



# Mobility Legal Updates

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LIN's Mobility Team monitors legal and regulatory trends in the automotive industry and periodically sends newsletters to our clients.

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Just one day before the scheduled implementation of a 25% reciprocal tariff on July 31, 2025, the governments of the U.S. and South Korea reached a sudden trade agreement, sending ripples through the domestic and international automotive industries. With the item-specific tariff on automobiles—previously announced at 25%—also being reduced to 15%, this places the cost burdens, global value chain strategies, and even the medium- to long-term industrial environment of finished-vehicle manufacturers at a critical inflection point.

## Overview and Key Issues of the U.S.-Korea Trade Negotiations

### **15% Reciprocal Tariff, \$350 Billion Investment in the U.S., and \$100 Billion in Energy Purchases**

The U.S. and South Korea have agreed to lower the reciprocal tariff on Korean imports to 15% from the previously announced 25%, with the item-specific tariff on Korean automobiles also being reduced to 15%.<sup>1</sup> In line with the negotiations, South Korea has committed to \$350 billion in investments in the U.S. (including a \$150 billion dedicated

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<sup>1</sup> However, for items such as steel, aluminum, and copper, the existing 50% tariff rate has been maintained.

fund for cooperation in the shipbuilding industry) and the purchase of \$100 billion worth of American energy, including LNG. While this agreement is significant in that it has partially alleviated trade uncertainties between the two nations, its actual effects may vary, as key details have not yet been specified and could be subject to differences in interpretation during the implementation phase.

As mentioned earlier, the agreement adjusts the U.S. tariff rate on Korean automobiles and parts to 15%. This rate is now identical to that of other major automotive producers like Japan and the EU. However, compared to the era of the KORUS FTA, the tariff rate on Korean vehicles has increased by 15 percentage points from the previous 0% to 15%, whereas the rate for Japanese and EU vehicles has risen by 12.5 percentage points from 2.5% to 15%. Consequently, the tariff advantage that Korean vehicles previously enjoyed over their Japanese and EU counterparts has been eliminated.

Meanwhile, the "reciprocal tariff" that the U.S. applies uniformly to Korean products is not applied redundantly when an item-specific tariff is already in place. Therefore, for automobiles and auto parts, which are subject to item-specific tariffs, it appears that the agreed-upon 15% tariff rate will be the final applicable rate, without the reciprocal tariff being applied.

## **Impact on the Korean Automotive Industry**

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### **Improved Performance and Expansion of Local Production Strategies Expected Due to Reduced Tariff Costs**

With this tariff reduction, projections indicate that the annual tariff burden for Korean automakers such as Hyundai and Kia will decrease from a potential 10 trillion KRW under a 25% reciprocal tariff to approximately 6 trillion KRW. This burden is likely to be further reduced when combined with strategies to expand local production and increase sales prices. Therefore, as a result of this agreement, the projected performance of Korean

automotive companies is expected to improve.

However, some concerns have been raised about a potential decline in the price competitiveness of Korean vehicles in the U.S. market, as the previous 2.5 percentage point tariff advantage over Japanese vehicles has disappeared. Contrary to these worries, analyses suggest that the competitiveness of Korean vehicles will not be diminished by this agreement. One analysis points out that the loss of the 2.5 percentage point tariff advantage amounts to a loss of only about \$600 in additional revenue per vehicle; therefore, applying the same tariff rate as Japanese vehicles is unlikely to inflict serious damage on the competitiveness of Korean vehicles in the U.S. market.

Furthermore, the local U.S. production ratio of the "Big Three" Japanese automakers (Toyota, Honda, Nissan) stands at 63% of their U.S. sales, while the ratio for Hyundai and Kia is only 42.5%. As a result, Korean companies have a higher proportion of vehicles subject to tariffs. Accordingly, the positive impact on performance from this tariff agreement is predicted to be greater for Korean companies than for their Japanese counterparts.

On the other hand, although the item-specific tariff on automobiles has been lowered, the confirmation of a high tariff rate of 15% is expected to intensify the pressure on automakers and parts suppliers to increase local production in the U.S. to minimize their tariff burden.

## **Conclusion and Implications**

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In the short term, this U.S.-Korea trade agreement has significantly contributed to stabilizing profits and improving market sentiment for the domestic automotive and related industries. At the same time, it suggests that long-term, corporate-level changes—such as those related to local production in the U.S., sales strategies, and

supply chain diversification—are inevitable. With key details still requiring coordination and numerous variables in the upcoming implementation process, companies and investors need to closely monitor policy developments and industry trends.

LIN's Mobility Team is prepared to offer prompt and expert assistance in navigating these regulatory changes, as well as in matters of litigation, advisory services, and corporate strategy development.

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**LIN** has extensive experience in providing advisory and litigation services in the mobility industry, particularly in areas such as administrative regulations and patent and trade secret disputes related to motor vehicles. Our Mobility Team consists of attorneys and experts with a distinctive interest and passion for automobiles.

Should you wish to learn more about this newsletter or have any other inquiries, please do not hesitate to contact our firm's **Mobility Team**.

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Taejoon Bae (tjbae@law-lin.com, +82 10-8237-8123)

Mingu Kang (mgkang@law-lin.com, +82 10-3907-9217)

Hoyeon Kim (hykim@law-lin.com, +82 2-3477-6300)

Hanjun Jung (hjjung@law-lin.com, +82 2-3477-8695)

Jeongpil Oh (jpoh@law-lin.com, +82 2-3477-8695)