

## South Korea's Economy Struggles Under Weak Demand and US Tariff Threats

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South Korea's economy is feeling the strain as sluggish domestic demand and renewed fears over United States tariffs weigh heavily on growth prospects. According to the Korea Development Institute (KDI), a government-run think tank, the nation's economic activity remains subdued, with no significant improvement over the previous month.

Construction continues to slump, and the manufacturing sector is also losing momentum. While South Korea's booming semiconductor exports have kept headline trade figures afloat, this has not been enough to offset broader weaknesses. In June, overall exports rose

4.3 percent from a year earlier to reach \$59.8 billion, driven largely by strong demand for chips. But exports to the United States slipped 0.5 percent to \$11.24 billion, reflecting the impact of ongoing tariff disputes.

Earlier this year, former United States President Donald Trump introduced reciprocal tariffs on trade partners, including steep 25 percent duties on South Korean goods. Although these measures were briefly paused to allow for negotiations, Washington recently announced plans to move ahead with the tariffs on August 1 if no agreement is reached. Separate tariffs on steel, aluminum, and auto-related products remain in effect, further dampening trade prospects.

These developments have rattled South Korean businesses and policymakers alike. Industrial production fell 1.1 percent in May, marking the second month of decline. Facility investment also contracted for a third straight month, dropping 4.7 percent. Retail sales showed no growth over the same period, highlighting persistent caution among consumers despite signs that sentiment is gradually improving.

The KDI noted that uncertainty around trade policy is clouding any potential recovery in domestic demand. With the mutual tariff suspension nearing expiration, companies face a difficult balancing act between preparing for higher export costs and maintaining production.

Still, there are glimmers of hope. The resilience of semiconductor exports underscores South Korea's competitiveness in key industries. But for many manufacturers and retailers, the combination of global trade tensions and weak local demand continues to present serious challenges.

As the deadline for a trade deal approaches, South Korea's leaders will be under pressure to secure an agreement that protects vital export markets while supporting growth at home. Until then, the country's economic outlook remains cautiously uncertain.

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