



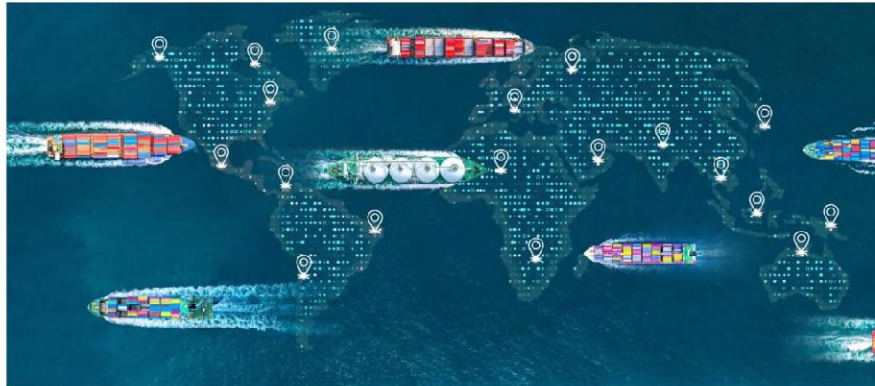
THE PENINSULA

Why South Korea Should Pursue a Digital Trade Deal with the U.S.

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The omission of digital trade from the announcement of the provisional U.S.-South Korea trade deal in July underscores a growing fault line in bilateral relations. While the deal focused on tariffs and investment, it left unresolved Washington's mounting concerns over Seoul's proposed digital regulations targeting U.S. tech companies. These policy differences reflect a broader global debate over the governance of digital markets—pitting the United States' emphasis on open, innovation-driven digital trade against emerging regulatory models led by the European Union. How Washington and Seoul navigate these tensions will shape not only the trajectory of their alliance but also the global norms governing the digital economy.

Growing U.S. Concerns over Korea's Digital Trade Rules

Although Washington and Seoul announced a limited trade deal in July, the agreement excluded any discussion of digital trade. The deal primarily centered on industrial and energy cooperation, with Korea agreeing to a 15 percent tariff on its exports in exchange for more than USD 350 billion in investment commitments and an additional USD 100 billion in U.S. energy purchases.

Before the negotiations, U.S. Trade Representative Jamieson Greer [reportedly urged](#) the Korean government to endorse a joint statement committing to refrain from new digital restrictions. However, the Lee Jae Myung administration declined to include such language, resisting U.S. calls to block pending legislation aimed at regulating large technology firms operating in Korea.

In August, on the same day he met with President Lee at the White House, President Donald Trump **warned that** his administration would retaliate against countries that impose new digital regulations targeting U.S. firms—a message widely interpreted as a warning to Seoul and other governments considering policies modeled on the European Union's digital framework.

In fact, U.S. concerns about Korea's digital policies are longstanding. The Office of the U.S. Trade Representative (USTR) has repeatedly cited Korea's emerging digital regulations as potential trade barriers in its *National Trade Estimate (NTE) Report on Foreign Trade Barriers*. For example, the **2025 report** highlighted both existing and proposed measures with potential implications for U.S. digital service providers (see Table 1 for summary).

2025 National Trade Estimate Report on Korea's Digital Regulations

The USTR has consistently raised concerns about Korea's restrictions on the export of location-based data—such as traffic updates and navigation information—which have prevented foreign suppliers from competing on equal terms with domestic firms. As of December 2024, Korea had yet to approve any license applications from foreign companies, including Google and Apple, citing national security considerations. Washington views these restrictions as outliers among normal trade partners and a barrier to the development of globally integrated digital services.

