



THE PENINSULA

U.S., South Korea Move to Lock In Lower Tariff Rate with \$350 Billion Deal

Published October 29, 2025

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Category: [Economics](#), [Indo-Pacific](#), [Economic Security](#), [United States](#)



South Korea's agreement to invest USD 350 billion in the United States marks the final step in securing a 15 percent tariff rate on Korean auto and auto-part exports, avoiding the steeper Section 232 rate of 25 percent. Announced after a meeting between President Donald Trump and President Lee Jae Myung on the sidelines of the Asia-Pacific Economic Cooperation (APEC) summit in Gyeongju, the deal is split between all-sector cash investments and shipbuilding commitments largely focused on financing guarantees. More specifically, Korea agreed to invest USD 200 billion in cash installments and another USD 150 billion toward shipbuilding support through a mix of direct investments and loans.

USD 200 Billion in Cash Investments

The United States and Korea agreed in principle to the USD 350 billion investment package back in July, but the two sides had been negotiating on the terms of the investments. The Trump administration initially expected Seoul to follow the terms agreed to by Japan with its USD 550 billion investment fund—also concluded in July—but the Korean won does not enjoy the same privileges and flexibility as the Japanese yen, as only the latter is an international reserve currency. Indeed, USD 350 billion is some 85 percent of Korea's entire foreign reserves. Korea had proposed establishing a dollar-won swap line to ease pressure

on its reserves, but talks did not appear to progress beyond this. The Bank of Korea subsequently clarified that a swap line is “not an appropriate tool to be considered for trade.”

Instead, Korea will split the investment fund into several installments, injecting cash into the U.S. market in increments not exceeding USD 20 billion annually. This is “within the range that the Korean foreign exchange market can tolerate,” according to Korea’s presidential office. The agreement further specifies that investments can be adjusted “if there are concerns about instability in the foreign exchange market.” The framework states that the investment commitment runs until January 2029, with procurement “over a much longer period.” Along with this comes a caveat that the profit-sharing ratio be adjusted if twenty years pass without any progress on payment toward Korea’s principal balance. Any subsequent fact sheet on the deal will likely provide further information surrounding the exact profit split of the deal—both during the principal repayment period and beyond.

The latest terms also include an annual procurement limit, provisions to shield loss-making investments from impacting principal repayment, interest rates designed to increase profit-sharing, and safeguard measures to allow for prolonged consultations should the United States request unilateral investment “contrary to the review or consultation of the consultative committee,” according to Lee’s office. The investment fund also considers the “commercial rationality” of projects, promoting only those that can guarantee principal repayment.

USD 150 Billion for Shipbuilding

The shipbuilding investment solidifies Korea’s “Make American Shipbuilding Great Again” (MASGA) initiative, launched earlier this year as part of its deal-making campaign. This will come through a mix of loans and cash investments, with the loans counting as foreign direct investment (FDI) into the United States, backed by a mix of domestic and foreign commercial banks. One purpose of the loans provision was to reduce the burden on Korea’s foreign exchange market.

The shipbuilding portion represents a remarkable balancing between government needs and market demands. Shipbuilding and shipyard construction require a considerable amount of capital investment. Slim profit margins on large-scale projects require careful evaluation before any investment is made. The USD 150 billion allocated for shipbuilding reflects effective coordination between national economic strategy and corporate profitability in both the United States and Korea. The Lee administration seems to have convinced the Korean private sector that these were investments worth making.

What Korea Gets

Korea will be allowed to export autos and auto parts to the United States under the 15 percent rate initially set under the July 30 deal and receive tariff reductions on wood products, aircraft and aircraft parts, and generic pharmaceutical drugs. The agreement also guarantees that Korea will not be treated less favorably than Taiwan on semiconductor tariffs, which are set to be introduced following the conclusion of a Section 232 investigation initiated on April 1. Korea’s presidential office also noted that domestic protections for rice and beef would remain in place.

As for the projects stateside, the U.S. government will support investments by streamlining the processing and implementation of federal land leases, utility supply, off-take arrangements, and regulatory procedures, while promising to “select Korean companies recommended by Korea as much as possible.” While the new terms of the investment agreement mentioned Korea’s longstanding free trade agreement (FTA) status with the United States, the tariff rate appears to remain at 15 percent, with no provision for the KORUS FTA arrangement.

What’s Next

The White House has yet to release a clarifying document outlining the terms of the U.S.-Korea investment fund. An official memorandum of understanding is expected in the near future, revealing more about the implementation timeline for investments, and the scope of Korea’s agricultural market access, among other details.

Similar to the July 30 framework that set Korea’s initial tariff rates, the agreement reached during President Trump’s visit appears to be a handshake pending executive orders that would make it official. President Lee’s **remarks just before** the APEC meetings point to unresolved questions on investment methods, timelines, and profit-sharing. This suggests that while the broad contours of a U.S.-Korea deal are now in place, much of its structure remains to be institutionalized.

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Feature image from [The White House](#).

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