

The Global Financial Crisis and U.S.-Korea Trade and Investment: A Perspective

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ABSTRACT

The global financial crisis of 2008-2009 that began in the United States quickly spread to other countries of the world, including South Korea. As the crisis progressed through four overlapping phases, each country has pursued policies to counter the worst effects. Phase I was to contain the contagion and strengthen financial sectors. This was done primarily by monetary policy lowering interest rates, rescuing troubled banks and other financial institutions, and, in Korea's case, providing foreign currency to companies with short-term debt owed in dollars. Phase II has been to cope with the economic effects as the crisis spread from the financial to real sectors. In phase III, regulatory and financial market reform has been carried out. In the international coordination of regulatory reform, the G-20 (Group of Twenty Nations) is playing a key role. Phase IV is to deal with the political effects and protectionism generated by the crisis. As the epicenter of the crisis, but the United States remains an indispensable nation in efforts to find solutions to the crisis. South Korea's global position appears to have been enhanced as evidenced by its being chosen as host of the G-20 Summit in 2010. Extreme protectionism has been kept at bay by the rules of the World Trade Organization, but in the United States, in particular, the "Buy America" clause in its stimulus package and various anti-dumping measures threaten to trigger a trade spat with countries such as China.

Keywords: global financial crisis, Korean trade and investment, U.S. trade and investment, won depreciation, safe haven, protectionism.

What began as a bursting of the U.S. housing market bubble and a rise in foreclosures suddenly ballooned into a global financial crisis that soon spread to the real economic sectors. Some of the largest and most venerable banks, investment houses, and insurance companies either declared bankruptcy or had to be rescued financially. In October 2008, following the bankruptcy of Lehman Brothers, credit flows froze across the United States and Europe, lender confidence dropped, and one after another countries around the world dipped toward recession. Fears of another Great Depression quickly spread, and both companies and consumers cut back on spending. In this turmoil, international trade and investment was whipsawed like the tail of a marauding dragon.

Economic shock waves emanated from the United States as policymakers stepped into one “black hole” after another. They had to make quick multibillion dollar decisions in uncharted territory and with what seemed to be entire economies at stake. Long cherished rules and practices were thrown out the window as the paramount motivating factor became economic survival. In the United States, privatization and the people’s aversion to socialism, particularly government ownership of private companies, quickly became secondary to the role of government as the lender of last resort and the financier with the deepest pockets.

In 2009, as economies began to recover from the “Great Recession,” the world seemed to divide into the rich countries in Europe, North America, and Northeast Asia which appeared to be bottoming out and starting to recover; the rapidly recovering middle-income or dynamic countries such as China, India, and those in Latin America and Southeast Asia with higher growth rates (with some exceptions); and less developed countries that seemed to be bypassed by the worst effects of the crisis. Even though most economies have turned toward recovery, the possibility remains of a double-dip recession following the termination of government fiscal stimulus programs and the unwinding of lending and monetary injections by central banks and monetary authorities. The key for policymakers is to time the withdrawal of public emergency support programs to coincide with the uptick in private economic activity.

The financial turmoil and sharp contraction of the global economy that began in 2008 and accelerated in the first quarter of 2009 similarly caused international trade and investment to shrink. In July 2009, the World Trade Organization projected that the trading volumes of developed economies was expected to contract by 14% in 2009 instead

of the 10% forecast just three months previously while trade for developing economies was expected to decline by 7%, rather than the earlier forecast 2-3%. Global foreign direct investment (FDI) flows, which fell by 14% in 2008, were projected to fall by an additional 30-40% in 2009. Turmoil in the financial sector had spread to the real economic sectors.

Four Phases of the Global Financial Crisis

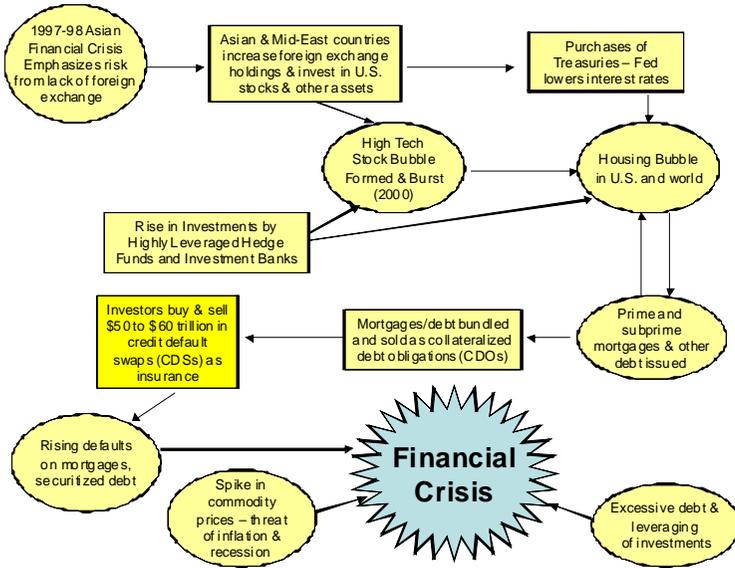
The global financial crisis as it has played out in countries across the globe has been manifest in four overlapping phases. Although each phase has a policy focus, each phase of the crisis affects the others, and, until the crisis has passed, no phase seems to have a clear end point.

Phase I: Contain the Contagion and Strengthen Financial Sectors

The global financial crisis in its first phase exploded onto the world stage in September 2008. The road to the crisis is depicted in **Figure 1**. It can be traced to the aftermath of the 1997-98 Asian financial crises when countries determined that they need larger accumulations of foreign exchange reserves as a hedge against runs on their currencies. These holdings of foreign exchange reserves, particularly by China, Japan, the Gulf nations, and South Korea, were invested back into dollar-denominated assets. At the same time, hedge funds and investment banks began to borrow extensively to fund investments. Funds flowed into stocks and U.S. Treasury securities, lowering interest rates and ultimately leading to bubbles in high technology stocks in 2000 and to a housing bubble in the United States, Europe, and other countries of the world. The U.S. housing bubble, however, was fed by questionable mortgages that were packaged as collateralized debt securities and sold to investors. Wary investors bought insurance against credit defaults called credit default swaps issued by companies, such as AIG, outside of normal insurance regulation. Any company could bet on a credit default by any other company, even though the buyer of the insurance did not hold any of the credit in question. The enterprise became more of a betting match than legitimate hedging of risk until the nominal value of all credit default swaps grew nearly to these sizes of global gross domestic product, yet they had been issued by a small number of companies. As defaults began to appear in subprime mortgages, several issuers of credit default swaps and holders of collateralized obligations could not generate the liquid funds needed to meet their obligations. The

house of cards built on debt, questionable credit ratings of that debt, and underlying mortgages and other credit that was beyond the borrowers to repay quickly collapsed. A financial crisis of unbelievable magnitude hit the world.

Figure 1. The Road to the Global Financial Crisis

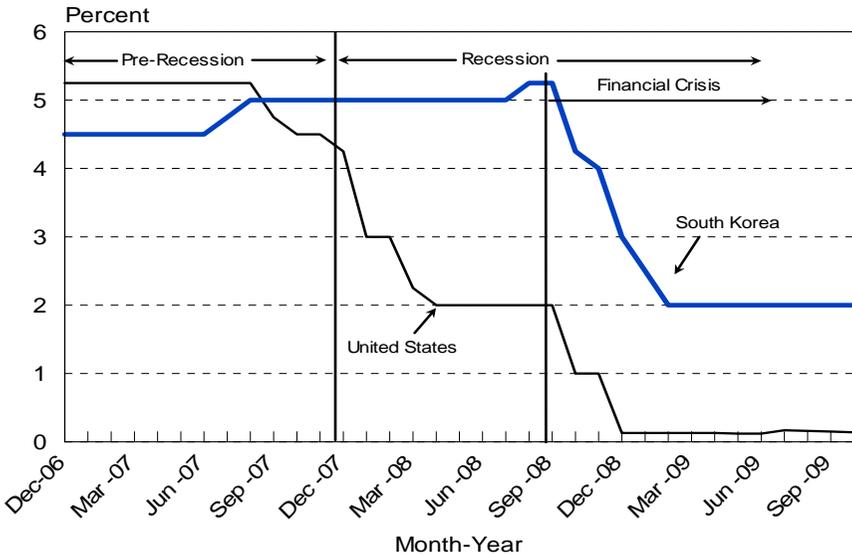


The policy response centered on trying to comprehend the magnitude of the situation, containing the contagion, and strengthening or rescuing financial institutions. On a macroeconomic level, this included policy actions such as lowering interest rates, expanding the money supply, quantitative (monetary) easing, and actions to restart and restore confidence in credit markets. On a microeconomic level, this entailed actions to resolve the immediate problems and effects of the crisis including financial rescue packages for ailing firms, guaranteeing deposits at banks, injections of capital, disposing of toxic assets, and restructuring debt. The policy actions involved decisive (and, in cases, unprecedented) measures in terms of scope, cost, and extent of government reach. Actions taken included the rescue of financial institutions considered to be “too big to fail” (including government

takeovers of certain of them), government facilitation of mergers and acquisitions, and government purchases of “toxic” financial assets. Nearly every industrialized country and many developing and emerging market countries pursued some or all of these actions.

The “panic” phase of containing the contagion continued well into 2009. As shown in **Figure 2**, in the United States, traditional monetary policy almost reached its limit as the Federal Reserve lowered its discount rate to 0.5% and maintained a target for the federal funds rate of 0.0 to 0.25%. The Bank of Korea, likewise, dropped its policy interest rate from more than 5% to 2%.

