

TRADE WARS & CURRENCY CONFLICT:

China, Japan, and South Korea's Responses to U.S. Protectionism, 1971-2013



Rajawali Pre-Doctoral Fellows Workshop
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20130910

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Overview

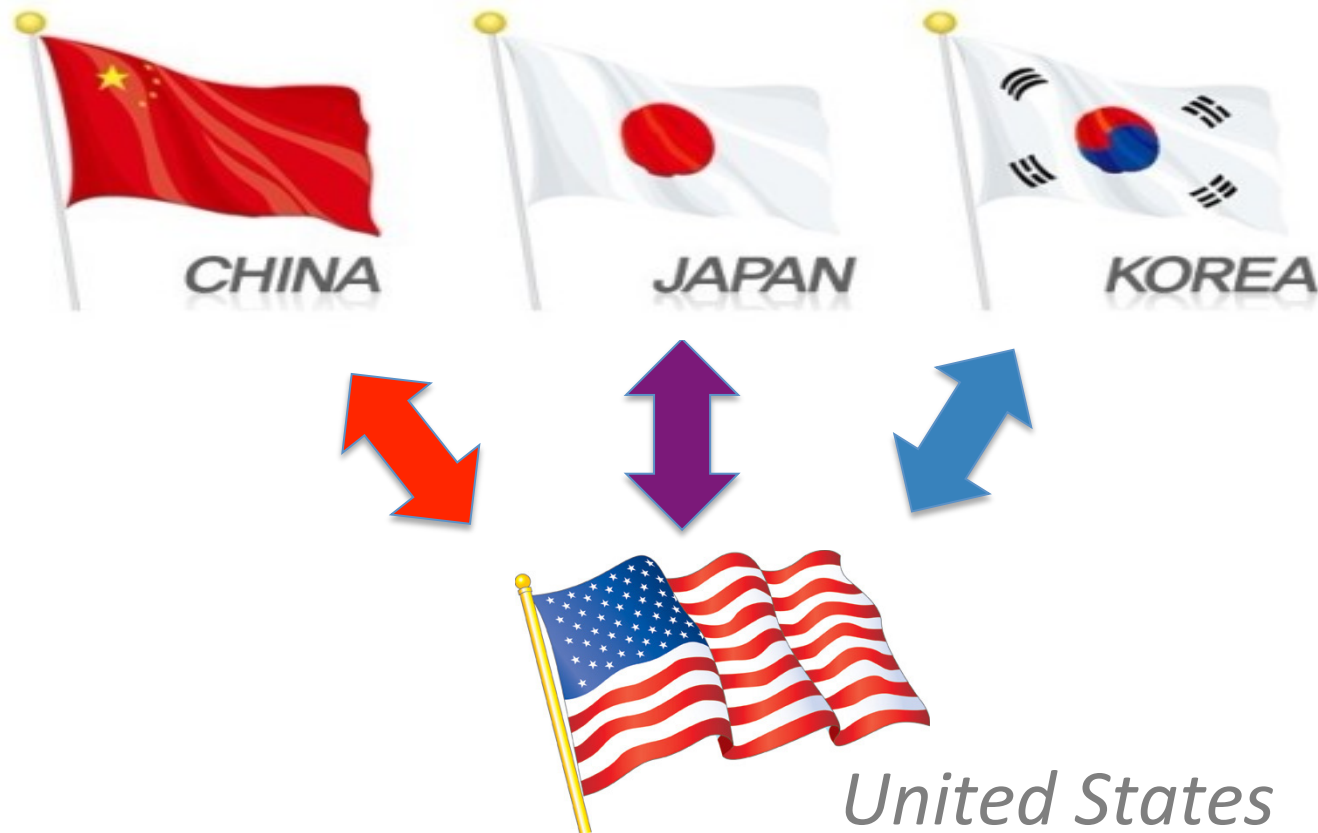
1. Introduction
2. Research Question & Hypothesis
3. Methodology & Data
4. Theoretical Framework
5. Preliminary Empirical Findings
6. Conclusions & Policy Implications

1. Introduction

What are Trade Wars?

What are Currency Conflicts?

Are they relevant? How do they differ?



2. Research Question and Hypothesis

Question:

**Amongst the three countries,
why have policy responses to U.S. protectionism differed?**

Hypotheses:

We may find the answers in the following:

Political Capacity

- Political System Transitions
- Bureaucracy and Policy Decision-Making Structures
(Foreign Economic Policy and Macroeconomic Policy)

Industrial Interests

- Government-Protected Industries
- Government-Business Relations

2. Research Question and Hypothesis

Alternative Explanations

- Geopolitical Explanations
→ (good background, but does not clarify policy variance)
- Constructivist Explanations: Learning Processes and Legal Expertise
→ (learning does not necessarily trigger more conflict)
- Socio-Cultural Explanations
→ (Confucian bureaucracy is common, but it is certainly not the ultimate determinants of policy decision)

3. Methodology and Data

Context

Three bilateral relations between the U.S. and Japan, South Korea, and China in chronological order

Method

Examinations of the following cases via *process-tracing* (1971-2013)

1. Trade disputes cases (WTO, USITC)
2. Currency Conflicts (U.S. Treasury Currency Appreciation Pressures)
3. Management of Financial Crises (AFC / GFC)

3. Methodology and Data

- **Primary Sources**

- Fieldwork in Japan, South Korea, and China (2010-2012)
(University of Tokyo, Japanese Ministry of Finance, Peking University)
- Personal Interviews with Government Officials, Practitioners, Scholars

- **Secondary Sources**

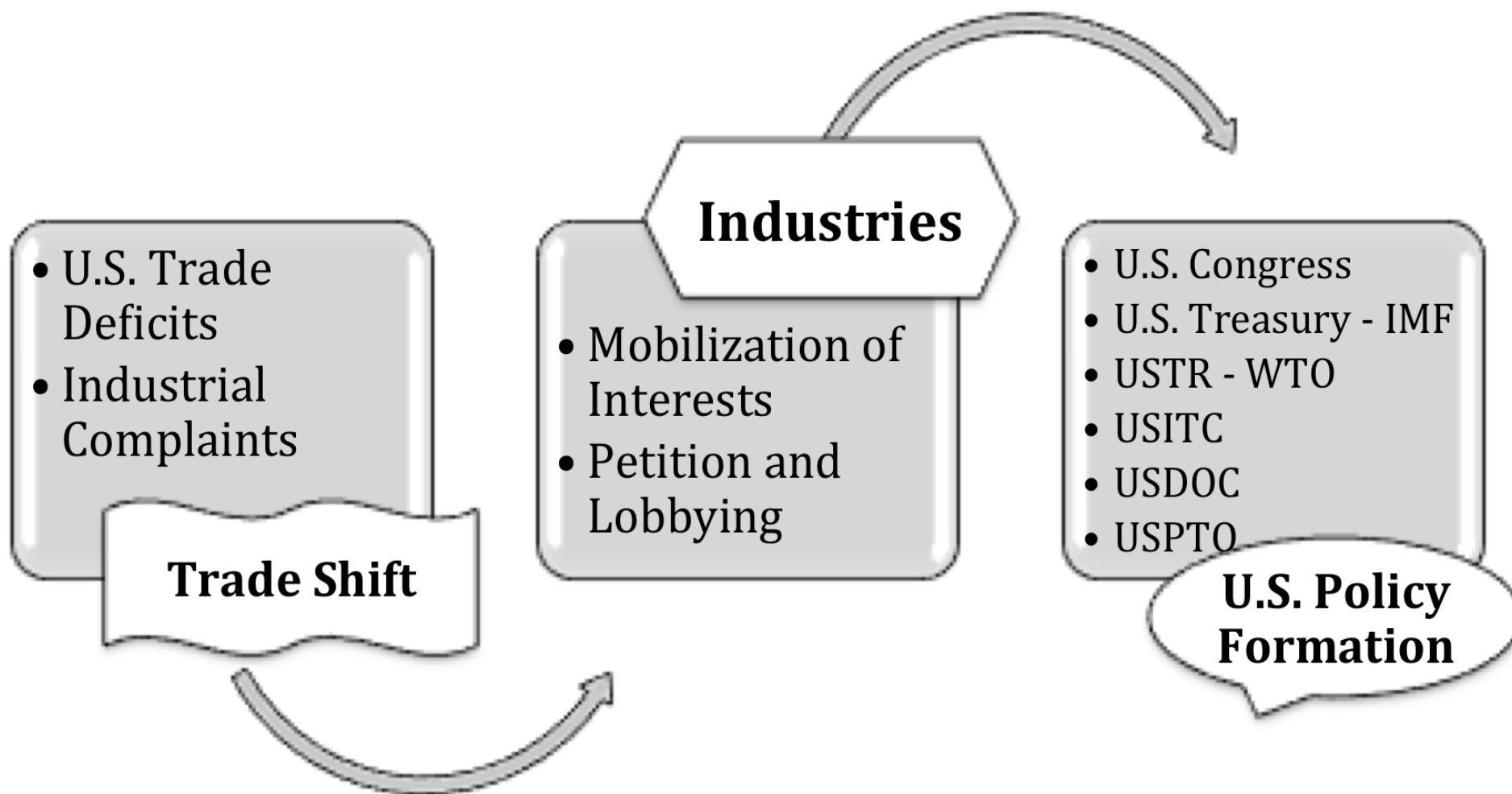
- Government Official Memoirs
- News Reports, Official Reports
- Country-Specific Economic Institutes Reports

- **Economic and Financial Data**

- The World Trade Organization (WTO)
- The United States International Trade Commission (USITC)
- Bureau of Economic Analysis (BEA)
- World Bank (WB)
- International Monetary Fund (IMF)
- Government Official Data

