South Korea's New External Economic Development Strategy

By Taeho Bark and Dongchul Kwak

The global trade environment has been undergoing a significant transformation since the establishment of the General Agreement on Tariffs and Trade (GATT) system, driven primarily by the United States' shift in policy stance from a focus on free trade to prioritizing domestic production over foreign imports and global supply chains. Particularly since the inauguration of the first Donald Trump administration, the U.S. government has implemented various policies to promote domestic industries based on the belief that overseas investment by U.S. firms and imports from foreign countries deprive domestic workers of jobs and exacerbate income inequality.[1] These policies directly contradict international trade theory, which is grounded in productivity and efficiency.

Under the second Trump administration, the United States has gone so far as to completely disregard the most-favored-nation (MFN) principle it has upheld for decades, instead adopting discretionary tariff policies that discriminate against foreign countries under various U.S. trade laws.[2] Since the April 2 announcement of "Liberation Day" tariffs, the United States has begun using tariffs as a policy instrument to compel the European Union, Japan, South Korea, and other partners to conclude agreements requiring large-scale investments in the United States.[3] The Lee Jae Myung administration immediately initiated negotiations with the Trump administration to complete a "Package Deal" involving tariff adjustments in exchange for massive investment commitments in the United States, along with additional support for the reconstruction of the U.S. shipbuilding industry.[4]

Although the U.S. Supreme Court ruled on February 20, 2026, that the Trump administration's reciprocal tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were unlawful, Trump strongly opposed the decision. His administration immediately introduced a new 10 percent global tariff under Section 122 of the Trade Act of 1974 and initiated Section 301 investigations into unfair trade practices against several trading partners.[5]

Taking into account these dramatic developments in tariff measures, Trump's policy objectives can be broadly divided into two dimensions. First, he seeks to increase U.S. tariff revenues and reduce the trade deficit by imposing tariffs. Second, through tariff negotiations, he aims to

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boost inward investment and revive U.S. manufacturing industries, including semiconductors, energy, shipbuilding, and nuclear power. However, whether these objectives could be achieved smoothly remains to be seen.

The fundamental problem is that policies prioritizing domestic firms and industries are proliferating across major economies, while international norms governing such policies remain unclear. In particular, international rules regarding industrial subsidies, tariffs imposed on national security grounds, and countermeasures against unfair trade practices have not been clearly established, and the World Trade Organization (WTO)—the institution responsible for addressing these issues—is no longer functioning effectively.[6] Even more troubling is the likelihood that this situation will persist for the foreseeable future; countries around the world are expected to continue pursuing unilateral and discretionary industrial and trade policies aimed at maximizing or protecting national interests. For example, Canada imposed 25 percent tariffs on USD 108 billion in U.S. goods, and the European Union announced but then delayed its plan to reimpose the 2018 and 2020 retaliatory tariffs against the United States.[7]

South Korea has pursued an external economic policy focused on expanding export markets. To this end, South Korea has respected the WTO-centered multilateral trading system while simultaneously concluding high-standard free trade agreements (FTAs) with major economies such as the United States, China, and the European Union.[8] However, the recent increase in volatility in import tariffs, coupled with growing pressure to invest locally rather than export, poses serious challenges for South Korea. Moreover, if overseas investment by South Korean firms continues to expand, it could potentially inflict serious damage on the South Korean economy. Domestically, concerns have been raised that large-scale overseas investment by South Korean firms may lead to industrial hollowing-out, reducing exports and employment at home.[9]

Given the relatively small size of its domestic market, South Korea has no choice but to rely on external economic activities—such as exports and overseas investment—to sustain economic growth. This paper seeks to explore a new external economic development strategy for South Korea that links overseas investment to exports, along with corresponding policy directions. The paper first reviews the relationship between international trade and foreign direct investment (FDI) in the existing literature and then empirically analyzes how the relationship between South Korean firms' overseas investment and exports has evolved over time. Based on this analysis, the paper proposes a new external economic development strategy focused on maximizing exports of intermediate goods produced through FDI and presents policy measures to implement this strategy effectively.

FDI and International Trade

The relationship between FDI and international trade has long been a central topic in international economics. Early theoretical studies distinguished between horizontal FDI, which involves establishing overseas production bases to access foreign markets, and vertical FDI, which takes advantage of cross-country differences in production costs to procure intermediate

inputs more efficiently. These studies argued that horizontal FDI tends to substitute for exports because it targets foreign markets directly, whereas vertical FDI does not because it increases cross-border trade in intermediate goods between headquarters and overseas affiliates.[10]

In practice, however, various forms of FDI are observed depending on firms' circumstances, producing outcomes that differ from early theoretical expectations. For example, a firm may undertake FDI in a developing country with low productive factor costs, source most intermediate inputs from the home country, assemble or produce final goods locally, and export them to third-country markets. Alternatively, a firm may invest in a developed country with a large market, source high value-added intermediate inputs from the home country, and assemble or produce final goods for sale in the host country market. While the former case represents vertical FDI that increases intermediate-goods trade but may reduce home-country exports to third markets, the latter represents horizontal FDI that substitutes for final-goods exports but can expand intermediate-goods exports, potentially increasing overall trade. Thus, firms strategically choose between exports and FDI depending on their circumstances.

