



THE PENINSULA

U.S. Policy Uncertainty and South Korean Multinationals'

Investment Decisions

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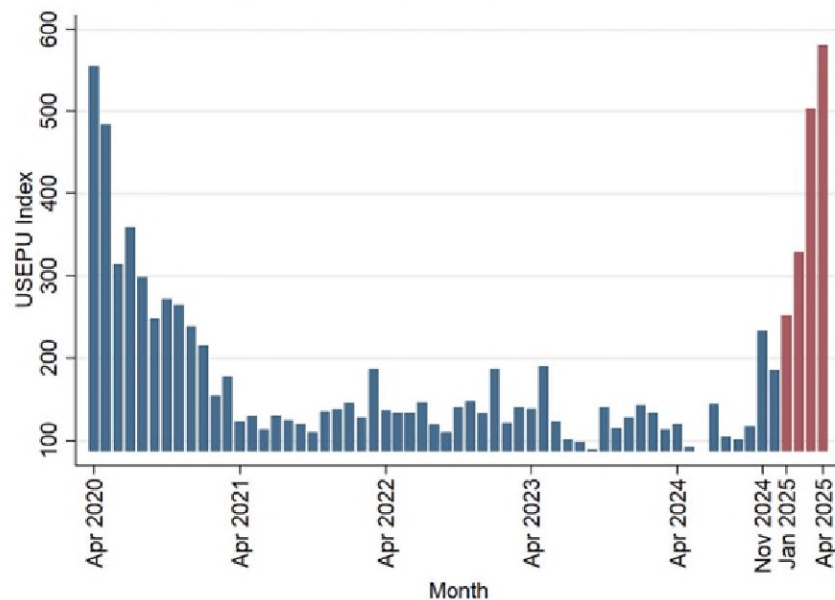


Policy uncertainty in the United States has increased, which is influencing the long-term outlook for South Korean multinationals' investment decisions. I use recent data to quantify the magnitude and drivers of this uncertainty, including trade, monetary, and fiscal policies. Then, I examine how firms may respond, such as aligning with U.S. policy initiatives, adopting a wait-and-see approach, or building resilience through innovation. These strategic responses depend on firms' exposure to U.S. policy shifts, the irreversibility of their investments, and the perceived risk of geopolitical change. In some cases, firms may even consider reallocating investment from the U.S. market altogether.

The Rise of Economic Policy Uncertainty in the United States

Data from the U.S. Economic Policy Uncertainty (EPU)—produced by economists [Scott Baker](#), [Nicholas Bloom](#), and [Steven Davis](#)—serves as a metric for assessing fluctuations in uncertainty associated with policy developments. The index is constructed by calculating the average value over the period from 1985 to 2010 and setting that average equal to 100. The detailed methodology can be [found here](#). All subsequent values are then expressed relative to this base value, allowing for direct comparison across time. These values reflect how often terms associated with economic policy uncertainty appear in the news, providing a proxy for public and market perceptions of uncertainty at any given point.

