Trade Deficits, Protectionism, and Currency Debates
3 Decades of Stumbling Blocks to U.S.-Northeast Asian Economic Relations

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Overview

1. Puzzle: Trade Deficits – A Challenge for the United States?

2. The Significance of Trade Imbalances

3. Protectionism: A Byproduct of Interests Against Trade Imbalances


5. Summary of Subsequent Chapters
The Puzzle

1. Variance
"To what extent do U.S. trade deficits with its trading partners affect its decisions to launch a protectionist trade policy in international institutional settings?"

2. System
"Most importantly, in the U.S., what are the root mechanisms and roles of government related actors and interest groups, which culminate in filing a case for dispute in the WTO?"

3. Responses
"Furthermore, what are the responses from mainly targeted states (for instance, Northeast Asian nations) in the array of continued policy attacks in the WTO by the U.S. – are they acquiescing, reciprocal, or even retaliatory?"
Background & The U.S Twin Deficit

- Global Imbalances & Trade Imbalances
- Target on Asia
- Similarities in 3 cases:
  - U.S.-Japan (1965-2012)
  - U.S.-Korea (1985-2012)
  - U.S.-China (2001-2012)

Trade Frictions
“Security and Market Interest”

- U.S. Fiscal Deficit
  - Financed by T-Bills (in large parts held by China and Japan)
  - Recovery lagged by Government Debt

- U.S. Current Account Deficit
  - Reliance on Foreign Exports
  - In trade deficit since 1976
  - Competitiveness Lost
  - Continued Consumption Behavior Patterns
The Stages of Trade Protectionism: U.S.-Northeast Asian Confrontation in Trade

Stage 1
- Demand for Trade and Financial Liberalization: “Open up!!!”
- Securing Additional Markets
- Consolidating Regional Leadership in Security and Economy

Stage 2
- Economic Growth of the Counterpart
- Domestic Concerns (Private)
- Political Actions (Public)
- Reversal of the Tide: Trade Imbalances Shift

Stage 3
- Punitive Measures (Tariffs, WTO Cases)
- Political Pressures on Appreciation of Local Currency
- Currency Appreciation

Stage 4
- Retaliatory Trade Disputes in the WTO
- Sourcing Bilateral Relations
- Instability in U.S.-Northeast Asian Economic Relations
The Significance of Trade Imbalances

• Macroeconomic Literature
  ‘Trade imbalances do not necessarily impact the dynamics of domestic politics. U.S. deficits are complemented by trade surplus generated with other trading partners.’ (Cooper, 2008)

• Econometric Literature
  ‘The U.S. has spearheaded free trade and liberalization but also in tandem with the push for protectionism against Northeast Asian states.’ (Chiu et al, 2010)

• IPE Literature
  - Countries that have appreciated their exchange rates are more likely to pursue a WTO dispute settlement case. (Pevehouse, 2010)
Protectionism – Alternative Hypotheses

‘If not for trade imbalances, why would the United States pursue protectionist policies?’

1) for economic objectives, the USTR may be suing in the WTO because of different industrial policies imposed on domestic and foreign firms in foreign countries, in which unfair and incompatible trade practices by trading partners may occur;

2) certain characteristics of manufacturing or industries by sector that impose competitive disadvantage on the U.S. could be perceived as a damaging threat to the U.S. economy;

3) for political reasons, due to strategic alliances to reassure that the U.S. is in control of the bilateral relationship, particularly if the U.S. is a strategic security ally to the trading partner; and

4) due to specific domestic economic agenda, presidential and congressional politics.
Protectionism – Alternative Hypotheses

• Had the U.S. been running a huge trade surplus with a certain trading partner:

1) Domestic industrial concerns would not lead to considerable burdens on economic policy;

2) The U.S. is highly unlikely to be confrontational towards a country of strategic importance (in the absence of trade imbalance) unless there is a credible military threat involved.

