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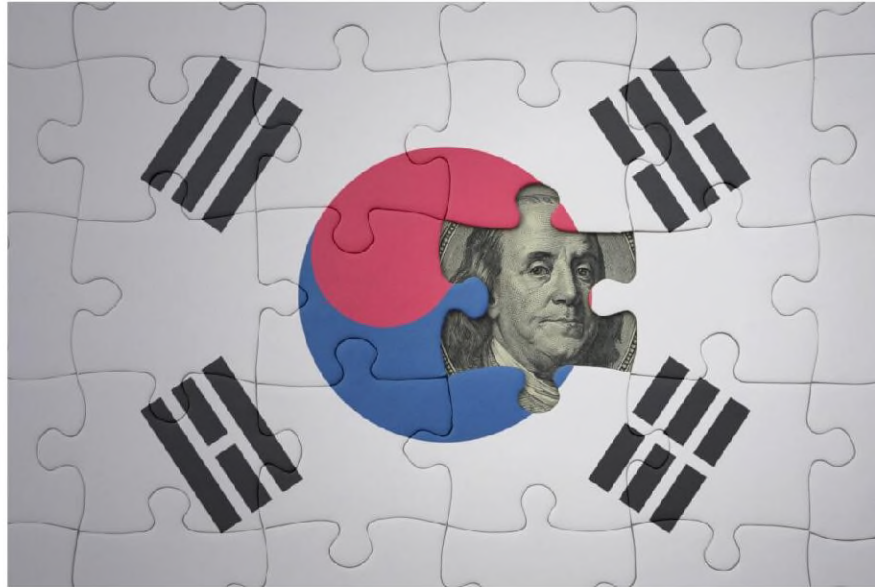
THE PENINSULA

Economic Issues for Korea in the Next US Administration

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Americans will soon elect a new presidential administration, which means potential changes for an array of US policies. In recent years, Washington has aligned its economic policies to coordinate with like-minded partners on supply chains and economic security, advanced technology development and safety, and decarbonization and clean economy standards. With a host of initiatives still under negotiation, deployment, or review, here are some of the top economic issues for the US-Korea relationship in the next US administration.

The Inflation Reduction Act

Since it was signed into law in August 2022, the Inflation Reduction Act (IRA) has resulted in investment announcements of over \$55 billion from Korean companies incentivized by the myriad of manufacturing subsidies and tax credits for clean economy projects. Prompting investments in solar panels, wind turbines, electric vehicles (EVs), and EV batteries, the legislation is a major catalyst for US plans for net-zero carbon emissions by 2050.

With many of the investments due to come online in the latter part of this decade, alongside certain requirements for sourcing critical minerals and producing batteries to qualify for the EV tax credit, progress toward the IRA's goals will require continued executive support. Without such support, manufacturers may have their plants come online only for the tax credits to disappear under a new administration.

Under a potential Kamala Harris presidency, it is likely that the US industrial policy would continue in a similar direction as the Joe Biden administration. Harris was the tie-breaking vote in the Senate when the IRA was passed in 2022, and as vice president, she supported moving the United States toward a clean energy economy. Still, Korean EVs manufactured abroad were not initially included in the list of tax-credit-eligible EVs, so under a Harris administration, which—and how—EVs qualify for the \$7,500 tax credit would remain a point of concern.

In the case of a potential Donald Trump administration, the IRA and its further implementation could face significant headwinds. One of the Trump campaign's main policy pronouncements has been to end the IRA altogether, specifying that a second Trump administration would "rescind all unspent funds." In an interview with *The Korea Herald* in September, Senator Bill Hagerty (R-TN) expounded on Trump's potential plans for the IRA and stated, "It hurts the United States economy. The mandates and subsidies are certainly going to be subject to review."

Regardless, as a piece of legislation passed by Congress, questions remain regarding the sway an executive may have over repealing the law. If Trump were elected alongside a Republican-controlled legislature, this could change how the law survives—although confounding this is the fact that the IRA has been found to disproportionately benefit red states.

CHIPS Act

President Biden enacted the CHIPS and Science Act in August 2022, appropriating roughly \$52 billion to incentivize the revitalization of semiconductor manufacturing in the United States. In doing so, the Biden administration aims to have the United States produce 20 percent of the world's advanced semiconductors by 2030. Nonetheless, there are many moving parts. For example, a typical graphics processing unit (GPU) produced by US-based NVIDIA includes a wafer from Taiwan and memory components from South Korea, which are made possible by lithography equipment from the Netherlands. Therefore, US economic partners are an essential part of its semiconductor industry upgrade. Both Samsung and SK Hynix have launched multibillion-dollar chip fab investments in Texas and Indiana, bolstered by funding provided by the CHIPS Act.