Figure 2. Policy Interest Rates in the United States and South Korea Under the Global Financial Crisis



Source: Data from Global Insight

These low interest rates were both a policy tool aimed at the financial crisis and generated by the crisis itself. On one hand, authorities in both countries used the low rates as part of their monetary policy to stimulate economic activity and to generate profits for financial and other institutions under duress. In the United States, however, the low rates resulted partly from the flood of investment capital that flowed

into the country seeking a safe haven. As the crisis destroyed nearly a third of the world's financial wealth, investors around the world withdrew funds from markets in countries perceived to be at risk and moved the money into "safer" investments such as U.S. Treasury securities. These inflows of capital also strengthened the dollar, even though the United States was the epicenter of the financial crisis. Despite the crisis conditions in U.S. financial markets, the situation elsewhere looked worse. In the Korean case, as will be seen later in this article, the strengthened dollar and concomitant weakened Korean won played a large role in determining the level of exports and imports between the two countries.

In the United States, the Treasury, Federal Reserve, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and Comptroller of the Currency were compelled to present a united front in attempting to contain the contagion. Together they committed about \$12.5 trillion (88% of GDP) to protect the economy from the crisis. Of this (through September 2009), \$2 trillion was actually expended, while the remainder was primarily guarantees or financial backing.² Under the \$700 billion Troubled Asset Relief Program (TARP) and Federal Reserve programs, the U.S. government invested billions of dollars in weakened financial institutions. Suddenly, Washington became the owner or major shareholder of AIG (American International Group), Fannie Mae (Federal National Mortgage Association), and Freddie Mac (Federal Home Loan Mortgage Corporation) as well as numerous banks, General Motors,³ and Chrysler. The corporate investments generally were in the form of loans and preferred stock that paid quarterly dividends. The list of financial institutions that had to be merged or "bailed out" by the U.S. Treasury and Federal Reserve became longer and longer. As of August 2009, \$204 billion in funds under the TARP had been disbursed to 671 banks. Among these, 465 banks received less than \$25 million, but six banks received between \$10 billion and \$45 billion.⁴ Even with the support, however, between September 2008 and October 6, 2009, 114 U.S. banks had failed

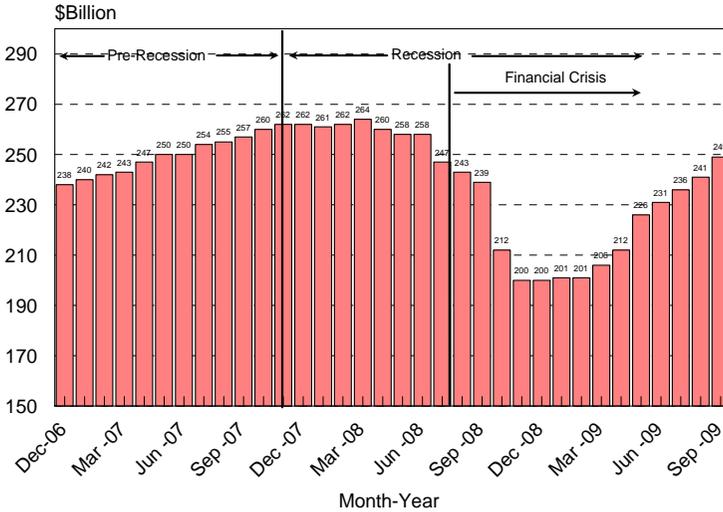
As part of the U.S. government's rescue operations, the Federal Reserve conducted about \$1.2 trillion in emergency commitments to stabilize the U.S. financial sector. Its interventions included a safety net for commercial banks, financing for the merger of J.P. Morgan and Bear Stearns, a lending facility for investment banks and brokerages, loans for money-market assets and commercial article, and purchases of

securitized loans and lending to businesses and consumers for purchases of asset-backed securities.⁵

South Korea faced a dual problem. Not only was the financial crisis hitting its financial institutions, but as a major trading nation, its currency came under attack. In response, the Bank of Korea provided liquidity to sectors badly affected by the credit crisis through its open market operations and lending facilities. One measure was to provide a state guarantee (US\$100 billion) for up to five years for borrowing by banks in foreign currencies. The program applied equally to local and foreign banks constituted under Korean Law. At the same time, it actively provided foreign-currency liquidity to domestic financial institutions through channels, such as the swap market, in order to stabilize the foreign exchange market.

Following the Asian financial crisis, countries in Asia set out to accumulate stocks of foreign exchange reserves as a hedge against a future crisis. South Korea followed this policy with a vengeance. As shown in **Figure 3**, by the beginning of 2007, Korea's foreign exchange reserves totaled \$240 billion and peaked at \$264 billion in March 2008. As the financial crisis developed, the reserves dropped to \$200 billion but from mid-2009 have been recovering and were at \$249 billion in September 2009. It is apparent that the Bank of Korea was not willing to exhaust its foreign exchange reserves in defending the value of the won against the appreciating dollar. Combined with Japan's \$1 trillion and China's \$2 trillion in foreign exchange reserves, it seems that the current financial crisis has only served to reinforce the desire of monetary authorities to maintain a cushion of reserves to cope with future crises and to give them flexibility in policy. These currency reserves are generated primarily by running trade surpluses with the United States and other trade deficit countries, so this does not bode well for the United States in its attempt to bring more balance into its macroeconomy and to further liberalize trade.

Figure 3. South Korea's Foreign Exchange Reserves



Source: Data from Bank of Korea

The harsh reality, however, is that if Korea had accumulated only \$60 billion in foreign exchange reserves at the onset of the worst of the financial crisis, it would have run short on foreign exchange and would have been in the same situation as it was during the Asian financial crisis. This time, however, the Bank of Korea had entered into currency swap arrangements with the central banks of the United States, Japan, and China.⁶ These arrangements enabled the Bank of Korea to borrow foreign exchange during a crisis. As of December 31, 2008, Korea had borrowed \$10 billion from the U.S. Federal Reserve under the currency swap arrangement. By August 26, 2009, the outstanding amount had been reduced to \$6 billion.

On the domestic side, since March 2009, South Korea has been operating a 20 trillion won (\$14.3 billion) Bank Recapitalization Fund aimed at helping banks strengthen their capital base. The Fund is managed by the Bank Recapitalization Fund Oversight Committee and operated through the state-run Korea Development Bank and Korea Asset Management Corporation. It purchases hybrids and subordinate bonds from banks. Banks that participate in the scheme are required to sign a memorandum of understanding that includes commitments to support the real economy, notably small- and medium-sized enterprises, and corporate restructuring.⁷ Korea also established a Restructuring

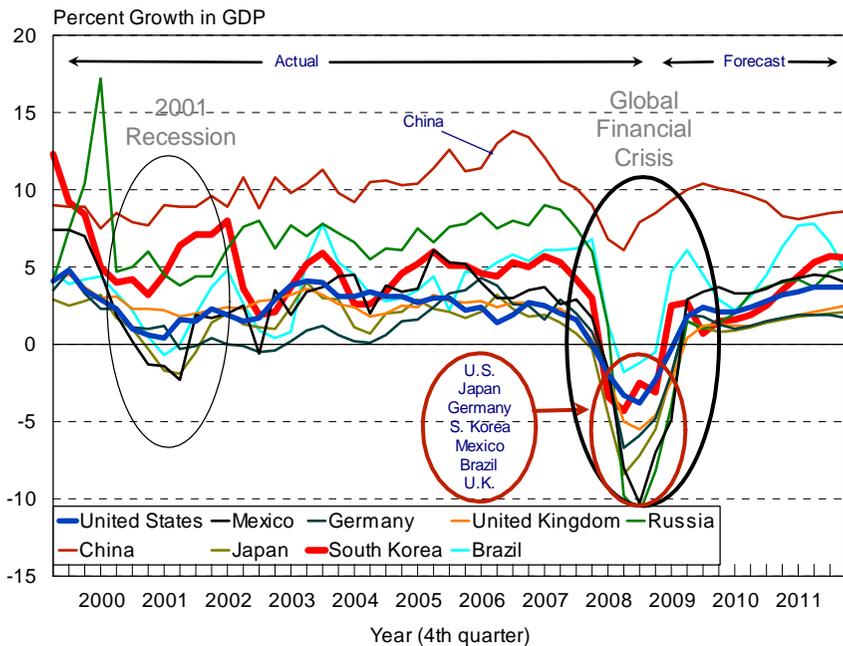
Fund to operate from May 13, 2009 to 2014 and is administered by the Korea Asset Management Corporation. The Fund purchases non-performing loans from financial institutions and assets of the companies that undergo restructuring. It may dispose of up to 40 trillion won (\$32 billion) through government-guaranteed bonds.⁸

Phase II: Coping with Economic Effects

The second phase of this financial crisis resembles any recessionary segment of a business cycle except for the severity of the economic downturn that has confronted countries around the world. The financial crisis quickly spread from banking, securities, and insurance markets to the real economic sectors. The chaos on Wall Street soon engulfed Main Street. Before long, production, firms, investors, households, and whole economies were pulled down by the uncertainty, drops in consumption, ever widening flight of capital, and by falling exports and commodity prices. In this phase, governments turned to traditional fiscal, trade, and employment policies along with direct intervention to save companies in order to deal with the recession, declining tax revenues, and rising unemployment.

