The Impact of Trump's Tariffs on U.S.-South Korea Economic Cooperation

By Troy Stangarone

For more than two decades, efforts to remove barriers to trade and collaboration on shared national interests, such as supply chain security and emerging technologies, have driven the U.S.-South Korea economic relationship. The return of Donald Trump to the White House, however, necessitates a reenvisioning of that relationship to make it compatible with the new framework that the Trump administration is seeking to establish for trade and economic development in the United States.

The Trump administration views its mission as to reshape the international trading order. In an op-ed laying out the administration's vision, U.S. Trade Representative (USTR) Jamieson Greer suggested that "by using a mix of tariffs and deals for foreign market access and investment, the United States has laid the foundation for a new global trading order." In Greer's telling, this is an explicit rejection of the existing rules-based trading order that drove "economic and national security imperatives to a lowest common denominator of global consensus" and undermined U.S. workers and manufacturing.[1]

The Trump administration also diverges from prior administrations in that it not only has differing policy priorities from its predecessor, but it is actively hostile to certain types of economic activity like renewable energy, with the administration taking strong positions against solar and wind power.[2] This stands in contrast to the general bargain Trump put forward in the 2024 presidential campaign that, in return for high tariffs, he would cut taxes on business and remove regulations to make the United States the world's most attractive market for manufacturing.

The shift on trade policy has created significant policy uncertainty for South Korea, which was somewhat resolved when the United States and South Korea reached a tentative agreement on trade in late July. However, despite a positive summit meeting between President Trump and new South Korean President Lee Jae Myung in August, the two sides were unable to finalize the details of the agreement until Trump's visit to South Korea for the Asia Pacific Economic Cooperation (APEC) leaders' summit in October. The negotiations were made more complicated when Trump's immigration policy came into conflict with his drive for investment in an immigration raid on a Hyundai-LG Energy Solution facility being built in Georgia, which raised concerns about the viability of investing in the United States.[3] Even with the conclusion of the trade agreement and a partial resolution to the immigration issue behind the Georgia immigration raid, a degree of uncertainty over U.S.-South Korea economic cooperation remains and is likely to be a feature of the relationship throughout the second Trump administration.

Troy Stangarone is a Non-Resident Fellow with the Carnegie Mellon Institute for Strategy and Technology.

U.S.-South Korea Economic Cooperation Prior to the Second Trump Administration

Modern U.S.-South Korea economic relations began with the negotiation of the Korea-U.S. Free Trade Agreement (KORUS FTA). The agreement, which both governments implemented in 2012, removed tariffs on over 95 percent of all U.S. goods exported to South Korea within the first five years, while also eliminating non-tariff barriers faced by U.S. firms in the South Korean market.[4] Prior to the second Trump administration's shift in tariff policy, U.S. firms faced an effective tariff rate of 0.79 percent in the South Korean market, as the vast majority of U.S. exports to South Korea were duty free under the KORUS FTA.[5] The agreement also provided South Korea with duty-free access to the U.S. market on most goods.

After the implementation of the KORUS FTA, the United States and South Korea worked to continue to expand economic cooperation. Under the Barack Obama administration, the United States and South Korea expanded cooperation in areas such as clean energy, cybersecurity, and civil space cooperation, while also establishing core areas for cooperation on science and technology. These initiatives would come to collectively be known as the "New Frontiers."[6]

During the first Trump administration, reducing the U.S. trade deficit with South Korea became a priority for the administration, but cooperation continued in many of the "New Frontier" areas, such as energy, science and technology, and space. The two governments also expanded cooperation to include support for women's economic empowerment.[7]

Economic cooperation between the United States and South Korea deepened further during the Joe Biden administration, as the shortages from the pandemic and growing concerns about overdependence on China resulted in a greater emphasis on issues of economic security.[8] While clean energy, civil space cooperation, and science and technology remained areas of cooperation, they were joined by vaccine cooperation to address the pandemic as well as a focus on supply chain resiliency, where the Biden administration had identified South Korea as a key partner for semiconductors, electric vehicles (EVs), and secondary batteries.[9]