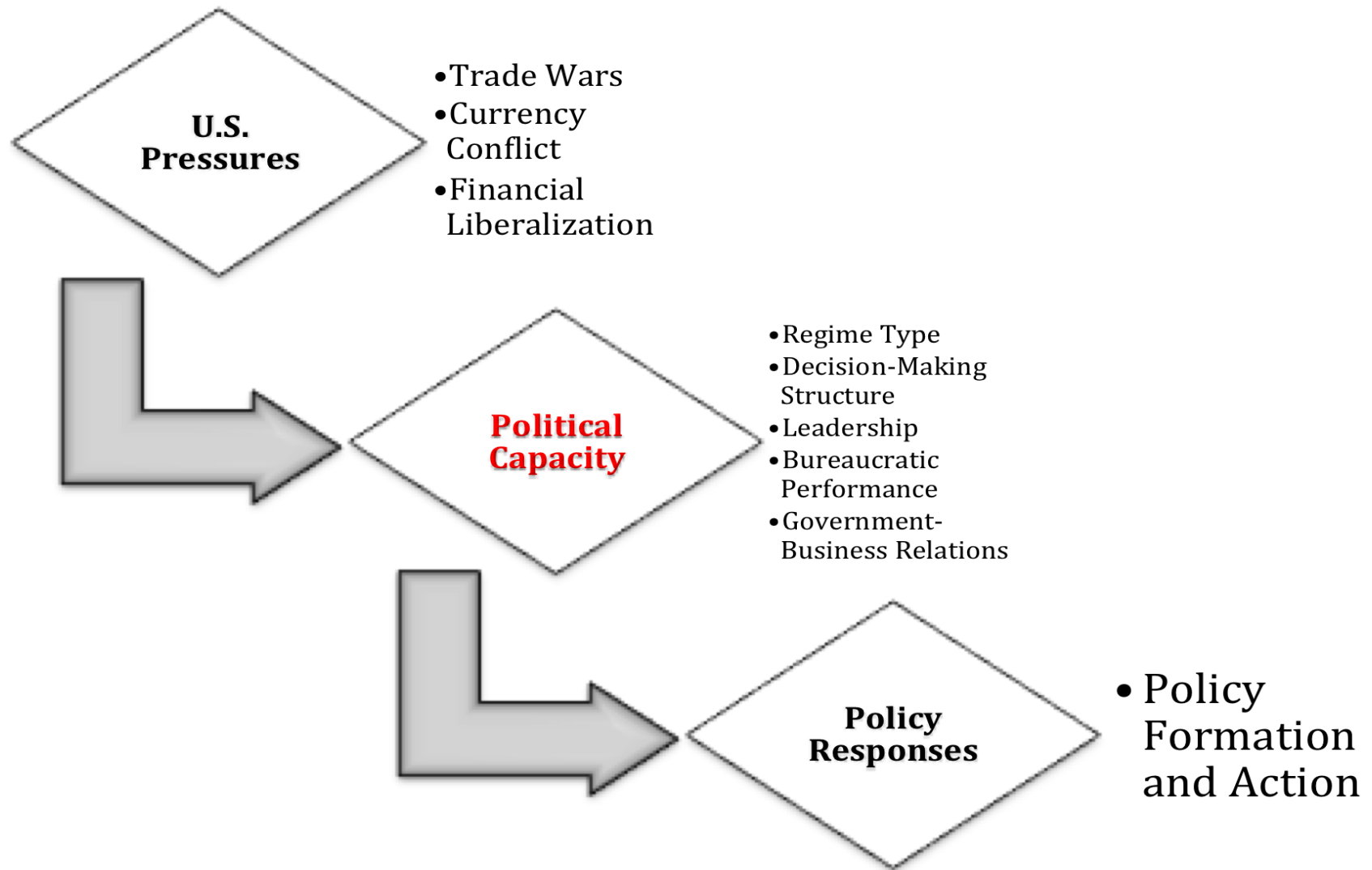
4. Theoretical Framework

The Formation of U.S. Policy on the Three Countries



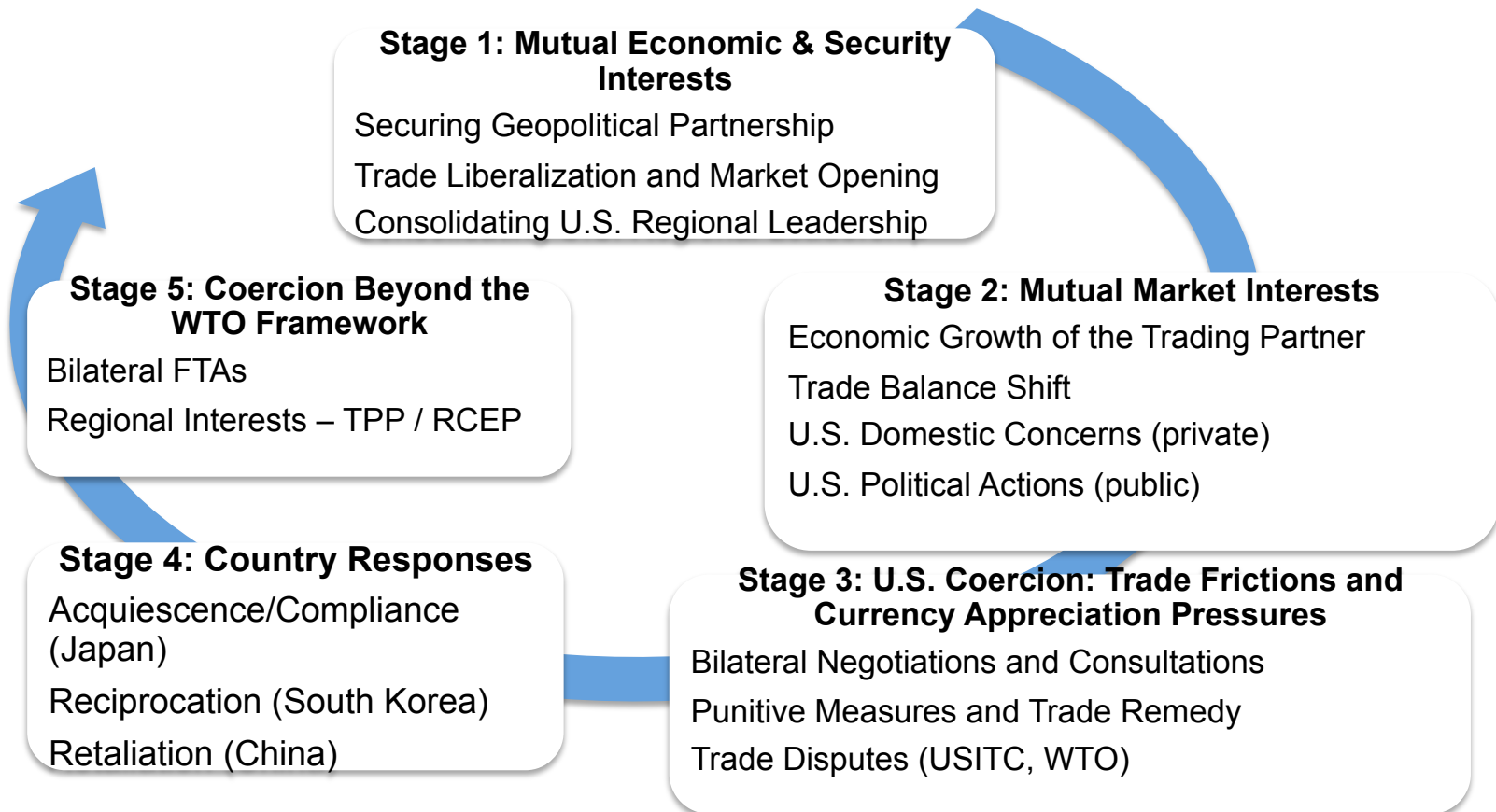
4. Theoretical Framework

The Formation of Japan, South Korea, and China's Policy Responses to the U.S.



4. Theoretical Framework

The Five Stages of Trade Wars and Currency Conflicts in U.S.-Northeast Asian Economic Relations



Political Systems

	Japan	South Korea	China
Political System in the Postwar Years (1945-present)	Parliamentary Representative Democratic Monarchy under One-Party Dominance	Transitional system from Dictatorship to 'Semi-Parliamentarian' Strong Presidential System	'Top-Down' Quasi-Authoritarian System under One-Party rule (The Chinese Communist Party)
Executive (Administrative) Branch	Prime Minister Cabinet – heads of national ministries	President (5 year term) Prime Minister Three Deputy PMs Cabinet (State Council) – heads of national ministries -Board of Audit and Inspection	The State Council -Premier -Vice Premier -Heads of national ministries and commissions -Audit Agency
Legislative Branch	National Diet Elections and Proportional Representations -House of Councillors (3 year terms) -House of Representatives (4 year terms) Committees	National Assembly Elections and Proportional Representations (Unicameral, 4 year terms) Committees	National People's Congress The Politburo Standing Committee -Local Elections
Judicial Branch	Constitution Supreme Court (最高裁) (Chief and 14 additional Judges, appointed by the Cabinet from the list provided by the Court) The Court is the "Grand Bench" (大法廷 <i>Daihōtei</i>), subdivided into three "Petty Benches" (小法廷 <i>Shōhōtei</i>) of five justices each	Constitution Supreme Court (Chief and 13 additional Justices, 6 year terms) Constitutional Court Lesser Courts (9 justices, 3 each appointed by the president, the National Assembly and the Chief Justice)	Supreme Court High People's Court Intermediate People's Court Basic People's Court
Political Parties	1. Liberal Democratic Party (majority) 2. Democratic Party of Japan (minority) 3. Komeito 4. Yushinnokai	1. Saenuridang (incumbent, majority) 2. Minjudang (minority)	The Chinese Communist Party (Other parties suppressed by the CCP)
Bureaucracy	Constitution before the PM, but bureaucracy is highly influential, often times overriding political decisions	Constitution before Presidential Power Bureaucracy subordinate to Presidential Power	Constitution serves for the party Government institutions are designed to serve the Communist Party

Japan's Revolving Politics under LDP Dominance



Successive Prime Ministers

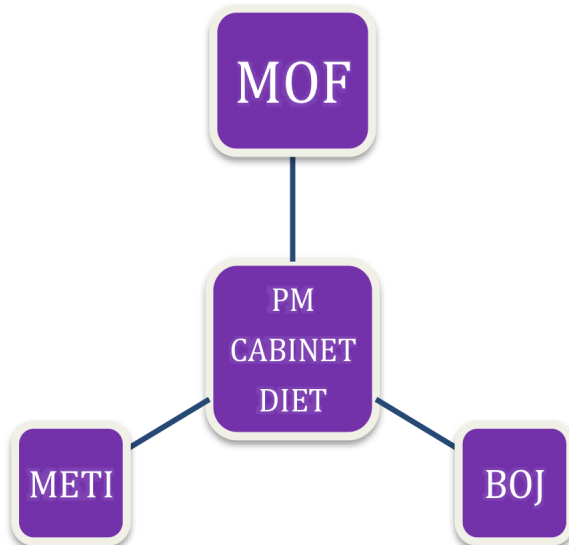
Date ¹⁾	Name	Date ¹⁾	Name
Sep. 2, 2011	Noda, Yoshihiko	Apr. 5, 2000	Mori, Yoshiro
Jun. 8, 2010	Kan, Naoto	Jul. 30, 1998	Obuchi, Keizo
Sep. 16, 2009	Hatoyama, Yukio	Jan. 11, 1996	Hashimoto, Ryutaro
Sep. 24, 2008	Aso, Taro	Jun. 30, 1994	Murayama, Tomiichi
Sep. 26, 2007	Fukuda, Yasuo	Apr. 28, 1994	Hata, Tsutomu
Sep. 26, 2006	Abe, Shinzo	Aug. 9, 1993	Hosokawa, Morihiro
Apr. 26, 2001	Koizumi, Junichiro	Nov. 5, 1991	Miyazawa, Kiichi

¹⁾ Date of initial cabinet formation.

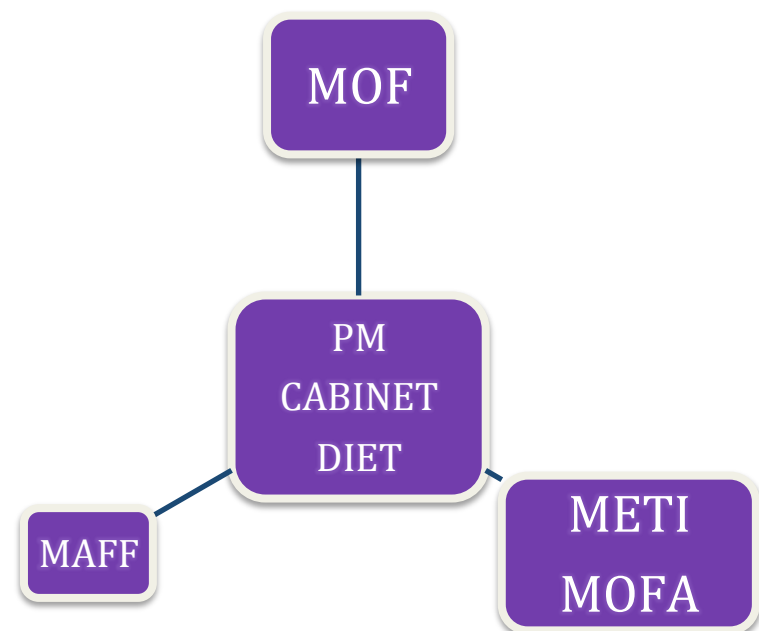
Source: Prime Minister's Official Residence.

- '55 System (LDP dominance)
- LDP → DPJ → LDP → DPJ → LDP
- Short-lived political parties and factions

Japan's Policy Formation Structure



Macroeconomic Policy

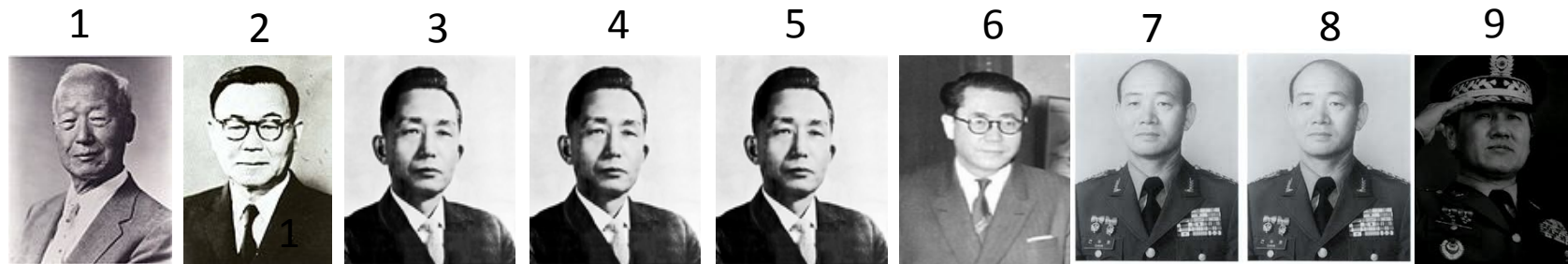


Foreign Economic Policy

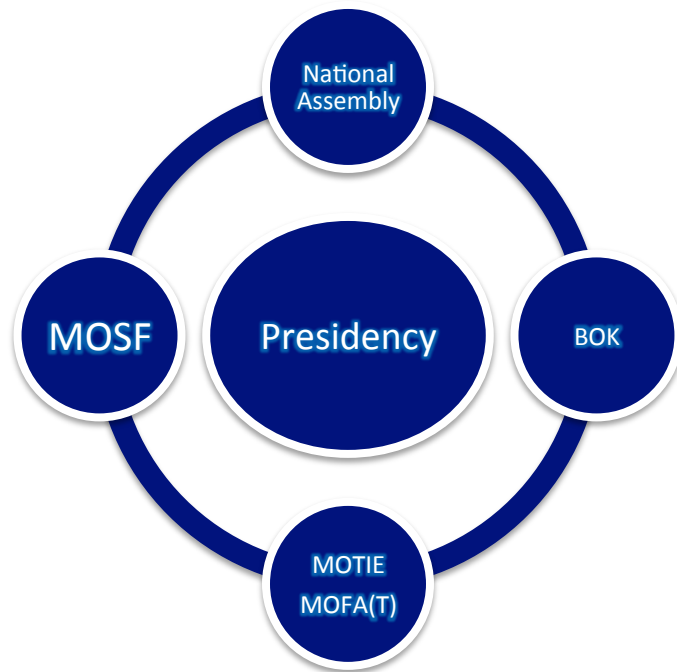
Japan's Political and Bureaucratic Transitions

