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How the U.S.-UK Agreement Could Shape Future Trade Talks

Published May 16, 2025

Author: Tom Ramage

Category: Economics, South Korea, United States

On May 8, President Donald Trump announced the first bilateral trade deal since unveiling the so-called "Liberation Day" tariffs on April 2. The agreement with the United Kingdom, labeled as an "Economic Prosperity Deal" rather than a free trade agreement (FTA), portends what future trade deals may look like, particularly for close allies and trading partners like South Korea.

Notably, the 10 percent baseline tariff remains in place, meaning there is likely no reprieve for other negotiating partners. The UK government made concessions that the United States felt were good enough to reach an alternative arrangement for Section 232 tariffs on autos and steel, though the United Kingdom was not targeted by the reciprocal tariffs announced on April 2. The two countries also agreed to a quota system of 10 percent baseline tariffs and 25 percent thereafter for the first 100,000 UK vehicles sent to the United States.

For steel, along with a commitment to continue negotiations, the deal advertises the creation of a trading union for aluminum and steel between the two countries, whereby the United States would "promptly construct a quota at most favored nation (MFN) rates for UK steel and aluminum" with a given that the United Kingdom "meet U.S. requirements on the security of the supply chains of steel and aluminum products." This could have subsequent implications for Korean steel, as there are now alternative arrangements taking place for the 232 tariffs under which Korean steel exports to the United States now apply.

A notable omission from the U.S.-UK deal is any mention of service industry tariffs, including on U.S. films produced overseas, which President Trump has indicated he would target. At the signing ceremony for the U.S.-UK trade deal on May 8, he suggested such issues could be handled separately. In 2024, U.S. studios spent around USD 2.8 billion to film movies in the United Kingdom, including blockbuster films *Wicked* and *Barbie*. Taxing this investment with tariffs could become a substantial issue between the United States and other countries if fully pursued by the Trump administration.

Donald J. Trump
@realDonaldTrump

The Movie Industry in America is DYING a very fast death. Other Countries are offering all sorts of incentives to draw our filmmakers and studios away from the United States. Hollywood, and many other areas within the U.S.A., are being devastated. This is a concerted effort by other Nations and, therefore, a National Security threat. It is, in addition to everything else, messaging and propaganda! Therefore, I am authorizing the Department of Commerce, and the United States Trade Representative, to immediately begin the process of instituting a 100% Tariff on any and all Movies coming into our Country that are produced in Foreign Lands. WE WANT MOVIES MADE IN AMERICA, AGAIN!

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President Trump announces his intention to impose 100 percent tariffs on foreign films in a Truth Social post from May 4

No deal would be complete without substantial investment commitments. Within a day of the agreement, British Airways' parent company announced the purchase of roughly USD 13 billion worth of Boeing aircraft—a development that was teased by Secretary of Commerce Howard Lutnick in the original announcement. At the press conference announcing the trade deal, Lutnick indicated that the United States had "agreed to let Rolls-Royce engines and those kind of plane parts to come over tariff-free," although the intricacies of such an arrangement did not appear in the official text of the agreement.

Beyond these items, the agreement does not mention Britain's future status under AI export controls or access to chips—the Joe Biden administration's "AI Diffusion Rule" guaranteeing the country's tier-one status was rescinded shortly after the talks—nor did U.S. companies offer any chip or AI concessions in tandem. This stands in contrast to Trump's recent inroads in the Middle East, where he received major concessions at the same time as business deals for countries to access high-level U.S. semiconductor technologies.

These agreements may mean that control over access to AI technologies and advanced chips will be a critical part of the canvas as the president creates new deals.

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President Trump came away from the deal with market expansion for U.S. agricultural products in the United Kingdom—including USD 700 million for ethanol exports—along with alignment on intellectual property, labor, and environmental standards and commitments for supply chains on pharmaceuticals. Perhaps one of the most significant implications for a U.S.-Korea deal is the United Kingdom granting the United States an exemption on its 20 percent tariff on beef imports, replacing it with a quota system for U.S. imports of the item. This is an important development for Korea's negotiating posture, where the country maintains restrictions on the import of U.S. beef jerky products and beef under thirty months of age.

Along these lines, UK regulations around antibiotics and chemicals remain in force. Prime Minister Keir Starmer clarified that UK food standards would not be eliminated, signaling chlorinated chicken and hormone-treated beef will likely still be ineligible for export. The countries also agreed to collaborate on digital trade, meaning that U.S.-Korea digital platform issues could be on Korea's docket for further negotiations.

Setting a Precedent?

The ins and outs of the UK deal mean a few things for whoever is queued up next.

First, no purchase commitments seem to be enough to repeal the 10 percent baseline tariff. This is a minimum levy that could remain against other countries for the foreseeable future. It is worth noting that, unlike South Korea, the United Kingdom does not face "reciprocal tariffs." Therefore, the trade deal provides limited insights as to how U.S. tariffs could be lowered from 25 percent toward the 10 percent baseline levels.

Second, a deal almost certainly means high-profile company investments are a negotiating tool for tariff concessions. There is a certain magic in the theatrics around this—the United Kingdom's deal was done in the Oval Office, with the ambassador in front of the cameras. For a deal to be made, attention will be paid to high-level publicity and visible leader deference. It also remains to be seen if massive investments announced prior to negotiation days—such as Hyundai's USD 21 billion countrywide investment announcement from March or possible involvement in the Alaska LNG pipeline—will be considered as part of a trade package, or if deals will need to be made day of.

Last, the UK deal entailed some liberally framed commitments set to be resolved at a later date. One clause included a pledge for both countries to "[continue] to identify" areas of opportunity for trade relations. The United States and the United Kingdom did not go into the agreement with any preexisting FTA. The agreement allows either country to terminate the agreement with written notice. This makes the deal a different commitment than the U.S.-Korea FTA (KORUS FTA), which requires 180 days' notice for termination, and moreover, does not appear to be legally binding.

Nomenclature is important. As an "Economic Prosperity Deal," movement toward any type of post-Brexit FTA would likely require further negotiation. In Korea's case, the extent to which a deal could abrogate or change the KORUS FTA was not indicated by the deal made with the United Kingdom on May 8. Still, the declaration of a British trade deal means that things are starting to move forward, and that Liberation Day may not be the end all be all.

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Tom Ramage is Economic Policy Analyst at the Korea Economic Institute of America. The views expressed here are the author's alone.

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