Figure 1. Monthly U.S. Economic Policy Uncertainty Index

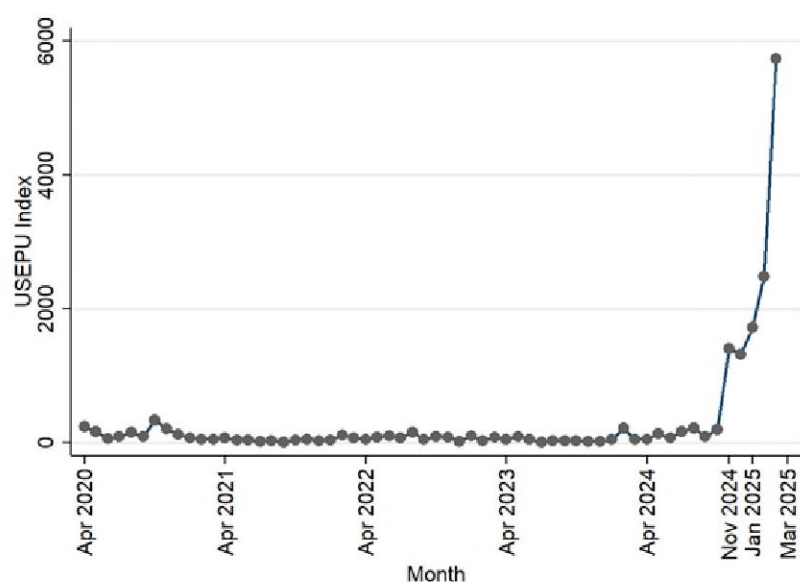


Notes: Author's calculation from the Economic Policy Uncertainty Project (www.policyuncertainty.com). Accessed on April 22, 2025.

As illustrated in Figure 1, a significant upturn in the EPU Index was noted after President Donald Trump's re-election in November 2024. His second term, which commenced in January 2025, has been marked by a series of notable policy alterations, including the introduction of new tariffs and other regulatory changes. These developments have fostered a landscape of increased economic uncertainty, culminating in the EPU Index reaching its highest level in recent history in April 2025, coinciding with the observance of "Liberation Day" on April 2, 2025.

That month, the EPU index soared to nearly 600, indicating that the level of uncertainty experienced was approximately six times greater than the historical average. This figure surpassed the peak uncertainty levels recorded during the height of the pandemic in April 2020, illustrating the extraordinary nature of the current economic climate.

Figure 2. Monthly U.S. Trade Policy Uncertainty Index

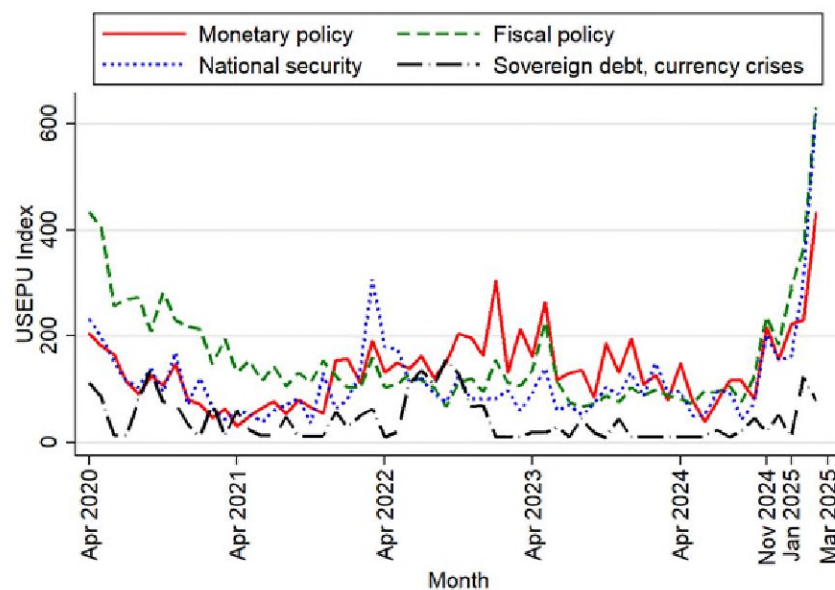


on April 22, 2025.

Figure 2 provides a compelling visual representation of the significant increase in trade policy uncertainty within the United States—a trend that commenced in early 2025. This increase is part of the broader EPU Index, of which the Trade Policy Uncertainty (TPU) Index is a crucial subcomponent. At the time of this writing, [data on the TPU Index](#) was available only until March 2025. However, considering the extensive tariff measures that were announced in April 2025, it seems reasonable to infer that TPU remained elevated during this period.

Throughout the period from mid-2020 to late 2024, the TPU Index exhibited relative stability, indicating a consistent trade policy environment. However, since 2025, the TPU Index has experienced an extraordinary and unprecedented surge, rising to a level nearly sixty times greater than its historical average. This dramatic escalation in trade policy uncertainty highlights the level of unpredictability, which carries significant and far-reaching implications for businesses involved in global trade and cross-border investment.

Figure 3. Monthly U.S. Categorical Policy Uncertainty Index



Notes: Author's calculation from the Economic Policy Uncertainty Project (www.policyuncertainty.com). Accessed

on April 22, 2025.