Most empirical studies to date conclude that overseas FDI and exports are complementary.[11] That is, in nearly all cases, the expansion of intermediate-goods exports outweighs the substitution effect on final-goods exports. This is particularly evident in manufacturing industries characterized by fragmented production, where parent firms significantly increase exports of intermediate goods to their overseas affiliates after undertaking FDI. Furthermore, studies show that even when firms relocate final-goods production overseas, high value-added upstream production processes tend to remain in the home country.[12] This suggests that by continuously expanding exports of high value-added intermediate goods, home countries can maintain domestic production of these goods despite outward FDI.

Nevertheless, concerns about industrial hollowing-out have risen in countries with large manufacturing sectors as overseas FDI expands.[13] Some empirical studies show that overseas FDI does not directly reduce domestic production or employment, but instead restructures domestic industries toward higher value-added activities.[14] OECD emphasizes that the risk of industrial hollowing-out depends less on the scale of outward FDI and more on a country's ability to upgrade its position within global value chains.[15] Accordingly, it is increasingly important to devise strategies that leverage overseas FDI to enhance domestic industrial competitiveness, expand exports, and create jobs while minimizing the risks of hollowing-out.

Structural Changes in South Korea's Exports and Linkages With Overseas Investment

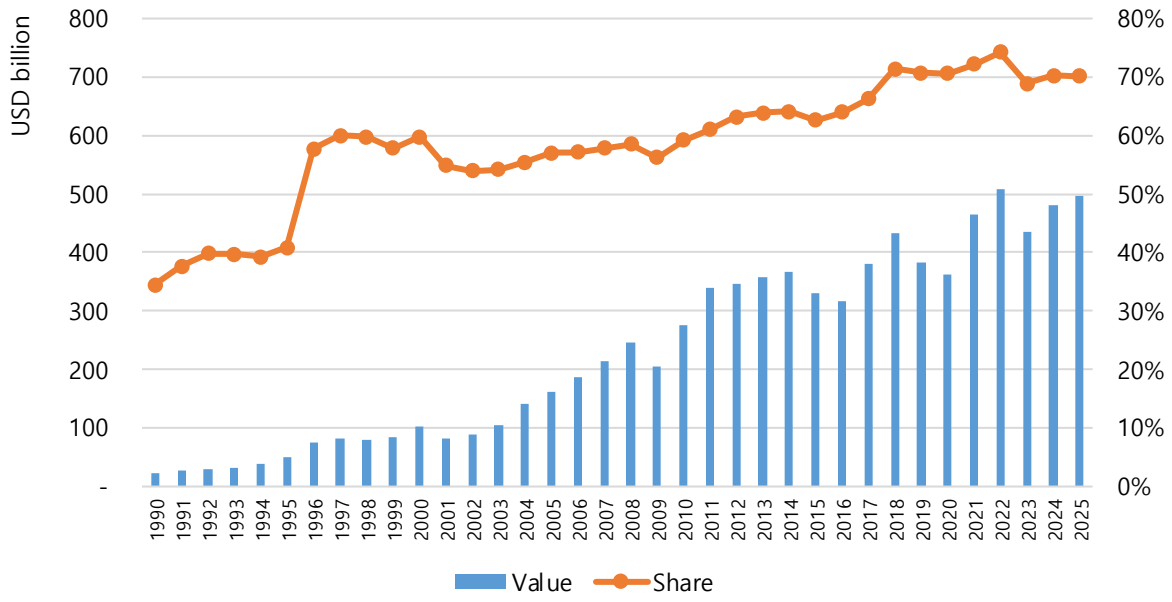
In the early 1960s, South Korea was one of the poorest countries in the world, with per capita income below USD 100.[16] At the time, the South Korean government concluded that exports were the only viable path to economic development for a country lacking natural resources and technology, and it devoted substantial efforts to export promotion. Initially, the government encouraged exports of labor-intensive goods and, in the 1970s, began fostering heavy and chemical industries.[17] Although South Korea faced the risk of overinvestment, excess capacity,

and excessive debt, the global economic boom of the mid-1980s enabled heavy industry and chemical products to become major export items, helping the country overcome these challenges and sustain rapid economic growth.

On the back of export-led growth, South Korea achieved remarkable economic development, ranking thirteenth globally in GDP, seventh in total trade, and sixth in exports by 2024.[18] South Korea has pursued a trade policy centered on export market expansion by simultaneously promoting the multilateral trading system and regional trade agreements. As of 2024, South Korea has concluded and implemented twenty-two FTAs with fifty-nine countries. The combined GDP of these FTA partners exceeds 85 percent of global GDP, giving South Korea the world's third-largest FTA network after Singapore and China.[19]

South Korea initially exported labor-intensive consumer goods, but the share of intermediate goods in total exports has steadily increased over time. As shown in Figure 1, intermediate goods now account for more than 70 percent of South Korea's exports in 2025. This shift reflects South Korean firms' strategic choice to specialize in exporting productivity-enhancing, internationally competitive intermediate goods rather than producing final goods domestically, as rising wages reduced the profitability of domestic production of final goods.

