



Industrial Policy in the Second Trump Administration: Focusing on Companies Investing in the United States

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Economic Policy in the Second Trump Administration

▪ America First, check and balance against China, tax cuts and deregulation¹⁾

- Maintaining the protectionism and strategic decoupling from China of the first Trump administration, which put America's national interests first
- Placing energy security and price stability over environmental protection and climate action, and pledging to roll back applicable regulations
- Promoting manufacturing and high-tech industries by building an America-centered supply chain

[Table 1] Economic policy in the second Trump administration

Area	Description
Trade	Introduce universal baseline tariffs of 10% to 20%, impose 60% tariffs on China, and push for strategic decoupling from China by removing the most favored nation (MFN) status from China
Industry	Build an America-centered supply chain, and repeal the Inflation Reduction Act (IRA) to shift policy directions
Finance	Promote tax cuts by extending the Tax Cuts and Jobs Act (TCJA), which is set to expire in 2025
Environment	Repeal fossil fuel regulations and electric vehicle mandates, and withdraw from the Paris Climate Agreement
Labor	Resume deporting undocumented immigrants and building a border wall with Mexico

Source: Adapted by the National Assembly Budget Office based on the Republican Party's platform and remarks in foreign media outlets

Impact from the Introduction of Universal Baseline Tariffs

▪ Possibility of universal baseline tariffs imposed on FTA partners

- A scenario where universal baseline tariffs of 10% and 20% are imposed on all countries and 60% tariffs are imposed on China only
 - Exports to the U.S. are expected to decrease by about 15.2 billion and 30.4 billion dollars, and exports to third countries are expected to decline by approximately 7.4 and 11.6 billion dollars, caused by a drop in demand for Korean intermediate goods due to a fall in third countries' exports to the U.S.²⁾
 - Due to a cumulative trade surplus of more than 50 billion dollars with the U.S. from January to September 2024, which ranks seventh in the world, the U.S.-Korea Free Trade Agreement may be renegotiated as it was during the first Trump administration.
 - Companies investing in the U.S. may benefit from universal baseline tariffs, while higher import prices for intermediate goods are expected to worsen profitability from local production.

1) The 2024 GOP Platform Make America Great Again <<https://www.2024gopplatform.com>> Accessed on Nov. 14, 2024.>

2) Kim, Y. et al., 2024 U.S. Election: Background and Impact of Trump's Tariff Policy, Korea Institute for International Economic Policy, 2024.

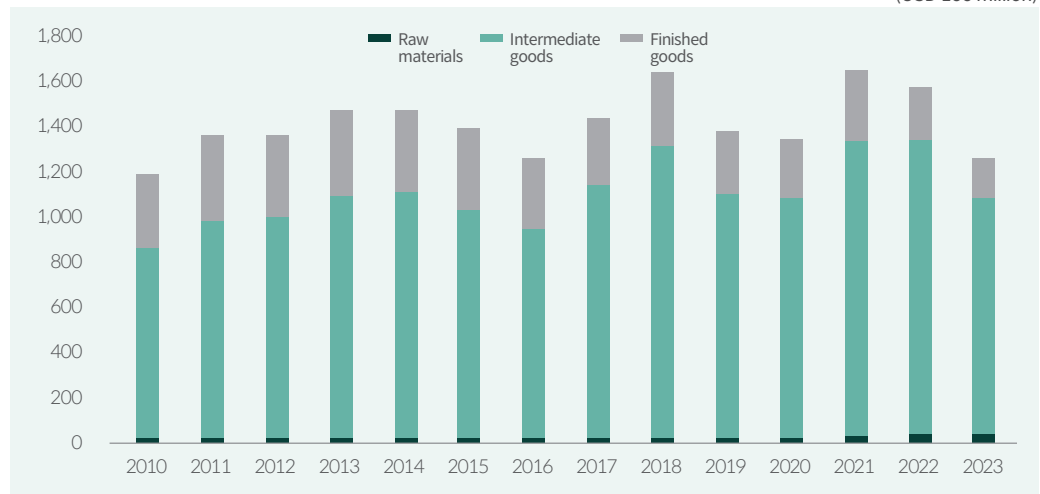


▪ U.S.-China decoupling affects Korea's exports to China.

- In 2018, during the first Trump administration, U.S.-China trade tensions resulted in a drop in Korea's exports and export-linked production to China³⁾ for several years⁴⁾.
- 60% tariffs on China during the second Trump administration are expected to reduce Korea's export-linked production.
- China's potential exclusion from global supply chains related to high-tech products adds uncertainty to the export environment for Korea, which relies heavily on intermediate goods exports to China.
- As of 2023, 83.6% of Korea's exports to China come from intermediate goods.