The growing focus on economic security resulted in pledges during the Biden administration of USD 140 billion in new South Korean investment in the United States for semiconductor, EV, and secondary battery manufacturing.[10] Estimates suggest that over the last three years, South Korean firms have invested USD 114 billion in the United States in these and other areas and over USD 160 billion since 2017.[11]

The Trump Administration's Trade Philosophy and Agenda

President Trump's skepticism of free trade dates to the 1980s and shapes his approach to policy. In an interview with Diane Sawyer at the time, Trump criticized the trade practices of U.S. allies, such as South Korea and Japan, and stated that "America is being ripped off...We're a debtor nation, and we have to tax, we have to tariff, we have to protect this country."[12] The belief that U.S. allies have treated the United States unfairly, as demonstrated by the U.S. trade deficit, and that the United States should use tariffs to regain an edge in the economic relationship are core beliefs of Trump's and form part of his policy approach to international economic affairs.

Trump's approach to trade during his first administration was shaped significantly by his trade representative, Robert E. Lighthizer. Lighthizer, who had previously been Deputy USTR during the Ronald Reagan administration, pursued a more traditional approach to trade enforcement, using established authorities to investigate and take action against unfair trade actions by U.S. trading partners. The most significant investigation during the first Trump administration was the Office of the USTR's Section 301 investigation into Beijing's policies related to intellectual property and technology transfers.[13] (See Table 1 below for U.S. trade remedies and their objectives).

Table 1: U.S. Trade Remedies and Their Objectives

Trade Remedy	**Purpose**	**Statutory Authority**
Anti-dumping	To deal with goods sold below their market value	Title VII of the Tariff Act of 1930 (19 U.S.C. 1671-1677n, as amended)
Countervailing Duties	To deal with goods benefiting from unfair subsidies	Title VII of the Tariff Act of 1930 (19 U.S.C. 1671-1677n, as amended)
Safeguard Measures	A temporary measure to deal with a sudden surge of imports that does harm to domestic producers	Section 201, Trade Act of 1974
Section 122	Allows the administration to impose quotas or a surcharge of up to 15 percent in addition to existing tariffs for 150 days to deal with a large and persistent trade deficit	Section 122, Trade Act of 1974
Section 232	Allows the administration to negotiate a solution or impose import restrictions or tariffs when the importation of a good is determined to detrimental to US national security	Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862, as amended)

Section 301	Allows the administration to investigate whether a country's practices deny US companies benefits under trade agreements or restrict or place undue burdens on US commerce	Section 301-310 of the Trade Act of 1974
Section 338	Allows the president to ban a product or impose a tariff up to 50 percent for unfair trade practices	Trade Act of 1930
International Emergency Economic Powers Act*	Allows the president to "regulate" or "prohibit" imports due to a declared national emergency	International Emergency Economic Powers Act of 1977

*The Supreme Court is currently reviewing whether "regulate" allows for the imposition of tariffs.

However, South Korea was also a focus of the first Trump administration's more aggressive approach to trade policy enforcement. During the 2016 presidential election, then candidate Trump criticized the KORUS FTA as a "job-killing deal."[14] The FTA was a convenient target on trade for then candidate Trump; contrary to expectations, the U.S. trade deficit with South Korea grew from USD 11.6 billion in 2011, prior to the agreement's implementation, to USD 25.8 billion in 2015.[15]

Shortly after assuming office, Trump declared that he would either renegotiate or withdraw from the agreement.[16] While Gary Cohn, then the director of the National Economic Council, famously took the executive order to withdraw from the KORUS FTA off Trump's desk, the United States and South Korea did undertake minor revisions to the agreement.[17] South Korea also agreed to a quota for its steel exports to the United States to avoid Section 232 steel tariffs and faced tariffs on exports of washing machines to the United States from a Section 201 investigation[18].

While Lighthizer is not in the second Trump administration, he has become a defender of Trump's efforts to reorder the global trading system. Lighthizer has argued that the existing international trading system has failed the United States because gaming of the system prevents free trade from taking place. In his view, countries with persistent trade surpluses are the aggressors, and countries with persistent trade deficits like the United States are the victims of these policies. The solution is to reintroduce tariffs to ensure that there is balance in trade over short periods of time.[19] Elements of the Trump administration's approach to reciprocal tariffs can be seen in Lighthizer's perspective.