Another source of tension is Seoul's proposal to impose network usage fees—commonly referred to as the **Prevention of Free-Riding on Networks Act**—which remains under deliberation in the National Assembly. The legislation would require foreign content providers to pay fees to Korean internet service providers (ISPs). The United States argues that because several Korean ISPs also operate as content providers, such measures could effectively subsidize domestic competitors, raising concerns about anti-competitive effects and discriminatory treatment of U.S. firms. Korea refutes that major content providers such as Netflix and YouTube generate excessive traffic and occupy a dominant share of domestic network usage. Therefore, they should share the cost of network infrastructure investment.

The 2025 NTE report also introduced several new areas of concern. First, USTR highlighted Korea's revised Personal Information Protection Act, which expands the government's authority to impose fines of up to 3 percent of a company's global revenue and to suspend cross-border data transfers. In cases where revenue is non-existent or difficult to calculate, or for personal information handlers who are not information and communication service providers, fines up to KRW 2 billion can be imposed. In addition, the **Enforcement Decree** adopted in March 2024 strengthened data localization requirements and broadened the government's oversight powers. The Korean government maintains that these measures are necessary to protect personal data from misuse, leaks, and cybercrimes, citing the European Union's *General Data Protection Regulation* as a model. The United States, however, views these rules as barriers to the cross-border provision of data-driven services and inconsistent with open digital trade principles.

Second, USTR expressed concern over the **Platform Competition Promotion Act** proposed by the Korea Fair Trade Commission (KFTC) in December 2023, which sought to introduce *ex ante* competition regulations for large online platforms. Washington warned that such measures could disproportionately affect major U.S. technology firms while

sparing most Korean competitors. USTR urged the Korean government to adopt a more deliberative approach, incorporating market impact assessments and stakeholder consultations. Following industry pushback, Seoul shifted focus toward revising the Monopoly Regulation and Fair Trade Act, which retains provisions restricting self-preferencing and product bundling by dominant platforms.

Korea's ruling party has consistently advocated for the enactment of a special competition law in the National Assembly. At the end of 2024, seventeen bills promoting *ex ante* regulation were pending in the National Assembly. While the National Assembly pushes for stricter regulations, the KFTC has proposed amendments to the existing competition law to regulate platforms without enacting an entirely new law. This divergence in approaches has led to a legislative stalemate.

Lastly, USTR called for clearer guidelines on the use of cloud computing by firms engaged in research or production involving "national core technologies." Under the Act on Prevention of Divulgence and Protection of Industrial Technology, also known as the Industrial Technology Protection Act, the Ministry of Trade, Industry and Energy (MOTIE) maintains a list of technologies considered vital to national security and restricts foreign participation in related data processing and transfers. USTR has cautioned that overly restrictive implementation of these measures could limit cross-border collaboration in critical technology sectors.

Table 1. Summary of USTR's 2025 NTE Report Concerning Korea's Digital Trade

	Issues	U.S. Position
Digital Trade	Network usage fees	Opposes bills mandating foreign content providers network usage fees.
	Competition policy	Concerns over KFTC proposals to regulate digital services suppliers that meet certain revenue thresholds.
	Location-based data	Opposes Korea's regulation on export of location-based data to foreign suppliers.
	Data localization	Objects to restrictions under the Personal Information Protection Act on cross-border transfer of personal data outside of Korea.
	National core technology	Objects to Act on Industrial Technology Protection Act that blocks the use of foreign cloud services on national core technologies.
Government Procurement	Encryption and security requirements for communication technology equipment	Urges recognition of Common Criteria Recognition Arrangement; objects to Security Evaluation Standard duplicative tests.
	Cloud security certification	Sees Cloud Security Assurance Program as a barrier and urges alignment with global standards.

Services	Audiovisual	Concerns over extending legacy broadcast/media rules (local content requirements for over-the-top platforms) to streaming; risks violating KORUS FTA.
	Insurance	Seeks certainty on reinsurance data transfer as required in KORUS FTA.

