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THE PENINSULA

Implications of the US Treasury's Designation of Currency

Manipulation for South Korea

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The last thing South Korean monetary officials need to hear about is the US Department of the Treasury's recent addition of South Korea to its currency monitoring lists. The timing could hardly be worse, as it was made in November prior to the drastic drop in the value of the won, partly driven by various factors such as South Korea's domestic political uncertainty. On January 16, the Bank of Korea decided to hold the interest rate steady at 3 percent, likely due to concerns over the effectiveness of previous rate cuts and the need to stabilize the won, which had hit a 15-year low against the US dollar. The recently announced America First Trade Policy explicitly addresses the issue of reducing the United States' current account deficit and directs the Secretary of Commerce to investigate the causes of this deficit in consultation with the Secretary of the Treasury and the United States Trade Representative. Section 2(e) also reaffirms the Treasury's authority to review and assess foreign exchange policies and take action if deemed "currency manipulation." Although it does not explicitly list specific countries, these policies will affect countries with significant trade imbalances with the United States or those accused of intentionally devaluing their currencies to gain a trade advantage, such as China, the

European Union, Mexico, Canada, Japan, Taiwan, Vietnam, and South Korea. In light of these circumstances, the South Korean government and the country's businesses will need to be agile in dealing with these external challenges that could emerge.

While the gravest challenge facing many countries under Trump 2.0 is his administration's potential tariff policy, there is also a risk involving volatile exchange rates. Trump's policies—including increased tariffs, tax cuts, and a focus on America-First policies—are expected to strengthen an already strong US dollar by lowering its current account deficit and bringing in more foreign investment. While a stronger dollar will benefit some South Korean exporters, the broader implications for the South Korean economy are concerning. Interest rates, for example, will likely have to remain high to ward off inflation caused by the weak won, especially in imported energy and food prices. In addition, Korea's typically highly leveraged companies that have taken on a lot of US-dollar-denominated debt will find it harder to repay. On the other hand, policies that induce more US investment in now cheap Korean assets could stimulate needed investment and growth inside South Korea.

South Korea's recent return to the US Treasury's currency monitoring list, **announced** on November 14, 2024, presents a layer of complexity for policymakers. The timing of South Korea's designation—at the end of the Joe Biden administration's term—marks a reversal of progress in addressing US concerns about its currency practices, even as the won has generally weakened over the past several years. The recent designation stemmed from the fact that South Korea satisfied two of the three criteria for currency manipulation: a trade surplus with the United States of at least 15 billion USD and a global account surplus above 3 percent of GDP. The third criterion—one-way net foreign exchange purchases—was not found in Korea, although it reported net foreign exchange sales of 9 billion USD, which is approximately 0.5 percent of GDP, over the four quarters ending in June 2024. The Treasury expressed concerns over Korea's foreign exchange sales, cautioning that such interventions should only occur in exceptional circumstances of market instability.

Legal Bases for Treasury's Currency Manipulator Designation

The US Treasury has the legal authority to designate a country as a currency manipulator under two key statutes: Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 (1988 Act) and Section 701 of the Trade Facilitation and Trade Enforcement Act of 2015 (2015 Act). While both acts outline similar criteria, they differ in their legal implications. In other words, the Treasury can determine that a country satisfies the criteria under one act without necessarily meeting the standards of the other.

The 1988 Act grants the president the authority to engage in negotiations with major trading partners to achieve fair and balanced trade and financial relationships. Under Section 3004, the Treasury is directed to assess whether a country manipulates its exchange rate to prevent balance-of-payments adjustments or gain an unfair competitive advantage in international trade. If a country meets these criteria, the Treasury must initiate negotiations—either through the International Monetary Fund (IMF) or bilaterally—to ensure that the country adjusts its exchange rate policies to eliminate unfair advantages.

The 2015 Act builds upon these provisions by requiring the Treasury to monitor the macroeconomic and currency policies of major trading partners. The act outlines three specific criteria for identifying unfair currency practices: (1) a significant bilateral trade surplus with the United States exceeding 15 billion USD over 12 months, (2) a material

current account surplus exceeding 3 percent of GDP during the same timeframe, and (3) persistent and one-sided foreign exchange market intervention via net purchases of foreign currency exceeding 2 percent of GDP over the same timeframe.

If a country satisfies all three criteria, the Treasury is authorized to initiate negotiations. Should the country fail to adopt appropriate policies within one year, the president may impose remedial actions, such as: prohibiting the Overseas Private Investment Corporation from approving new projects in the country; prohibiting federal procurement of goods or services from the country; directing the US Trade Representative to take the currency manipulation into account when negotiating bilateral or regional trade agreements; or requesting increased IMF oversight of the country's macroeconomic and exchange rate policies.