However, the administration's approach to trade extends beyond addressing the trade deficit. During the first Trump administration, trade policy and the newer concept of economic security were also more explicitly linked to national security than in prior modern U.S. administrations. The 2017 Trade Policy Agenda outlined ensuring that "trade policy contributes to the economic strength and manufacturing base necessary to maintain—and improve—our national security" as one of the key policy objectives of the Trump administration.[20]

This shift in perspective on the role of trade in relation to national security was not confined to the Office of the USTR and trade policy. The 2017 National Security Strategy declared that:

> Economic security is national security…Today, American prosperity and security are challenged by an economic competition playing out in a broader strategic context…Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.[21]

The link to national security is important to how Trump governs and approaches trade policy during his second term. Trump has argued that emergency powers allow him to use tariffs in novel ways.[22] To enact its trade agenda, the second Trump administration is grounding its approach in traditional Section 232 national security investigations, but also in expanding the scope of the powers granted to the president under the International Emergency Economic Powers Act (IEEPA).

In the "Liberation Day" executive order, Trump utilized the emergency powers granted to presidents under IEEPA to authorize the initial tariff levels he set out on a wide range of countries. The executive order states that:

> "underlying conditions, including a lack of reciprocity in our bilateral trade relationships, disparate tariff rates and non-tariff barriers, and U.S. trading partners' economic policies that suppress domestic wages and consumption, as indicated by large and persistent annual U.S. goods trade deficits, constitute an unusual and extraordinary threat to the national security and economy of the United States. That threat has its source in whole or substantial part outside the United States in the domestic economic policies of key trading partners and structural imbalances in the global trading system. I hereby declare a national emergency with respect to this threat.
>
> … Large and persistent annual U.S. goods trade deficits have led to the hollowing out of our manufacturing base; inhibited our ability to scale advanced domestic manufacturing capacity; undermined critical supply chains; and rendered our defense-industrial base dependent on foreign adversaries. Large and persistent annual U.S. goods trade deficits are caused in substantial part by a lack of reciprocity in our bilateral trade relationships. This situation is evidenced by disparate tariff rates and non-tariff barriers that make it harder for U.S. manufacturers to sell

> their products in foreign markets. It is also evidenced by the economic policies of key U.S. trading partners insofar as they suppress domestic wages and consumption, and thereby demand for U.S. exports, while artificially increasing the competitiveness of their goods in global markets. These conditions have given rise to the national emergency that this order is intended to abate and resolve.[23]

Prior to the Trump administration, IEEPA had not been used to impose tariffs on trading partners. Rather, its authority rested in the ability of the president to freeze assets or embargo trade with individuals or countries under sanction. In declaring a national emergency focused on the trade deficit and the decline in domestic manufacturing, the Trump administration is expanding the usage of IEEPA and seizing for the executive power that is granted by the Constitution to Congress.[24] In light of this novel approach and the constitutional issues at play, the Trump administration's usage of IEEPA is under review by the U.S. Supreme Court.[25]

Using the authorities under IEEPA and the Section 232 investigations, the Trump administration imposed a series of tariffs on imports from South Korea. Under the initial reciprocal tariffs, South Korean exports to the United States not covered by a Section 232 tariff would receive a 25 percent tariff.[26]

Beyond the reciprocal tariffs, South Korea faces a series of tariffs put in place under Section 232. The Trump administration used Section 232 investigations from its first term on steel to initially impose a 25 percent tariff that is now 50 percent, as well as a prior investigation into imports of automotives and auto parts to impose a 25 percent tariff. The administration is also conducting 10 additional Section 232 investigations, of which the most relevant for South Korea are the investigations into semiconductors and semiconductor manufacturing equipment, pharmaceuticals and pharmaceutical ingredients, and polysilicon and its derivatives.[27]

The New U.S.-South Korea Trade Understanding

The Trump administration and the new Lee administration reached an understanding on trade at the end of July and finalized the details in October to reduce the tariff burden on South Korea and provide investment to the United States.

