later, the Committee called for a Korea-US FTA and became an important foundation for forming the KORUS FTA Industry Alliance in February 3, 2006.

**Table 3 FKI and Modes of Political Participation**

Year		2003	2004	2005	2006	2007	2008	2009	2010
Advocacy	Executive [A]	30	25	36	40	34	19	27	37
	(A/D)	22.39	16.13	23.84	25.00	25.00	13.77	20.00	25.69
	Legislature [B]	4	15	3	7	3	5	10	8
	(B/D)	2.99	9.68	1.99	4.38	2.21	3.62	7.41	5.56
Education [C]		100	115	112	113	99	114	98	99
	(C/D)	74.63	74.19	74.17	70.63	72.79	82.61	72.59	68.75
<b>Total [D]</b>		<b>134</b>	<b>155</b>	<b>151</b>	<b>160</b>	<b>136</b>	<b>138</b>	<b>135</b>	<b>144</b>

*Source:* author's calculation from FKI Chronology.

The KORUS FTA Industry Alliance was a domestic policy network in which government officials, corporate managers, and economists participated.<sup>18</sup> The alliance is comprised of some 42 groups including the Korea International Trade Association and the Federation of Korean Industries. The main purpose of the alliance was to promote the interest of Korean businesses. Its activities include to review major issues in FTA negotiation groups, and to examine possible countermeasures and responses by sector and by industry. It monitored developments of negotiation and tried to reflect industrial opinions in the course of government negotiations. In addition, it exchanged information and opinion between industries to increase mutual understanding between sectors and between industries.

The FKI's important international network was the Korea-US Business Council. The Council has been the premier business organization promoting the bilateral relationship between the U.S and Korea. The Council also serves as secretariat of the KORUS FTA Business Coalition, a broad-based group of over 400 American businesses and associations that is working to secure Congressional approval of the U.S.-Korea FTA.

The origin of the US-Korea Business Council dates back to July 1986, when James M. Voss, chairman of the Caltex Corporation, and Dr. Nam Duck-Woo, chairman of the Korea-U.S Economic Council (KUSEC), agreed to organize a joint conference of U.S and Korean business executives. One year after, the US-Korea Business Council were established in 1987 to realize this vision. The two councils held their first joint steering committee meeting in March 1988 and their inaugural joint conference in October 1988 in



Seoul, Korea. In 1999, the Federation of Korean Industries assumed responsibility from KUSEC as the secretariat of the Korea-U.S Business Council. In 2002, the U.S Chamber of Commerce became secretariat of the U.S-Korea Business Council. The founding mission of the councils was to foster better business ties between the US and Korea, and to promote the bilateral economic and political relationship in order to expand trade and investment between the two countries. Through dialogue, joint working groups, and other unilateral and joint initiatives, the councils for twenty years have led efforts in both the United States and Korea to improve the bilateral trade and investment environment.

More importantly, the councils were early advocates for a U.S-Korea Free Trade Agreement, first urging U.S and Korean government leaders in 2000 to consider entering into FTA negotiations in order to further promote bilateral trade. The councils actively worked to promote the conclusion of bilateral investment treaty negotiations and led calls for the opening of bilateral FTA negotiations.<sup>19</sup> Also, in January 2003, the council made a decision to establish a BIT/FTA Task Force that would discuss the possible solutions to the commercial tensions between Korea and the US. In February 2006, it launched the U.S-Korea FTA Business Coalition in conjunction with the announcement by the U.S and Korean governments of their intention to enter into FTA talks. Also the councils were an important institutional linkage which lobbied both Korea's National Assembly and U.S Congress for early ratification of the trade pact.

Based on the above institutional foundations, the Korean businesses could make the government adopt 27 out of 51 policy proposals concerning the Korea-U.S FTA negotiations.<sup>20</sup> The focus of pro-KORUS campaign was slightly different between the pre- and post-2007 periods. During the former, it surveyed the interests of member firms and tried to promote them in the negotiation process. In the latter, however, efforts were made to shape the opinion favorable to an early ratification of the signed KORUS FTA opinion. On the one hand, the FKI leadership, aligned with the chairmen of other large business associations, had several times visited the National Assembly and major political parties to persuade the legislators(see table 4). On the other, the FKI promulgated the joint statements of business associations, published op-ed articles, sent out a couple of TV and newspaper commercials, and sponsored seminars and forum to emphasize the positive effects of the KORUS FTA in the economic, political and security aspects.<sup>21</sup>