Figure 4 shows the effect of the financial crisis on economic growth rates (annualized changes in real GDP by quarter) in selected nations of the world. The figure shows the difference between the 2001 recession that was confined primarily to countries such as the United States, Mexico, and Japan and the current financial crisis that has pulled down growth rates in a variety of countries. This recession has been global. The synchronous nature of the recession is clearly visible. Even China experienced a “growth recession.” The implications of this synchronous drop in growth rates have been that neither the United States nor other nations that depend on the U.S. and European markets have been able to export their way out of the recession. Those countries that have pushed exports have done so only by taking market share from other exporting countries. Countries with high export dependency, such as South Korea, either had to gain market share in the United States or depend more on exports to countries that were still growing, such as China.

Figure 4. Quarterly (Annualized) Economic Growth Rates for Selected Countries



Source: Congressional Research Service. Data and forecasts (October 15, 2009) by Global Insight.

In response to the recession, many countries adopted fiscal stimulus packages designed to induce economic recovery or at least keep conditions from worsening. These included packages by the United States (\$787 billion), China (\$586 billion), the European Union (\$256 billion), Japan (\$396 billion), Mexico (\$54 billion), and South Korea (\$52.5 billion). The global total for stimulus packages exceeded \$2 trillion, but some of the packages included measures that extend into subsequent years, so the total did not translate into immediate government spending.

The stimulus packages by definition were to be fiscal measures (government spending or tax cuts) but some packages included measures aimed at stabilizing banks and other financial institutions that usually are categorized as bank rescue or financial assistance packages. The \$2 trillion total in stimulus packages amounted to approximately 3% of world gross domestic product, an amount that exceeded the call by the

International Monetary Fund for fiscal stimulus totaling 2% of global GDP to counter worsening economic conditions worldwide.⁹ If only new fiscal stimulus measures launched in 2009 are counted, however, the total and the percent of global GDP figures would be considerably lower. An analysis of the stimulus measures by the European Community for 2009 found that such measures amounted to an estimated 1.32% of European Community GDP.¹⁰ The IMF estimated that as of January 2009, the U.S. fiscal stimulus packages as a percent of GDP in 2009 would amount to 1.9%, for the euro area 0.9%, for Japan 1.4%, for Asia excluding Japan 1.5%, and for the rest of the G-20 countries 1.1%.¹¹

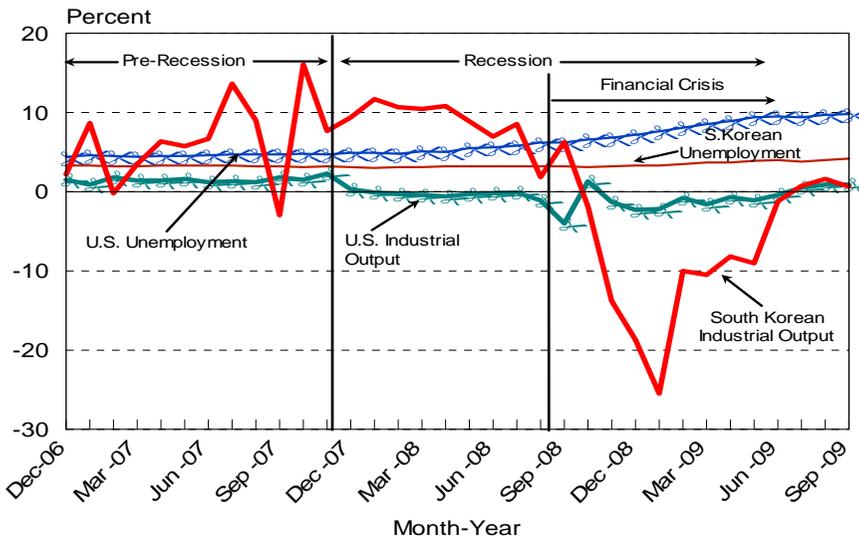
The U.S. stimulus package included a “cash for clunkers” program that provided a consumer subsidy of between \$2,500 and \$4,500 to U.S. residents to purchase a new, more fuel efficient vehicle when trading in a less fuel efficient vehicle. The program ran between July 1 and August 24, 2009, until the \$3 billion in funds were exhausted and was promoted as providing stimulus to the economy by boosting auto sales, while putting cleaner and more fuel-efficient vehicles on the highways. Of the 690,114 vehicles purchased under the program, Toyota came out on top with 19.4%. General Motors had 17.6%, Ford 14.4%, Honda 13.0%, Nissan 8.7%, Hyundai 7.2%, Chrysler 6.6%, and Kia 4.3%.¹² Hyundai and Kia clearly benefitted from the subsidized sales.

Relative to the size of the GDP, South Korea’s fiscal stimulus package was large at 6.1% of 2008 GDP, and it played an important role in limiting employment losses. The OECD Employment Outlook for 2009 has projected that the fiscal stimulus package will increase employment by between 148,000 and 326,000 workers in 2010. These amounts are net of leakage of stimulus spending into the purchase of imports rather than domestic production.¹³ Korea also implemented its version of “cash for clunkers” beginning in May 2009. It provided for a 70% cut in the individual consumption tax and acquisition/registration tax for new automobiles (local and imported) purchased to replace old automobiles.

The Korean government has also initiated a shipping fund to purchase vessels from shipping companies as part of its efforts to facilitate restructuring of the shipping industry. The shipping fund was established through contributions from private investors and financial institutions as well as from the government’s \$32 billion Restructuring Fund. As of August 28, 2009, 191.2 billion won (\$152 million) had been used for the purchase of ships.

Figure 5 shows U.S. and South Korean rates of unemployment and changes in industrial production by month from the corresponding month in the previous year. The size of the U.S. economy and the large proportion of the economy represented by services has meant that industrial production dropped approximately in line with changes in the whole economy. The largest decline was in October 2008 when industrial production dropped 4% below that of the previous year. However, certain regions with a heavy manufacturing presence, such as Michigan with its large concentration of motor vehicle manufacturers, experienced large declines in industrial production. The country as a whole, though, experienced moderate, although relatively large, contractions in such activity.

Figure 5. U.S. and South Korean Rates of Unemployment and Change in Industrial Production from a Year Previous Under the Global Financial Crisis



Source: Underlying data from U.S. Department of Commerce

South Korean industrial production was whipsawed by the financial crisis. Since exports comprise 40% of the Korean economy, the decline in global trade hit Korea hard. In January 2009, industrial production had dropped by 25% from the previous year. However, the depreciation of the won combined with the government’s stimulus programs spurred

demand, and by mid-2009 industrial production began to recover fairly rapidly.

As shown in **Figure 5**, the decline in industrial activity pushed up the rate of unemployment in both countries. South Korea's unemployment rate rose a whole percentage point from 3.2% in September 2008 to 4.2% in September 2009. This was considerably below the 7% in 1998 in the midst of the Asian Financial Crisis, but it was a level not seen since the recession of 2001. In the United States, labor markets also were severely impacted by the financial crisis. The rate of unemployment at 4.9% in December 2007 began to rise as the United States dropped into recession. When the worst of the financial crisis erupted in September 2008, unemployment already was at 6.2%, and it continued to rise to 9.8% by September 2009 with some 15 million people actively seeking work. During the Asian financial crisis, U.S. unemployment actually declined to 4.5%.

Phase III: Regulatory and Financial Market Reform

The third phase of the global financial crisis—to decide what changes may be needed in the financial system—is underway in a halting manner. Neither the United States nor South Korea, however, can be a regulatory island among competing nations of the world. The international marketplace consists of multinational corporations, instant transfers of wealth, lightning fast communications, and globalized trading systems for equities and securities. If domestic regulations are anomalous or significantly more “burdensome” than those in other industrialized nations, business and transactions will migrate toward other markets. Hence, many have emphasized the need to coordinate regulatory changes among nations. The vehicle for forming an international consensus on measures to be taken by individual countries is the G-20 (Group of Twenty) along with the International Monetary Fund and new Financial Stability Board¹⁴ (based in Switzerland), although some developing nations prefer the more inclusive G-30.

In order to coordinate reforms in national regulatory systems and give such proposals political backing, world leaders began a series of international meetings to address changes in policy, regulations, oversight, and enforcement. Some are characterizing these meetings as Bretton Woods II. The G-20 Leaders' Summit on Financial Markets and the World Economy that met on November 15, 2008, in Washington, DC, was the first of a series of summits to address these issues. The second

was the G-20 Leader's Summit on April 2, 2009, in London, and the third was the Pittsburgh Summit on September 24-25, 2009, with the U.S. President as the host. In 2010, Canada will host the fourth meeting in June, and Korea will host the fifth in November. The choice of South Korea for the 2010 G-20 summit reflects the country's growing presence in global financial and economic circles. However, it also places pressure on Seoul's financial authorities to follow through on the G-20 reforms and to push through on the G-20 goal of completing the Doha Round of Multilateral Trade Negotiations under the WTO.

In this third phase, the immediate issues to be addressed by the United States and other nations center on "fixing the system" and preventing future crises from occurring. Much of this involves the technicalities of regulation and oversight of financial markets, derivatives, and hedging activity, as well as standards for capital adequacy and a schema for funding and conducting future financial interventions, if necessary. An important question is what to do with companies that are deemed "too big to fail" in order to prevent their failure and actions to take if they do fail. In the United States, lawmakers have faced immense inertial forces when attempting to make changes in the financial oversight and regulatory system. Entrenched interests are strong, and other issues, such as health care, the wars in Afghanistan and Iraq, and nuclear non-proliferation are commanding the attention of the U.S. Congress, particularly as global economic conditions improve.