Figure 1. South Korea's Intermediate Goods Exports and Their Share in Total Exports, 1990–2025

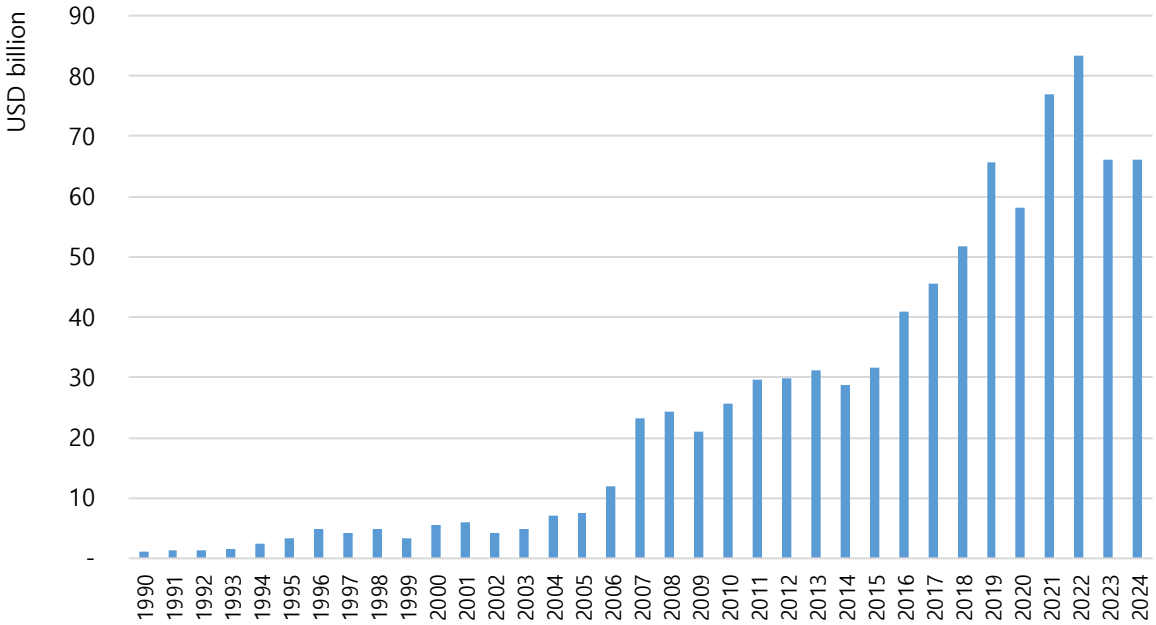


Source: "K-stat," Korea International Trade Association.

South Korean firms have invested in countries with low production costs to produce consumer goods and intermediate inputs for export to global markets, including the United States.[20] For instance, after South Korea normalized diplomatic relations with China in 1992, many South Korean firms established subsidiaries in China, attracted by low wages and inexpensive land.[21] These subsidiaries sourced intermediate goods from parent companies in South Korea, utilized Chinese labor to produce consumer and intermediate goods, and exported them globally. During

this period, South Korea's exports to China consisted largely of intermediate goods supplied to South Korean affiliates located in China.[22] As shown in Figure 2, overseas investment by South Korean firms steadily increased over time, reaching a record USD 83.5 billion in 2022 and remaining above USD 60 billion thereafter.

Figure 2. South Korea's Total Outward Foreign Direct Investment, 1990–2024



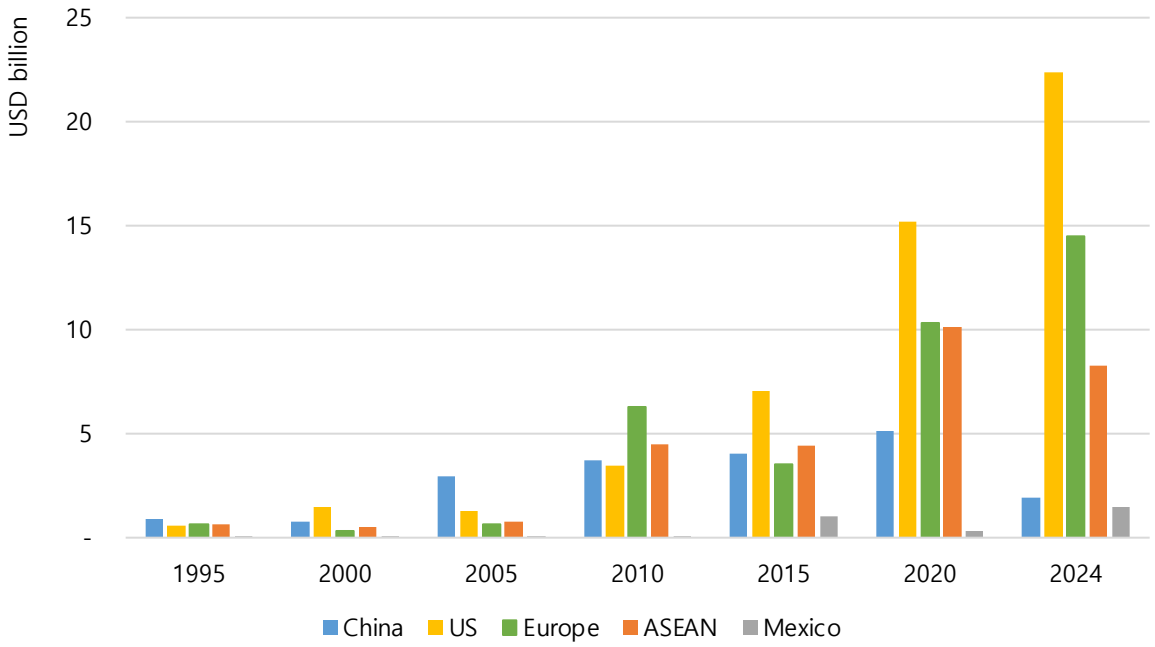
Source: Korea EXIM Bank.