**Table 4** Lobbying for KORUS FTA Ratification

Date	Organization	Activity
2007.6.14	Korea-U.S Business Council	Statement
2008.1.9	FKI	Statement
2008.1.14	FTA Industry Alliance	Visit to National Assembly
2008.2.5	FKI	Statement
2009.2.18	Four Business Associations	Visit to National Assembly
2009.2.24	Six Business Associations	Statement & Visit to National Assembly
2009.4.24	Five Business Associations	Invitation of Speaker of National Assembly
2009.11.18	FTA Industry Alliance	Visit to National Assembly

Source: FKI Chronology.

#### IV. KORUS FTA and ROKUS Alliance

The KORUS FTA is expected to broaden and deepen the ROKUS alliance. Although Korean businesses have been interested primarily in economic effects of the FTA, they also are attentive to its implications for the ROKUS alliance and the general bilateral cooperation. For instance, Kang Shin-Ho, chairman of the Federation of Korean Industries said, “Korea-US FTA is expected to greatly contribute to developing the nation's service industry and helping the nation secure transparent accounting system, flexible labor market, and other global standards.” He added, “Korea-US FTA will also strengthen diplomatic and security relations between the two countries and have positive impacts on the peace of the Korean Peninsula and maintenance of order in Northeast Asia, as well as enhance the nation's external credit rating.<sup>22</sup> The American counterpart also said that the FTA would significantly expand trade and investment between the US and Korea through removing trade and market access barriers, and that by deepening our economic ties, the agreement would reinforce and bring new vitality to our partnership with Korea, and in doing so contribute to Asia's future trade and investment environment.<sup>23</sup>

Thus, the impact of the KORUS FTA may go far beyond bilateral commercial benefits. It can be a powerful symbol of the US-Korea partnership, augmenting their longstanding bilateral security alliance and the robust ties between the Korean and Amer-



ican people. It will create a new dynamic, reflecting both the growing sophistication of the bilateral relationship and Korea's increasingly positive role in the world.

First of all, the KORUS FTA will help strengthen a bilateral strategic partnership between Korean and the U.S. The end of the Cold War and North Korea's nuclear test have done much to change the always-fragile political and security dynamic of Northeast Asia. North Korea's nuclear test has been especially worrisome, prompting speculation of a future arms race in the region. Under these circumstances, the global community has grown more convinced that the Korean peninsula should not persist in being the sole relic of the Cold War and has sought wiser policies to deal with the issue. The FTA would be Washington's first such agreement in East Asia to date. Indeed, it would mark the beginning of a more fruitful partnership going forward. Obviously, the more than 30,000 US troops stationed in Korea makes the US one of the most interested parties in security matters. The FTA will therefore be desirable for Korea as a means to develop a better relationship with the US as a strategic partner, allowing its opinions on East Asia and North Korea to carry more weight.

Also, it will play a role of a steppingstone to integrating North Korea into the global community. In particular, part of the FTA provides for the establishment of a Committee on Outward Processing Zones on the Korean peninsula. Under this provision, products made in North Korean areas designated as "outward processing zones" and financially supported by Korean firms could eventually be recognized as Korean-made, and thereby entitled to duty reduced or duty free import into the US. Such provisions may help end North Korea's isolation and contribute to conditions for lasting peace on the peninsula.

Additionally, the KORUS FTA also will deepen the people-to-people ties between the two countries. There are over two million Americans of Korean descent living in the US. They have had a huge positive impact on the US and continue to provide a vital and unique link between the two nations. Korea-US academic ties have also blossomed; in 2006, more than 58,000 Korean students studied in the US, and Korean students are the third largest group of foreign students in the US. The FTA has the potential to join the two countries together even more closely. In a nutshell, the KORUS FTA would transform the previously security-oriented alliance into a comprehensive partnership by adding both economic and cultural cooperation at the bilateral, regional and global levels. The Korean-US relationship could grow to be a multi-faceted, cooperative partnership for a more closely linked world.

Secondly, the regional implications of the KORUS FTA are worth emphasizing. Korea is the third-largest contributor of troops to the coalition forces in Iraq and has played an important role in Afghanistan as well. Both governments have talked not just about



the situation on the Peninsula, but also about the Middle East, climate change, the spread of democracy and other global issues of shared concern. That is, they have been working hard lately on modernizing their security relationship on a global dimension.