[Figure 1] Korea's exports to China by processing stage

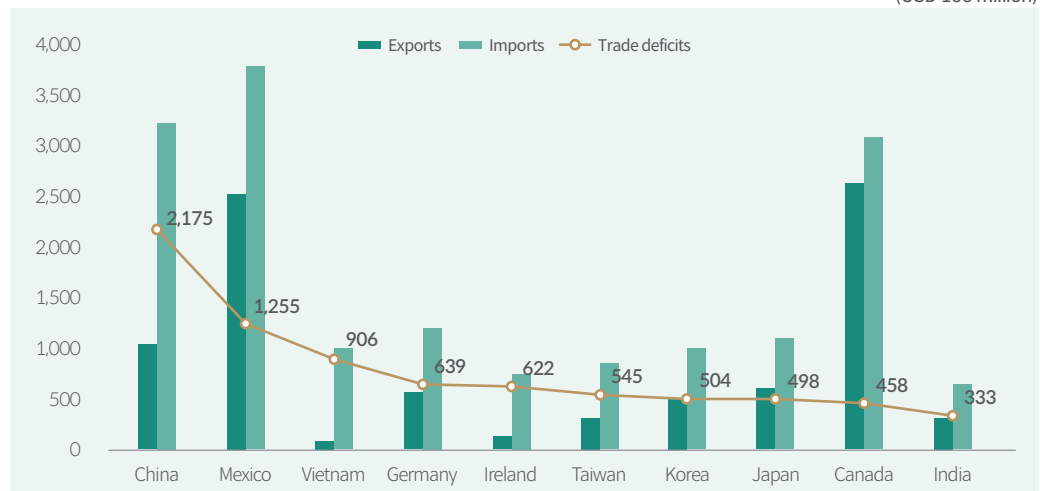
(USD 100 million)



Source: Korea International Trade Association

[Figure 2] Top 10 U.S. trade deficit countries

(USD 100 million)



Source: U.S. Bureau of Economic Analysis, January to September 2024

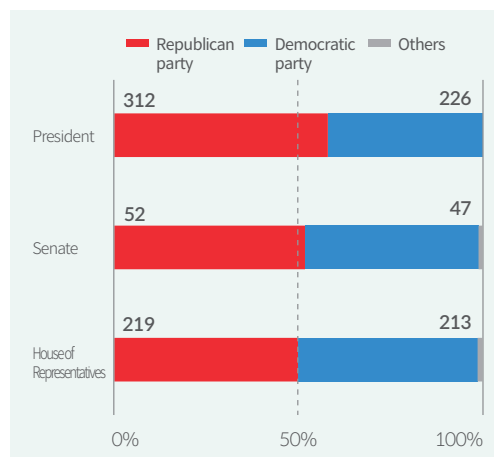
3) Export-linked production includes the direct exports of intermediate goods to China and the exports of intermediate goods used to produce Korea's or a third country's finished goods for export to China.

4) Jeong, S. et al., Assessment and Implications of Exports to China Considering Supply Chain Connections, Bank of Korea, 2024.

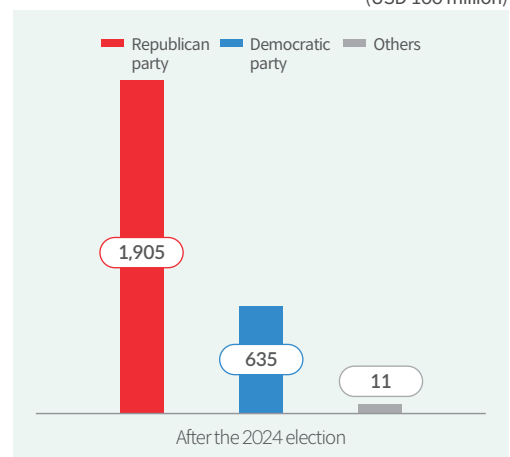
Possibility of the Passage of Economic Policy Bills

- **Trump's economic policy bills are unlikely to be passed quickly.**
 - Credits directly related to companies investing in the U.S. include tax credits or subsidies under the IRA and the Creating Helpful Incentives to Produce Semiconductors for America Act (CHIPS and Science Act)⁵⁾.
 - Depending on political interests within the Republican Party, they might not be very co-operative about passing the bills.
 - Even though the Republican Party took a majority in the Senate and House of Representatives during the first Trump administration, their bid to repeal Obama Care⁶⁾ was defeated in the Senate.
 - Republican districts account for more than 74% of the investment in industries closely related to the IRA, and 22 senators in the top 11 states based on the amount of investment are 12 Republicans and 10 Democrats⁷⁾.
 - In August 2024, 18 Republicans sent a letter to the Speaker of the House calling for strengthening the IRA rather than repealing it altogether due to concerns about the adverse effects of repealing it.
 - The CHIPS and Science Act is expected to remain as it is in line with Trump's economic policy of building an America-centered supply chain⁸⁾.
- **It is unclear whether the IRA will be repealed even though the Republican Party won the presidential election and got a majority in Congress⁹⁾.**
 - Although the Republicans got a majority at the congressional and the presidential election, they lack seats to stop a filibuster in the Senate¹⁰⁾.
 - Executive orders, not amendments to laws, are expected to be used for economic policy.
 - Out of 33 senators up for election in the 2026 midterm election, 20 are Republicans, which makes it unclear whether the Republican Party will retain control of the Senate and House of Representatives in the future.