Under the new understanding, the United States will lower the 25 percent reciprocal tariff and the Section 232 tariffs on automotives, timber, lumber, and wood derivatives to 15 percent, while also providing South Korea no less favorable treatment on any Section 232 investigations into semiconductors than any trading partner with volumes as large as South Korea's. For pharmaceuticals, the tariff will be no greater than 15 percent, while also eliminating tariffs on generic pharmaceuticals, their ingredients, and their precursors. South Korea also secured tariff elimination for some aircraft and their parts, as well as natural resources not produced domestically in the United States.[28]

Reducing the tariff rates to 15 percent on most goods, especially autos, was critical for South Korea to maintain competitiveness with the European Union (EU) and Japan. The United States, however, did not agree to reduce its tariffs on steel, aluminum, and copper.

In exchange for reducing the reciprocal and some Section 232 tariffs, South Korea agreed to create a USD 350 billion fund to invest in the United States, purchase USD 100 billion in U.S. energy products through the end of the Trump administration, and remove the cap on the number of U.S. automotives that can be exported to South Korea without meeting South Korean safety standards.[29] South Korea was able to avoid making further concessions on beef or rice, but also agreed to address non-tariff barriers on food and agricultural products. Seoul also agreed to ensure that U.S. firms do not face discrimination or barriers related to digital services.[30]

The key part of the agreement is the USD 350 billion fund for investments in the United States. The fund will be divided into two portions. One is a USD 200 billion investment fund for strategic industries that will invest in artificial intelligence, quantum computing, energy, critical minerals, and pharmaceuticals; the other is a USD 150 billion fund dedicated to revitalizing the U.S. shipbuilding industry.

The fund was controversial, as the Trump administration initially demanded that South Korea provide all USD 350 billion up front in cash.[31] South Korean officials were concerned that providing the funds up front could risk a financial crisis, as South Korea only had an estimated USD 410 billion in foreign exchange reserves on hand.[32] The United States ultimately scaled back its demands and agreed to capping South Korea's portion of investment cash at a maximum of USD 20 billion per year to minimize the potential for instability in foreign exchange markets.[33] The USD 20 billion cap will apply to the USD 200 billion strategic investment fund, while the USD 150 billion shipbuilding fund will be financed with direct corporate investments and government-backed guarantees.[34]

The most significant part of the investment fund is the portion dedicated to the Make America Shipbuilding Great Again (MASGA) initiative. While Japan is also planning on investing in the U.S. shipbuilding industry, South Korea is set to play a leading role in the industry's revitalization—a priority for the Trump administration.

In recent decades, U.S. shipbuilding has fallen significantly behind international competitors, including China. The U.S. commercial shipbuilding sector is currently only producing five or less ships a year on average, and U.S. naval shipbuilding capacity is in a similar state of decline.[35] In contrast, China accounts for more than 50 percent of all global shipbuilding, while South Korea is the world's second-largest shipbuilder by tonnage.[36]

Cooperation on shipbuilding is also perhaps the most advanced of any of the investment pledges by South Korea, Japan, or the EU. The plan calls for an expansion of the existing maintenance, repair, and overhaul (MRO) operations that the Hanwha Group and HD Hyundai are already undertaking for the U.S. Navy, investment innew shipyards in the United

States, improvements to the U.S. supply chain, and addressing the critical need for workforce training.[37]

How the Trump Administration's Tariffs Impact South Korea

Unlike the first Trump administration, where trade policy was relatively focused on China and addressed concerns in strategic and politically important industries, such as steel and aluminum production, the second Trump administration has taken a far broader approach to trade policy as it works to reshape the international trading system. As a result, the Trump administration tariffs impact South Korean firms both directly, through the range of reciprocal and Section 232 national security tariffs, but also indirectly as tariffs on other U.S. trading partners impact South Korean supply chains.