Figure 3 depicts selected subcomponents of the EPU Index, with a notable exclusion: the TPU Index. This exclusion was necessary due to the extraordinarily high levels it reached in early 2025. While trade policy uncertainty dominated the scene, other components of the index also experienced significant increases during this period, including fiscal policy and national security-related uncertainty. Monetary policy uncertainty also exhibited a clear upward trend, influenced by heightened stock market volatility and renewed speculation regarding future interest rate decisions by the Federal Reserve. Lastly, while the index measuring risks associated with sovereign debt and currency crises remained relatively lower in comparison to other components, it still registered a slight increase in January 2025. This indicates that there was a temporary rise in risks related to a potential dollar

crisis or instability in sovereign debt markets. This brief uptick is significant as it suggests that, even within a generally stable framework, there are moments of heightened concern that can impact investor behavior and economic outlooks. In all, recent values of the categorical EPU Index remain elevated relative to pandemic-era levels in April 2020 and Russia's invasion of Ukraine in February 2022, particularly for categories such as fiscal policy and sovereign debt. Notably, the indices for monetary policy and national security are even higher than during the pandemic and war periods, highlighting the historic nature of current uncertainty.

Implications for South Korean Multinationals' Investment Decisions

A recent study finds that rising EPU in a host country leads multinational firms to reallocate foreign direct investment (FDI) toward competing destinations, highlighting the role of uncertainty in shaping global investment patterns. This behavior was particularly evident following the surge in China's EPU after 2015 when increased uncertainty related to foreign exchange rate management, stock market volatility, and rising labor and production costs contributed to a decline in inbound FDI to China. In the current context, the United States has emerged as a leading source of global uncertainty, suggesting that a similar reallocation of investment may be imminent. For South Korean firms with prospective investments in the United States, this evolving landscape underscores the need for strategic caution. These firms must weigh the potential benefits of access to the U.S. market against the elevated risks posed by increased policy volatility and uncertainty. Firms' strategic responses to policy uncertainty depend on a range of factors, including the degree of investment irreversibility, industrial policy, sector-specific vulnerability, geopolitical alignment, and trade agreements. For instance, multinational corporations may lean toward resilience-building or strategic alignment, whereas firms facing high investment irreversibility are more likely to adopt a wait-and-see stance.

Investing in the United States: Aligning with Strategic Market Access

Despite the rising EPU in the United States, many South Korean multinational firms continue to view the United States as a critical destination for FDI, driven by its large consumer market, advanced infrastructure, and potential for deep integration into strategic supply chains. Recent announcements, such as Hyundai Motor Group's decision to invest USD 5.8 billion in a new steel facility in Louisiana, reflect this commitment. For many firms, the potential long-term benefits of embedding operations within the U.S. economy outweigh the risks associated with short-term policy shifts. However, this strategy assumes a tolerance for uncertainty and a capacity to adapt swiftly to changing regulatory and trade environments.

Adopting a Wait-and-See Approach

In contrast, some South Korean multinationals may adopt a more cautious "wait-and-see" stance as a strategic hedge against the unpredictability of U.S. policy. The volatility of tariff regimes—especially during transitions between administrations—has made it increasingly difficult for firms to project long-term returns on U.S.-bound investments. The costly and often irreversible nature of many capital-intensive projects, such as those in manufacturing and logistics, further amplifies the risk of premature commitments. Investment irreversibility, as emphasized in classic academic research, serves as a critical channel

through which uncertainty dampens corporate risk-taking. For firms without urgent expansion needs, deferring investment until greater policy clarity emerges may be the most rational approach.

Building Resilience Through Innovation and Public-Private Collaboration

Regardless of the growing policy uncertainty, enhancing corporate resilience is essential, including investment diversification through long-term initiatives in the adoption of robotics and advanced manufacturing technologies. This approach can position South Korean firms to lead in the next wave of industrial transformation. Such forward-looking investment projects require active public-private collaboration. Targeted incentives and subsidies to enable national competitiveness and withstand external shocks should be communicated between the two entities and be the focus of **new industrial policies**.

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