Leadership	Prime Minister	Political Party	MOF	BOJ	METI	MOFA	
Allied Occupation until the Treaty of San Francisco on 28 April 1952	US Occupation Tetsu Katayama (1947-48)	JSP Nihon Shakaitō		Established under the Bank of Japan Act (promulgated in June 1882) Reorganized under the Bank of Japan Act (1942) Amendments (1949) to establish the BOJ Policy Board		Established under the 1947 Constitution	
	Hitoshi Ashida (1948)	DP Minshutō					
	Shigeru Yoshida (1948-1954)	DLP Minshu Jiyūtō					
	Ichirō Hatoyama (1954-1956)	JDP Nihon Minshutō LDP Jimintō					
1955 System	Tanzan Ishibashi (1956-1957) Nobusuke Kishi (1957-1960) Hayato Kishi (1960-1964) Eisaku Satō (1964-1972) Kakuei Tanaka (1972-1974) Takeo Miki (1974-1976) Takeo Fukuda (1976-1978) Masayoshi Ōhira (1978-1980) Zenkō Suzuki (1980-1982) Yasuhiro Nakasone (1982-1987) Noboru Takeshita (1987-1989) Sōsuke Uno (1989) Toshiki Kaifu (1989-1991) Kiichi Miyazawa (1991-1993)	LDP Jimintō	Lost power over banking supervision to the FSA Lost control over monetary policy to the BOJ	The Act of 1942 was revised completely in June 1997 under the two principles of "independence" and "transparency." The revised act (the Act) came into effect on April 1, 1998.	In 1979 MITI lost its primary instrument of control over Japanese firms — allocation of foreign currency. MITI lost some influence when the switch was made to a floating exchange rate between the United States dollar and yen in 1971.		
	Morihiro Hosokawa (1993-1994)	JNP Nihon Shintō					
	Tsutomu Hata (1994)	JRP Shinseitō					
	Tomīichi Murayama (1994-1996)	JSP Nihon Shakaitō					
	Ryutaro Hashimoto (1996-1998) Keizō Obuchi (1998-2000) Yoshirō Mori (2000-01)	LDP Jimintō					
		Junichiro Koizumi (2001-2006)	DPJ Minshutō	Renamed		Renamed	EPA bureau established (2004)
		Shinzō Abe (2006-2007)					
		Yasuo Fukuda (2007-2008)					
		Tarō Asō (2008-2009)					
		Yukio Hatoyama (2009-2010)					
	Naoto Kan (2010-2011)	Adopts consumption tax legislation					
	Yoshihiko Noda (2011-2012)						
	Shinzō Abe (2012-present)					LDP Jimintō	

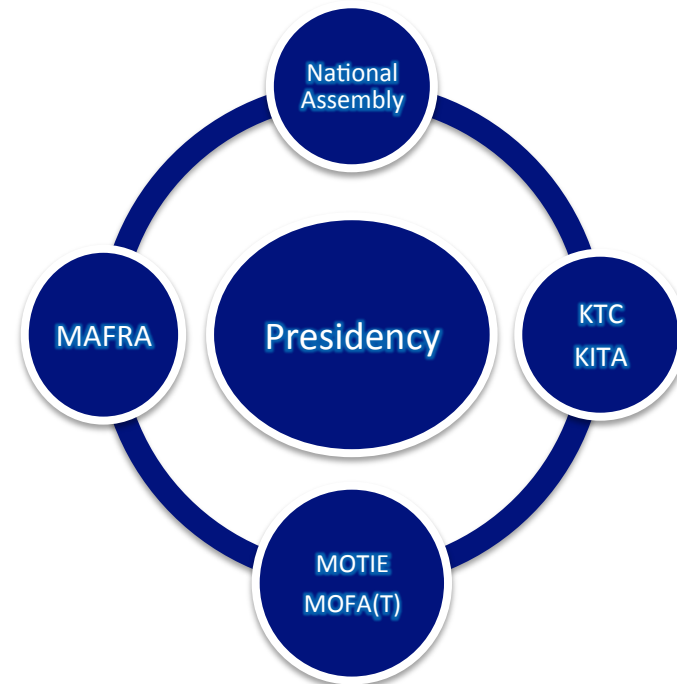
South Korea's Political Transitions and its Omnipotent Presidency



South Korea's Policy Formation Structure



Macroeconomic Policy



Foreign Economic Policy

Korea's Political and Bureaucratic Transitions

Republic according to constitution revisions	Political Regime Type	Presidency/ Administration	Political Party	MOSF		BOK	MOTIE	MOFA(T)
1948		U.S. Occupation		재무부(財務部, Ministry of Finance)	기획처 (企劃處, Ministry of Planning)	BOK Law (1950)	상공부 (商工部, Ministry of Commerce and Industry)	외무부 (外務部, Ministry of Foreign Affairs)
1 st Republic	Parliamentary System (1952-1960)	and Rhee Seungman (이승만)			경제기획원 (經濟企劃院, Economic Planning Board) (1961)			
2 nd Republic	Transitional Cabinet/ Bicameral System	Jang Myun (장면)			경제기획원 (經濟企劃院, Economic Planning Board) (1961)	1 st Revision (1962); 2 nd Revision (1963); 3 rd Revision (1968) 4 th Revision (1977)	상공부 (商工部, Ministry of Commerce and Industry) / 동력자원부 (動力資源部, Ministry of Energy and Resources)	외무공무원교육원 → 외교연구원 → 외교안보연구원
	Civilian Government	Yun Boseon (윤보선)						
3 rd Republic	Military Coup Presidential System (1962-1971)	Park Chunghee (박정희)	Coup					
4 th Republic	'Yushin' Presidential System 91972-1979)							
4 th Republic	Interim Government (1979-1980)	Choi Gyuha (최규하)						
5 th Republic	Military Coup Presidential System (1980-1987)	Chun Doowhan (전두환)	Coup			5 th Revision (1982)		
6 th Republic	Military Leadership Handover Presidential System (1987-1992)	Roh Taewoo (노태우)	민주정의당 민주자유당			6 th Revision (1997)		

Korea's Political and Bureaucratic Transitions

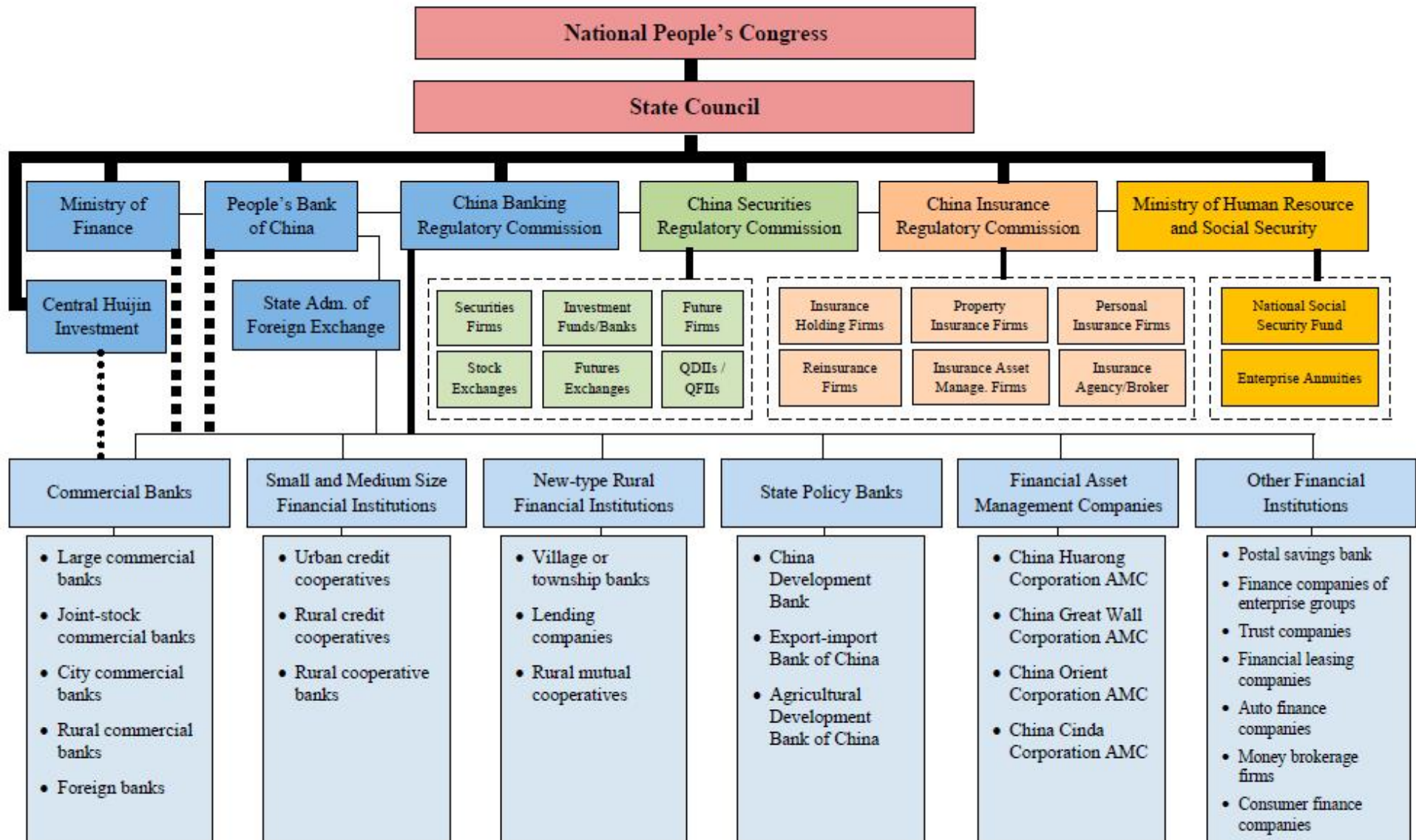
'Civilian Government' Presidential System (1992-1997)	Kim Youngsam (김영삼)	신한국당 한나라당	재정경제원(財政經濟院, Ministry of Finance and Economy) (1994)			상공자원부 (商工資源部, Ministry of Commerce, Industry, and Resources) 통상산업부 ((通商産業部, Ministry of Trade and Industry)	
'Government of the People' Presidential System (1997-2002)	Kim Daejung (김대중)	새정치국민회의 새천년민주당	재정경제부 (財政經濟部, Ministry of Finance and Economy)	기획예산처 (企劃豫算處, Ministry of Planning and Budget)		산업자원부 (産業資源部, Ministry of Commerce Industry and Energy)	외교통상부 (外交通商, Ministry of Foreign Affairs and Trade) (통상교섭본부 신설)
'Participatory Government' Presidential System (2002-2007)	Roh Moohyun (노무현)	새천년민주당 열린우리당			7 th Revision (2003)		
'Pragmatic Government' Presidential System (2008-2013)	Lee Myungback (이명박)	한나라당 새누리당	기획재정부 (企劃財政部, Ministry of Strategy and Finance) (2008년 금융위원회에 금융정책기능 이관) 2013년 부총리 부처로 승격		8 th Revision (2011) 9 th Revision (2012)	지식경제부 (知識經濟部, Ministry of Knowledge Economy,	
Presidential System (2013-present)	Park Geunhye (박근혜)	새누리당				산업통상자원부 (産業通商資源部, Ministry of Trade, Industry, and Energy)	외교부 (外交部, Ministry of Foreign Affairs) (통상분야 이관)

