

Trump 2.0 Tariff Politics and the Implications for Korea's Economic Security

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Trump 2.0's tariff policy is reshaping global trade by targeting strategic sectors and critical materials, extending beyond China to key allies. For South Korea, this raises export risks in semiconductors, automobiles, and steel, while exposing its reliance on China for essential minerals like graphite and lithium. The new trade architecture reflects a broader shift toward securitized supply chains, where economic and geopolitical considerations are increasingly intertwined. Korea's competitiveness will hinge on its ability to adapt swiftly to these structural changes. As global value chains reorganize around national security priorities, Korea must reduce input dependencies, strengthen technological self-reliance, and diversify supply sources. At the same time, it must navigate a delicate balance between alliance commitments to the U.S. and economic interdependence with China to safeguard long-term economic security.

Introduction

President Trump's second-term "America First" agenda continues to reshape U.S. trade and foreign policy, reflecting a shift from multilateralism to bilateral and interest-driven engagement. Tariffs have evolved from economic tools into instruments of geopolitical leverage—linking market access to strategic alignment, particularly in the context of intensifying rivalry with China.

In early 2025, the administration introduced a new round of tariffs not only on China but also key allies and major trading partners, including Canada, Mexico, South Korea, the European Union, and Japan. While Canada and Mexico secured temporary exemptions, tariffs on China remained in place. In May, the U.S. and China reached a partial tariff truce that reduced general tariffs rates, but kept high tariffs on strategic sectors such as semiconductors, electric vehicles, solar panels, battery minerals (including lithium and graphite), and defense-related components.

Tariff expansions also affected several allied economies. In May, the U.S. formalized tariffs on imported automobiles, impacting key producers including South Korea, Germany, and Japan. Additional duties were imposed on steel, petrochemicals, and select electronic components, intensifying pressure on export-oriented manufacturing bases and raising broader concerns over the politicization of trade policy in critical supply chains.

For South Korea, this shift in U.S. trade policy presents a strategic dilemma. As both a U.S. ally and major trading partner of China, Korea must carefully balance geopolitical alignment with economic interests. Trump's tariff agenda has revealed structural vulnerabilities rooted in Korea's reliance on global markets, highlighting the need for strategic recalibration in an increasingly politicized trade environment.

Trump 2.0 Trade Policy Outlook

While the Trump administration continues to frame tariffs as instruments for reinforcing national security and reviving industrial competitiveness, growing domestic and fiscal constraints are casting doubt on the long-term viability of this approach. The sustained application of tariffs in high-tech and defense-related sectors has served strategic purposes, but their economic costs are becoming harder to ignore.

One key challenge is the growing strain on the U.S. fiscal position. The impending expiration of the Tax Cuts and Jobs Act (TCJA) at the end of 2025 presents a significant policy crossroads for the Trump administration. While the administration has proposed extending and expanding these tax cuts through the "One Big Beautiful Bill," the bill's passage remains uncertain due to internal GOP divisions and concerns over its fiscal implications.

Extending the TCJA without offsetting spending cuts or new revenue sources would exacerbate existing fiscal pressures, especially as the administration seeks to raise defense spending by 13% in fiscal year 2026. Reflecting these concerns, Moody's downgraded the U.S. sovereign credit rating from Aaa to Aa1 on May 16, 2025, citing the persistent rise in national debt and interest payment ratios, as well as the failure to address chronic fiscal deficits. This downgrade underscores doubts about the sustainability of the U.S. government's debt trajectory and its capacity to implement further fiscal stimulus.

On the other hand, allowing the TCJA to expire as scheduled would likely reduce household disposable income, dampen consumption, and slow economic growth—further compounding the political difficulty of maintaining expansive trade measures. Public sentiment already reflects

growing discontent: a recent survey¹⁾ shows that 58% of Americans oppose continued tariff increases.

Given this combination of fiscal constraints and public opposition, a broad-based escalation of tariffs appears increasingly untenable. Instead, the administration is more likely to pursue alternative strategies to maintain its geopolitical and technological advantage, such as realigning global value chain around allied nations and leveraging non-tariff barriers, including export controls, to reinforce its leadership in strategic industries.

Economic Impacts on South Korea

Korea's major export sectors showed early signs of strain, amid escalating trade tensions and tariff uncertainty. Exports of petroleum products and petrochemicals declined by 20.9% and 20.8% respectively, while automobile exports fell by 4.4% year-over-year in May.²⁾ These declines reflect the immediate sensitivity of key industrial sectors to global demand fluctuations. Semiconductor exports, by contrast, increased by 21.2% during the same period. However, this rise is largely attributed to front-loaded demand from global buyers anticipating possible U.S. tariffs on advanced chips.³⁾ While this short-term surge provided temporary support, it masks the underlying vulnerability of Korea's trade-dependent sectors to abrupt policy shocks.

Korea's export outlook will hinge heavily on the extent of U.S. tariff implementation. According to an analysis by the Korea International Trade Association (KITA, 2025),⁴⁾ if universal tariffs - 10% on all trading partners — are implemented alongside targeted hikes on China, Canada, and Mexico, Korea's exports to the U.S. could fall by up to 7.9%, or roughly \$13 billion. Semiconductors, automobiles, and steel are projected to be among the hardest-hit sectors, reflecting Korea's exposure to both direct tariffs and reduced demand for intermediate goods in third countries.