Implications of South Korea's Inclusion in the Monitoring List

The US Treasury has monitored South Korea's exchange rate policy primarily through its semiannual reports to Congress since 1988. Shortly after the 1988 Act, South Korea was labeled a currency manipulator due to a significant increase in current account surpluses. This designation lasted until the Treasury and ROK Ministry of Economy and Finance established "Financial Policy Talks," and Korea adopted the market average rate system in March 1990, removing it from the list the following month. Despite this, the Treasury criticized Korea's pervasive capital controls for limiting currency fluctuations in the market, while South Korea maintained that these measures were necessary to stabilize the economy and manage volatile exchange rates. In 2015, the Treasury expanded its oversight by introducing the "monitoring lists" of currency manipulation, adding South Korea alongside China, Japan, and Germany. Korea remained on the list until November 2023, when it no longer met the criteria. Specifically, South Korea only met one of the three criteria for two consecutive reports in November 2023 and June 2024: having a trade surplus with the United States over 15 billion USD.

However, in its November 2024 report, the US Treasury reinstated South Korea on the monitoring list because it met two of the three criteria outlined in the 2015 Act. China, Japan, Taiwan, Singapore, Vietnam, and Germany were also added to the list. The report highlighted that South Korea's current account surplus expanded significantly over the four quarters ending in June 2024, reaching 3.7 percent of GDP—a sharp increase from 0.2 percent of GDP for the same period in the previous year. This was primarily due to an increase in Korea's goods surplus, driven by strong external demand for its technology-related products. South Korea's trade surplus with the United States grew to 50 billion USD, up from 38 billion USD the previous year.

China's designation as a currency manipulator in August 2019 provides valuable lessons for understanding the potential implications of such a designation. The US Treasury labeled China a manipulator after the yuan weakened below 7 RMB per 1 USD following the Trump administration's imposition of additional tariffs on Chinese imports. Shortly after the Phase One trade agreement was signed in January 2020, the Treasury removed China from the list, acknowledging its efforts to stabilize the yuan and address currency-related concerns. The incident underscores the use of currency designations as a negotiating tool in broader trade disputes.

In addition to China, Vietnam was also **designated** a currency manipulator in December 2020. Following the Treasury's designation, the US Department of Commerce took unprecedented action by **initiating** a countervailing duty (CVD) investigation in June 2020. This marked the first CVD case where currency undervaluation was treated as a form of subsidy. Although the United States and Vietnam **reached an agreement** in July 2021 to address the Treasury's concerns and avoid further escalation, it did not affect the Commerce Department's final decision to impose company-specific CVD on certain Vietnamese exporters, which ranged from 6.23 percent to 7.89 percent.

South Korea has maintained that any interventions in exchange markets are intended to reduce market volatility rather than gain trade advantages. Although the risk of being designated a currency manipulator remains low for South Korea, the symbolic ramifications are still significant. The Trump administration will prioritize addressing trade imbalances and perceived unfair trade practices, potentially revisiting currency manipulation as a central issue in the relations with trade partners. To mitigate these risks, South Korea must strike a balance between supporting economic growth through strategic monetary policies, adjusting interest rates by considering multiple factors such as inflation and economic growth rates, and avoiding actions that could be perceived as currency manipulation, which could invite greater scrutiny by the Treasury and potential retaliatory actions. Navigating this complex landscape will require careful coordination of policies to ensure both economic stability and harmonious US-South Korea relations.

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Kim Jong Un's Risky Year of the Snake

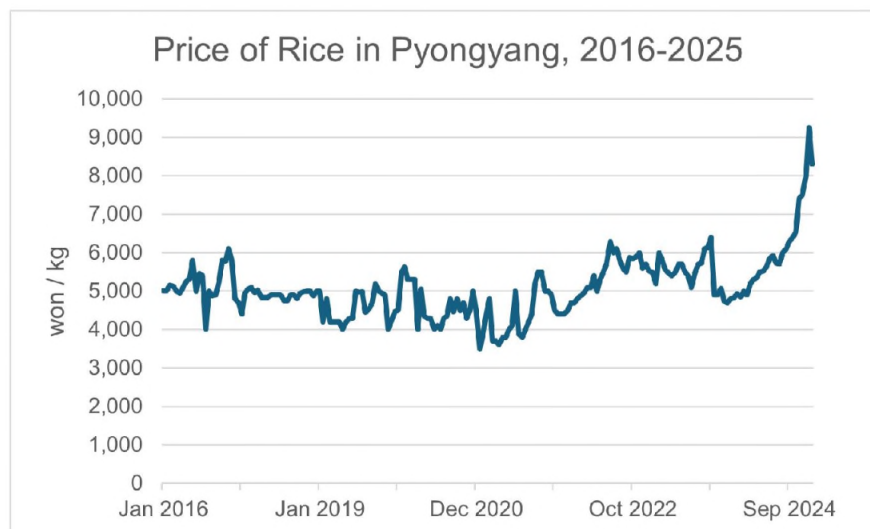
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Western media and foreign policy specialists point to a self-confident Kim Jong Un, willing to take large risks as he again contemplates dealing face-to-face with US President Donald Trump and as he works closely with Russian President Vladimir Putin to send weapons and soldiers into the war in Ukraine. Meanwhile, Kim continues to fire UN-prohibited unarmed ballistic missiles into the East Sea/Sea of Japan, showcasing an orderly and stable government, which is in sharp contrast to the political turmoil in South Korea. But this may be deceptive, aimed to fool the country's troubled citizenry and Trump, more than it is a reality.



Source: Asia Press