The US is realigning the troops stationed in Korea to make sure that they are placed and equipped most intelligently to deter any thought of aggression by North Korea. At the same time, they have also been working very closely the Six-Party Talks to deal with the issue of North Korea's nuclear program and to move beyond denuclearization in North Korea. Ultimately, the Talks may evolve into a stronger multilateral mechanism for problem-solving in the region and for developing a greater sense of community in the region. In this regard, the KORUS FTA can be a bridge between the geopolitical stability in both Korean Peninsula and Northeast Asia.

The KORUS FTA can function as an institutional anchor that stimulates regional economic cooperation in East Asia. The region is intricately intertwined with the US in economic matters.<sup>24</sup> East Asia, China in particular, is the primary financier of one of the U.S.'s twin deficits, the current account deficit. In 2006 alone, the U.S incurred a deficit of US\$232.6 billion with China, \$88.5 billion with Japan, \$13.3 billion with Korea and \$15.2 billion with Taiwan respectively. Since the U.S current account deficit is the cause of a number of imbalances in the global economy, the Korea-US FTA can help to resolve such issues. U.S companies may be able to use the FTA to establish a beachhead in Asia, giving competitive advantage when competing against China and Japan. As the smallest of the three East Asian countries, Korea can make use this opportunity to increase its political and economic clout as a "counterweight" in the region.

Finally, the caveat is that a more consolidated ROKUS alliance promoted by the KORUS FTA might make China and North Korea feel isolated and therefore, destabilize rather than stabilize the political economic situation in the region. An upgraded and updated Korea-US security-economic alliance could be extended to a tripartite alliance between Korea, Japan, and the US, when it is linked to the Japan-US alliance. In that situation, understanding such movements as a 21<sup>st</sup> century-version of containment policy against China, she would be driven to take more unilateral and aggressive actions against the trilateral partnership. Forming a counter bloc is an option for China. As a result, the isolation of China will do harm than good to solving the North Korean nuclear issues and East Asian regional cooperation. Worse, the KORUS FTA would diffuse G2 rivalries in East Asia into the global stage.



## V. Conclusion

This article examined the influence and role of Korean businesses in shaping the ROKUS alliance, with case study of KORUS FTA. For more than a half century the ROKUS alliance has played a safety-valve role in preserving peace and stability on the Korean Peninsula and in the Northeast Asian region. However, during the last decade it was seriously tested by the advent of anti-American sentiment. Now, with signing a free trade agreement, a new version of the ROKUS alliance is rising on the horizon. The KORUS FTA is expected to serve as an important momentum which transforms the military alliance into a comprehensive one based on security, economic and cultural ties between the two countries.

The existing dominant perspectives on Korea's foreign policy and Korea-US relations have put focus on high politics and state actors, but missed the roles played by societal actors, business sectors in particular. To fill the void, I analyzed the influences of Korea's big businesses on the development of the ROKUS alliance and the KORUS FTA as well. Until the arrival of the new millennium, the ROKUS alliance had been an untouchable in Korea, so the room for societal actors including businesses was very limited, if not none. Particularly, Korean big firms benefited from Korea-US security cooperation as a client vis-à-vis their patron, that is, Korean government and the US who provided various economic assistances. Facing the challenges to, and skepticism about, the alliance in the first half of 2000s, they became a more assertive supporter of the ROKUS alliance and initiated the KORUS FTA.

Under the signed FTA, Korean large firms would be on the side of winners, while farmers on the opposite side. To push their FTA agenda to both governments, they made use of advocacy and educational initiatives. They also formed policy networks at both domestic and international level. The US-Korean Business Council and the FTA Industry Alliance monitored the government-level FTA negotiations, disseminated policy briefs and reports to inform the government officials, and mobilized domestic supporters through educational activities.

The KORUS FTA would have huge implication for the bilateral and regional, the strategic and economic relations. It could be a catalyst for deepening the security, commercial, and even cultural partnership between the two parties. In addition, it would be a steppingstone to inducing North Korea to integrate into the global community and thereby decreasing the geopolitical uncertainty on the Peninsula. Also, given that Korea is a bridging nation in East Asia politically and economically, the KORUS FTA would not



only accelerate the movement of East Asian integration, but also strengthen the stabilizing role of the US in the region.