Measures proposed by both the U.S. Treasury and the G-20 have included the following:

- **Systemic Risk:** All systemically important financial institutions should be subject to an appropriate degree of regulation. Use of stress testing by financial institutions should be more rigorous.
- **Capital Standards:** Large complex systemically-important financial institutions should be subject to more stringent capital regulation than other firms. Capital decisions by regulators and firms should make greater provision against liquidity risk.
- **Hedge Funds:** Hedge funds should be required to register with a national securities regulator. Systemically-important hedge funds should be subject to prudential regulation.

Hedge funds should provide information on a confidential basis to regulators about their strategies and positions.

- Over-the-Counter Derivatives: Credit default swaps should be processed through a regulated centralized counterparty or clearing house.
- Tax Havens: Minimum international standards—a regulatory floor—should apply in all countries, including tax havens and offshore banking centers.

The United States also has approved additional funding and a larger role for the International Monetary fund in dealing with macroprudential oversight (systemic risk). The U.S. Congress also has been considering legislation that would establish a Consumer Financial Protection Agency, provide for additional regulation of credit rating agencies and a systemic risk monitor, deal with firms that are too big to fail, protect investors, require registration by private fund advisors, and provide for greater shareholder voice in determining and eliminating perverse incentives relative to executive compensation.

Phase IV: Dealing with Political Effects and Protectionism

The fourth phase of the financial crisis is in dealing with the political effects of the financial turmoil and pressures to protect favored industries. These are secondary impacts that relate to the roles of the United States and South Korea on the world stage, the strength of ruling regimes, and policies to deal with industries in distress.

During the early phase of the crisis, European leaders (particularly British Prime Minister Gordon Brown, French President Nicolas Sarkozy, and German Chancellor Angela Merkel) played a major role in crafting international mechanisms and policies to deal with the initial adverse effects of the crisis as well as proposing long-term solutions. The U.S. presidency was in transition. Under the Obama Administration, the United States has emerged as an “indispensable nation.” Even though the United States is at the center of the blame for the crisis, and some see it as yet another of the excesses of a country that emerged as the sole superpower in a unipolar world following the end of the Cold War, countries recognize that the United States is still one of a scant few that can bring other nations along and induce them to take actions outside of their political comfort zone. The combination of U.S. military power, extensive economic and financial clout, its diplomatic clout, its veto

power in the IMF puts the United States at the center of any resolution to the global financial turmoil.

South Korea still is a newcomer to the club of rich nations, but it has been on a steady ascent. The financial crisis has provided both an opportunity to lead and to gain recognition for its high quality products. This recognition, in combination with events such as hosting the G-20 summit in 2010, has caused expectations to rise that Korea can provide more leadership (much as it already does in the United Nations) on financial and economic matters. Ultimately, this may require more sacrifices by the Korean people in areas such as opening its agricultural sector to import competition in order to move forward the Doha Round of multilateral trade negotiations under the World Trade Organization.

A large effect of the crisis has been to accelerate the rise of China on the world stage. Some have referred to the necessity of the G-2 (the United States and China) to take the lead in resolving imbalances in the global economy. Not only has China been called upon to provide funds for the IMF and currency swaps for countries under duress, but it has taken full advantage of its position as a creditor nation to lecture the United States on its “profligacy” and excessively leveraged markets. While China is not able to take the initiative on issues of regulation, its high rates of growth mean that countries, such as Korea, depend more and more on China for trade and regional leadership out of recession.

The financial crisis has also worked on political leadership and regimes within countries. Discontent among citizens who are losing jobs, seeing businesses go bankrupt, losing wealth both in financial and real assets, and facing declining prices for their products often result in public opposition to the existing establishment. In some cases it can foment extremist movements, particularly in poorer countries where large numbers of unemployed young people may become susceptible to religious radicalism that demonizes Western industrialized society and encourages terrorist activity.

In the United States, the global financial crisis and poor economic conditions joined with existing public discontent with the George W. Bush Administration to help propel Barack Obama into office. As will be discussed later in this article, this has had a significant impact on U.S. trade policy overall and particularly the Korea-U.S. Free Trade Agreement. In Korea, President Lee Myung-bak’s approval ratings already were dismally low in mid-2008 (less than 20%) and actually improved during the worst of the financial crisis.

The financial crisis also works on ruling regimes through the actions of existing governments, both to stay in power and to deal with the adverse effects of the crisis. Most nations view the current financial crisis as having been created by the financial elite in New York and London in cooperation with their increasingly laissez faire governments. By blaming the industrialized West, particularly the United States, for their economic woes, governments can stoke the fires of nationalism and seek support for themselves. As nationalist sentiments rise and economic conditions worsen, citizens look to governments as rescuers of last resort. Political authorities can take actions, ostensibly to counter the effects of the crisis, but often consolidating their power and preserving their own positions.

Such activity is less apparent in the United States and South Korea than in, for example, the former communist countries in Eastern Europe. Still, the focus of governments on economic recovery, the ability of legislators to channel stimulus funds toward favored political interests, and the adverse effects of the financial crisis on industrial sectors and specific regions place constraints on governments and generate pressures to protect favored industries. In the United States, this can be seen, for instance, in pressures to protect industries, anti-dumping actions, and the postponement of any Congressional consideration of the KORUS FTA.

In the basic economic philosophies that guide policy, expediency seems to be trumping free-market ideologies in many countries. The crisis may hasten the already declining economic neoliberalism that began with President Ronald Reagan and British Prime Minister Margaret Thatcher. Although the market-based structure of most of the world economies is likely to continue, the basic philosophy of deregulation, non-governmental intervention in the private sector, and free and open markets for goods, services, and capital seem to be subsumed by the need to increase regulation of new financial products, increased government intervention, and some pull-back from further reductions in trade barriers.

State capitalism, in which governments either nationalize or own shares of companies and intervene to direct parts of their operations, has been rising, not only in countries such as Russia, but in the United States, Asia, and Europe. Nationalization of banks, insurance companies, and other financial institutions, as well as government capital injections for and loans to private corporations, have become parts of rescue and stimulus packages and have brought politicians and bureaucrats directly

into economic decision-making at the company level. Who would have thought that the United States would appoint a “Pay Czar” to monitor and approve executive compensation in companies receiving government help?

In the United States, the government ownership interest in companies, such as AIG, General Motors, and Chrysler, has raised questions relative to efficiency and the distribution of profits, and it also poses policy dilemmas dealing with equity (government favoring one company over another) and the use of scarce government resources in the oversight and management of companies. When taxpayer funds have been used to invest in a company, the public has acquired an interest in its operations and profitability and has an incentive to protect the government investment in the company, e.g. by protecting it from foreign competition or by enacting programs to increase purchases of its products.

In the G-20 and other meetings, world representatives have been vocal in calling for countries to avoid protectionism as they try to stimulate their own economies. Still, whether it be provisions to buy domestic products instead of imports, financial assistance to domestic producers, or export incentives, countries have been attempting to protect national companies, often at the expense of those that are foreign. Overt attempts to restrict imports, promote exports, or impose restrictions on trade are limited by the rules of the World Trade Organization (WTO), but there is ample scope for increases in trade barriers that are consistent with the rules and obligations of the WTO. These include raising applied tariffs to higher levels as well as actions to impose countervailing duties or to take antidumping measures. Moreover, there are opportunities to favor domestic producers at the expense of foreign producers through industry-specific relief or subsidy programs, broad fiscal stimulus programs, or currency depreciation.

In July, 2009, the WTO reported that in the previous three-month period, there had been “further slippage towards more trade-restricting and distorting policies” but no resorting to high intensity protectionist measures. Some countries had taken some trade-liberalizing and facilitating measures despite the global recession. However, the WTO pointed out that a variety of new trade-restricting and distorting measures had been introduced, including a further increase in the initiation of trade remedy investigations (anti-dumping and safeguards) and an increase in the number of new tariffs and new non-tariff measures (non-automatic

licenses, reference prices, etc.) affecting merchandise trade. According to the WTO, new trade and trade-related policy measures that had been taken since September 2008¹⁵ in Korea included incentives to purchase new cars, establishment of a fund to purchase ships and lease them back to their previous owners, and a reduction in the number of work permits for unskilled and semi-skilled foreign workers. The Korean government, however, also took some trade-liberating measures, including loosening limits on certain educational and medical services and allowing U.S. and other foreign laboratories to conduct safety tests on lithium-ion batteries used in portable devices.

The United States has taken a number of measures aimed at protecting domestic producers. The Buy America provision in the February 2009 stimulus package¹⁶ has been widely criticized, even though the provision applies only to steel, iron, and manufactured goods used in government funded construction projects. Also, the law included language that the provision “shall be applied in a manner consistent with United States obligations under international agreements.” Nevertheless, many nations have protested the Buy America language as “protectionist”¹⁷ and as one of several U.S. actions against imports and a step down the slippery slope that could lead to trade retaliation and a cycle of “beggar-thy-neighbor” trade policies. The Obama Administration also halted progress in allowing cross-border trucking by Mexico and was instrumental in GM’s decision to produce some new subcompact cars in the United States instead of China (included in the GM rescue package). The Administration, however, has not named China as a currency manipulator in its report by the U.S. Treasury.¹⁸

The government has also imposed additional attestation requirements for certain employers that received funds from the Troubled Assets Relief Program in hiring H 1B visa workers, imposed import tariffs (10%) on softwood lumber from four Canadian Provinces, reintroduced subsidies for exports of certain dairy products, and imposed anti-dumping duties on imports of car and light truck tires from China. The anti-dumping duties on tires has triggered several counter actions by China. It also has emboldened other industries to file similar petitions for import relief. The fear is that this may be the beginning of a cycle of trade retaliation.