Trade is an important part of the South Korean economy, and that makes its economy more sensitive to shifts in international trade. In 2024, imports and exports together accounted for 77.6 percent of South Korea's GDP, with exports alone accounting for 39.1 percent of GDP.[38] Trade with the United States is quite significant. Despite the general view that China is South Korea's economic partner and the United States its security partner, the economic equation has begun to shift in recent years. Based on UN trade data, South Korean exports to the United States accounted for 18.8 percent of total South Korean exports last year, only slightly less than exports to China, which accounted for 19.5 percent of exports.[39]

The increase in U.S. tariffs is significant both in relation to other U.S. trading partners and in an absolute sense relative to trade under the KORUS FTA. The Bank of Korea estimates that prior to finalizing the new trade agreement, South Korea faced the eighteenth-largest tariff increase of the United States' fifty largest trading partners.[40] Based on the current deal in place and the current exemptions for certain tech products pending the Section 232 investigation on semiconductors, JP Morgan estimates that the new effective tariff rate on South Korean exports to the United States is 13.5 percent. Previously, under the KORUS FTA, most items exported to the United States were duty free.[41]

The tariffs are beginning to show an impact on South Korean exports. During the first half of the year, South Korean exports to the United States were essentially flat.[42] That began to change in August, with preliminary numbers showing exports down 12 percent, the largest decline since May 2020, during the pandemic.[43] The Bank of Korea also estimates that the tariff rates under the new deal will reduce South Korean GDP growth by 0.45 percent this year and 0.6 percent next year.[44]

While much of the attention has been on the Trump administration's reciprocal tariffs, the Section 232 tariffs are a particularly significant problem, especially for the automotive and steel industries. Automobiles and automotive parts are South Korea's largest export to the United States and represent slightly less than a third of all South Korean exports to the United States.[45]

Each of the three major automotive producers in South Korea are highly exposed to the U.S. market. Of the three main auto manufacturers in South Korea, GM Korea is the most exposed; in recent years, GM Korea has become primarily a production hub for exports to the United States. When the KORUS FTA was initially implemented in 2012, GM Korea sold 145,702 vehicles in the South Korean market.[46] In contrast, it only sold 24,824 vehicles in South Korea last year.[47] With GM Korea exporting 410,000 vehicles (80 percent of its production) to the United States, the Trump administration's tariffs have added to concerns that GM may exit South Korea.[48]

While the Hyundai Motor Group, consisting of the Hyundai, Kia, and Genesis brands, is not as dependent on the United States as GM Korea, it faces similar challenges. U.S. sales account for 39 percent of the Hyundai Motor Group's overall sales, and it exported 970,000 vehicles to the United States last year.[49] Those exports represent 54 percent of Hyundai's and 38 percent of Kia's sales in the United States.

There is some relief related to auto parts. Manufacturers can seek a rebate of 3.75 percent of the average manufacturers' suggested retail price of vehicles assembled with imported parts, although this rebate declines over time and is set to end on April 30, 2027.[50]

Unlike the reciprocal tariffs, the automotive tariffs have been in place since April 3 and have already begun to impact the South Korean automotive industry. During Q2, automotive tariffs accounted for 57.5 percent of the new tariffs collected from South Korean exports to the United States.[51] *The Wall Street Journal* reported that Hyundai Motor Group experienced a USD 1.17 billion tariff-related loss during Q2 of 2025, while South Korean automotive exports were down 15.1 percent through July of this year.[52] GM estimates that for the full year the impact of the automotive tariffs will result in a USD 2 billion loss for the company.[53]

Until the beginning of the second Trump administration, South Korean exports of steel were managed through an agreement reached during the first Trump administration in response to its Section 232 investigation on steel imports. That agreement limited exports of South Korean steel to 70 percent of the average annual volume of South Korea's steel exports to the United States from 2015-2017.[54] The second Trump administration ended all prior agreements on steel imports and has replaced them with a 50 percent tariff.[55]

Even with the quota in place, steel products remain one of South Korea's top exports to the United States. The shift to a 50 percent tariff, however, comes at an inopportune time for South Korea's steel industry, which was already under pressure from cheap Chinese steel and a global glut in steel products more broadly. These pressures had already pushed South Korean steel firms to reduce production and close some facilities.[56]