China's 'Top-Down' System under CCP Dominance



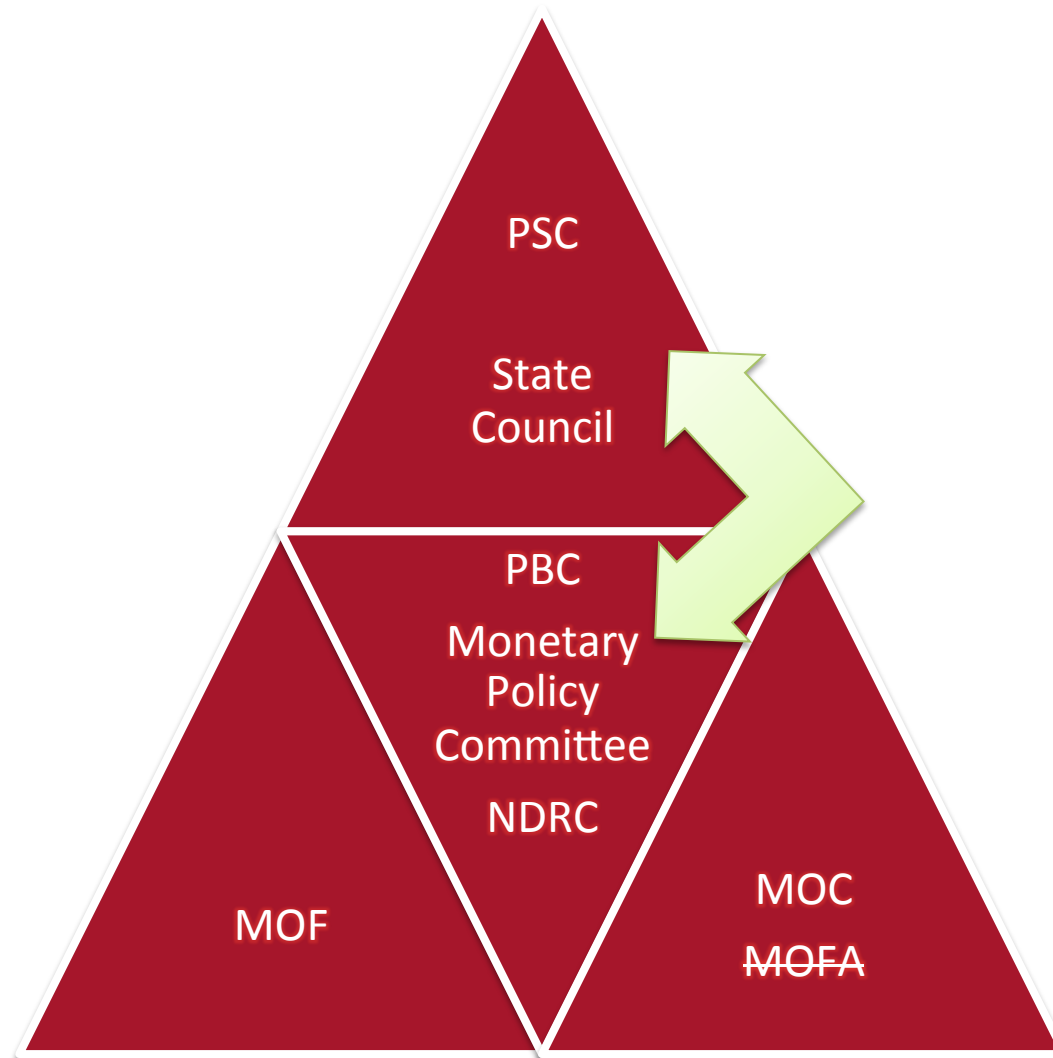
China: Financial System Architecture

Source: IMF

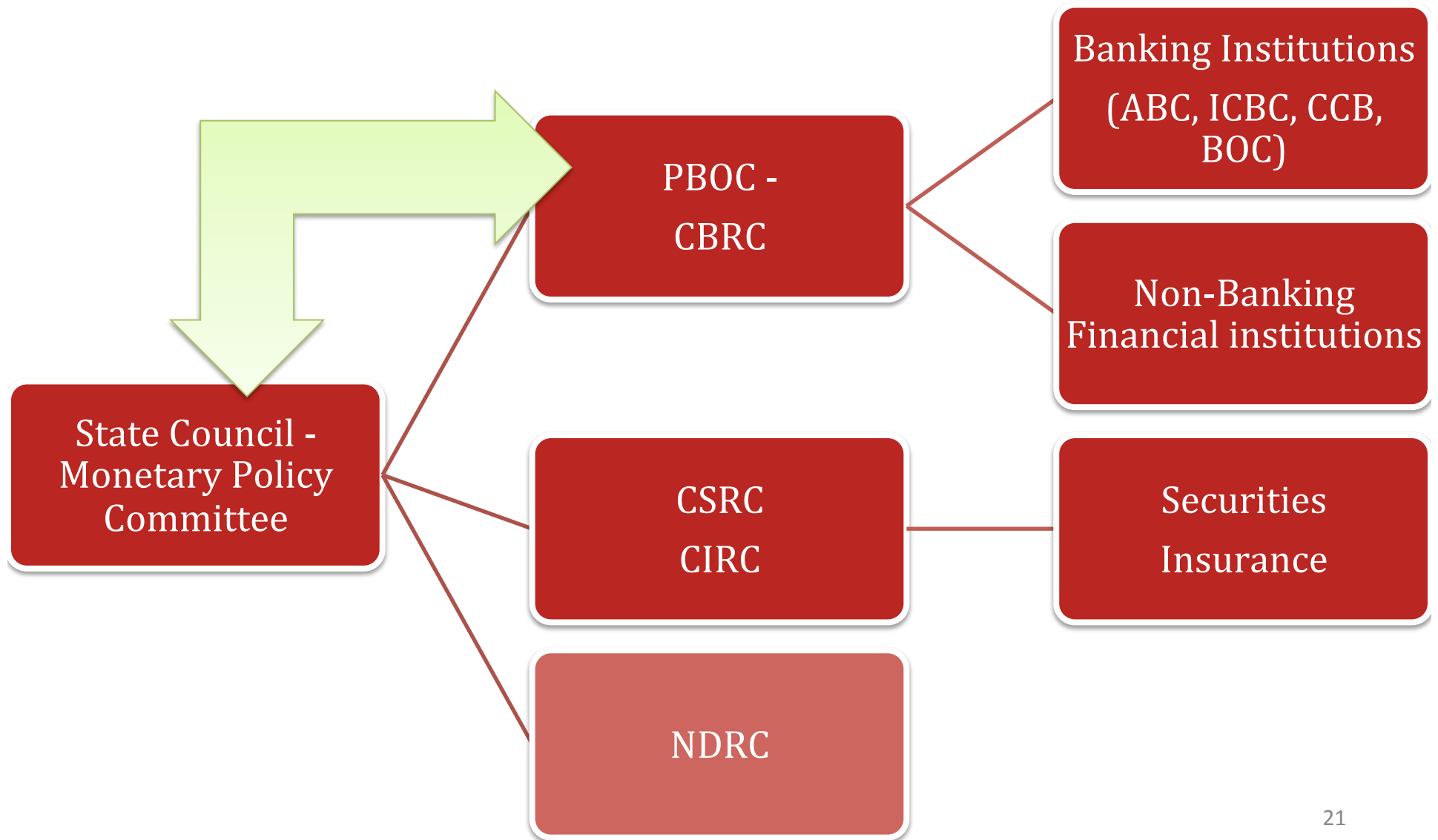


Notes: The thickest connecting lines correspond to the highest levels of authority in financial policy making. The NPC promulgates all financial sector laws and the State Council executes financial regulation and issues mandatory policy directives to all the financial regulatory and supervisory agencies. The dotted connecting lines indicate the three primary functions of PBC —formulating monetary policy, maintaining financial stability, and providing financial services— and the triple role of the MOF as tax administrator, treasurer, and owner of several commercial banks. The thinner connecting lines emerging from CBRC, CSRC, CIRC, and MHRSS reflect that these entities are mostly responsible for regulating and conducting supervision and oversight of their respective financial sectors. **Additional notes:** The SAFE is responsible for foreign exchange operations of securities and insurance companies. The China Development Bank and the Postal Savings Bank are in the process of reforming into commercial banks. Central Huijin exercise rights and obligations as an investor in major state-owned financial enterprises on behalf of the State. The National Social Security Fund has also a dual role as an institutional investor and a stakeholder in some of the largest commercial banks.

China's Policy Formation Structure



China's Financial Regulatory System



China's Political and Bureaucratic Transitions

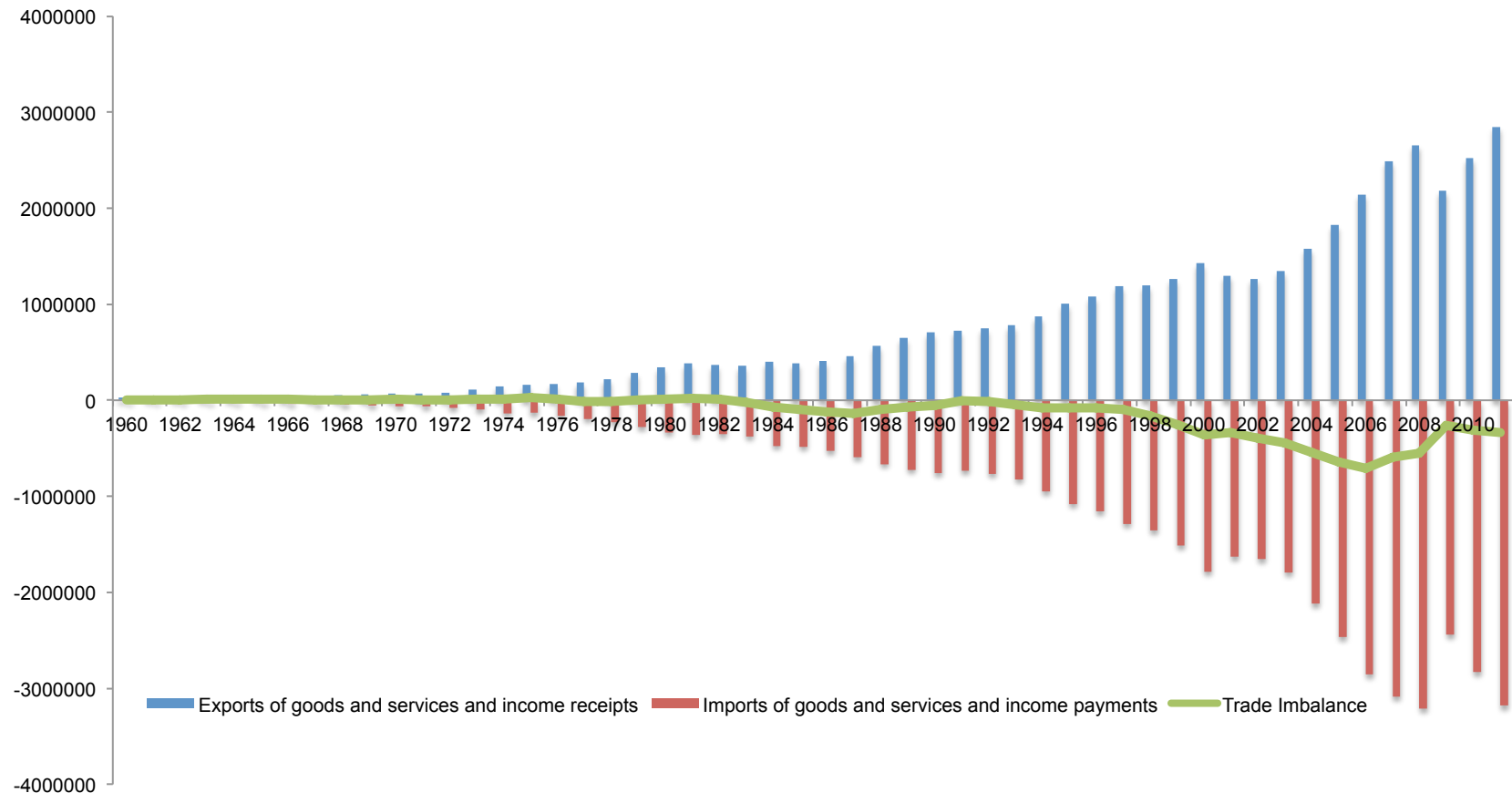
<i>Leadership Generation</i>	<i>Chairman</i>	<i>Premier</i>	<i>Political Factions</i>	<i>Governance</i>	<i>Financial Reforms</i>	<i>PBC</i>	<i>NDRC</i>	<i>MOF</i>	<i>MOC</i>
<i>1st Generation (1945-1969)</i>	<i>Mao Zedong</i>	<i>Zhou Enlai</i>		<i>Decentralization</i>			<i>State Planning Commission (1952) – Centrally planned economy</i>		
<i>2nd Generation (1978-1984)</i>	<i>Deng Xiaoping</i>	<i>Zhao Ziyang</i>		<i>Decentralization</i>	<i>1st Reform Era (1978-1992)</i> <i>Established financial institutions (1978-1984)</i>	<i>Central Bank Status confirmed (1983)</i>			
<i>3rd Generation (1985-2002)</i>	<i>Jiang Zemin</i>	<i>Zhu Rongji</i>	<i>Shanghai faction (Shanghai Clique)</i>	<i>Centralization Technocrats</i>	<i>2nd Reform Era (1990s)</i> <i>Initial Changes (1985-1996)</i> <i>Adjustments (1997-2005)</i>	<i>RMB Revaluation (1994)</i> <i>Zhu Rongji (1993-95)</i> <i>Central Bank Law (1995)</i> <i>Non-Devaluation Strategy (1996)</i>	<i>Renamed as the State Development Planning Commission (SDPC, 1998)</i>	<i>Decline</i>	<i>MOFTEC (1995)</i>
<i>4th Generation (2003-2012)</i>	<i>Hu Jintao</i>	<i>Wen Jiabao</i>	<i>Gongqingtuang (Populist)</i>		<i>PBC's Financial Reforms (2003-present)</i> <i>Global Financial Crisis (2006-2010)</i>	<i>Zhou Xiaochuan Exchange Rate Liberalization (2005 & 2010)</i>	<i>Reborn as NDRC (2003) – socialist market economy Merged with the State Council Office for Restructuring the Economic System (SCORES, 2003)</i>		<i>MOC (2003)</i>
<i>5th Generation (2013-present)</i>	<i>Xi Jinping</i>	<i>Li Keqiang</i>	<i>Taizidang (Princelings)</i>						

5. Preliminary Empirical Findings

- Trade Wars
 - U.S. Trade Imbalances with the 3 countries
 - Breakdown of Exports
 - Trade Dependency Ratio
 - WTO and USITC Cases
- Currency Conflict:
Financial Liberalization and Exchange Rate Policies
 - Japan: 1985 Plaza Accord and the「ビックバング」
 - Korea: 1993「世界化」and the Asian Financial Crisis
 - China: 2001「入世」「金融改革」and
the Global Financial Crisis