International Trade and Exchange Rates

U.S. Trade Policy

For both the Obama Administration and Congress, international trade policy has become a casualty of the global recession, the debate over health care, and the electoral sweep by the Democratic Party in Congress in 2006 and in the White House in 2008. This confluence of events has worked to stymie movement in Washington toward articulating a trade policy for the United States.

The health care debate pushed aside other issues waiting for consideration, particularly those remaining unresolved from the Bush Administration, such as the pending free-trade agreements with Panama, Columbia, and Korea. For the Democratic Party, a failure in health care could embolden the opposition, jeopardize the Democratic majority in Congress, and seriously impair the ability of President Obama to lead on other contentious issues. The policy focus in the fall of 2009 has been on health care legislation and the global financial crisis.

The global recession also means that budgets are tight, unemployment is high, and Americans have become more risk averse. Globalization and international trade are increasingly being viewed as merely helping countries like China accumulate wealth and as the source of huge job losses in manufacturing industries. Labor unions, in particular, who gave considerable support to Democratic Party candidates in the 2008 election now, have a larger voice in policy, and they oppose further trade liberalization.

In late 2009, therefore, U.S. trade policy tended to be *ad hoc* and moving forward by the application of existing law (particularly that providing for trade remedies), in response to political exigencies, and through the actions of Congress. Under the U.S. Constitution, the Congress, not the Administration, is given authority over trade policy, and increasingly Congress is reclaiming some of the authority that it had given the President. The Administration's *2009 Trade Policy Agenda and 2008 Annual Report* stated that it will conduct extensive outreach and discourse with the public on whether the various free trade agreements appropriately advance the interests of the United States and U.S. trading partners. In particular, the Administration stated that it will promptly, but responsibly; address the issues surrounding the Colombia, Korea and Panama Free Trade Agreements.¹⁹ In essence, this translates into a review of KORUS FTA, particularly with respect to its provisions

related to the automobile industry, labor, and the environment. Officials from the office of the U.S. Trade Representative, however, reportedly have stated their desire to address the Administration's concerns without renegotiating the agreement.²⁰

In Congress, most Republicans tend to favor the KORUS FTA while Democrats are deeply divided. On the Senate side, Max Baucus, a Democrat and Chair of the Senate Finance Committee along with Charles E. Grassley, the ranking Republican on the committee, wrote to President Obama stating: "The greatest challenge and opportunity in our bilateral economic relationship (with Korea) is the pending U.S.-Korea Free Trade Agreement (FTA). We have long supported a bilateral trade agreement with Korea, and we strongly believe an agreement would provide tremendous benefits to American workers, farmers, and ranchers. . . . A U.S.-Korea FTA would not only secure American exporters broad access to a dynamic economy, but it would also anchor our economic presence in Asia."²¹

On the House side, however, Congressman Sandy Levin, a Democrat from Michigan who chairs the Trade Subcommittee of the House Ways and Means Committee, made this statement. "The problems with the Korea FTA are clear – in particular, a long history of erecting a series of non-tariff barriers to severely limit U.S. exports of automobiles and other key industrial goods. It remains to be seen whether Korea is willing to resolve these issues. In 2008, Korea exported more than 600,000 cars and light trucks to the United States; the United States exported just over 10,000 to Korea. And the U.S. auto industry is not alone in its concerns with the Korean automotive market. European automakers also vigorously oppose an unbalanced trade agreement with Korea. In March 2007, 15 Democrats and Republicans offered a very specific proposal to address these issues. The proposal, which was sent to President Bush, would, among other things: (1) phase out the 2.5% U.S. tariff on autos over 15 years, but give duty free entry to a specified number of Korean cars every year based on the number of cars above a baseline that the U.S. exports to South Korea; and, (2) establish a Non-tariff Barrier dispute settlement mechanism, which would include a reverse burden of proof."²²

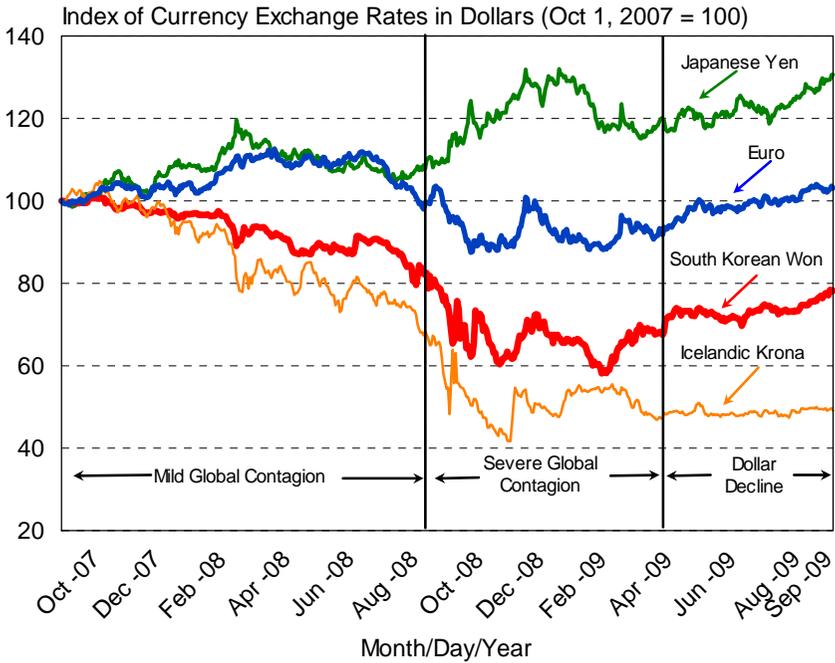
The outlook, therefore, for consideration of the KORUS FTA in the near future is dim. Once the health care debate is over, the Congress may take up the Panama and Columbia FTAs (possibly in spring 2010 before campaigning for mid-term elections intensifies). But even these FTAs

are contentious, and any reduction in tariff revenue will have to be offset by either increasing revenues or cutting spending elsewhere in the U.S. budget. This is extremely difficult during a time of U.S. budget deficits in the \$1 trillion range.

The Won and Bilateral Trade

The global financial crisis has had a severe impact on international trade flows. During the early months of the crisis, trade declined at a faster rate than at any time since the Great Depression. Exchange rates turned out to be a major transmitting mechanism for the crisis. Global exchange markets, like other financial markets, responded almost instantaneously to market disruptions. Since the crisis began in financial sectors, the initial impact was on financial indicators, such as exchange rates. **Figure 6** shows indexes of exchange rate values for the Korean won, Euro, Japanese yen, and Icelandic Krona relative to the U.S. dollar. These four currencies roughly represent the range of response by currencies during the crisis. Note that while most currencies were weakened as investors sought the safe haven of the United States during a time when virtually all investments lost value. Japan was an exception as it, too, was viewed as a safe haven. The yen carry trade also began to unwind; bringing funds that had been borrowed in yen at low rates of interest and invested in higher-interest countries back into the yen. The euro had appreciated during 2008, but it soon lost strength as countries of the European Union too were battered by the financial crisis. The Korean won had been steadily depreciating during 2008 and then dramatically dropped in value in the fall of 2008. One of the worst cases can be seen in the Icelandic Krona. As Iceland, itself, faced bankruptcy, and the government was compelled to take over all its major banks, the value of its currency shrank in half and has stayed at that low level. In April 2009, however, as the first signs of recovery appeared and stock markets began to recover, the value of the dollar began to erode and gains were recorded by the won, euro, and yen. As a side note, during this time the Chinese renminbi appreciated slightly against the dollar but has remained fairly stable since September 2009. It was 7.0 RMB per dollar in May 2008 and 6.83 RMB in October 2009.

Figure 6. Indexes of Exchange Rate Values for the Korean Won, Euro, Japanese Yen, and Icelandic Krona Relative to the U.S. Dollar



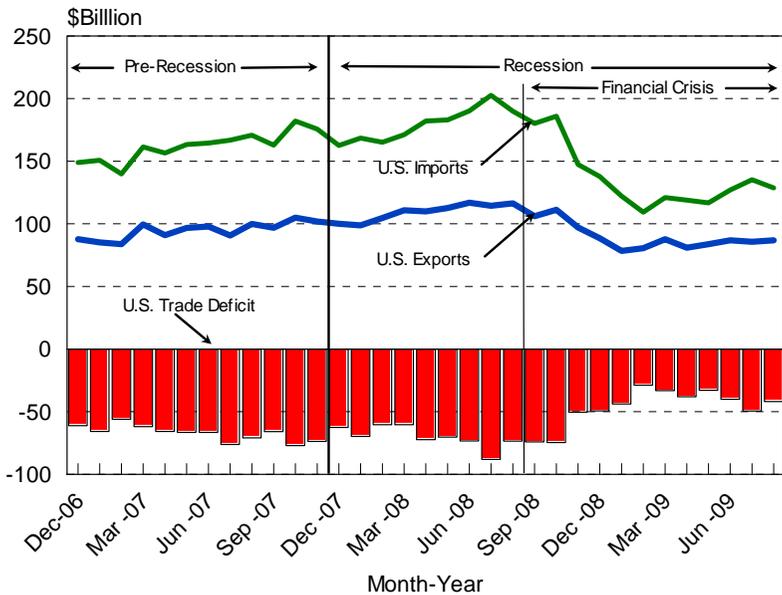
Source: Data from PACIFIC Exchange Rate Service, University of British Columbia.