While trade diversion from China or Mexico could offer partial benefits in areas like electric vehicles and batteries, these are unlikely to offset broader risks. Without a coordinated industrial and diplomatic strategy, Korea faces long-term market share erosion and diminished positioning within restructured supply chains.

More broadly, the ongoing restructuring of global supply chains is contributing to heightened uncertainty for Korea's economy. The shift in trade architecture — marked by changes in production hubs and sourcing strategies — is placing additional stress on Korean firms already navigating

a complex and volatile geopolitical environment. In the short term, these changes are likely to disrupt Korea's intermediate goods exports and erode efficiency gains previously enabled by integrated GVCs. However, in the longer term, Korea may benefit from growing demand for supply chain resilience and diversification. Opportunities could arise from reshoring-friendly technologies, nearshoring trends in North America and Southeast Asia, and increased demand for trusted suppliers in strategic sectors such as semiconductors, batteries, and high-precision machinery.

Yet the challenge lies in the fact that this realignment is concentrated not on general merchandise trade, but on materials and technology-intensive sectors. These domains span the full length of the production value chain, from upstream control over critical raw materials to downstream leadership in advanced technological applications. Given their strategic relevance to national security, these sectors have become focal points in the emerging global supply chain landscape.

The Broader Context: Economic Security and Geopolitics

One of the most pressing strategic challenges for Korea lies in safeguarding its technological and economic sovereignty in the context of U.S.-China geopolitical tensions. Under Trump's tariff-centered and unilateral trade policy, the United States is expected to tighten export controls and expand restrictions on strategic technologies and materials such as semiconductors, AI chips, and defense-related components. At the same time, Korea remains heavily reliant on China for the processing of critical minerals like lithium, cobalt, and especially graphite — over 70% of which is sourced from China — creating structural vulnerabilities. These material dependencies, particularly in technology-intensive and clean energy sectors, magnify Korea's exposure to economic coercion and limit its room to maneuver in both industrial and foreign policy arenas.

Multilateral trade governance is facing increasing strain. As institutions such as the WTO lose authority and unilateral tariff measures become more common, the rules-based order that has long supported Korea's economic and diplomatic strategy is being weakened. This erosion undermines the stability and predictability of the external environment. In the absence of credible dispute resolution mechanisms, Korea's ability to manage external shocks and defend its trade interests is significantly constrained. Upholding and contributing to a transparent, rules-based global trading system remains a strategic priority for preserving long-term economic security.

At the same time, strategic decoupling is reshaping Korea's foreign economic environment. As technological rivalry deepens and supply chains are increasingly politicized, economic choices are becoming inseparable from national

1) Pew Research Center. The number is from the survey of U.S. adults conducted April 7-13, 2015. Available at: www.pewresearch.org

2) Press release from the Ministry of Trade, Industry and Energy (June 1st, 2025)

3) KDB Industry Trends report (April, 2025)

4) Korea International Trade Association (2025). Analysis of the Impact of Tariff Measures under the Second Trump Administration, KITA Trade Brief No. 2, February 2025.

security considerations. Korea faces growing pressure to recalibrate its industrial strategy in response to competing geopolitical expectations from key partners. In particular, securing access to critical materials and mineral resources—many of which are now subject to geopolitical leverage—is emerging as important as advancing technological capabilities. This dynamic is driving complex trade-offs between maintaining access to major markets and protecting its strategic autonomy.

Policy Recommendations for Korea

To respond effectively to the evolving global trade environment under a second Trump administration, Korea should pursue a pragmatic and balanced strategy anchored in national interest and long-term resilience. First, it must strengthen domestic capabilities in strategic sectors such as semiconductors, batteries, and clean energy by accelerating the localization of core technologies. This effort should be matched with measures to secure a stable supply of critical minerals—such as high-purity graphite, lithium, rare earths, and cobalt—through investment in domestic processing, strategic stockpiling, and upstream partnerships. Leveraging existing production bases in the U.S. can also help preserve market access under evolving industrial policies like the CHIPS Act.

Second, Korea should strengthen its export resilience and competitiveness. In the near term, it should institutionalize contingency planning for trade shocks by establishing tariff-response task forces across relevant ministries and industry associations. These bodies would coordinate policy responses, support firm-level risk management, and disseminate timely, actionable information to mitigate external disruptions. Looking ahead, Korea should focus on expanding strategic export capacity by deepening its presence in key markets, strengthening industrial partnerships, and aligning product standards and certifications with global requirements.

Third, Korea must deepen issue-based cooperation with like-minded partners to improve supply chain transparency, promote digital trade standards, and secure access to strategic inputs. Rather than relying solely on multilateral frameworks, Korea should pursue flexible, targeted engagements that advance its strategic autonomy—such as bilateral resource agreements and joint initiatives in mineral processing and recycling technologies. This includes building strategic partnerships with resource-rich countries for stable sourcing of materials such as graphite, lithium, and cobalt, and investing in domestic refining and processing capacity. In parallel, Korea should actively contribute to global rule-making in areas like carbon adjustment mechanisms, data

governance, and green transition frameworks.

Finally, strategic discipline in diplomacy is essential in navigating a fragmented trade landscape shaped by great power rivalry. Korea should avoid reactive alignment and instead engage in coordinated dialogue with allies, balancing economic security with geopolitical stability. Long-term resilience will depend on reducing excessive dependence on any single partner, while preserving its credibility as an adaptable, rules-based trading nation.

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