U.S. Trade with the World, 1960-2012

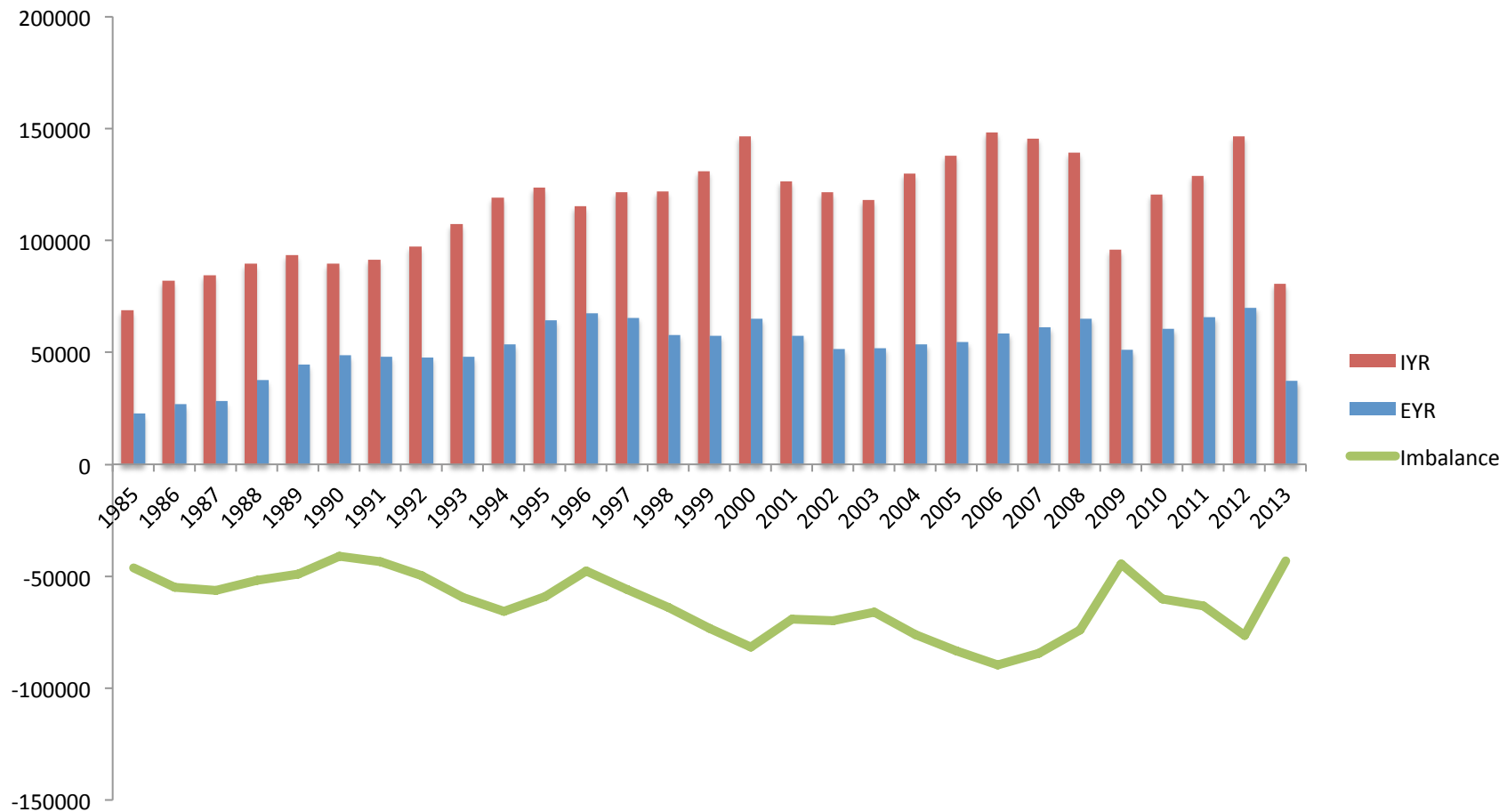
(Year-to-date, Unit: Millions of USD)



Source: U.S. Census Bureau Foreign Trade Statistics; IYR = Imports of Goods and Services of the Year, EYR = Exports of Goods and Services of the Year.

U.S - Japan Trade Imbalances, 1985-2013

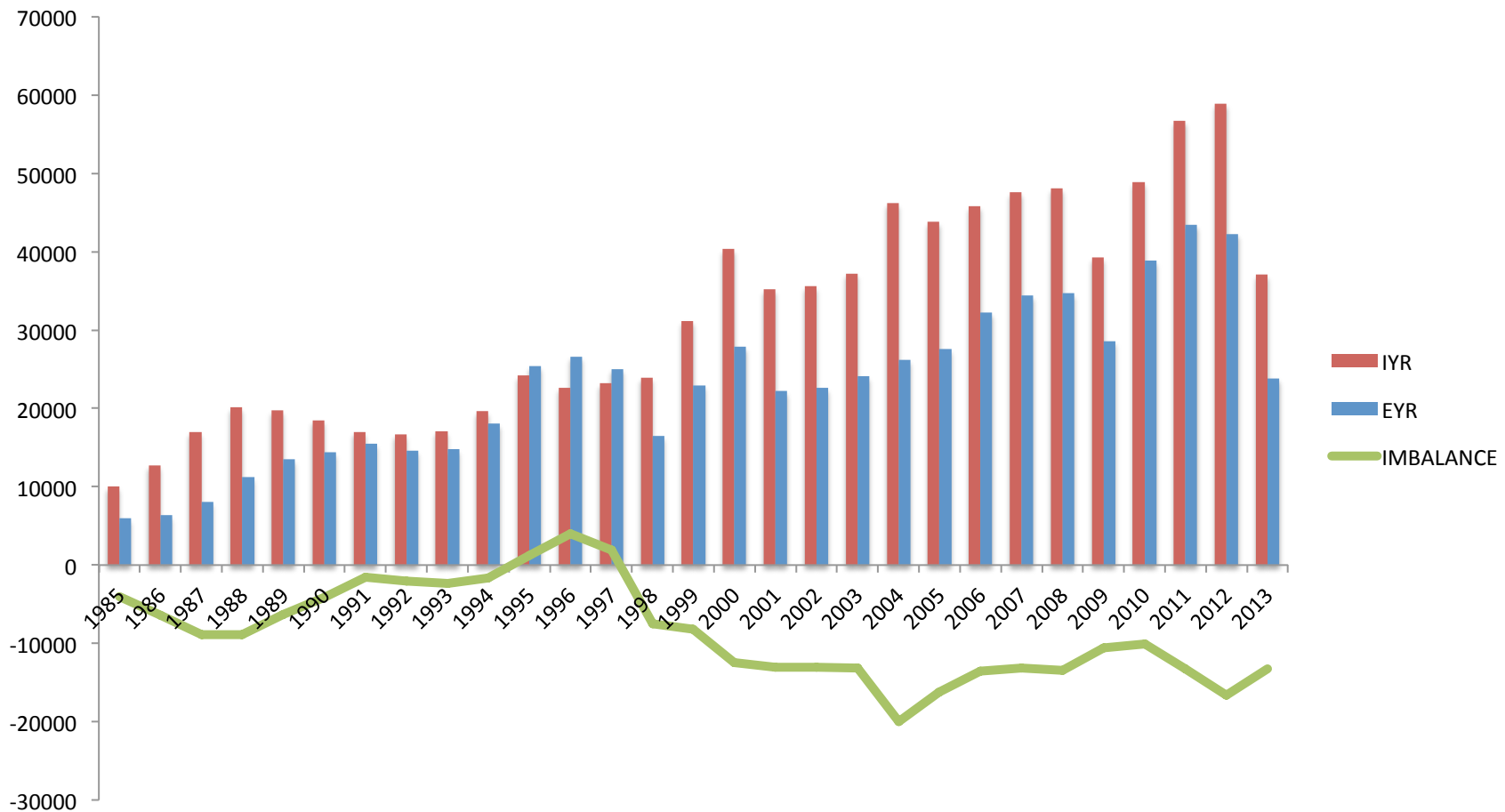
(Year-to-date, Unit: Millions of USD)



Source: U.S. Census Bureau Foreign Trade Statistics; IYR = Imports of Goods and Services of the Year, EYR = Exports of Goods and Services of the Year.

U.S - South Korea Trade Imbalances, 1985-2013

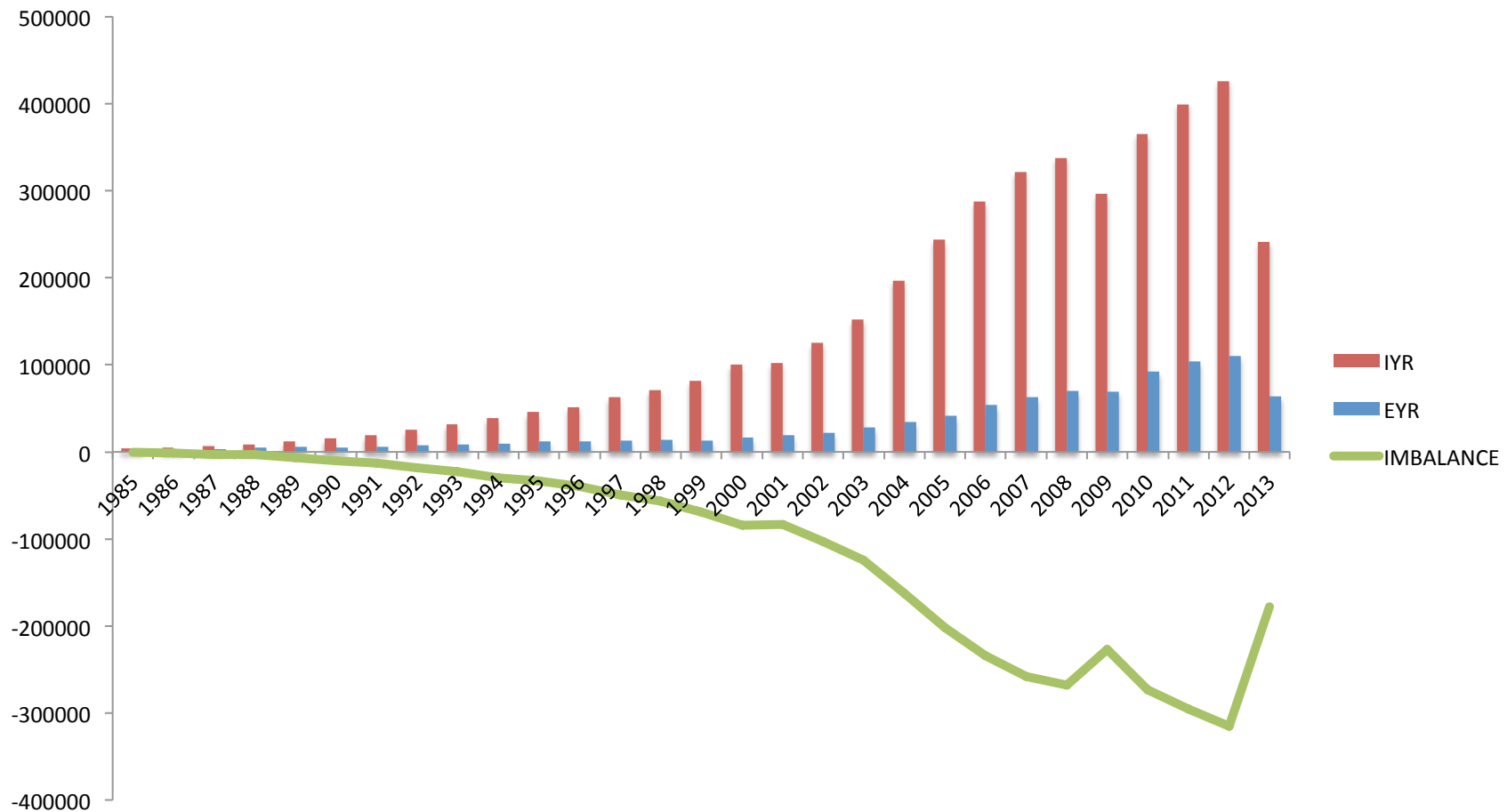
(Year-to-date, Unit: Millions of USD)



Source: U.S. Census Bureau Foreign Trade Statistics; IYR = Imports of Goods and Services of the Year, EYR = Exports of Goods and Services of the Year.

U.S – China Trade Imbalances, 1985-2013

(Year-to-date, Unit: Millions of USD)

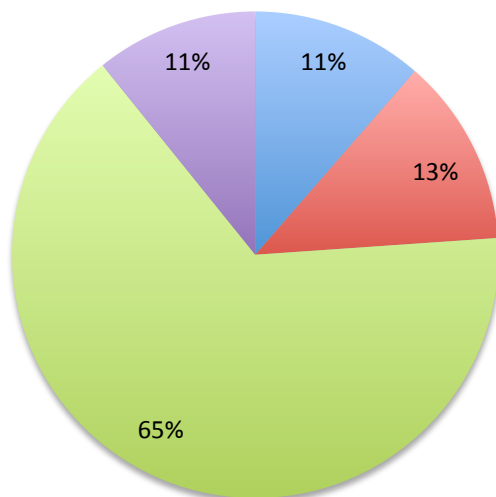


Source: U.S. Census Bureau Foreign Trade Statistics; IYR = Imports of Goods and Services of the Year, EYR = Exports of Goods and Services of the Year.

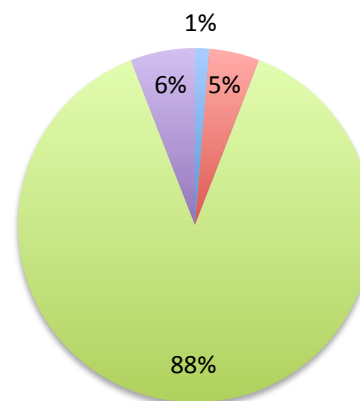
Breakdown in Economy's Total Exports

Pie 1. United States (Trade to GDP ratio: 28.5)

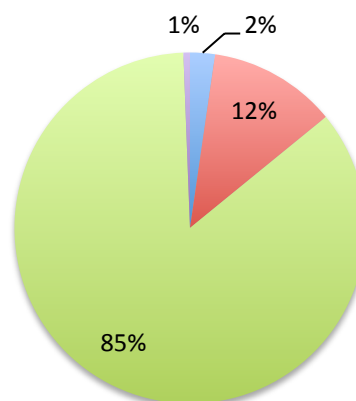
■ Agricultural Products ■ Fuels and Mining Products ■ Manufactures ■ Others



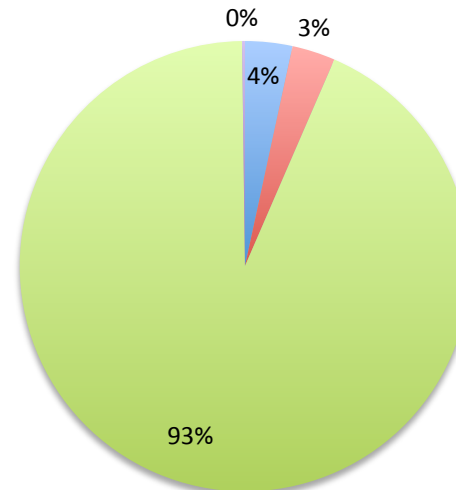
Pie 2. Japan (29.8)