For Americans, the sharp depreciation in the value of the won while the dollar was appreciating was reminiscent of, but not quite as dramatic as, the decline in the value of the won during the 1997-98 Asian financial crisis. At that time the won dropped by 91% from 893 won per dollar in July 1997 to 1707 won per dollar by January 1998. From September 2008 to March 2009, the won depreciated by 56% from 928 won to 1450 won per dollar. This depreciation gave South Korean exports a decided advantage in U.S. markets and U.S. exports a huge handicap in South Korean markets.

In the United States, as the worst of the financial crisis hit, both imports and exports fell. Of the two, however, imports fell faster and reduced the U.S. merchandise trade deficit from about \$70 billion per month in mid-2008 to as low as \$29 billion per month in February 2009.

(See **Figure 7.**) As the U.S. economy stabilized in mid-2009, however, the monthly trade deficit began to rise again. By July 2009, when compared with January 2008, U.S. imports of consumer goods had regained their previous level. Motor vehicles were still down by \$6 billion or 25%; capital goods were beginning to recover slightly (still down \$4 billion), but industrial supplies were down by a third or more than \$20 billion. Clearly, recessionary business conditions were affecting industrial production and the need for imports of industrial supplies.

Figure 7. U.S. Imports, Exports, and Balance of Trade Under the Financial Crisis

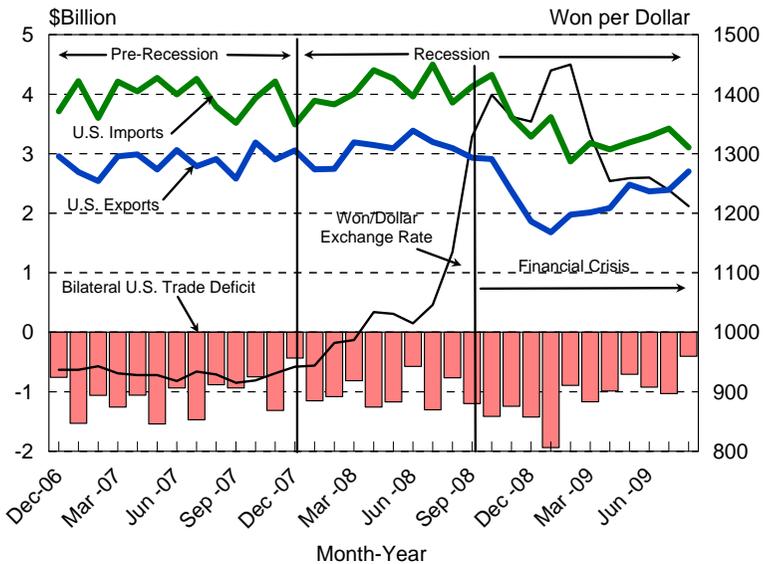


Source: Underlying data from U.S. Department of Commerce (Census Basis)

As for U.S. trade with South Korea, as can be seen in **Figure 8**, during the early part of 2008, both U.S. imports from and exports to Korea were generally rising. As the financial crisis exploded upon the scene, both U.S. imports and exports fell, but exports fell faster, with the result that the U.S. merchandise trade deficit with Korea rose sharply and peaked at \$1.9 billion for the month of January 2009. This rising

bilateral trade deficit coincided with the sharp depreciation in the value of the won. The underlying story seems clear. South Korea has been able to maintain its surplus in trade with the United States primarily because of the huge depreciation in the value of the won. As the won has appreciated during later in 2009, the bilateral deficit in trade has decreased as U.S. exports began to recover.

Figure 8. U.S. -South Korean Merchandise Trade and the Won-dollar Exchange Rate

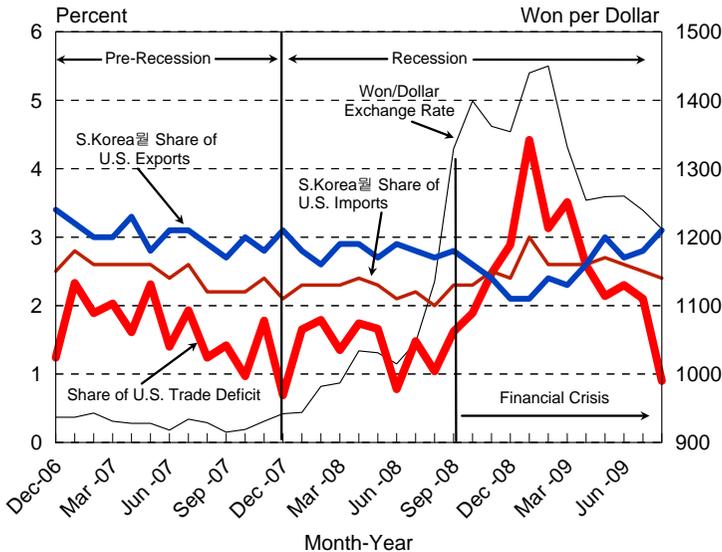


Source: Underlying data from U.S. Department of Commerce

The levels of trade between the United States and South Korea as measured by the dollar amounts in **Figure 8**, however, do not portray how Korean exports and imports fared during the crisis relative to those of other countries. **Figure 9** shows the U.S.-South Korean trading relationship in terms of shares. South Korea's share of U.S. exports (imports into Korea) declined following the outbreak of the financial crisis, but it recovered substantially by mid-2009. The Korean share of U.S. imports (Korean exports), however, rose from 2% in August 2008 to a peak of 3% in January 2009 before declining somewhat. The peak in imports contributed to a comparable peak in the share of the overall U.S.

trade deficit accounted for by Korea. Traditionally less than 2%, this share doubled in January 2009 before ebbing back to more normal levels by mid-year. The peak in the import share and the share of the overall U.S. trade deficit coincided with the large depreciation in the value of the won. As the won recovered some of its value in mid-2009, the South Korean share of the U.S. trade deficit also declined.

Figure 9. Shares of U.S. Exports, Imports, Bilateral Trade Balance With South Korea and the Won-Dollar Exchange Rate



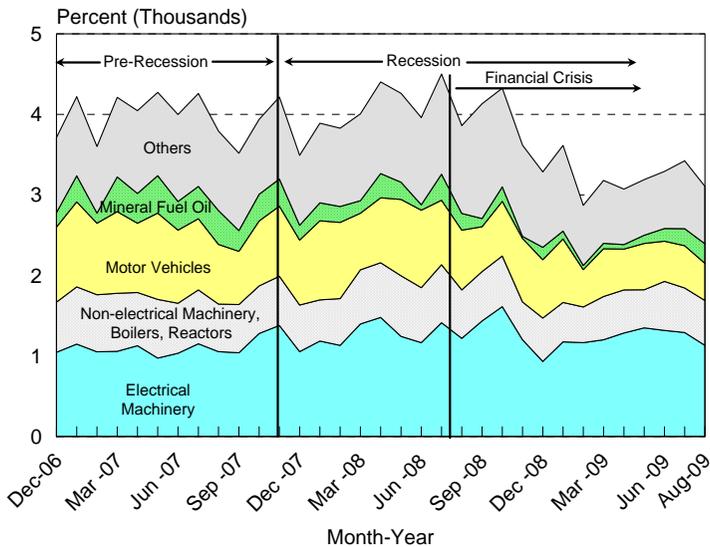
Source: Underlying data from U.S. Department of Commerce

It is clear from the data that the huge depreciation in the value of the won played a major role in the ability of South Korea to weather the downturn in international trade from the global financial crisis. The cheaper yen allowed South Korean exporters to lower their prices or offer incentives for Americans to purchase their products. At the same time, it made American products more expensive in Korea and depressed U.S. exports there.

Within the total U.S. imports from South Korea under the global financial crisis, the top four products have been electrical machinery, motor vehicles, non-electrical machinery/boilers/reactors, and mineral fuel oils. The monthly imports of these four items are shown in **Figure 10**. Under a situation in which total U.S. imports from Korea fell by a

quarter from mid-2008 to August 2009, imports of electrical machinery fell by 10%, non-electrical machinery fell by 17%, motor vehicles by 44%, and other products by 25%. Imports of fuel oil rose by 22%. Most of the imports of electrical machinery were telecommunications equipment, circuits, and video equipment. Even under recessionary conditions, demand for these products remained fairly strong in the United States. Samsung, LG, and other Korean producers have become fierce competitors in these industries.

Figure 10. Top Four Imports from South Korea into the United States



Source: Underlying data from U.S. Department of Commerce

The decline in imports of motor vehicles reflected the overall drop in sales and also production by Hyundai in its plant in the United States. Imports of automobiles from Korea peaked at \$1,013 billion during the month of March 2008 (up from \$650 billion in September 2007), but the monthly total declined steadily during the financial crisis to \$460 billion in August 2009. As a share of U.S. imports of motor vehicles, South Korea's monthly market share rose from about 5% in December 2006 to as high as 9% in January 2009. Since then, however, the share has fallen back to around 5%.