3) No credible military threat (aside from NK thus far)
The U.S. Trade Policy-Making Process

Process 1
- PRIVATE INTERESTS
  - Local Congressional Representatives
  - Firms lobby to Congressional Committees

Process 2
- DOMESTIC LEVEL
- BILTERAL LEVEL
  - International Trade Sub-Committees in the Senate Finance Committee
  - Report to the USTR
  - President Executive Orders

Process 3
- INTERNATIONAL LEVEL
  - Bilateral Pressures via Foreign Policy
  - Consultations in the WTO
  - Dispute Initiation
The WTO Dispute Settlement System

<table>
<thead>
<tr>
<th>Duration</th>
<th>Description</th>
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<tbody>
<tr>
<td>60 days</td>
<td>Consultations, mediation, etc</td>
</tr>
<tr>
<td>45 days</td>
<td>Panel set up and panelists appointed</td>
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<tr>
<td>6 months</td>
<td>Final panel report to parties</td>
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<tr>
<td>3 weeks</td>
<td>Final panel report to WTO members</td>
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<tr>
<td>60 days</td>
<td>Dispute Settlement Body adopts report (if no appeal)</td>
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<td>Total = 1 year</td>
<td>(without appeal)</td>
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<tr>
<td>60-90 days</td>
<td>Appeals report</td>
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<tr>
<td>30 days</td>
<td>Dispute Settlement Body adopts appeals report</td>
</tr>
<tr>
<td>Total = 1y 3m</td>
<td>(with appeal)</td>
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Three Cases

1. United States vs. Japan
2. United States vs. Korea
3. United States vs. China
U.S.-Japan

1) Post-WWII: Helping the Japanese Economy Recover as a Security Ally
2) The Trade Balance Shifts
3) Trade Frictions, Pressures, and Japan’s Choice: Plaza Accord, WTO Participation
4) Post-Bubble Economy: Trade Imbalances continue
U.S.-Japan

**U.S-Japan Trade Imbalance (1985-2011)**

(Unit: USD Billion)

Source: Graphed using U.S. Census Bureau Foreign Trade Data

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding.
U.S.-Japan: Acquiescence

JPY-USD Exchange Rate (1960-2010)

Source: World Development Indicators (WDI). Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned international market. It is calculated as an annual average based on monthly averages (local currency units relative to the US Dollar)
U.S.-Korea

• 1980s: transitional period from a newly industrialized economy to a developed one.
• 1990s: less as a military ally but a competing economy and mercantilist state
• Pre-AFC (1995-7): sustained appreciation of the won against the dollar
• Post-AFC (1995-7): trade imbalances continue
• KOR-US FTA in effect (Oct 2011)
U.S.-Korea Trade Imbalance (1985-2011)

(U.S.: USD Billion)

Source: Graphed using U.S. Census Bureau Foreign Trade Data
NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding.
U.S.-Korea: Strong Volatility

KRW-USD Exchange Rate (1960-2010)

Gradual Increase of won value (U.S.-Pressures and Market Situations)

1997-1998 AFC

Impact of the GFC

Source: World Development Indicators (WDI). Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned international market. It is calculated as an annual average based on monthly averages (local currency units relative to the US Dollar)
U.S.-China

• 1970s: Normalization of U.S.-China Relations in the Cold-War Era
• 1980s: Chinese Economic Reforms
• Post-Tiananmen and 1990s: Debates over HR and NTR Status for China (Granted October 2000)
• 2001: China enters the World Economy
• 2000s: U.S. Twin Deficits, Retaliatory “Trade War”
• Post-GFC: Regional Economic and Security Rivalry
U.S.-China

U.S-China Trade Imbalance (1985-2011)

(Unit: USD Billion)

Source: Graphed using U.S. Census Bureau Foreign Trade Data
NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified.
Details may not equal totals due to rounding.
U.S.-China: Confrontation

RMB-USD Exchange Rate (1960-2010)

Source: World Development Indicators (WDI). Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned international market. It is calculated as an annual average based on monthly averages (local currency units relative to the US Dollar)
Summary of Subsequent Chapters

1. Trade Deficits, Protectionism, and Currency Debates: 3 Decades of Stumbling Blocks to U.S.-Northeast Asian Economic Relations

2. Resorting to International Institutions to Resolve Trade Imbalances? U.S. Protectionism via GATT/WTO Dispute Initiation

3. Investigating the Three Crucial Cases of Trade imbalances for the United States: China, Japan, and South Korea’

4. Net Negative: U.S. Trade Wars Lost in the Face of Currency Wars Won

5. The Change of Tides following the Global Financial Crisis: China vs. U.S. Struggle for Free Trade Agreements

6. Restoring Competitiveness in the U.S.: Innovation, Reconstruction and New Consumption Behavior

Thank you