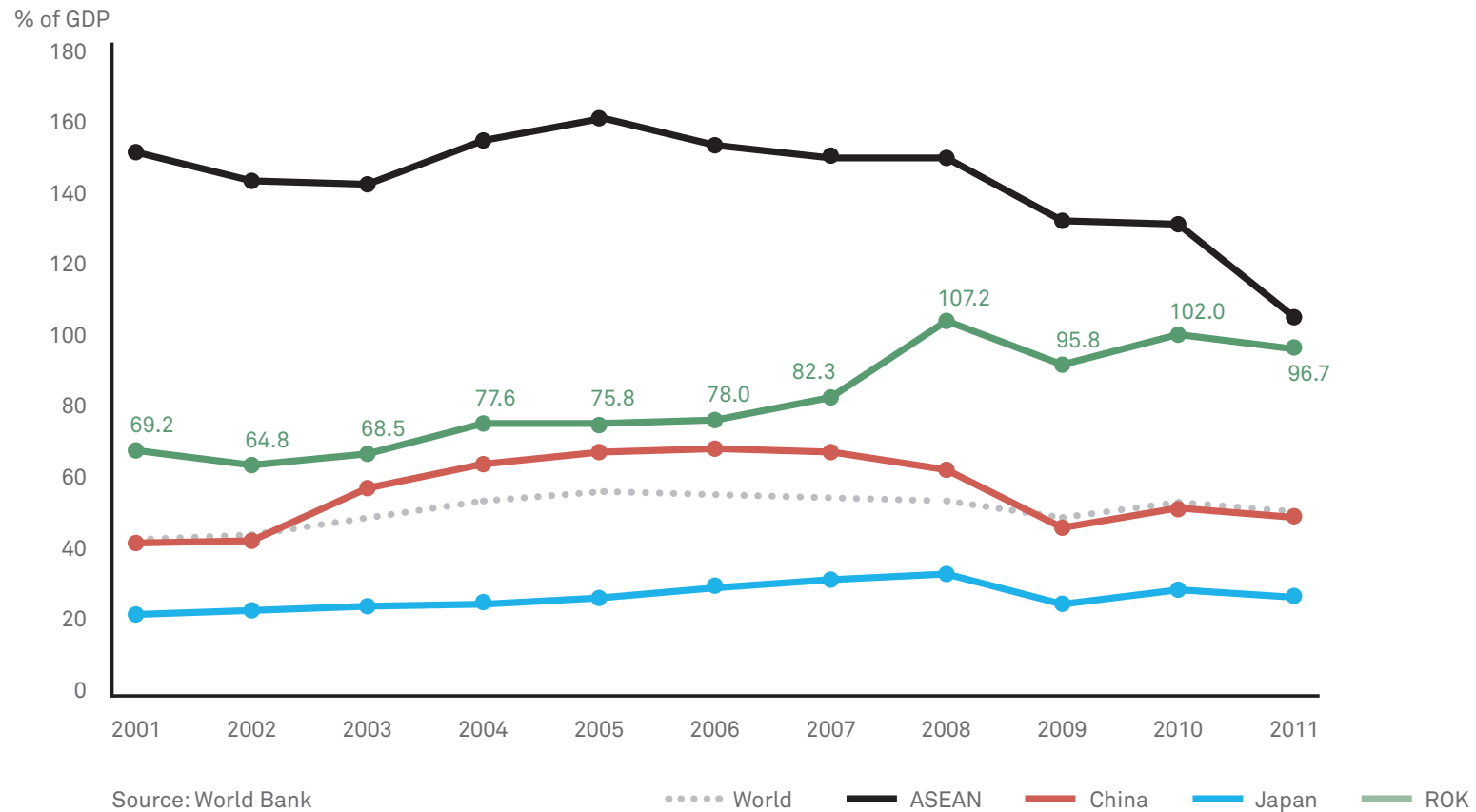
Pie 3. South Korea (106.5)



Pie 4. China (53.1)



Trade Dependency Ratio



USITC Antidumping and Countervailing Duty Investigations (Year-to-date)

Country	Cases filed until December 31, 1999			Cases filed from January 01, 2000		
	<i>Antidumping</i>	<i>Countervailing Duty</i>	Total	<i>Antidumping</i>	<i>Countervailing Duty</i>	Total
<i>Japan</i>	124	3	127	13	0	13
<i>South Korea</i>	60	18	78	19	6	25
<i>China</i>	70	4	74	95	34	129
Total	154	25	279	127	40	167

WTO Dispute Settlement Cases (Year-to-date)

Country X	GATT Membership	WTO Membership	Total Number of Cases involved in the WTO (including participation as third party)	Cases filed by the U.S. against country X among all cases filed against country X as respondent in the WTO	Cases filed against the U.S. among all cases filed by country X as complainant in the WTO
United States	1 January 1948	1 January 1995	319	N/A	N/A
Japan	10 September 1955	1 January 1995	160	6 of 15	8 of 16
South Korea	14 April 1967	1 January 1995	98	6 of 14	9 of 15
China	N/A	11 December 2001	132	15 of 29	8 of 11

DS11	Japan — Taxes on Alcoholic Beverages (Complainant: United States)	7-Jul-1995
DS28	Japan — Measures Concerning Sound Recordings (Complainant: United States)	9-Feb-1996
DS44	Japan — Measures Affecting Consumer Photographic Film and Paper (Complainant: United States)	13-Jun-1996
DS45	Japan — Measures Affecting Distribution Services (Complainant: United States)	13-Jun-1996
DS76	Japan — Measures Affecting Agricultural Products (Complainant: United States)	7-Apr-1997
DS245	Japan — Measures Affecting the Importation of Apples (Complainant: United States)	1-Mar-2002

DS6	United States — Imposition of Import Duties on Automobiles from Japan under Sections 301 and 304 of the Trade act of 1974 (Complainant: Japan)	17-May-1995
DS95	United States — Measure Affecting Government Procurement (Complainant: Japan)	18-Jul-1997
DS162	United States — Anti-Dumping Act of 1916 (Complainant: Japan)	10-Feb-1999
DS184	United States — Anti-Dumping Measures on Certain Hot-Rolled Steel Products from Japan (Complainant: Japan)	18-Nov-1999
DS217	United States — Continued Dumping and Subsidy Offset Act of 2000 (Complainants: Australia; Brazil; Chile; European Communities; India; Indonesia; Japan; Korea, Republic of; Thailand)	21-Dec-2000
DS244	United States — Sunset Review of Anti-Dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan (Complainant: Japan)	30-Jan-2002
DS249	United States — Definitive Safeguard Measures on Imports of Certain Steel Products (Complainant: Japan)	20-Mar-2002
DS322	United States — Measures Relating to Zeroing and Sunset Reviews (Complainant: Japan)	24-Nov-2004

DS3	Korea, Republic of — Measures Concerning the Testing and Inspection of Agricultural Products (Complainant: United States)	4-Apr-1995
DS5	Korea, Republic of — Measures Concerning the Shelf-Life of Products (Complainant: United States)	3-May-1995
DS41	Korea, Republic of — Measures concerning Inspection of Agricultural Products (Complainant: United States)	24-May-1996
DS84	Korea, Republic of — Taxes on Alcoholic Beverages (Complainant: United States)	23-May-1997
DS161	Korea, Republic of — Measures Affecting Imports of Fresh, Chilled and Frozen Beef (Complainant: United States)	1-Feb-1999
DS163	Korea, Republic of — Measures Affecting Government Procurement (Complainant: United States)	16-Feb-1999

DS89	United States — Anti-Dumping Duties on Imports of Colour Television Receivers from Korea (Complainant: Korea, Republic of)	10-Jul-1997
DS99	United States — Anti-Dumping Duty on Dynamic Random Access Memory Semiconductors (DRAMS) of One Megabit or Above from Korea (Complainant: Korea, Republic of)	14-Aug-1997
DS179	United States — Anti-Dumping measures on Stainless Steel Plate in Coils and Stainless Steel Sheet and Strip from Korea (Complainant: Korea, Republic of)	30-Jul-1999
DS202	United States — Definitive Safeguard Measures on Imports of Circular Welded Carbon Quality Line Pipe from Korea (Complainant: Korea, Republic of)	13-Jun-2000
DS217	United States — Continued Dumping and Subsidy Offset Act of 2000 (Complainants: Australia; Brazil; Chile; European Communities; India; Indonesia; Japan; Korea, Republic of; Thailand)	21-Dec-2000
DS251	United States — Definitive Safeguard Measures on Imports of Certain Steel Products (Complainant: Korea, Republic of)	20-Mar-2002
DS296	United States — Countervailing Duty Investigation on Dynamic Random Access Memory Semiconductors (DRAMS) from Korea (Complainant: Korea, Republic of)	30-Jun-2003
DS402	United States — Use of Zeroing in Anti-Dumping Measures Involving Products from Korea (Complainant: Korea, Republic of)	24-Nov-2009
DS420	United States — Anti-dumping measures on corrosion-resistant carbon steel flat products from Korea (Complainant: Korea, Republic of)	31-Jan-2011

DS309	China — Value-Added Tax on Integrated Circuits (Complainant: United States)	18-Mar-2004
DS340	China — Measures Affecting Imports of Automobile Parts (Complainant: United States)	30-Mar-2006
DS358	China — Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments (Complainant: United States)	2-Feb-2007
DS362	China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights (Complainant: United States)	10-Apr-2007
DS363	China — Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products (Complainant: United States)	10-Apr-2007
DS373	China — Measures Affecting Financial Information Services and Foreign Financial Information Suppliers (Complainant: United States)	3-Mar-2008
DS387	China — Grants, Loans and Other Incentives (Complainant: United States)	19-Dec-2008
DS394	China — Measures Related to the Exportation of Various Raw Materials (Complainant: United States)	23-Jun-2009
DS413	China — Certain Measures Affecting Electronic Payment Services (Complainant: United States)	15-Sep-2010
DS414	China — Countervailing and Anti-Dumping Duties on Grain Oriented Flat-rolled Electrical Steel from the United States (Complainant: United States)	15-Sep-2010
DS419	China — Measures concerning wind power equipment (Complainant: United States)	22-Dec-2010
DS427	China — Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States (Complainant: United States)	20-Sep-2011
DS431	China — Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum (Complainant: United States)	13-Mar-2012
DS440	China — Anti-Dumping and Countervailing Duties on Certain Automobiles from the United States (Complainant: United States)	5-Jul-2012
DS450	China — Certain Measures Affecting the Automobile and Automobile-Parts Industries (Complainant: United States)	17-Sep-2012
DS252	United States — Definitive Safeguard Measures on Imports of Certain Steel Products (Complainant: China)	26-Mar-2002
DS368	United States — Preliminary Anti-Dumping and Countervailing Duty Determinations on Coated Free Sheet Paper from China (Complainant: China)	14-Sep-2007
DS379	United States — Definitive Anti-Dumping and Countervailing Duties on Certain Products from China (Complainant: China)	19-Sep-2008
DS392	United States — Certain Measures Affecting Imports of Poultry from China (Complainant: China)	17-Apr-2009
DS399	United States — Measures Affecting Imports of Certain Passenger Vehicle and Light Truck Tyres from China (Complainant: China)	14-Sep-2009
DS422	United States — Anti-Dumping Measures on Shrimp and Diamond Sawblades from China (Complainant: China)	28-Feb-2011
DS437	United States — Countervailing Duty Measures on Certain Products from China (Complainant: China)	25-May-2012
DS449	United States — Countervailing and Anti-dumping Measures on Certain Products from China (Complainant: China)	17-Sep-2012

Capital Account Liberalization and Exchange Rate Policies

Japan

U.S. Pressures on JPY Appreciation → Plaza Accord (JPY appreciation) → JPY Internationalization → Bubble Economy
NPLs → 'Big Bang' (Deregulation and Financial Liberalization) →
Two Lost Decades → Abenomics (Quantitative Easing)

South Korea

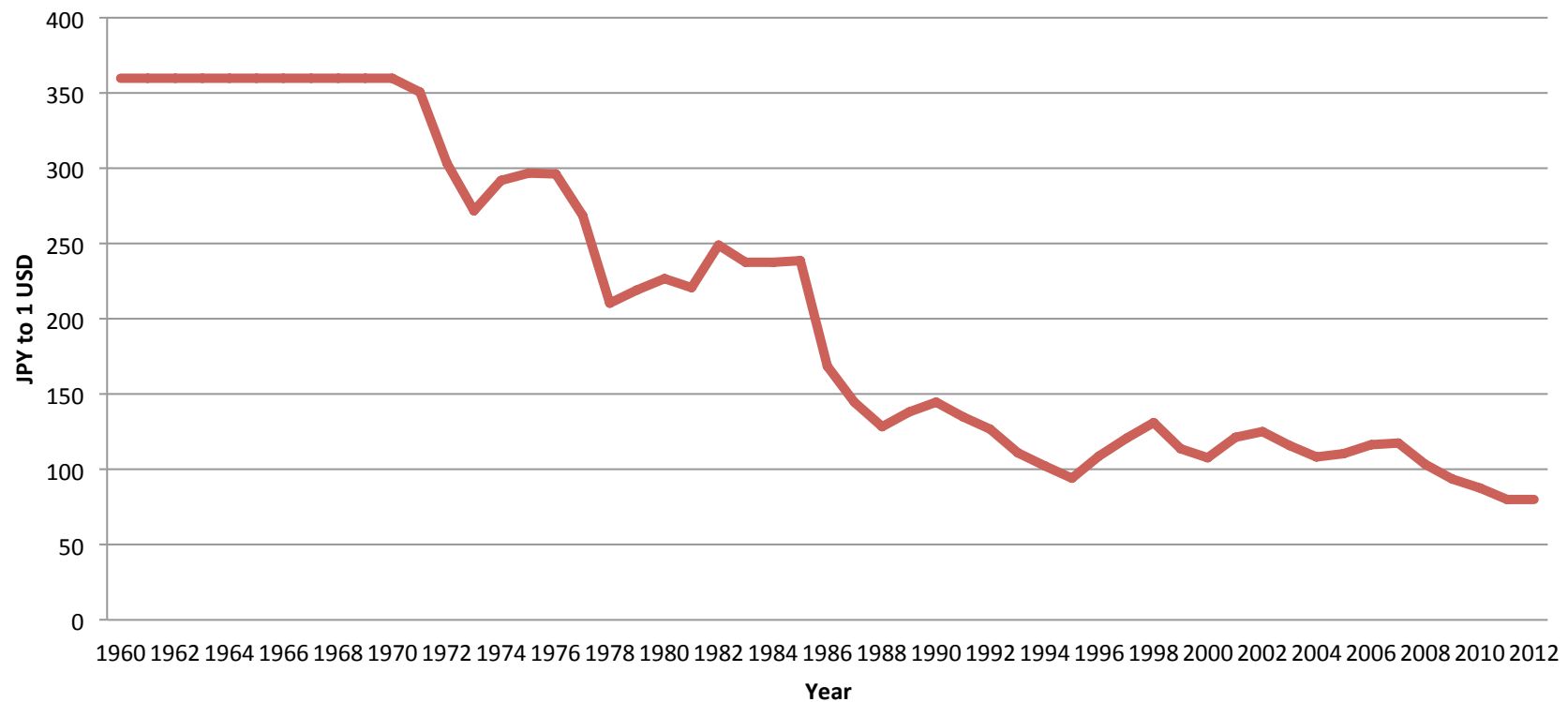
U.S. Pressures on KRW Appreciation → “*Segyehwa*” (Deregulation and Financial Liberalization) → KRW Appreciation → NPLs →
Asian Financial Crisis (KRW plunge) → Recovery and KRW
manipulation, continued → Trade surge