Despite the severe downturn in automobile sales in the United States, Korean automaker Hyundai/Kia has been able to take advantage of the low value of the won and the troubles of GM and Chrysler to establish itself more firmly in the U.S. market. A decade before the crisis, Hyundai had announced its 100,000-mile, 10-year, limited power train warranty, and 60,000 bumper-to-bumper warranty, but this was largely unknown to American consumers. Most Americans also were not aware how much the quality of Hyundai had improved. In 2004 Hyundai tied Honda for second place in the prestigious J.D. Power and Co. Initial Quality Survey. In 2004, Hyundai also completed its first U.S. assembly plant. During the financial crisis, Hyundai actively promoted its warranties. Then in January 2009 during the worst of the crisis, Hyundai announced its Assurance Plus program. Potential customers worried about losing their jobs, were assured that if such an event did occur during the year, the company would take a newly purchased car back without affecting a customer's credit ratings. In addition, as gasoline prices rose during the summer of 2009, Hyundai announced its Gas Lock program in which the price of gasoline for a new car purchased between July 1 and August 31, 2009, was locked at \$1.49 per gallon for regular grade gasoline. In June, the price had risen to \$2.64 per gallon.²³

When Hyundai introduced the extended vehicle warranties, it recognized that if its quality did not measure up to its warranties, the warranty claims would cost a lot of money. Even though the company had steady earnings and profits of \$1.15 billion in 2008 (a year when most carmakers lost money) and a cash reserve in June 2009 of nearly \$4.6 billion, the warranties were a huge risk, but one that has worked well for the company. Korean automakers selling in the United States, however, were assisted greatly by the 56% depreciation in the value of the won. For cars and parts imported from the homeland, there was considerable room for profit. Hyundai could either lower prices or offer innovative incentives and advertise. It chose to offer programs to consumers that hit the major news outlets. Suddenly, American consumers became aware of this relatively new car company. Over the first eight months of 2009, Hyundai's sales in the United States rose by 0.8% while Ford's sales dropped by 25%, GM's by 35%, and even Japanese automakers saw declines of 25 to 30%. With the help of the "Cash for Clunkers" program in August, Hyundai's sales zoomed up by 47%. It is now poised to overtake Chrysler/Dodge/Jeep in U.S. sales.²⁴ In addition, GM's decision to terminate its Saturn brand could help

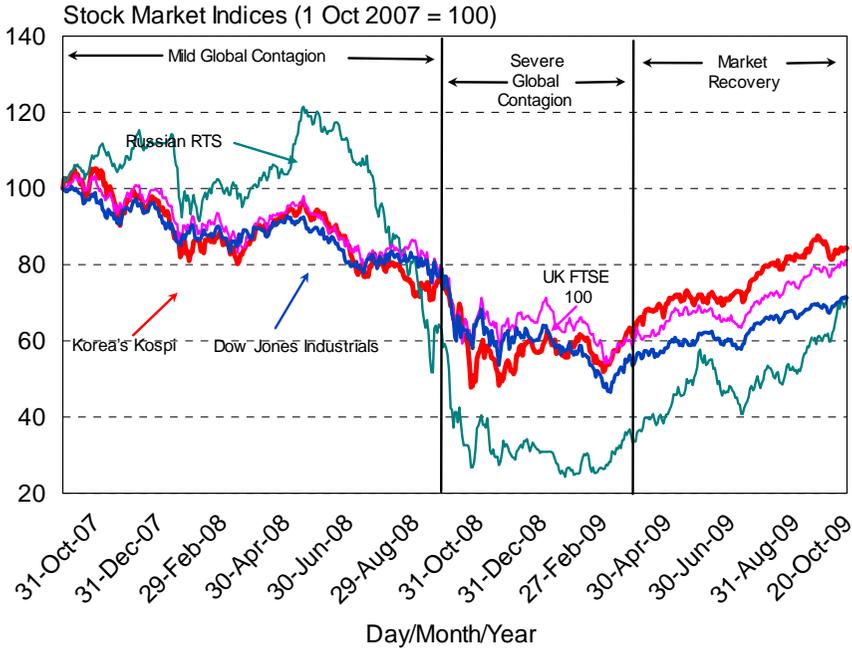
Hyundai, since Saturn was originally intended to compete head to head with imported cars from Asia, particularly those from Korea.

Investment Flows

International investment or capital flows have been greatly affected by the global financial crisis. Capital flows can be divided into portfolio investment and direct investment. Short-term portfolio investments are those in stocks, bonds, and other securities issued both by governments and private corporations for which the investor is not able to exercise control over the issuing entity. In long-term direct investments, usually referred to as (foreign) direct investment (FDI), the investor usually is establishing a subsidiary, buying a controlling interest, or engaging in a joint venture. The investor is able to exercise control over the stock issuing corporation. In general, this is interpreted to mean at least a 10% share of the voting stock. Short-term investment flows depend on a range of factors, such as relative interest rates, safety of investments, and expectations of future movements in stock and bond prices. Long-term direct investment flows also depend on a variety of factors such as the expected rate of return, the relationship between the business activities of the investor and investee, and country stability.

An immediate indicator of the rapidity and spread of the financial crisis was in stock market values. As shown in **Figure 11**, as values on the U.S. market plunged, those in other countries were swept down in the undertow. By mid-October 2008, the stock indices for the United States, U.K., South Korea, and Russia had fallen by nearly half or more relative to their levels on October 1, 2007. The downward slide reached a bottom in mid-March 2009, although there still is concern that the subsequent recovery in stock values may not be sustained. Even with the recovery in the stock markets, the major indices are still down by about a quarter from their level in the fall of 2007. The close tracking of the equities markets in the United States, South Korea, and the U.K. provides further evidence of the global nature of capital markets and the flux in international capital flows.

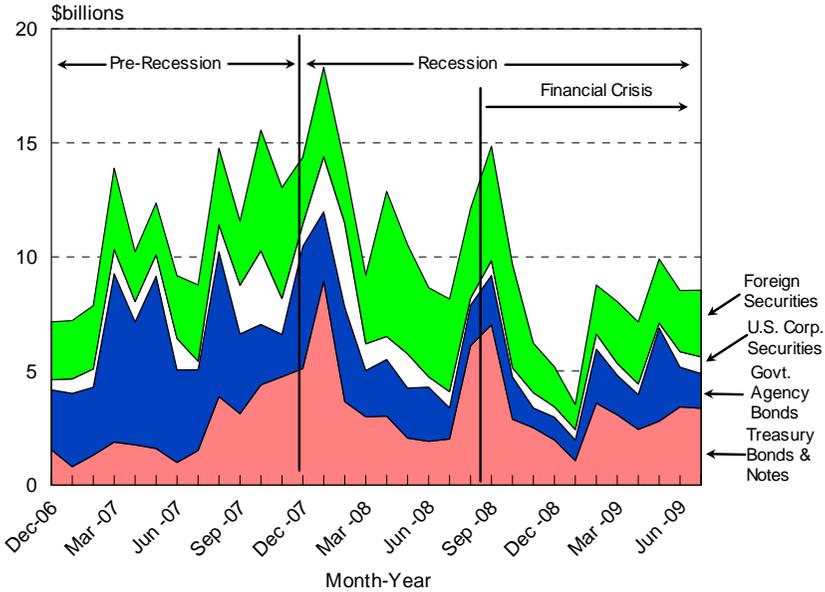
Figure 11. Selected Stock Market Indices for the United States, U.K., S. Korea, and Russia



Source: Factiva database.

Purchases by Koreans of U.S. Treasury securities, corporate stocks and bonds, and foreign stocks and bonds being sold on U.S. markets during the financial crisis fluctuated widely. As shown in **Figure 12**, As the U.S. recession began in December 2007, Korean purchases of U.S. Treasury securities spiked to \$9 billion in January 2008. It spiked again when the worst of the crisis hit in September 2008 when purchases rose to \$7 billion. Buying interest in U.S. Government agency bonds declined during the worst of the crisis, but it subsequently recovered somewhat in mid-2009. Purchases of U.S. corporate stocks and bonds declined considerably as the U.S. stock market tanked, but those purchases, too, are beginning to recover.

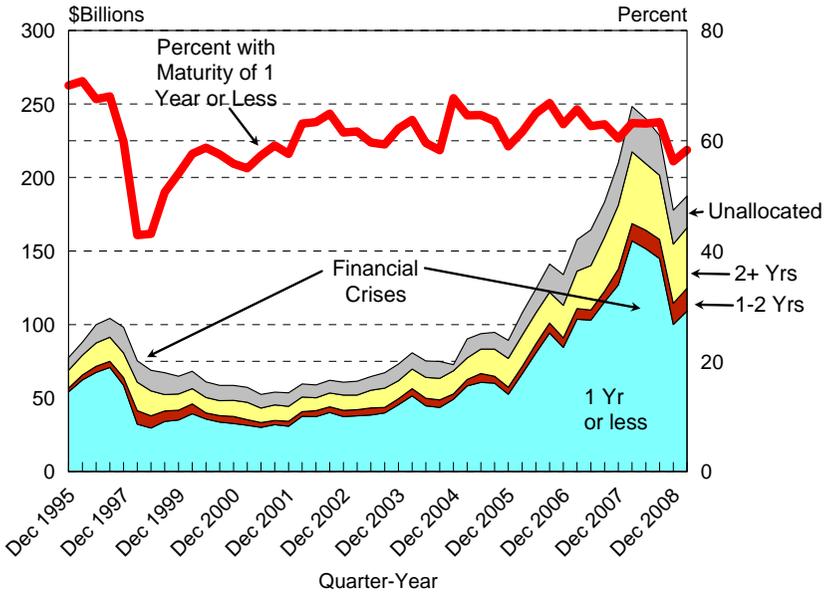
Figure 12. Korean Purchases of Treasury securities, U.S. Government Agency Bonds, U.S. Corporate Stocks and Bonds, and Foreign Stocks and Bonds under the Global Financial Crisis



Source: Underlying data from U.S. Treasury

During the 1997-98 Asian financial crisis, the Korean economy crashed because the government did not hold sufficient foreign exchange reserves to finance its short term international debt. During the period prior to the current crisis, however, Korea also had borrowed heavily using short-term debt. As shown in **Figure 13**, during the Asian financial crisis, Korea's international bank borrowings with maturity of less than one year fell from 70% in December 1995 to 42% in January 1998. During the current financial crisis, short-term Korean bank borrowing was as much as 63% of bank borrowing in September 2008. The Bank of Korea, however, had sufficient foreign exchange reserves to cover the debt service (See **Figure 2**).