The need to promote semiconductor manufacturing in the United States has remained remarkably bipartisan. The Harris campaign has a stated aim to "ensure America remains a leader in the industries of the future, from semiconductors to clean energy to artificial intelligence." And while the IRA has come under scrutiny by the Trump campaign, Trump has largely been silent on removing the CHIPS Act entirely. Nonetheless, the Heritage Foundation's "Mandate for Leadership," which aims to guide the Trump campaign, has called for "amending portions of the CHIPS Act" to make room for other right-wing policy proposals. It is possible that foreign companies receiving US subsidies for chips could come under scrutiny as part of a second Trump administration or be tariffed altogether. In a recent interview, Trump insisted that the CHIPS Act's goal of encouraging US chip manufacturing could have been accomplished by tariffs. He stated, "All you had to do was charge them tariffs...in other words, you tariff them so high that they will come and build their chip companies for nothing."

Moreover, subsidies under the CHIPS Act for semiconductor companies contain threshold-based guardrails that limit simultaneous production expansion in China—meaning Korean companies setting up shop in the United States may still have to balance their US-China production ratio as implementation of the legislation continues.

Export Controls on Advanced Technology

Under the Foreign Direct Product Rule, the United States is able to claim control of export jurisdiction over items containing US-origin technology. On October 7, 2022, the United States placed export controls on advanced chipmaking equipment and high-performance chips to China, requiring companies to obtain a license. Samsung and SK Hynix—both Korean memory chip producers—maintain major NAND and DRAM manufacturing operations in China, and China maintains a wide lead as the top destination for Korean memory chip exports. In 2023, Samsung and SK Hynix were two of three companies, along with Taiwan's TSMC, that received indefinite waivers to export manufacturing equipment to China without a separate approval process.

Still, ongoing national security concerns related to China's access to AI technologies will impact the market direction of Korea's high-bandwidth memory (HBM) chips, which are used for AI applications. This September, the US Department of Commerce announced new controls on exports to China relating to quantum computing, advanced chip manufacturing, and 3D printing and called for Korea to participate in the controls.

With Samsung and SK Hynix accounting for over 90 percent of global HBM production, the way in which the “small yard, high fence” approach is maintained in the next administration will have a critical impact on the US-Korea relationship in advanced technologies as well as where and how AI is developed and deployed.

Electric Vehicles

In March 2024, the Environmental Protection Agency (EPA) finalized new vehicle tailpipe emissions standards, which envision EVs constituting the majority of new cars sold by 2032. However, in September, the House of Representatives voted to repeal the new standards, which moved the measure to Senate consideration as its next step. Still, if it were approved before a new administration is inaugurated, Reuters reported that President Biden would veto the repeal law's enactment. Conversely, one of Trump's campaign pledges is to eliminate the tailpipe emission standards, which detractors have labeled an “EV Mandate.” In the same vein, the Harris campaign has reportedly walked back support of the EPA standards, though it is unclear if the pledge to veto its repeal would stand under a newly elected Harris administration.

Korean automobile conglomerate Hyundai Motor Group, which owns both the Hyundai and Kia brands, is trailing behind Tesla as the second-most popular EV seller in the United States. Meanwhile, Korean battery companies such as Samsung SDI and LG Energy Solution (LGES) are scaling up their US supply chains as they become the provider of choice for EVs across a roster of US automobile manufacturers. The direction the United States takes in its EV overhaul, particularly in the context of its commitment to net-zero emissions by 2050, will have a major impact on the synergistic US-Korea relationship in eco-friendly transportation, not to mention these Korean firms' bottom lines.

US Trade Deficit

Korea's most recent trade balance of annual goods with the United States stood at a record-breaking surplus of over \$44 billion in 2023. The United States has not recorded an annual goods surplus with Korea since 2007, and this is likely to continue, given Korea's global market share of automobiles, consumer electronics, and memory chips. Depending on who sits in the Oval Office in January, the US approach to this situation could vary. On the one hand, the Trump campaign plans to address trade deficits by placing a 10-20 percent tariff on imports coming into the United States. He has gone further to transactionalize the trade deficit with US defense payments. Trump has explicitly stated the following: "I will then go to every foreign country where we're paying billions and billions of dollars for their military defense, as I was doing before, and tell them that if they do not massively increase their purchases of Fords, Chevys, GMs, and Jeeps our troops are packing up and we're coming home."

On the other hand, there could be the use of trade policy by a Harris administration to address specific sectors related to carbon emissions or digital trade rather than focusing solely on the deficit. The Biden administration made carbon emissions a major part of its negotiations on steel with the European Union. Using offices like the Office of the Special Presidential Envoy for Climate and the Office of the US Trade Representative, negotiations with industrial producers, such as steelmakers, could center on whole-of-society outcomes as part of economic negotiations. Moreover, in a Harris administration, increases to the corporate baseline tax rate could be expected to work in a similar fashion to tariffs for the Trump campaign as a means for addressing the United States' fiscal deficit.