All in all, South Korean firms' FDI strategies have evolved through three stages. Initially, firms favored vertical FDI aimed at producing final goods in low-cost locations for export to third-country markets. Over time, however, they expanded into horizontal FDI aimed at penetrating local markets in advanced or rapidly growing economies. Up until 2025, South Korean firms pursued vertical, horizontal, or hybrid forms of FDI tailored to their specific corporate strategies. However, some manufacturing firms that have invested heavily in Mexico to exploit competitive labor costs, geographic proximity to the United States, and preferential tariff access under the United States-Mexico-Canada Agreement (USMCA) now face significant uncertainty under the second Trump administration.

Trump's "America First" trade policy has the potential to reshape not only the global trading system but also South Korean firms' supply chains and overseas investment strategies. Figure 3 illustrates trends in South Korean firms' overseas investment by region. Investment in China expanded steadily until 2020. However, from 2010 onward, investment in ASEAN member countries surpassed investment in China, reflecting rising labor and land costs in China and heightened U.S.-China tensions. South Korean firms judged it more advantageous to establish production bases in ASEAN countries such as Vietnam and Indonesia. While the primary objective remains exporting goods produced in Southeast Asia to global markets,

investment aimed at local market entry has recently increased as ASEAN economies grow.[23] Notably, South Korean firms' investment in China dropped sharply between 2020 and 2024.

Figure 3. South Korea's Outward FDI by Major Destination, 1995–2024

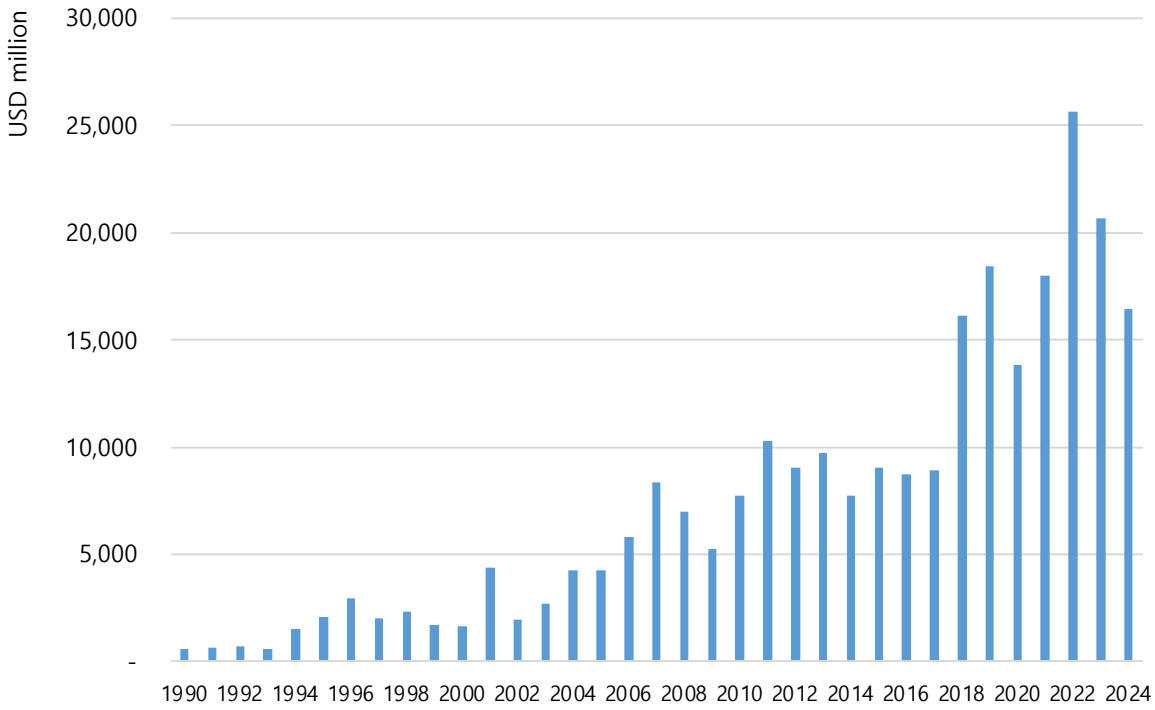


Source: The Export-Import Bank of Korea.

Overseas investment in the United States and Europe has also increased markedly since 2010, with investment in the United States accelerating after 2015. In 2024, the United States ranked first, followed by Europe, ASEAN, and China, as top destinations for South Korean outbound FDI. Since 2020, investment in advanced economies has largely focused on local market entry, driven by host-country incentives such as manufacturing subsidies and by U.S. pressure to invest domestically through tariff threats.[24] Given continued large-scale investment commitments by major South Korean firms, this trend is expected to persist.[25]

In addition, the sectoral focus of FDI has changed over time. As shown in Figure 4, South Korean firms have significantly increased manufacturing FDI after 2000, exceeding USD 15 billion annually from 2018 onward and peaking at USD 25 billion in 2022. In the 1990s, food and apparel accounted for a large share of manufacturing FDI.[26] Since the 2000s, investments have shifted toward high-tech sectors such as electronic components, computers, and communications equipment. Investment in chemicals and automobiles also expanded from the 2010s onward, with electrical equipment—including secondary batteries, power transformers, and energy storage systems—emerging as the largest sector by 2024.[27]

Figure 4. South Korea's Outward Foreign Direct Investment in the Manufacturing Sector, 1990–2024