[Figure 3] Outcomes of the presidential and congressional elections



[Figure 4] IRA-related investment by party affiliation in the House of Representatives
(USD 100 million)



Source: Atlas Public Policy, Clean Economy Tracker

- 5) The CHIPS and Science Act aims to create a self-sustaining semiconductor ecosystem covering semiconductor supply chain security, R&D, production, and human resources development from a long-term perspective beginning from the design of the system. (Kim, Y. and Choi, S., Highlights and Impacts of the U.S. CHIPS and Science Act, NABO Focus No. 50, NABO, 2022)
- 6) The official name is the Patient Care and Affordable Care Act (PCACA).
- 7) Investment in the battery, battery recycling, critical minerals production and processing, electric vehicle charging, electric vehicle components and assembly, heat pumps, solar components and assembly, electric power transmission and grid, and wind energy components and assembly industries are summed up based on the party affiliation of those who won the 2024 House of Representatives election. Source: Atlas Public Policy, Clean Economy Tracker, <<https://atlaspolicy.com/clean-economy-tracker>>, Accessed on Nov. 14, 2024>
- 8) Thomasbeard, "US Election: Its Impact on Industrial Policy," Economist Intelligence Unit, June 24, 2024, <<https://www.eiu.com/n/us-election-its-impact-on-industrial-policy>>, Accessed on Nov. 14, 2024>
- 9) NBC News, "2024 President Results," <<https://www.nbcnews.com/politics/2024-presidential-election>>, Accessed on Nov. 22, 2024
- 10) While a filibuster can be bypassed through the U.S. budget reconciliation process, the process can only process one bill per year for tax appropriations, revenues, and federal debt limits, and its use is limited, like the Biden administration's IRA in 2022 and the first Trump administration's TCJA in 2017.

Impact on Companies Investing in the United States

▪ Immediate reinstatement of policies from the first Trump administration¹¹⁾ and repeal of major Biden administration policies

- The first Trump administration quickly neutralized climate change regulations because the Obama administration used executive orders within the existing system rather than introducing a system through legislation.
- Considering political interests within the Republican Party, Trump's campaign promise to repeal the IRA in his second term is unlikely to come true in the near term.
 - As requirements and amounts of tax credits related to the IRA can be reorganized by executive orders and enforcement rules without the consent of Congress, immediate changes are expected¹²⁾.
- Steps are being taken to convert preliminary agreements with companies eligible for the CHIPS for America Fund, including Samsung and Intel, into full agreements before the term of the Biden administration expires¹³⁾ and TSMC from Taiwan recently entered into a full agreement.
 - Since subsidies from the CHIPS for America Fund are provided incrementally based on business performance, there remains uncertainty as to whether a company can receive the full amount of subsidies even if the full agreement is signed.
 - Increased review requirements related to countering China and national security may limit the receipt of subsidies and the advanced manufacturing investment credit (AMIC).

[Table 2] Key credits and related industries

	Area	IRS Code	Directly related industry	Responsible Department	Trump's campaign promises
IRA	Advanced manufacturing production credit (AMPC)	45X	Batteries	Treasury & Internal Revenue Service (IRS)	Repeal
	Advanced energy project credit (AEPC)	48C	Batteries, automobiles	Energy & IRS	
	New clean vehicle credit	30D	Batteries, automobiles	Treasury & IRS	
CHIPS	Subsidies from the CHIPS for America Fund	-	Semiconductors	Commerce	Likely to remain
	Advanced manufacturing investment credit (AMIC)	48D	Semiconductors	Treasury & IRS	

Source: Adapted by the National Assembly Budget Office based on the Federal Register

▪ Increased institutional uncertainty and opportunities in the U.S. market

- The administration can step in and reorganize tax credits and subsidies through executive orders and enforcement rules, which creates uncertainty for companies investing in the U.S.
- Stronger U.S. trade barriers, such as universal baseline tariffs, also present an opportunity for Korean companies, which have expanded local production capacity in the U.S., to expand their U.S. market share through flexible production adjustments.

11) Schleifer, Theodore. "Trump Plans Series of Executive Orders for Day 1, Susie Wiles Tells Donors," The New York Times, Nov. 11, 2024, <<https://www.nytimes.com/2024/11/11/us/politics/trump-executive-orders-susie-wiles.html>> Accessed on Nov. 14, 2024>

12) Sall, Louison, and Samantha Gross. 2024. "Trump Has Big Plans for Climate and Energy Policy, but Can He Implement Them?" Brookings, July 30, 2024, <<https://www.brookings.edu/articles/trump-has-big-plans-for-climate-and-energy-policy-but-can-he-implement-them>> Accessed on Nov. 18, 2024>

13) Shepardson, David. "US Finalizes \$6.6 Billion Chips Award for TSMC Ahead of Trump Return," Reuters, Nov. 15, 2024, <<https://www.reuters.com/technology/us-finalizes-66-billion-chips-award-tsmc-ahead-trump-return-2024-11-15>> Accessed on Nov. 18, 2024>