Along with the bright side of the advanced Korea-US relation, however, it has the dark side. Alienating China, one of the G2, in the regional and global governance, it would force her to take aggressive actions or to stimulate forming a counter bloc to check the ROK-US, or possibly ROK-US-Japan, alliance. In the worst case, this will destabilize the regional and global order which is neither intended nor desirable. ■



## Endnote

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- <sup>1</sup> Korea is the U.S.'s seventh-largest trading partner and among the U.S.'s largest markets for agricultural products. The U.S. is Korea's third-largest trading partner, second-largest export market, third-largest source of imports, and its second largest supplier of foreign direct investment (FDI).
- <sup>2</sup> For the argument for analysis of domestic factors, see Allison (1989).
- <sup>3</sup> According to Ruggie (2005), there are two different traditions in diplomacy. In the traditionalist culture, state actors take key part, whereas the modernist culture emphasizes the role of a wide range of internal and external stakeholders.
- <sup>4</sup> On the argument that there is a positive relationship between military alliance and trade cooperation, see Gowa and Mansfield(1993).
- <sup>5</sup> The cumulative counterpart fund between 1954 and 1964 amounted to 83.3 billion won which was 57.37% of the total treasury loans and investments, 145 billion won.
- <sup>6</sup> The publication was to examine the most outstanding political and economic issues for CEOs and policy makers.
- <sup>7</sup> The U.S International Trade Commission concluded in 1989 that a U.S-Korea FTA was premature, citing possible negative political effects (Choi and Schott 2001) .
- <sup>8</sup> Letter from Jeffrey Jones, president of the American Chamber of Commerce in Korea, to President Clinton, June 29, 1999.
- <sup>9</sup> The 14th Joint Steering Committee Meeting of the U.S-Korea Business Council (2001). January: 21-23.
- <sup>10</sup> "Remarks by the President at the Announcement of a U.S.-Korea Free Trade Agreement." December 4, 2010.
- <sup>11</sup> Under the renegotiated trade pact, concessions were granted to the U.S. on trade in automobiles; tariff reductions for Korean automobiles were delayed for five years, and U.S. autos were granted broader access to the Korean market. At the same time, the negotiators agreed to set aside disagreements over U.S. beef exports for the time being.
- <sup>12</sup> Choi and Schott(2001), Schott et.al(2006), Schott(2010), U.S ITC (2001, 2007).
- <sup>13</sup> Under the new trade agreement, the U.S agreed to extend the grace period of a pharmaceutical "patent linkage" system to three years instead of 18 months, which may reduce the predicted losses of Korean companies by 110 billion to 238.2 billion Won.
- <sup>14</sup> USTR. "KORUS FTA: New Opportunities for Agriculture." KORUS FTA Facts, June 2008.
- <sup>15</sup> The new agreement says that the 25 percent Korean tariff on imports of a major category of US frozen pork will be phased out by January 2016 instead of January 2014.



- <sup>16</sup> The movement against the FTA deal was staged mainly by the 'KoA' (Korea Alliance against the Korea-US FTA) which was another network.
- <sup>17</sup> FKI's membership increased from 13 in its inception in July 17, 1961 to 486 companies in 2010.
- <sup>18</sup> Lately it was renamed 'FTA Industry Alliance' to discuss the strategies of promoting the interests of Korean businesses in FTAs in general including KORUS FTA.
- <sup>19</sup> Joint Statement, the 13th Joint Conference of Korea-U.S./U.S.-Korea Business Councils, June 20, 2000.
- <sup>20</sup> *FKI Annual Report 2007*.
- <sup>21</sup> *FKI Annual Reports 2008 and 2009*.
- <sup>22</sup> FKI. "Korea-U.S. FTA Should Be Used as a Springboard for Take-off Toward Advanced Country." FKI Newsletter, CEO Message. Vol. 35, 2006-03.
- <sup>23</sup> "U.S.-Korea Business Council Applauds Signing of U.S.-Korea Free Trade Agreement." Statement of U.S.-Korea Business Council. June 30, 2007
- <sup>24</sup> In addition, a U.S.-ROK agreement would provide the United States with a strong economic presence in Northeast Asia and allow South Korea to reduce its economic dependence on China. U.S. Ambassador to the ROK Christopher Hill alluded to this strengthening of America's strategic presence in Northeast Asia when he stated that "South Korea can solidify a role as America's economic bridge in the Northeast Asian region" through an FTA. Ambassador Christopher R. Hill. 2004. 'Remarks at American Chamber of Commerce General Membership Meeting.' October 5.

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