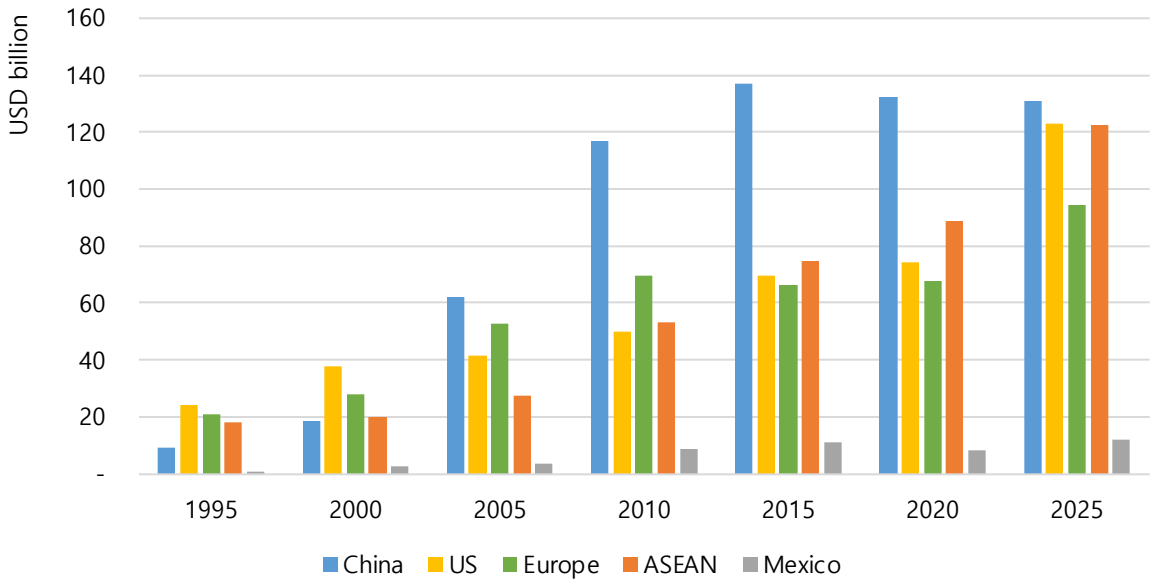


Source: The Export-Import Bank of Korea.

South Korean manufacturing firms' investment patterns vary significantly depending on the destination country. Investment in the United States initially focused on automobiles, chemicals, and electronics, but has concentrated primarily on electrical equipment since 2020.[28] Investment in China began with automobiles and apparel, and later shifted toward electronics and communications equipment, with electrical equipment rising in importance after 2015.[29] Investment in ASEAN countries has been dominated by electronics-related sectors, while investment in Mexico has focused on automobiles and metal products.[30]

There is a strong correlation between South Korean exports and the outward FDI of South Korean firms. As Figure 5 shows, South Korean exports to countries and regions that receive more FDI from South Korean firms have also increased. Exports to China surged between 2000 and 2015, when investment in the country was high, and exports to ASEAN and the United States grew substantially after 2015 as investment shifted to those regions.[31]

Figure 5. South Korea's Total Exports to Major Trading Partners, 1995–2025



Source: "K-stat," Korea International Trade Association.

With intermediate goods accounting for over 70 percent of South Korean exports, this trend reflects increased exports of intermediate inputs supplied by parent firms to their overseas affiliates. Table 1 shows a strong positive correlation between overseas investment and intermediate goods exports globally, including ASEAN, China, Mexico, and the United States.

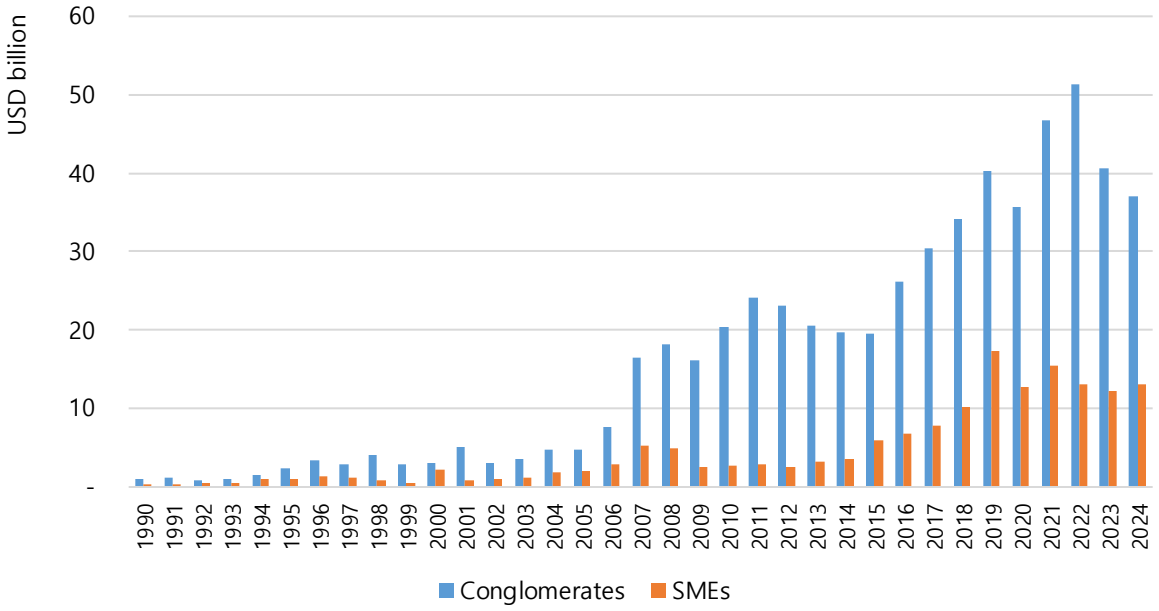
Table 1. Correlation Between South Korea's Intermediate Goods Exports and Outward FDI, 1990–2024

ASEAN	China	Mexico	United States	World
0.941	0.842	0.773	0.940	0.941

Source: Author's calculation based on data by the Export-Import Bank of Korea and the Korea International Trade Association.