Responses from the United States and Korea

The growing divergence between U.S. and Korean digital governance models underscores a central challenge in the evolving global digital economy. Seoul's emphasis on data sovereignty, platform accountability, and security-driven oversight reflects domestic political imperatives and a state-centric approach to digital regulation. In contrast, Washington continues to frame foreign digital measures through a free market and competitiveness lens, viewing many as discriminatory, burdensome to U.S. firms, and potentially setting adverse precedents for global digital trade norms. U.S. digital policy is also situated within a broader geopolitical strategy that is encouraging allies and partners to align with U.S. technological standards rather than China's, and this is viewed as central to both economic security and strategic stability.

The current U.S.-Korea digital dispute thus carries broader implications. The U.S. response to Korea's recent regulatory proposals serves as a litmus test for how it may address emerging digital restrictions in other major markets, including India, Turkey, Brazil, and, most importantly, the European Union. Reflecting growing industry concern, the U.S. Chamber of Commerce, the Computer and Communications Industry Association, and five other trade associations recently sent a [joint letter](#) to Secretary of Commerce Howard Lutnick urging the administration to prioritize progress on digital trade issues ahead of the upcoming summit between President Trump and President Lee on August 25. The letter criticized South Korea's lack of clear commitments to remove digital barriers, citing the draft Online Platform Act, export restrictions on detailed map data, discriminatory effects stemming from the Cloud Security Certification System and public network separation rules, and a proposed Artificial Intelligence Act modeled after the European Union's approach. A similar concern had been raised earlier in a [letter from U.S. lawmakers](#) urging the Trump administration to address Korea's digital trade barriers, underscoring the longstanding nature of the issue.

In response to regulatory pressures, Google [agreed to comply](#) with Korea's mapping security requirements by removing latitude and longitude coordinates from domestic map services to secure export approval for high-precision data. However, the company has resisted demands to establish a local data center or disclose domestic revenue figures tied to network usage fees. Seoul defends its restrictions on geospatial data exports as necessary for national security, maintaining long-standing controls on the outflow of sensitive mapping information.

Domestically, the proposed platform and competition regulations have sparked a debate among Korean stakeholders. Critics warn that adding additional *ex ante* regulations could distort the competitive landscape and unintentionally disadvantage Korean platforms compared to their foreign counterparts, given that local firms still dominate Korea's digital

economy. Government data from 2023 show that Naver controlled 52.7 percent of the search engine market, Baemin controlled 64.9 percent of the food delivery market, and Coupang controlled 38.6 percent of the e-commerce market. They also note that the KFTC has already enforced robust oversight under existing competition laws and unfair trade practices regulations, which provide a broad and flexible framework for addressing market dominance. Many experts argue that strengthening enforcement capacity—through additional staffing and budgetary resources—would be more effective than adopting new layers of regulation.

Also, the debate over network usage fees remains particularly contentious. As infrastructure maintenance costs have surged due to the massive traffic generated by global content providers (CPs), domestic ISPs argue that foreign CPs should share these costs by paying network usage fees. In contrast, CPs contend that users already pay for internet access, so additional charges would constitute “double billing” and violate the principle of network neutrality. The excessively high level of network usage fees compared to other countries has also sparked controversy. Twitch decided to withdraw its service from Korea, claiming that network fees in the country are more than ten times higher than abroad.

Political dynamics further complicate the debate. Successive administrations and the ruling party have repeatedly advanced comprehensive digital legislation, but consensus has proven elusive amid public and industry pushback. Many analysts urge Seoul to proceed cautiously, aligning its digital regulatory frameworks with international norms to mitigate trade frictions with the United States and avoid unintended consequences for Korea’s globally integrated digital economy.

The Way Forward for Korea

Looking ahead, two potential scenarios can be envisioned for U.S.-Korea digital cooperation. The first involves bilateral consultations aimed at improving non-tariff barriers, unfair policies and regulations, and institutional frameworks related to digital trade. This would require detailed discussions on how Korea can refine its existing and prospective digital regulations to prevent friction with the United States. The second scenario envisions the launch of formal negotiations toward a U.S.-Korea digital trade agreement, establishing a bilateral framework that could shape both countries’ digital trade policies over the long term.