Regardless of what happens, the United States and Korea have a template in place through the US-Korea Free Trade Agreement (KORUS FTA) to serve as the foundation for hashing out any one of these issues. The Trump administration renegotiated the agreement in 2018, which included extending the US tariff on Korean pickup trucks to 2041 while also increasing access to US auto exports in Korea. Given the heavy emphasis on this deal in the Trump campaign, it is possible that the KORUS FTA could be another tool in a second administration to address the US deficit, bringing attention to its possible review or even renegotiation.

Section 232 Steel Quota

In March 2018, the United States placed a 25 percent tariff on steel and aluminum imports into the United States, including from Korea. Using national security as a legal justification to do so, the initial announcement cited "global excess capacity" in steel, aiming to "reduce US reliance on foreign producers." Following negotiations between the United States and Korea, this was changed to a quota on Korean steel and aluminum imports, which was kept in place by the Biden presidency. This may prove to be one of the most complex items for US-Korea trade in the next administration. The United States has long lost its place as the world's largest steel producer, and imports of steel to the United States far outpace their export. Addressing this issue is paramount to winning support in battleground states along the Rust Belt, where legacy industries like steel and auto manufacturing are key agenda items.

Accordingly, foreign steel ownership has been a headline topic throughout the 2024 campaign, and both Harris and Trump have taken hardline positions on opposing Japan's takeover of US Steel. At the same time, however, the United States is facing a shortage of certain types of steel needed for specific industries, such as electrical steel (E-steel) used in

EV motors and power grid transformers. With Korean companies specializing in strategic steel sectors, including E-steel, this is likely to be a conversation starter for how Section 232 is approached in the next administration.

Connected Vehicles

On September 23, the US Department of Commerce issued a proposed rule to ban the sale of vehicles containing hardware or software affiliated with Chinese companies, citing their risks as connected vehicles. While it could be a boon for US and Korean EV manufacturers that face growing global competition with Chinese automakers, its implementation will require a thorough reorientation of vehicle-related supply chains to ensure compliance with rules on Chinese electronics and software.

In September, Under Secretary of Commerce for Industry and Security Alan Estevez announced that Korean companies would be given “lead time” to adjust supply chains to account for the new rule. The White House’s fact sheet on the rule indicates that software controls will go into effect for model-year cars in 2027 and hardware rules for model-year cars in 2030. This means the next US president would be responsible for working with the Commerce Department and other agencies to implement at least the software controls as they come into effect throughout the next two years. Accordingly, global supply chain coordination in this area will be a major topic for the succeeding cabinet agencies.

The Indo-Pacific Economic Framework for Prosperity

The Indo-Pacific Economic Framework for Prosperity (IPEF) has been a major international economic goal of the Biden administration, which seeks to collaborate with like-minded partners in the region on trade, supply chains, clean energy, and economic governance. With members, including Korea, accounting for 40 percent of the world’s GDP, IPEF has been instrumental in creating a supply chain early warning system and a critical minerals dialogue among the member countries. The grouping also provides a US-led alternative to other regional agreements, such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—although without the same binding commitments.

Among the four pillars of IPEF, three have had agreements signed (i.e., supply chains, clean economy, and fair economy), while a trade-pillar agreement—negotiated separately by the Office of the US Trade Representative rather than the Commerce Department—has yet to conclude its negotiations.

With the end of the Biden administration approaching, this would put the onus of negotiating the trade pillar, which would include pivotal data localization and labor provisions, squarely on the next US administration.

For the Harris campaign, it is likely that the IPEF agenda would continue, albeit with the same hang-ups regarding the trade pillar. Trump, in line with maneuvers to scuttle US participation in the Trans-Pacific Partnership (TPP), has indicated that he would withdraw from IPEF, which he has called a “TPP II.” This puts US engagement in the region under two drastically different scenarios; one that leans into multilateral engagement, and the other that focuses heavily on domestic initiatives while walking back from prior administration commitments. Depending on what happens, there could be a vacuum in the Indo-Pacific as it relates to US economic engagement.

What to Expect

The bulk of US economic policy with Korea, which encourages collaboration on semiconductors, green energy, and EVs, will ultimately require consistency across administrations to retain the full benefits, as investments and projects are planned with a long-term view in mind. At the same time, there is an ongoing undercurrent in US politics grappling with the United States' economic place in the world in the twenty-first century. If prevailing, it could cede foreign economic cooperation in an attempt to return certain US legacy industries to a place of domestic and international prestige. While these strategies may not be mutually exclusive, economic partners of the United States will have to take stock of their own economic engagement strategies with the United States under a new administration to brace for how politics in the world's largest economy may affect their own national economic interests.

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