As shown in Figure 6 and Table 2, manufacturing FDI is led by large South Korean firms with strong global competitiveness. These conglomerates are usually concentrated in high-tech sectors such as electronics, automobiles, and, especially, electrical equipment.[32] Given the strong correlation between FDI and intermediate goods exports, most exports from these large firms consist of intermediate goods supplied to their overseas affiliates. As overseas investment by South Korean conglomerates expands further in advanced manufacturing sectors, exports of high-tech intermediate goods are also expected to grow.

Figure 6. South Korea's Outward Foreign Direct Investment by Firm Size, 1990–2024



Source: The Export-Import Bank of Korea.

Table 2. South Korean Conglomerates' Outward Foreign Direct Investment by Manufacturing Subsector, 2020–2024 (Unit: USD Million)

Sector	2020	2021	2022	2023	2024
Electrical Equipment	2,244 (20.6%)	2,967 (20.5%)	5,237 (23.8%)	6,512 (38.4%)	5,653 (48.1%)
Motor Vehicles	1,804 (16.6%)	1,972 (13.6%)	1,941 (8.8%)	1,745 (10.3%)	1,380 (11.7%)
Electronic Components	3,186 (29.2%)	5,612 (38.7%)	8,229 (37.5%)	3,599 (21.2%)	1,089 (9.3%)
Chemicals	806 (7.4%)	494 (3.4%)	3,020 (13.7%)	986 (5.8%)	933 (7.9%)
Primary Metal	608 (5.6%)	543 (3.7%)	896 (4.1%)	1,606 (9.5%)	681 (5.8%)

Source: The Export-Import Bank of Korea.

New External Economic Development Strategy and Recommendations for Implementation

Recent changes in the global trade environment are likely to disadvantage South Korea, which has relied heavily on export-led growth. Advanced economies, including the United States, are

adopting policies to protect domestic industries and expand domestic production by attracting both domestic and foreign firms.[33] At the same time, large-scale overseas investment by South Korean firms has raised concerns domestically about declining exports and employment. South Korea must now devise a new external economic development strategy to navigate these challenges.

Given its small domestic market, South Korea must remain deeply integrated into the global economy through exports and overseas investment to achieve sustained growth. Fortunately, South Korean firms possess world-class manufacturing capabilities in advanced technologies such as semiconductors, batteries, and robotics, as well as in core manufacturing industries such as automobiles, shipbuilding, and steel. As demonstrated earlier, overseas investment by South Korean firms is closely linked to South Korea's export performance.

Building on these strengths, this paper proposes a new external economic development strategy organized around three pillars: 1) expanding exports of advanced intermediate goods linked to overseas investment by South Korean firms; 2) positioning and promoting South Korea as a global hub for research and development (R&D) in future advanced technologies; and 3) strengthening the international competitiveness of South Korean small and medium-sized enterprises (SMEs).

Expanding Exports Linked to Overseas Investment by South Korean Firms

The first pillar of this strategy is to expand exports linked to overseas investment by South Korean firms. In essence, South Korea should transition from being a primary producer of final goods to a global exporter of intermediate goods, such as materials, components, and equipment, in advanced manufacturing industries. This shift aims to ensure that both South Korean firms operating abroad and multinational corporations increasingly rely on South Korean-made intermediate goods. This approach would not only increase South Korean exports but also upgrade its export structure toward advanced industries and create high-quality jobs. The South Korean government must clearly articulate this strategic objective and provide consistent policy support.

To implement this strategy effectively, close cooperation between the government and the private sector is essential. In particular, the South Korean government must identify manufacturing sectors where South Korean firms already possess world-class production capabilities and advanced technology sectors with strong potential to become future strategic industries. Examples include semiconductors, automobiles and auto parts, electric vehicle (EV) batteries, quantum computing, AI, robotics, biotechnology, small modular reactors (SMRs), shipbuilding, defense industries, and power systems. The government should actively support these sectors as national strategic industries through targeted policy instruments, such as enhanced tax incentives for R&D and facilities, state-backed mega funds, regulatory sandboxes, and targeted immigration and retention incentives.

As noted earlier, overseas affiliates of South Korean firms constitute a stable and expanding demand base for South Korea's advanced intermediate goods. Accordingly, South Korea must make effective use of outbound FDI. Under the recent U.S.-South Korea investment agreement, the South Korean government committed to facilitating approximately USD 20 billion in annual investment in the United States over the next decade, along with a separate commitment of USD 150 billion in the U.S. shipbuilding sector.[34] The South Korean government should select investment projects that support South Korean firms already operating in the United States, as well as other firms planning future investments.

Although the current U.S. investment procedures require South Korean investments to align with sectors prioritized by the U.S. government, South Korea has a clear understanding of the manufacturing sectors the Trump administration seeks to revitalize. The South Korean government must engage in close consultations with South Korean firms and maintain active communication with the U.S. government to ensure that South Korean investments serve the mutual interests of both countries.

