THE | DIPLOMAT

TRANS-PACIFIC VIEW | ECONOMY | EAST ASIA

South Korea-US Economic Ties Are Changing

Amid supply chain worries and high-tech competition, there has been a distinct shift in the tenor of the business relationship between Seoul and Washington.

By **Tom Byrne**
February 08, 2022

Credit: Depositphotos

U.S. and South Korean companies have had close ties since the Korean War armistice was signed in 1953. A relationship initially defined by import-dependent development assistance matured into a vibrant bilateral trade dynamic, culminating in the Korea-U.S. free trade agreement (KORUS), ratified in 2011 and considered "a gold standard" by top U.S. trade officials. Annual trade between the United States and South Korea amounted to $168 billion in 2019, the year before the COVID-19 pandemic struck, and South Korea is the United States' sixth-largest trading partner. That is quite a progression.

Nonetheless, the bilateral economic relationship has lagged in one area: direct investment. The United States is the top destination for global foreign direct investment. But South Korea ranks only a distant 14th among nations investing in the U.S., behind much smaller economies such as Ireland, Belgium, and Singapore. Some Korean big-name companies have been pioneers, notably Hyundai and Kia in the automobile industry, and others are hopping on the bandwagon. Many Korean companies have become not only competitive players but global leaders in their industries, and they are seeking to expand their global market share by locating production in their key markets, namely, the United States.

In addition, this past year has marked a distinct shift in the tenor of the business relationship between Seoul and Washington. Driven by intensifying competition in critical technologies, supply-chain fragility (which became apparent in the COVID-19 pandemic), and geopolitical trade risks such as the China-U.S. rivalry, the U.S. and South Korean governments, and firms from the two countries, have begun to update their relationships to meet new realities. Now, a new Korean wave of investment is sweeping through the United States.

The most crucial element of this strategic uptick involves a series of joint South Korean-U.S. ventures focused on electric vehicle batteries, semiconductors, and COVID-19 vaccines. These fields — critical nodes in the most important 21st-century production networks — are quickly coming to define the next era of South Korea-U.S. business ties.

Next-generation battery development is a central element of this new wave of South Korea-U.S. business cooperation. In April, General Motors and LG Energy solutions announced that they are expanding EV battery cell production to Spring Hills, Tennessee. This an extension of Ultium Cells, LLC, a joint venture between the two firms that began in December 2019 with the building of a battery cell assembly plant in Ohio. The new $2.3 billion, 2.8 million square foot facility in Tennessee, scheduled to open in 2023, will create 1,300 new manufacturing jobs in the region and significantly increase both firms' ability to manufacture batteries at scale. And late January, both companies announced that they will invest $2.6 billion to create a third battery plant in Lansing, Michigan.

General Motors and LG's partnership isn't the only battery deal in the works. In September, South Korea's SK Innovation announced a plan with Ford to invest more than $11 billion in electric vehicle and battery production facilities across the United States. The new venture, BlueOvalSK, includes two lithium-ion plants in Kentucky and a 3,600-acre campus in Tennessee, projected to generate roughly 11,000 new jobs. POSCO, a traditional steel producer, is also partnering with GM to produce cathode active material, a key component in batteries.

Another central focus is semiconductors – an important component of nearly every modern high-tech product, from personal computers to modern vehicles. During May's South Korea-U.S. summit, both sides agreed to "facilitate mutual and complementary investments in semiconductors," including "advanced and auto-grade chips." During a follow-up meeting, U.S. Trade Representative Katherine Tai and her counterpart Yeo Han-koo agreed to cooperate on a variety of supply chain issues. Both sides also established a new bilateral forum to discuss semiconductor production projects to ensure supply chain resilience long into the future.

Since that May summit, both sides have already begun to realize these promises. South Korean technology giant Samsung, for instance, recently announced that it was moving forward with plans to build a $17 billion semiconductor plant in Taylor, Texas – the "largest single foreign direct investment" in the state's history, according to Governor Greg Abbott. Like the

Ultium plants in Ohio and Tennessee, the Samsung facility represents a significant economic win for Texas, generating anywhere from 1,800 to 2,000 high-paying local jobs. State and local incentives offered by Texas, including tax savings of about $250 million over 15 years and a $27 million grant from the Texas Enterprise Fund, helped secure the deal.

The May summit also led to the ROK-U.S. Global Vaccine Partnership – an endorsement by Washington of South Korea's goal of becoming a global hub for vaccine production. The partnership is designed to expand Seoul's vaccine manufacturing capabilities, including raw materials, using domestic facilities. In a follow-up agreement in September, Cytiva, a U.S. vaccine materials producer, announced a plan to invest $52.5 million in South Korea's vaccine industry. And the Cambridge, Massachusetts-based biotech firm, Moderna's May 2021 production agreement with Samsung Biologics for fill-finish manufacturing in South Korea is already producing the Spikevax vaccine, which has received approval for use by the health regulators in South Korea, as well as in the Philippines and Columbia.

Despite these positive developments, threats lurk in Washington. In September, the White House called in a number of semiconductor firms, requesting information to identify future supply chain bottlenecks. This request highlights some of the difficulties in forging public and private sector cooperation, because many of the firms were concerned about releasing information that could give unfair advantages to competitors or reveal business secrets. South Korean companies such as Samsung and SK expressed their concerns, but eventually submitted redacted data just before the November deadline.

The reality is that the pick-up in South Korean investment in the U.S. has been taking place despite the lack of incentives from the U.S. administration and Congress. Notably, the CHIPS bill – which earmarks $52 billion in funding and incentives for domestic semiconductor production, comparable to what China and South Korea have promised to spend domestically for semiconductors, and $45 billion to strengthen supply chains for high-tech products – faces an uncertain future. This is because the House passed its version along partisan lines on February 4 while the Senate passed it on nonpartisan lines eight months ago. Provisions in the House bill that have nothing to do with helping the U.S. to compete better with China or to shore up supply chains make the reconciliation process politically challenging in an evenly divided Senate. Moreover, proposals by the Biden administration and Democrats in Congress to raise the corporate income tax rate would be investor unfriendly for domestic as well as foreign companies.

Challenges aside, the transformations in the South Korea-U.S. business relationship into a vibrant two-way investment partnership mark a notable inflection point. Both countries have much to gain by riding this new wave.

AUTHORS

GUEST AUTHOR

Tom Byrne

Tom Byrne is the president and CEO of The Korea Society, a New York City-based non-profit and a former Asia-Pacific regional manager for Moody's Sovereign Risk Group based in Singapore.

The views reflected in this article are those of the author and do not necessarily reflect the views of The Korea Society.

TAGS

Trans-Pacific View Economy East Asia South Korea

United States global supply chains South Korea economy

South Korea investment in the U.S. South Korea tech industry

U.S.-South Korea relations U.S.-South Korea tech cooperation