China

WTO Accession → U.S. Pressures on RMB Appreciation → Slight
hikes in 2004 → RMB Internationalization → 2012-13 Financial
Reform (Deregulation)

Real Effective Exchange Rates to the U.S. Dollar (Japanese Yen)

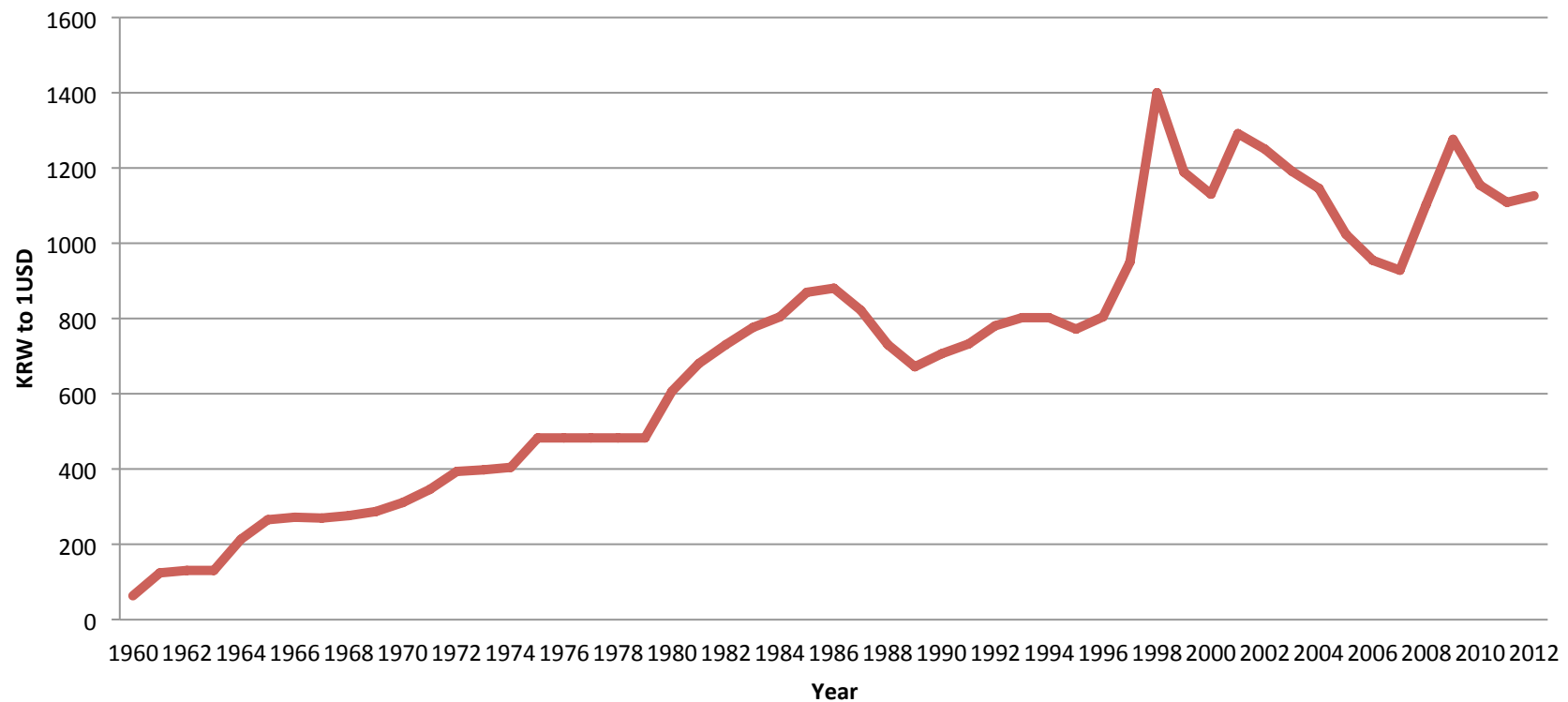
Line Graph 1.
Japanese Yen (JPY) - US Dollar
Real Exchange Rate (1960-2012)



Source: IMF Financial Statistics

Real Effective Exchange Rates to the U.S. Dollar (South Korean Won)

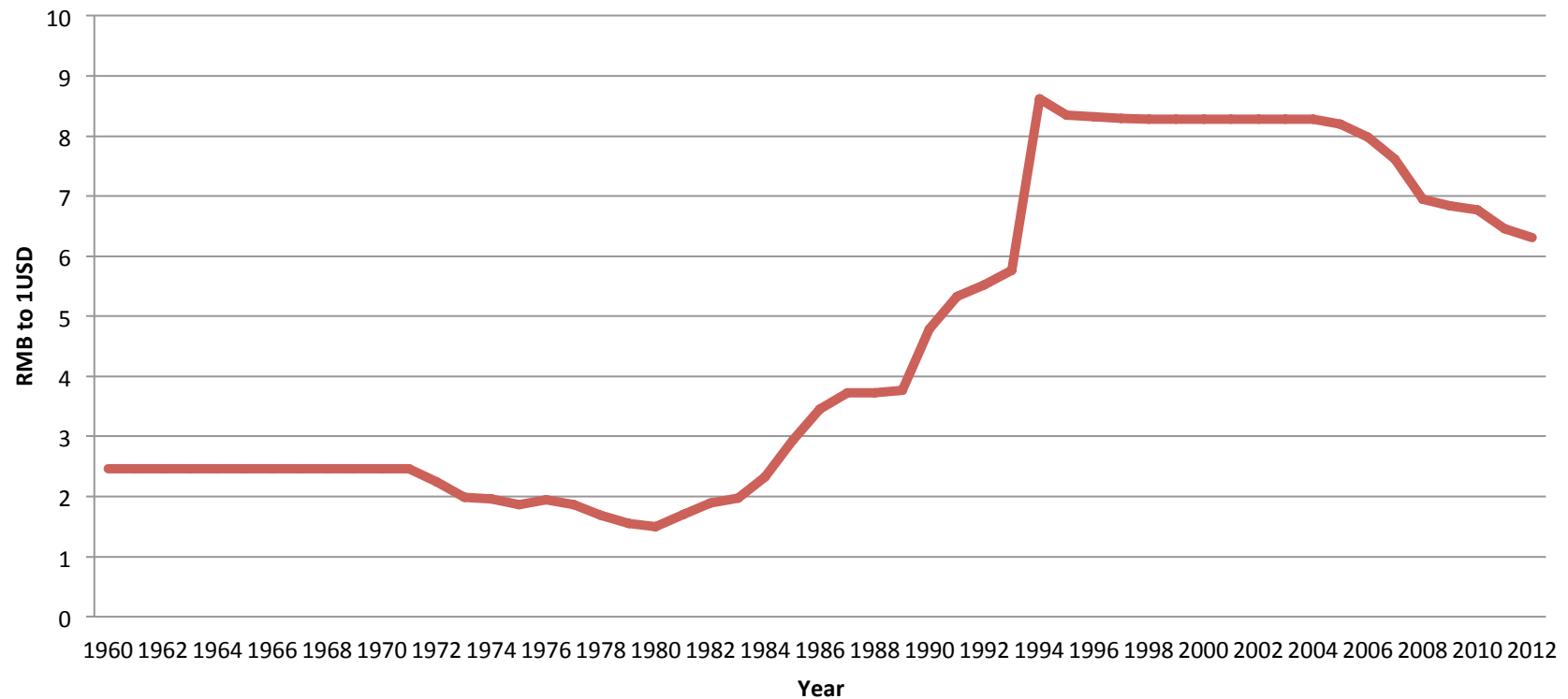
Line Graph 2.
South Korean Won (KRW) - US Dollar
Real Exchange Rate (1960-2012)



Source: IMF Financial Statistics

Real Effective Exchange Rates to the U.S. Dollar (Chinese Yuan)

Line Graph 3.
Chinese Yuan (RMB) - US Dollar
Real Exchange Rate (1960-2012)