Furthermore, when investments are carried out under the U.S.-South Korea joint investment framework, South Korea should seek to prevent the imposition of unfavorable tariffs on South Korean exports of intermediate goods to U.S.-based investment projects. In such cases, the South Korean government should request the application of tariff rates guaranteed under the Korea-U.S. Free Trade Agreement (KORUS FTA).[35] In addition, for projects that require South Korean personnel, South Korea should request appropriate visas that allow South Korean professionals to work in the United States for a reasonable period. South Korea should maintain dialogue through the U.S.-Republic of Korea Business Travel and Visa Working Group to ensure that the United States clarifies its visa application rules and follows through on implementing the new "specialized trainers" category added to the B-1 Temporary Business Visitor visa. Although the B-1 visa is an imperfect fit for the nature of the work, the U.S. Department of State has broadened the definition of work permitted under the visa to make it easier for South Korean professionals to apply and qualify for travel and work in the United States.[36]

Geopolitical risks have recently disrupted the stable supply of key raw materials and intermediate inputs, potentially constraining South Korea's production and export of intermediate goods.[37] To address this risk, the South Korean government, in cooperation with the private sector and partner countries, has been working to reduce dependence on specific countries and diversify supply sources.[38] Going forward, South Korea should build on its complementary relationship with countries rich in critical minerals—such as the United States, Australia, and Canada—by concluding supply chain agreements that enable South Korean firms to engage in direct investment and corporate partnerships. At the same time, South Korea should systematically expand domestic efforts to secure critical minerals, including through recycling and extraction from industrial waste.[39]

South Korean firms should also actively leverage the country's extensive FTA network to stabilize supply chains for critical minerals. In addition, the South Korean government should

pursue South Korea's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) at an early stage. Membership in the CPTPP would not only expand export markets for South Korean firms but also significantly help them secure stable supplies of critical minerals, materials, and components.[40] Given persistent geopolitical risks and the dysfunction of the WTO-based multilateral trading system, South Korea's accession to CPTPP would offer substantial benefits to South Korean firms. Moreover, South Korea already has bilateral FTAs with all CPTPP members except Japan and Mexico, so accession would impose limited additional burdens while reinforcing free trade principles and trade rules in the Asia-Pacific region, particularly given South Korea's status as one of the world's top trading nations.

Finally, the United States has recently announced that imports of products made with forced labor may be subject to investigations under Section 301 of the U.S. Trade Act of 1974, on the grounds that such imports disadvantage U.S. products.[41] The Uyghur Forced Labor Prevention Act (UFLPA) is already in effect, prohibiting imports of goods produced using forced labor.[42] The South Korean government should ensure South Korean firms are well aware of these developments and work with them to develop appropriate compliance measures.

Positioning South Korea as a Global R&D Hub for Advanced Technology

The second pillar of the new external economic development strategy is to position South Korea as a global R&D hub for future advanced technologies. This implies attracting world-leading researchers and firms from abroad to conduct advanced technology R&D in South Korea. A global R&D hub does not merely conduct research across multiple fields; it is a location capable of developing new technologies, manufacturing products based on those technologies, and testing their commercial viability.[43] South Korea possesses strong potential in this regard, with globally competitive firms in advanced manufacturing, a relatively large domestic market, and high consumer demand capable of supporting integrated activities ranging from technology development to commercialization.[44]

To implement this strategy, South Korea must fundamentally redefine the objectives and nature of its R&D policies. Historically, South Korea's R&D evaluation system has emphasized quantitative indicators, such as the number of academic papers or patents produced, while insufficient consideration has been given to whether research outcomes translate into competitive industrial production.[45] Going forward, the ultimate goal of R&D must be clearly defined as enhancing national capabilities to develop new technologies, manufacture products based on those technologies, and achieve the commercial viability of those products. Systems must be built to ensure a seamless transition from laboratory research to pilot testing, initial production, and eventually mass production.

Achieving this shift requires the spatial integration of advanced technology R&D and pilot manufacturing. Globally recognized R&D hubs share a common feature: research institutes and production facilities are physically proximate, enabling rapid experimentation, iteration, and learning through failure.[46] South Korea should establish R&D-manufacturing clusters in strategic industries such as batteries, AI, robotics, biotechnology, SMRs, shipbuilding, defense, and

power systems, where research, experimentation, pilot production, and mass manufacturing can occur within a single integrated ecosystem.[47]

To become a global R&D hub, South Korea must also attract leading foreign firms to establish R&D bases domestically. When deciding on R&D locations, global firms prioritize proximity to capable partners, availability of skilled talent and experimental infrastructure, and the ease of technology transfer and joint research. Accordingly, South Korea must provide credible assurances that foreign firms can engage in joint research with domestic institutions and collaborate closely with globally competitive South Korean manufacturers.[48]

South Korea's success as an advanced technology R&D hub hinges on its ability to attract and retain top-tier researchers and engineers. Competition in advanced technologies is, at its core, a battle for talent. Highly skilled researchers choose locations based on both research environments and living conditions. To attract global talent, South Korea must offer world-class standards in research autonomy, compensation, long-term visa options, and family settlement conditions.[49] It is equally important to allow researchers to move freely among universities, firms, and research institutions within South Korea. Without these conditions, South Korea's competitiveness as a global R&D hub will face inevitable limits.