The new steel and aluminum tariff, however, covers not just traditional steel products, such as cold rolled steel, but also the steel content in a wide range of items, including refrigerators, washing machines, and the parts and components of other items.[57] The value of the steel in each of these and other items now faces a 50 percent tariff as well. The inclusion of derivative items in the steel tariffs is designed to close what the administration considers a loophole that allows firms to use foreign steel and to incentivize firms to produce more items in the United States. By one estimate, some USD 320 billion of U.S. imports are now subject to the derivative tariffs on steel and aluminum.[58]

Similar to the automotive industry, the tariffs have begun to impact South Korea's steel industry and its derivative products. Steel exports to the United States were down 32.1 percent in August after declining 11.2 percent in the first half of the year.[59] Home appliances exports, which contain derivative steel, were down 20.6 percent in the first half of the year, adding to the pressure on South Korean steel producers.[60] A report by Allianz Research suggests that the tariffs could result in a USD 600 million loss for South Korea's steel industry in 2025.[61]

The other major South Korean industrial sector under threat from the tariffs is the semiconductor industry and its derivative products—items such as smartphones and computers. Semiconductors are South Korea's largest overall export and account for over 20 percent of its total exports globally, but a smaller percentage goes to the United States.[62] With the Section 232 investigation still underway, the industry has thus far avoided tariffs and has not seen declines in exports, but tariffs on South Korea or other parts of the semiconductor supply chain are expected to have negative impacts on South Korea's semiconductor industry.

One burgeoning area of cooperation that Section 232 investigations could damage, depending on the final list of exempt natural resources, is critical minerals. China dominates the mining, processing, and refining of most critical minerals. Korea Zinc, a mining firm, has begun supplying non-Chinese antimony to the United States.[63] China had previously placed export restrictions on antimony and banned exports to the United States in December 2024 in response to the Biden administration's restrictions on tech exports to China.[64] While the Section 232 case on critical minerals has not concluded, it could undermine an existing effort to move critical mineral supply chains away from China.

The Trump administration's tariffs also indirectly impact South Korean firms through their supply chains. The automotive sector is a good example of this challenge. In 2024, South Korean firms exported 271,000 vehicles produced in Mexico to the United States, including the Kia Forte, which is exclusively made in Mexico for the U.S. market.[65] While Trump has suspended U.S.-Mexico-Canada Agreement (USMCA)-compliant tariffs on exports from Mexico, that exemption does not apply to automotive exports.[66]

Future of the KORUS FTA

To a large extent, the KORUS FTA is dormant. By using national security as the basis for both the sectoral tariffs and the reciprocal tariffs, the Trump administration has overridden the tariff structure established under the agreement.

Even with the extent of the changes in tariffs on South Korean exports to the United States, this is likely to comply with provisions for exceptions to the KORUS FTA. The chapter on exceptions states that "Nothing in this Agreement shall be construed to preclude a Party from applying measures that it considers necessary for the fulfillment of its obligations with respect to the maintenance or restoration of international peace or security or the protection of its own essential security interests."[67]

Despite the current circumstances, there are reasons to continue with the KORUS FTA in place. The tariffs put in place by the Trump administration are in response to the administration's declared emergency. Once that emergency ends, a future administration may end either the reciprocal or some of the Section 232 tariffs. Maintaining the KORUS FTA would put South Korea in a more competitive position than many U.S. trade partners should the new national security tariffs be lifted.

There is also a practical reason to continue using the KORUS FTA, which both governments recognize. The agreement established twenty committees and working groups that touch on issues such as agriculture, automotives, services, and investment. These serve as established channels for the two countries to discuss trade issues on the working level to both inform the other side of potential changes and work through concerns about each side's policies. In the joint fact sheet from the October 2025 summit, the two governments agreed to address commitments related to non-tariff barriers through the KORUS Joint Committee. Maintaining open channels of communication has value during a period where trade policy is undergoing significant changes.

Framework for U.S.-South Korea Economic Cooperation During the Trump-Lee Administrations

To some extent, the trade and investment agreement reached in late July has set the contours of U.S.-South Korea economic cooperation. However, because that framework is still being defined, scope remains to build cooperation in mutual areas of long-term interest for both countries.