Figure 13. South Korean International Bank Borrowing by Maturity Length



Source: Data from Bank for International Settlements

In terms of U.S. direct investment in Korea, as shown in **Figure 14**, at the end of 2008, the United States had invested \$27.7 billion there (up slightly from \$26.9 billion in 2007). This amount included about \$10 billion invested in depository institutions, \$3.6 billion in other financial institutions, and \$9 billion in manufacturing. Since the onset of the U.S. recession, the flow of direct investment in Korea has declined. According to U.S. figures, while there was an inflow into Korea of \$7.5 billion in 2006, in 2007, there was a net outflow of \$445 million, and a slight recovery to an inflow of \$819 million in 2008.

In May 2009, the Korean government announced some measures to promote foreign investment in the country. It would reform the current system of offering cash grants and tax breaks to foreign companies investing in South Korea as separate deals. Under the plan, both cash grants and standard tax breaks available to foreign-invested companies will be combined into a single pool with an aggregate cap. Recipient companies will be able to choose the best combination of cash and tax incentives for their purposes they want. The time line for this change

had not yet been fixed. The current FDI tax breaks have been in place for the past decade with tax holidays of three or five years, depending on the applicable FDI program, and 50% tax discounts for another two years. South Korea began offering negotiable cash grants in 2004. FDI inflow to South Korea has been stagnating in recent years, while the United States accounted for 16%, the largest share of all new foreign investments reported.²⁵

Korean foreign direct investment in the United States has been increasing. It rose from \$9 billion in 2006 to \$15.6 billion in 2008. In 2008, however, as the financial crisis worsened, the annual flow dropped by more than 90% from 2007 levels. Because of the small number of companies involved, many of the details of this total have been suppressed by the U.S. Department of Commerce.

Conclusion

The global financial crisis showed that the U.S. and Korean economies are highly linked. The early contagion spread quickly from Wall Street to the Seoul financial district. As the ensuing recession hit, both countries suffered, but Korea was able to maintain its export market share in the United States through the depreciation of its currency and aggressive marketing by a number of companies. In many respects, the current financial crisis is similar to the 1997-98 Asian financial crisis in that it reinforced the need for countries to accumulate large stocks of foreign exchange reserves to defend their currencies against attacks on their exchange values. Once the current crisis has passed, countries are likely to continue to attempt to build their currency reserves at the same time that the United States will be trying to reduce its trade deficit, the very deficit that helped countries such as South Korea, China, and Japan to accumulate their large currency reserves. Investment flows are still down but returning somewhat back to normal levels. The role of U.S. Treasury securities as a safe haven during times of financial crisis was clearly demonstrated by Korean purchases in January 2008 and again as the crisis intensified later that year in September.

U.S. international trade policy is at a standstill until the health care issue is resolved. It is possible that Congress may consider the Panama and Columbia free trade agreements at some point in the relatively near future (perhaps in the spring of 2010), but the KORUS FTA is much more problematic with labor and other opposition. The confluence of the global financial crisis, the health care debate, and the Democratic Party

sweep of the White House and Congress makes moving ahead on liberalizing trade at this time difficult for the United States (but not impossible).

Notes:

¹ Opinions expressed in this paper are the author's and do not necessarily reflect those of the Congressional Research Service, the Library of Congress, or the U.S. Government.

² For details, see Amy Schoenfeld and Dylan Loeb McClain, "The Bailouts: An Accounting," *The New York Times*, September 14, 2009. Internet version.

³ The U.S. government loaned a total of \$19.8 billion to the General Motors Corporation in working capital funding and warranty guarantees, and an additional \$30.1 billion under a debtor-in-possession financing agreement to assist the company in an orderly restructuring. GM filed bankruptcy proceedings on 1 June 2009. The new entity, General Motors Company (New GM), emerged from bankruptcy 10 July 2009, on the completion of the sale of certain GM assets to the New GM. The government converted its loans to 60.8% of the equity in the New GM, loans in the amount of \$7.1 billion, and \$2.1 billion in preferred stock.

⁴ U.S. Department of the Treasury. "Troubled Assets Relief Program, Monthly Progress Report—August 2009." September 10, 2009. pp. 6-7.

⁵ Board of Governors of the Federal Reserve System, "Federal Reserve System, Monthly Report on Credit and Liquidity Programs and the Balance Sheet, September 2009.

⁶ Seongtae Lee "The Global Financial Crisis and the Bank of Korea's Monetary Policy," Keynote address by the Governor of the Bank of Korea, at the Euromoney Conference, Seoul, 28 May 2009.

⁷ (Korea) Financial Services Commission, "Bank Recapitalization Fund: Timetable and Operational Plan," Press Release, 25 February 2009.

⁸ (Korea) Financial Services Commission, "Corporate Restructuring Progress and Financial Sector's non-performing loans," Press release, June 30, 2009.

⁹ Camilla Anderson, *IMF Spells Out Need for Global Fiscal Stimulus*, International Monetary Fund, IMF Survey Magazine: Interview, Washington, DC, December 28, 2008.

¹⁰ David Saha and Jakob von Weizsäcker, *Estimating the Size of the European Stimulus Packages for 2009*, Brugel, JWV/ DS, 12 December 2008.

¹¹ Charles Freedman, Michael Kumhof, Douglas Laxton, and Jaewoo Lee, *The Case for Global Fiscal Stimulus*, International Monetary Fund, IMF Staff Position Note SPN/09/03, March 6, 2009.

¹² U.S. Department of Transportation, "Cash for Clunkers Wraps up with Nearly 700,000 car sales and increased fuel efficiency, U.S. Transportation Secretary LaHood declares program "wildly successful." Press Release DOT 133-09, August 26, 2009.

¹³ Organization for Economic Co-operation and Development, *Employment Outlook 2009 – How does KOREA compare?*, Paris, OECD, September 16, 2009, p. 1.

¹⁴ The following countries and territories are represented on the Financial Stability Board: Argentina, Australia, Brazil, China, Canada, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Turkey, the United Kingdom, and the United States. The following institutions, standard-setting bodies and other groupings are also members of the FSB: the Bank for International Settlements, European Central Bank, European Commission, International Monetary Fund, Organization for Economic Co-operation and Development, World Bank, Basel Committee on Banking Supervision, International Accounting Standards Board, International Association of Insurance Supervisors, International Organization of Securities Commissions, Committee on the Global Financial System, and Committee on Payment and Settlement Systems.

¹⁵ World Trade Organization, Director-General, Report to the TPRB from the Director-General on the Financial and Economic Crisis and Trade-Related Developments, Report No. WT/TPR/OV/W/2, July 15, 2009.

¹⁶ H.R. 1 (P.L. 111-5) Sec. 1605 provides that none of the funds appropriated or otherwise made available by the act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States, provided that such action would not be inconsistent with the public interest, such products are not produced in the United States, and would not increase the cost of the overall project by more than 25%.

¹⁷ "Europe Warns against 'Buy American' Clause," *Spiegel Online International*, February 3, 2009, Internet edition.

¹⁸ Claude Barfield and Philip I. Levy, "In Search of an Obama Trade Policy," *International Economic Outlook*, (American Enterprise Institute for Policy Research), No. 1, August 2009, pp. 2-3.

¹⁹ U.S. Trade Representative, *2009 Trade Policy Agenda and 2008 Annual Report of the President of the United States on the Trade Agreements Program*, Washington, February 2009, p. 4.

²⁰ "USTR Says It Intends To Address FTA Issues Without Reopening Texts," *Inside U.S. Trade*, April 10, 2009.

²¹ Max Baucus and Charles Grassley. Letter to the President, April 20, 2009.

²² Sandy Levin, "A New Trade Policy that Meets the Challenges of the Global Economic Crisis," speech before The Washington International Trade Association, March 11, 2009.

²³ "Hyundai Tackles High and Uncertain Fuel Prices with Assurance Gas Lock – \$1.49 Per Gallon Guaranteed for a year," *PR Newswire*, New York, June 30, 2009. Internet edition. Paul Ingrassia. "Why Hyundai Is an American Hit," *The Wall Street Journal*, September 14, 2009., p. A13.

²⁴ Tim Higgins, "Hyundai Neck and Neck with Chrysler; Sales Zoom 47% in August, fueled by 'Cash for Clunkers,'" *Chicago Tribune*, October 10, 2009, p. 12.

²⁵ "South Korea Plans to Combine Tax Breaks, Cash Grants to Promote Foreign Investment," *International Trade Reporter*, 26 ITR 789, June 11, 2009.