More broadly, South Korea must create an open and integrated ecosystem that organically connects leading domestic and foreign firms and talents across research, technology development, manufacturing, and commercialization. This requires the government to closely integrate policies across science and technology, industry, trade, security, and international talent mobility. The government and the private sector should also consider tailored approaches to invite leading foreign firms and research institutions to South Korea, allowing them to choose between establishing independent R&D centers or joint R&D facilities with South Korean firms. ASML's decision to establish a next-generation semiconductor manufacturing R&D center in South Korea with Samsung Electronics serves as a notable example of joint R&D.[50]

Strengthening the International Competitiveness of South Korean SMEs

The third pillar is to strengthen the international capabilities of domestic SMEs. South Korean SMEs have traditionally been concentrated in labor-intensive, low-tech industries such as textiles and footwear—a pattern largely attributable to South Korea's chaebol-centered economic development strategy. Rather than undertaking high-risk FDI, SMEs have predominantly served as domestic subcontractors, supplying components to large conglomerates.

However, the recent acceleration of outward expansion by South Korean conglomerates is expected to drive a corresponding increase in SME outward investment, as suppliers follow their principal buyers abroad. Furthermore, as rising wages and land costs erode China's role as the "world's factory," labor-intensive, low-tech production is increasingly relocating to ASEAN countries and India, where labor costs and business conditions are more favorable.[51] This shift generates additional investment opportunities for South Korean SMEs, which retain accumulated production expertise and competitive advantage in these sectors. Beyond following

South Korean conglomerates abroad, SMEs are also well positioned to supply competitive core components locally to global manufacturers operating in advanced economies such as the United States and the European Union, particularly in the semiconductor and EV battery sectors.

Whereas large firms have historically led participation in global value chains, SMEs now have greater opportunities to participate through overseas investment and exports. Yet many South Korean SMEs continue to face barriers, including information gaps, financial constraints, and weak overseas networks.[52] Given the increasingly challenging global trade environment, systematic government support is essential to facilitate SME participation in global value chains.

South Korean SMEs often perceive overseas investment and exports as high-risk endeavors.[53] However, in today's environment, these activities serve strategic functions such as market development, securing resilient supply chains, and building global partnerships. SMEs must therefore reassess their perceptions of overseas activities, and the government should strengthen policy support to facilitate this shift. Institutional recognition of small-scale, phased overseas investments and enhanced support to reduce initial costs related to legal compliance, taxation, and licensing are particularly important.

Given the limitations SMEs face when entering global value chains independently, greater emphasis should be placed on joint overseas expansion with large South Korean firms. By leveraging large firms' overseas production bases, research facilities, and supply chain networks, SMEs can participate in overseas activities as partner firms or technology collaborators while reducing risk. The government should develop comprehensive support packages—including financing, guarantees, insurance, and administrative assistance—for SMEs engaging in joint overseas expansion with large firms.

Meaningful participation in global value chains also requires SMEs to compete based on technology and expertise, rather than simply on production or subcontracting. The government should support the technological upgrading of SMEs to enable their participation as independent firms with competitive capabilities in processes, core components, software, or services. This involves providing assistance in obtaining internationally recognized patents, certifications, and standards that allow SME technologies to be commercially utilized through overseas investment and exports.

Another major challenge for SMEs is the lack of information about overseas markets and partners. The government should support SMEs in accessing information on local demand, regulatory environments, and potential partners through embassies, trade associations, and KOTRA.[54] Establishing networking platforms that link SMEs with South Korean firms and experts operating abroad would further reduce trial-and-error costs during market entry.

Finally, successful participation in global value chains requires SMEs to develop global organizational capabilities. Without personnel with overseas business experience and organizational capacity for global operations, sustained success is difficult. The government should therefore provide structured education and training programs for SME employees.

These training programs should cover macro-level changes in the global trade environment, geopolitical risks, the AI-driven technological transition, and supply-chain disruptions. Training programs should focus on providing practical knowledge related to overseas markets, international contracts, negotiations, and local management. Such support should be viewed as a form of public investment in strengthening the international competitiveness of South Korean SMEs.

Taken together, the three pillars proposed in this paper constitute a coherent and mutually reinforcing external economic development strategy tailored to the realities of a more protectionist and geopolitically fragmented global economy. By advancing these three pillars in an integrated and consistent manner, South Korea can transform the current external challenges into an opportunity to upgrade its growth model from an export-led economy centered on final goods produced domestically by large firms to a globally embedded innovation hub in which advanced intermediate goods, frontier technologies, and competitive SMEs collectively sustain long-term prosperity.

Endnotes

1 This line of logic and rationale is meticulously described in Robert Lighthizer, *No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers* (Broadside Books, 2023). The first and second Trump administrations share some similarities but also differ in many respects. For instance, the first administration was heavily centered on China, whereas the second administration is broader in geographic scope targeting both China and key U.S. allies and partners. Furthermore, if the first administration focused on tariffs on specific imported goods or industries, the second employs a more expansive tariff program, including reciprocal and baseline tariffs. For more on the differences between the trade policies of the first and second Trump administrations, see Chad Bown, "Chad P. Bown on the Difference between Trump 1.0 and 2.0 Trade Policy," presentation video at the PIIE Global Economic Prospects, April 15, 2025, https://www.piie.com/newsroom/short-videos/2025/chad-p-bown-difference-between-trump-10-and-20-trade-policy.

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