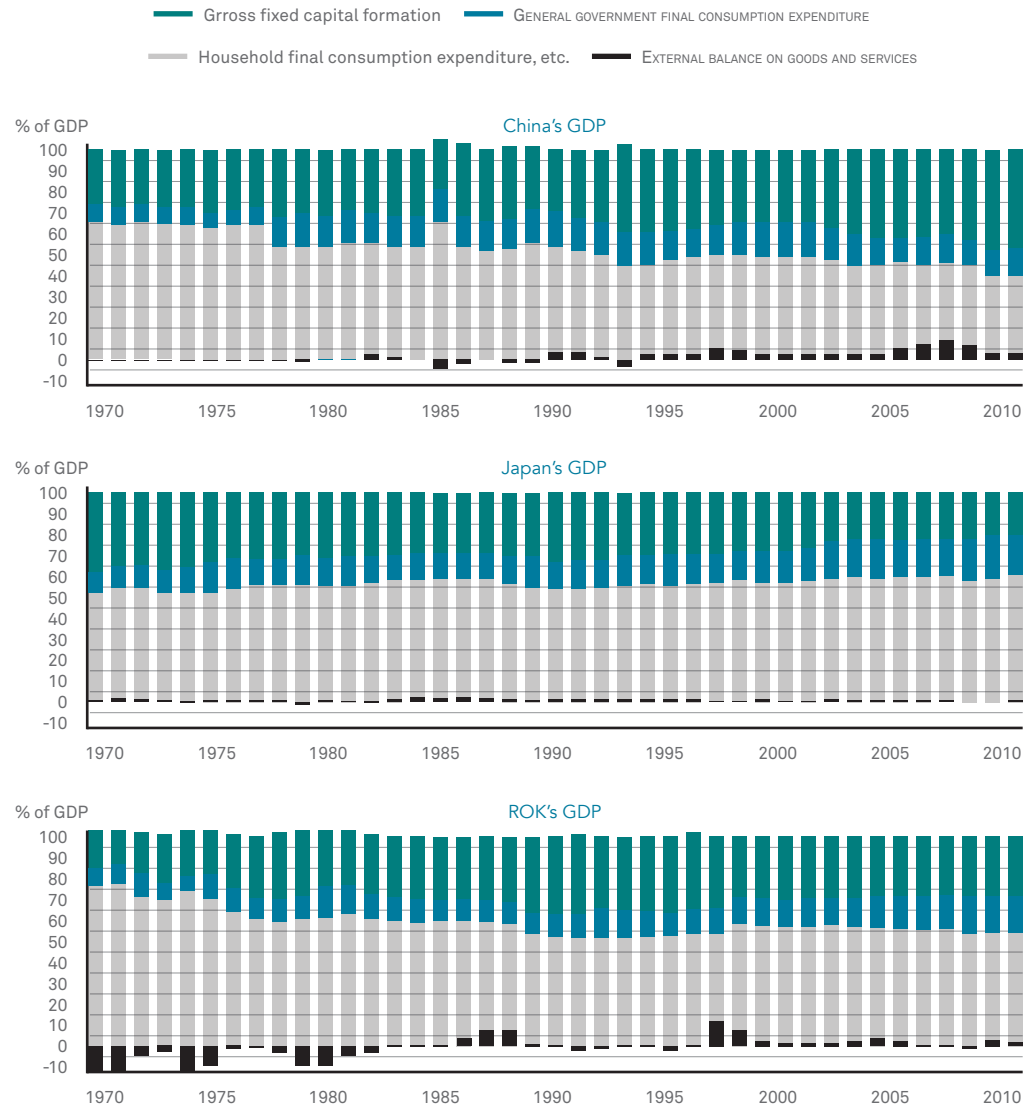
Source: IMF Financial Statistics

6. Conclusions and Policy Implications

Independent Variable (IV)	Mediating Variable (MV)	Dependent Variable (DV)
U.S. Protectionism via Trade Wars and Currency Conflict	Structures of the Domestic Political Economy	Responses from Japan, South Korea, and China
IV1: Trade Dispute Initiation <ul style="list-style-type: none"> ✓ Background: Recurrence of Trade Imbalance ✓ Strong Focus on Manufacturing and Reliance on Exports by Trading Partners ✓ Loss of competitive advantage and market shares of U.S. products ✓ Antidumping and Countervailing Duty Investigations ✓ WTO Dispute Initiations 	MV1: Political Capacity <ul style="list-style-type: none"> • Government type • Government related actors: political parties, politicians, ministries and bureaucrats • Political and economic agenda and actions • Bilateral political interactions and diplomacy 	DV1: Country Responses to Trade Dispute Initiation <ul style="list-style-type: none"> ➤ Japan: Strategic Acquiescence under the GATT (Voluntary Export Restrictions), Legal Rebuttal in the WTO ➤ South Korea: Acquiescence under the GATT, Reciprocation via Legal Rebuttal in the WTO ➤ China: Immediate Defense and Retaliation in the WTO
IV2: Currency Appreciation Pressures <ul style="list-style-type: none"> ✓ Background: Appreciation of the U.S dollar, relative depreciation of the currencies of trading partners ✓ Pressures for Financial Liberalization 	MV2: Strategic Industrial Interests <ul style="list-style-type: none"> • Industrial concentration • Production networks • Labor power • Technology 	DV2: Country Responses on Currency Appreciation Pressures / Quantitative Easing <ul style="list-style-type: none"> ➤ Japan: Strategic Compliance (Plaza Accord, 1985; Louvre Accord, 1987; Smithsonian) ➤ South Korea: Lack of Strategic Behavior, Accidental Depreciation (Asian Financial Crisis, 1997) ➤ China: Reluctant and Incremental Appreciation (2005-2013)
Management of the Asian Financial Crisis (1997-8) <ul style="list-style-type: none"> ✓ Demand for Restructuring ✓ Coerce further Liberalization via the conditions in the IMF Rescue Packages 		Management of the Asian Financial Crisis (1997-8) <ul style="list-style-type: none"> ➤ Japan: Yen Internationalization and Strategic Suggestion of an Asian Monetary Fund ➤ South Korea: IMF Rescue Package and Restructuring ➤ China: Secluded Financial Sector, relatively less hit by AFC
Management of the Global Financial Crisis (2008-) <ul style="list-style-type: none"> ✓ Government bailouts of financial institutions ✓ Quantitative Easing ✓ Low interest rates 		Management of the Global Financial Crisis (2008-) <ul style="list-style-type: none"> ➤ Japan: Bilateral Swap Lines, Strategic Quantitative Easing via Abenomics (2012-3) ➤ South Korea: Bilateral Swap Lines, Capital Controls for Macroprudentiality (2010-13) ➤ China: Bilateral Swap Lines, Stimulus packages, Renminbi Internationalization and Financial Reforms (2010-13)

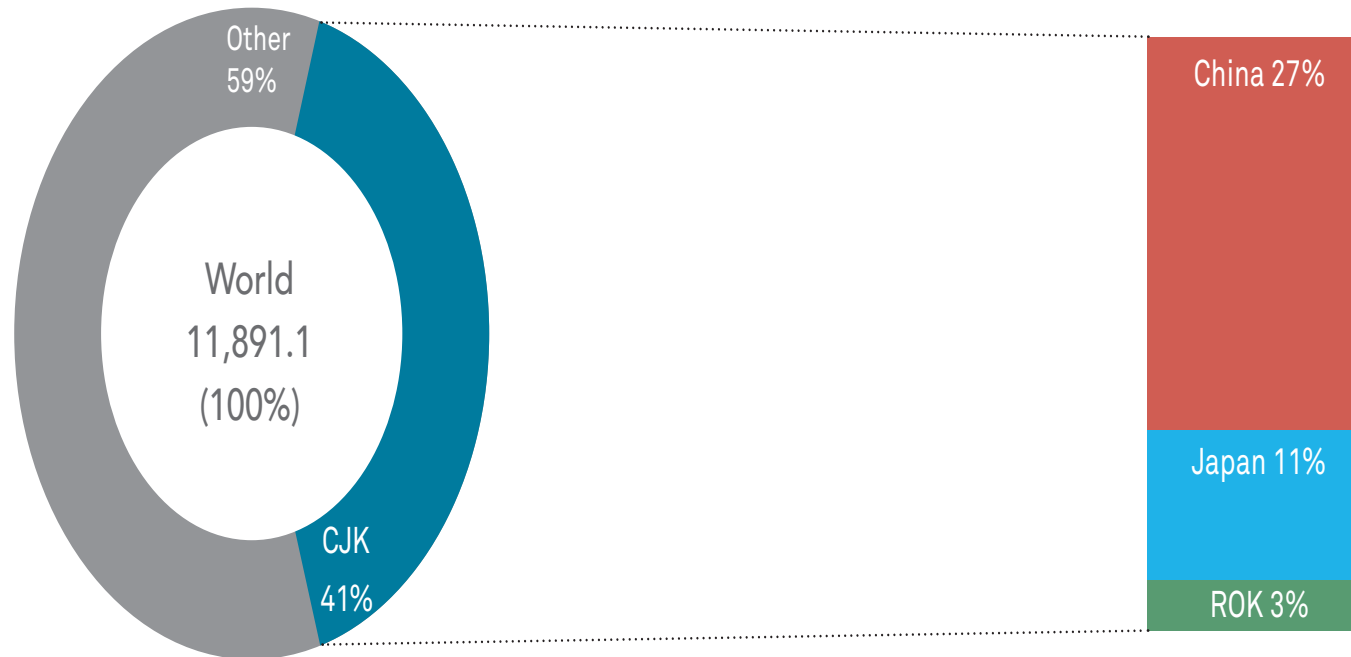
Some Extra Slides

Composition of GDP



Source: World Bank

Foreign Exchange Reserves

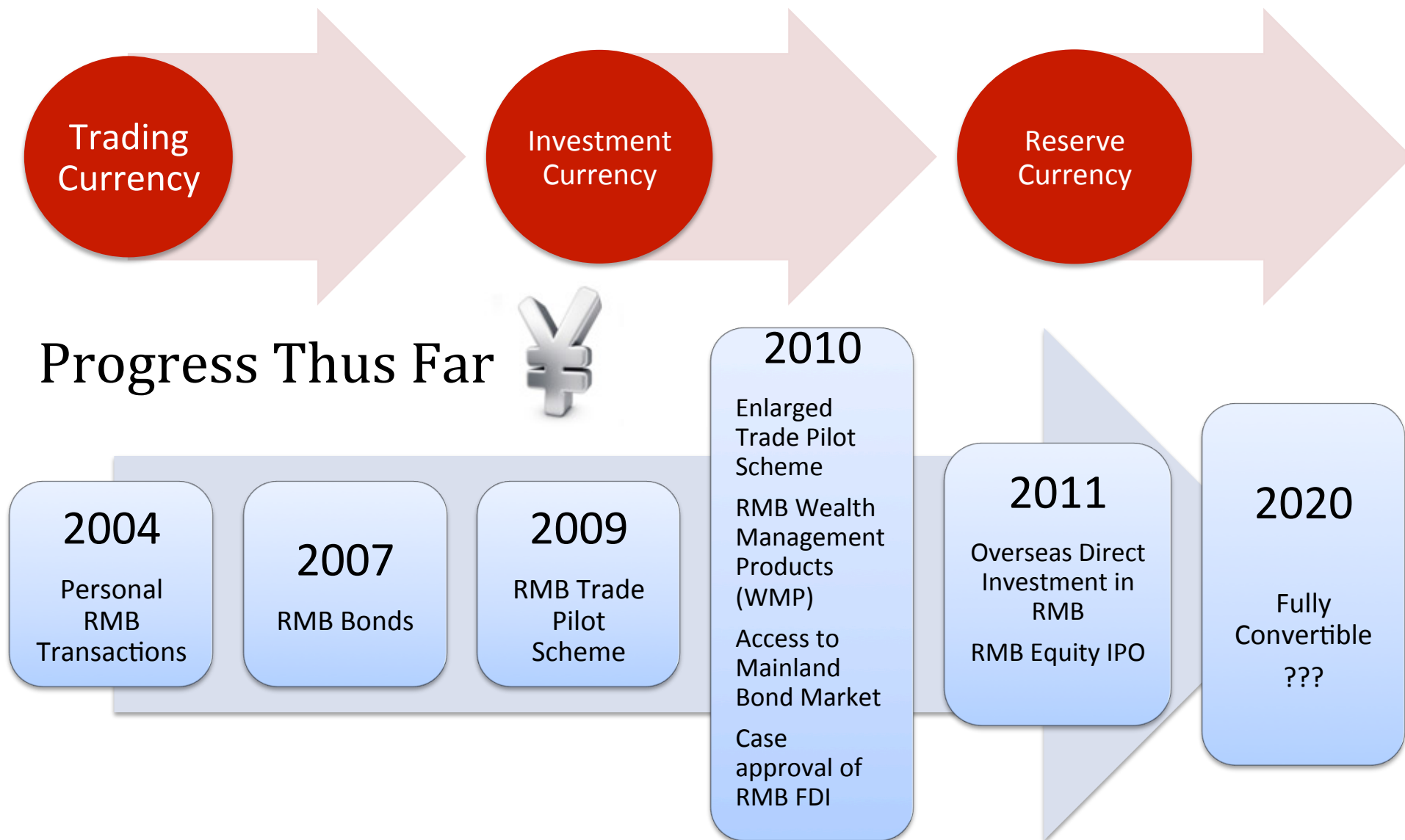


Source: World Bank

Unit: Billion US \$

■ China 3,254.7 ■ Japan 1,295.8 ■ ROK 306.9

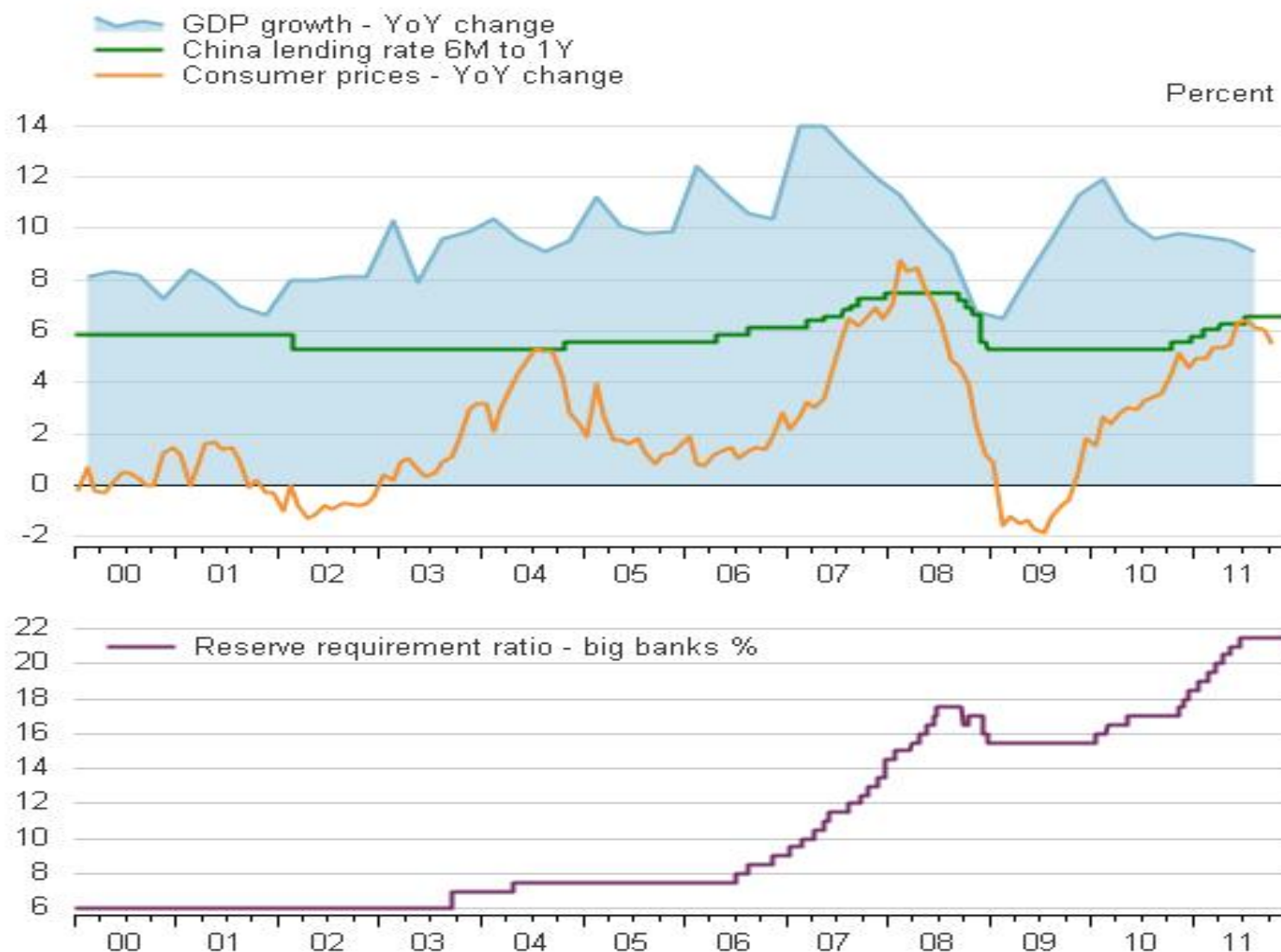
RMB Internationalization



Source: HSBC

PBC Focus: From Inflation to Slow Growth

China monetary policy



Source: Thomson Reuters Datastream

Reuters graphic/Scott Barber 11/30/2011