

Snap | 8 July 2025

JAPAN SOUTH KOREA

Japan and Korea will push for lower US tariffs given the extension of negotiations

The US sets reciprocal tariffs of 25% for Japan and South Korea. Both countries vowed to accelerate negotiations within three weeks. But complex domestic political circumstances and uncertainty surrounding sectoral tariffs are likely to complicate the negotiations



25% Reciprocal tariffs to Japan and South Korea

Japan and South Korea received letters from President Trump

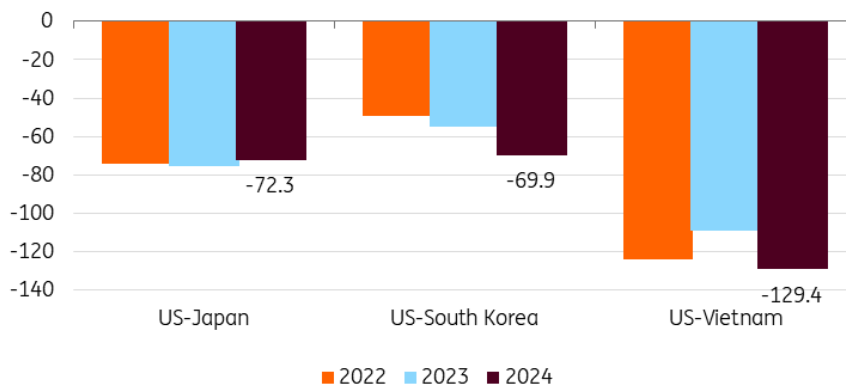
The US will impose reciprocal tariffs of 25% on goods from Japan and South Korea on 1 August, unless a trade deal has been agreed by then. The 25% tariff rate is a percentage point higher than that initially announced on 'Liberation Day' for Japan while it remains the same for South Korea. We think that the two closest allies to the US in the region received letters showing

Trump's intention to accelerate trade talks.

Negotiations with both countries have been moving more slowly than expected, mostly due to domestic political constraints. The recent leadership change in South Korea in early June made it difficult to make meaningful progress in the talks earlier with the United States, while the Japanese upper house election later this month also prevented Ishiba's government from making progress, given the many politically sensitive issues such as rice imports and the already low approval ratings.

The initial market reaction to the new tariff rate was positive as markets perceived it as both countries are given an extended deadline. A return to 25% for South Korea was somewhat expected given the lack of high-level talks. The tariff for Japan ticked up but the new rate was lower than what Trump had mentioned earlier at around 30-35%. But the recent US-Vietnam trade deal might have given a more optimistic outlook for the negotiations before the August deadline approaches. South Korea's KOSPI gained around 1.8% and the NIKKEI rose 0.3% on 8 July.

Trade deficit to the US (US\$bn)



Source: Trade Map

Japan and South Korea would like to make a packaged deal before 1 August

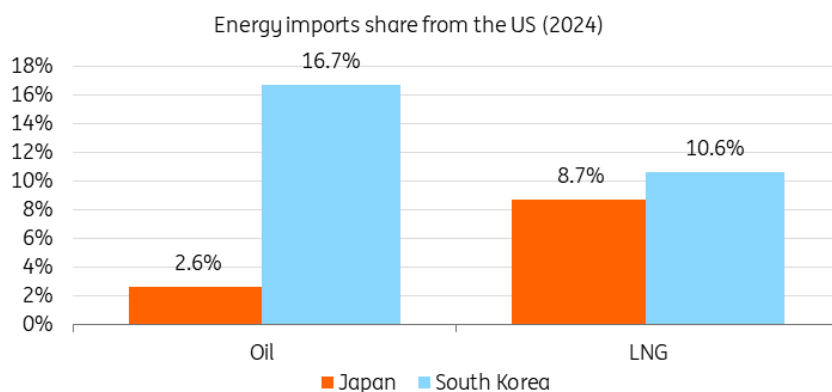
Both countries are expected to reach a packaged deal encompassing tariffs, non-tariff barriers, and defense expenditures. With different domestic political situations, South Korea is likely to prefer to strike a deal via a high-level summit while Japan will continue with its working-level negotiations.

Also, given that Vietnam's trade deficit with the US (around US\$130 billion) was almost double that of South Korea (US\$70 billion) and Japan (US\$72 billion), we believe that both countries will try to reach for a lower rate than Vietnam, emphasising their strategic importance in the region. We believe that both countries can lower the reciprocal tariffs to

near 10% and try to negotiate sectoral tariffs - 25% on autos and 50% on steel. But the US won't make a concession on sectoral tariffs. Japan was initially considered as a potential first mover for a quick deal, but the significant differences between the two parties regarding car tariffs remains unresolved. We think the US-UK deal can be a reference to both countries, so that they can secure a quota for lower tariffs, but it is difficult to avoid the higher tax rate entirely.

Both countries made significant efforts to increase their direct investment in the US - Hyundai and Posco's auto and steel production & Nippon Steel and SoftBank's investment in steel and AI technology. But the key should be reducing its trade surplus to the US and thus both countries are likely to import more US goods - energy and agricultural products. South Korea is likely to leverage its negotiations on increases in direct investment in shipbuilding in the US. Japan will highlight it being the largest FDI country to the US.

Japan and South Korea are likely to import more US goods



Source: Trade Map

The upper house election is likely to create more market jitters in Japan

We believe that Japan faces increased political risks from tariff uncertainty, potential recession, and election-driven calls for more spending and tax cuts. These factors raise concerns about debt sustainability and are causing long-term government bond yields to spike. Regarding the election results, if the ruling coalition fails to secure a majority, it may trigger further complications and delay trade negotiations.

Meanwhile, South Korea can speed up their talks with the US. The newly elected president is in a strong position, as his party controls the National Assembly and he has high approval ratings. South Korea will therefore try to arrange a summit meeting with Trump to reaffirm the alliance and strike a deal.

Another point to consider is whether the US has set an agenda for both countries to counter

China. This could be done via the trade or defence channels. We think the US will request increased military spending and greater funding for US troops. As with the higher tariffs imposed on Vietnam for transshipment, there may be conditions for stricter bans on tech exports to China.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.