The growing imbalance between the two countries’ goods and services trade helps explain why digital cooperation is emerging as a central pillar of the bilateral relationship. Although the United States runs a USD 66 billion goods trade deficit with Korea, it maintains a USD 11.5 billion surplus in services, driven largely by digitally deliverable sectors such as cloud computing, software, and entertainment. This structural pattern underscores why Washington views digital trade as a key strategic interest along with tariffs and investment issues.

However, Korea should recognize that it may not have full control over the timing, pace, or scope of future digital trade negotiations. Given the U.S. government’s assertive digital trade strategy and its determination to eliminate perceived barriers to U.S. technology firms, the United States could take the initiative in accelerating negotiations as part of its broader effort to define global digital rules. During President Trump’s first term, USTR identified digital trade as a key priority area “that can produce early achievements” and

concluded a U.S.-Japan digital trade agreement alongside the U.S.-Japan trade agreement. While Japan required approval from the National Diet, the United States treated the deal as an executive agreement, enabling the Trump administration to bypass congressional ratification and swiftly secure strategic advantages in setting digital trade rules.

In practical terms, Korea could strategically pursue a U.S.-Korea digital trade agreement by adopting the framework of the U.S.-Japan agreement. The upcoming Asia-Pacific Economic Cooperation (APEC) summit presents an opportune moment to initiate such collaborative efforts. The U.S.-Japan digital trade agreement closely mirrors Chapter 19 of the United States-Mexico-Canada Agreement (USMCA), which itself builds on the Electronic Commerce chapter of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It includes key provisions on tariff-free treatment of digital products, non-discriminatory treatment of digital products, free cross-border data transfers, prevention of data localization, recognition of electronic signatures, online consumer protection, privacy, cybersecurity, and spam prevention. Furthermore, it establishes a higher standard of digital liberalization by addressing issues not covered in previous trade agreements, such as prohibitions on forced disclosure or transfer of algorithms, restrictions on local data storage for financial services, bans on discriminatory taxation of digital products, limits on platform liability, and provisions for public data sharing. Adopting this framework would enable Korea to resolve persistent challenges in bilateral digital trade and lay the groundwork for broader regional cooperation, including a Korea-Japan digital trade agreement or even a trilateral framework among like-minded countries seeking to manage digital transformation through aligned industrial policies.

For Korea, adopting this framework would be both politically feasible and strategically advantageous. It would signal Seoul's commitment to high-standard digital trade norms already endorsed by Washington and Tokyo, thereby minimizing potential friction in negotiations with Washington. At the same time, it would allow Korea to retain flexibility in designing domestic regulations aligned with its policy priorities, such as data sovereignty and consumer protection. Notably, the U.S.-Japan digital trade agreement includes exceptions that permit members to adopt measures necessary to achieve legitimate public policy objectives. These provisions ensure that international trade rules do not unduly constrain domestic policymaking in non-trade areas—although, in practice, the United States often maintains substantial leverage in interpreting the scope of such exceptions.

The ongoing tariff negotiation packages could serve as a starting point, but the Korean government should adopt a more creative and forward-looking approach to engaging with the Trump administration on digital trade. With its audacious ambition to become one of the world's top three AI powers, Korea must build internationally interoperable frameworks for digital trade—not only in technological terms but also in regulatory alignment. A formal digital trade framework would not only stabilize bilateral digital trade rules but also create new channels for technology cooperation and investment in areas such as artificial intelligence and cybersecurity. Also, this is an opportunity to reaffirm Korea's longstanding role as a skillful pioneer in leveraging international agreements to catalyze domestic reform. By doing so, Korea can transform digital trade negotiations from a defensive exercise into a proactive strategy for advancing its technological leadership and economic resilience in the global digital economy.

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