

US 15% tariff on South Korea is largely as expected

South Korea reached a 15% tariff deal with the US, committing \$350 billion in investments and buying \$100 billion in US LNG and other energy imports. While some specifics remain unclear, the deal broadly aligns with expectations and has been positively received by markets



Tariff terms are generally consistent with market expectations

According to President Trump, the US and South Korea agreed on a 15% tariff, with no levies on US goods such as cars, trucks, and agricultural products. The deal includes a \$100 billion purchase of US energy imports and \$350 billion worth of investments to be made in the US at his direction, with 90% of profit being retained by the US.

At a briefing this morning, South Korea's presidential office offered more details. The 15% tariff will be applied to cars and car parts from Korea. Tariffs on steel, aluminium and copper are not part of the deal. The Korean government also confirmed that there are no further changes to agricultural product policies, including rice and beef imports. US LNG and other energy imports are replacing some imports from the Middle East.

Of the \$350 billion investment, \$150 billion will be dedicated to shipbuilding, while the rest will fund chips, nuclear power, and biotechnology, mostly through guaranteed loans.

Marginally negative for autos while relief for the rest

For the auto sector, cars were already covered under the earlier Free Trade Agreement, so no tariffs have been imposed on US cars. The truck market in Korea is small and specialised, with limited demand for US trucks among Korean consumers. Thus, loosening nontariff barriers – such as safety standards – would have a limited impact on imports.

However, local news services reported that the government pushed hard for 12.5% on cars, reflecting the US-Korea FTA, while a 2.5% tariff used to impose on Japan and EU cars. The proposal didn't go through. Given the fierce price competition in Korean car companies' core market – compacts, SUVs, and hybrids – a 2.5ppt disadvantage may hurt price competitiveness of Korean cars. This will eventually come down to how Korean car makers adjust their cost-setting policies and find technical edges for Korean cars, but this will clearly bring more production in the US.

We believe that no changes in rice and beef will be welcomed, as this is only a small part of the total trade. But it's a highly sensitive issue among Korean constituents. In the energy deal, diversifying energy sources could provide greater stability for Korea. As such, increasing US energy imports is not necessarily negative for Korea.

Increased investment overseas may be burdened on the KRW and lead to stagnation in domestic capex investment. However, we believe that shifts in economic structure are occurring as Korean demographics change. The long-term impact should be determined by how much of the returns will be allocated to high-value-added sectors in the future.

A South Korea-US summit is scheduled within two weeks, and more details will be discussed during that meeting. For now, the initial market reaction is positive with Kospi and USDKRW marginally higher. But the market's relief could be short-lived as it focuses on the good parts of the deal and the fact that the uncertainty factor has been dispelled. But these additional tariffs will weigh on both the Korean and global economies. Korean exports are expected to recover in the second half, but mostly thanks to strong demand for AI investment. This narrowly focused rise cannot be sustained.

As our recent report detailed, [the adverse impact was much bigger on Korea](#) than on other competitors, given its high dependency on a few markets and a few products. The key issue is that Korean exporters need to diversify their trading partners and global supply chains. Also, the Korean economic structure must adjust accordingly by finding new economic drivers and exploring new technology sectors to generate more value-added returns.

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