Early in the Trump administration, U.S. Secretary of State Marco Rubio put forward a metric by which every U.S. policy should be judged: does that policy make the United States safer, stronger, and more prosperous?[68] This is the context in which the United States and South Korea need to shape an agenda for economic cooperation. One in which the United States will not just put its interests first, but in which any agreement needs to clearly improve U.S. national security and economic prosperity.[69]

As the South Korean government pursues policies or South Korean firms consider investments, they should analyze and present them in the context of how those policies or investments meet Secretary Rubio's test for U.S. policy. In this context, there will be a need for South Korean firms over time to adjust their portfolio of future investments in the United States. Projects that were points of focus during the Biden administration related to clean energy and EVs are unpopular with the current administration, and it is putting in place policies to make business in some of these sectors more difficult.[70] That does not mean unwinding those investments, but rather that new investments should be shaped by the Trump administration's priorities where economically viable to avoid deepening political rifts with Washington.

From a policy perspective, the new investment fund will focus investments in strategic areas of priority for the Trump administration. Shipbuilding is the most developed area, but the Trump administration has also placed a priority on achieving AI dominance and advancing nuclear power in the United States. The memorandum of understanding between the United States and South Korea for the new investment vehicle prioritizes energy and AI in line with the administration's priorities, but also quantum computing, critical minerals, and pharmaceuticals.[71]

Rather than primarily as a market for South Korean goods, South Korea needs to shift its view of the United States to that of a market and a production base for exports to third markets. One aspect of the Trump administration's trade policy is the significant reduction of tariff barriers to goods produced in the United States for third countries. As South Korean firms consider what manufacturing sectors to invest in, they should consider potential new opportunities to export from the United States to third markets.

Related to exporting to third markets are investments to reinforce South Korean supply chains in the United States. According to a study by the Korea International Trade Association, 51.2 percent of South Korean exports to the United States are intermediate goods exported for assembly in either South Korean or other U.S. factories.[72] Potential areas for cooperation or investment include critical inputs, such as the recent South Korean investment in the production of rare earth magnets, or areas where there is limited competition and supply, like high-quality steel for the production of automobiles in the United States.[73]

Finally, South Korea should work to maintain the KORUS FTA. While the current Section 232 tariffs do not face legal challenges, the Trump administration may not win its case at the Supreme Court on the reciprocal tariffs. If that is the case, there could be a period of temporary relief for South Korean exporters as the Trump administration turns to other legal authorities to reapply tariffs. More importantly, while the next administration may leave in place aspects of the Trump trade policy, they may be more open to returning to tariff rates with South Korea as they were established under the KORUS FTA. Seoul should work to keep that door open.

Beyond reshaping its approach to economic cooperation with the United States, South Korea should diversify its trade to reduce dependence on both the United States and China. The Lee administration has expressed an interest in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which would be an important initial step.[74] South Korea should also explore participation in emerging trade agreements such as the Future of Investment and Trade Partnership (FIT-P). FIT-P is designed for small- and medium-sized economies that support economic openness.[75] South Korea's economy may be too large for this burgeoning grouping, but it should explore joining or forming a similar group of medium-sized economies. Cooperating with like-minded partners will be necessary for maintaining a rules-based trading system.

Diversification is also a coping strategy for South Korean firms; however, firms need to be aggressive in their efforts to diversify. Firms in the EU, Japan, and other major economies will be pursing the same strategy, while Chinese firms have already moved to gain market share in third markets.[76]

The steps taken by the Trump administration to reshape the trading order and gain advantages for the United States and U.S. firms should not come as a surprise. These have been consistent beliefs held by President Trump and key figures in his second administration. As the Lee administration and South Korean firms develop strategies to address these challenges, they should not forget the invocation to take Trump seriously, if not literally. This means that the current trade talks are likely the beginning of a process rather than the conclusion of a lasting new trade agreement with the United States. South Korea also needs to view these changes in the context of longer-term shifts in U.S. trade policy. If strategies are developed in this context, South Korea and its firms will be able to find ways to successfully navigate this new trading environment.

Endnotes

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