OPINION

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Climate Policy Reversal under the Second Trump Administration: Implications for Global Sustainable Finance

The second Trump administration, inaugurated in January 2025, has initiated a swift reversal of the environmentally focused policies introduced under the Biden administration. On the international front, the administration has weakened global climate cooperation by withdrawing from the Paris Agreement and suspending contributions to global climate initiatives. Domestically, it has disrupted the green transition by expanding support for the fossil fuel industry, restricting ESG investing, and repealing the Securities and Exchange Commission's mandatory climate risk disclosure requirements.

These policy shifts have significantly undermined the credibility of, and efforts to standardize, the global sustainable finance framework. As the world's second-largest greenhouse gas emitter, the US has created a leadership vacuum in international climate governance by withdrawing from the Paris Agreement, hindering efforts to establish globally coherent ESG standards and disclosure systems. This development raises the risk of declining investor confidence and reduced participation in the sustainable finance market.

Korea is not immune to these effects. As confidence in global ESG standards weakens, Korean companies may face increased compliance burdens due to overlapping regulatory regimes, potentially slowing capital inflows into the sustainable finance sector. In response, Korea must enhance strategic coordination with leading economies such as the EU and pursue regional partnerships, particularly with ASEAN countries, to advance the development of a pan-Asian sustainable finance market.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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Introduction

Since the inauguration of the second Trump administration on January 20, 2025, there has been a dramatic shift in the US environmental and climate policy. Shortly after taking office, President Trump began rolling back climate-focused policy initiatives implemented under the Biden administration. Key measures include the withdrawal of the US from the Paris Agreement, the suspension of contributions to international climate initiatives, and new restrictions on ESG investing. These policy shifts are not only reshaping the US energy and environmental landscape but are also undermining the global climate change response framework. This policy reversal casts a negative shadow over the global sustainable finance market and further complicates the international community's efforts to meet greenhouse gas (GHG) reduction targets.

Environmental policy shifts under Trump's second term

Following its inauguration on January 20, 2025, the Trump administration launched a sweeping reversal of US environmental policy. Many of the global climate cooperation frameworks and federal-level environmental support programs, developed under the Biden administration, were either dismantled or suspended. On his first day in office, President Trump signed Executive Order 14162 entitled "Putting America First in International Environmental Agreements," officially re-affirming the US withdrawal from the Paris Agreement and terminating all federal financial contributions to agencies associated with the United Nations Framework Convention on Climate Change (UNFCCC).[1)]

This anti-environmental stance is also evident in the administration's domestic policy agenda. On the same day, President Trump issued Executive Order 14156, declaring an unprecedented National Energy Emergency.[2)] Citing energy security and economic recovery, the administration moved to significantly relax regulations on the fossil fuel industry. Federal agencies were directed to accelerate oil and gas exploration, production, transportation, and power generation, while curtailing or waiving the application of environmental protection laws. As a result, project approval timelines, previously spanning several years, have been shortened

1) The White House, Jan. 20, 2025, Putting America First in International Environment Agreements.

2) The White House, Jan. 20, 2025, Declaring a National Energy Emergency.

to just 28 days. Notably, renewable energy projects were excluded from these regulatory relaxations, drawing criticism that the policy disproportionately favors the fossil fuel sector.

The Biden administration's flagship climate policies—the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA)—have also faced significant setbacks. Immediately after taking office, President Trump halted federal funding for projects authorized under both the IRA and the IIJA, scaled back subsidies and loan programs for clean energy, and submitted a proposal to the Congress to cut the IRA's budget. As a result, an estimated $6.9 billion worth of clean energy projects were either canceled or downsized in the first quarter of 2025 alone.[3] The US Environmental Protection Agency (EPA) has also been a primary target of these policy changes. The Trump administration has relaxed environmental impact assessment standards adopted by the EPA and questioned the scientific validity of ESG-related policies, effectively excluding ESG indicators from federal regulatory consideration. Furthermore, President Trump has appointed climate change skeptics to lead key environmental agencies, including the EPA, and has initiated budget cuts targeting these agencies, echoing the policy approach taken during his first term.

Regulatory support for ESG investing and sustainability disclosure requirements has similarly been curtailed. In 2022, the Department of Labor (DOL), under the Biden administration, introduced a rule allowing retirement plan fiduciaries, including those managing 401(k) plans, to incorporate ESG factors into investment decisions when such considerations are expected to improve financial performance. However, this rule was met with strong resistance from conservatives, including Republican-led Congress, who filed a lawsuit against the DOL on the grounds that the rule could threaten workers' retirement savings. Under the second Trump administration, the DOL has since requested the suspension of legal proceedings, citing its intention to repeal the rule. Further policy rollback occurred in March 2025, when Paul Atkins, newly appointed by President Trump as Chairman of the Securities and Exchange Commission (SEC), announced plans to repeal the climate risk disclosure regulation for publicly listed companies, a regulation finalized in March 2024 under the Biden administration. Simultaneously, the SEC withdrew its legal defense in ongoing litigation surrounding the regulation, effectively signaling a retreat from a sustainability disclosure framework in the US.[4]

3) Financial Times, Apr. 24, 2025, US clean energy manufacturing stalls as Republicans take aim at IRA.

4) Reuters, Feb. 12, 2025, Top 5 ESG considerations for US investors under Trump-Vance administration.

Implications for the global sustainable finance market

The Paris Agreement, adopted at the 21st Conference of the Parties to the UNFCCC (COP21) in 2015, set the goal of limiting the rise in the global average temperature to well below 2°C and seeks to cap the increase at 1.5°C. This goal has served as a foundational principle for the development of major international initiatives and frameworks for sustainable finance. Notable examples include the EU Taxonomy, the GHG Protocol, and the sustainability disclosure standards issued by the International Sustainability Standards Board (ISSB), all of which are aligned with the objectives of the Paris Agreement. In this context, the recent shift in US environmental policy casts doubt on the implementation of the Paris Agreement and erodes the credibility and consistency of the global sustainable finance framework.

First, achieving the Paris Agreement's targets is becoming increasingly challenging. As the world's second-largest GHG emitter, the US has declared its intention to withdraw from the agreement, weakening global efforts to reduce GHG emissions. According to Larch and Wanner (2024),[5] the absence of US participation in the Paris Agreement could effectively render 38.2% of the global emissions reduction target unattainable. This estimate reflects not only the direct shortfall in US emissions reductions, but also the "leakage effect," whereby emissions-intensive industries shift operations to the US or global consumption of low-cost US fossil fuels increases due to looser regulations. Furthermore, developing countries' ability to meet their climate commitments under the Paris Agreement may be constrained. Under the UNFCCC, developed nations pledged to provide USD 100 billion annually to developing countries starting in 2020. At COP28, this target was raised to USD 300 billion annually by 2035. However, the Trump administration's suspension of US contributions to multilateral climate finance mechanisms, including the Green Climate Fund (GCF), is expected to curtail the financial resources available to development economies for emissions reduction efforts.

Second, the reversal of the US policy poses a significant challenge to the global standardization of sustainability disclosure frameworks. In June 2023, the ISSB finalized its first two baseline standards for corporate sustainability disclosure: IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information); and IFRS S2 (Climate-related Disclosures). These ISSB standards were designed to ensure interoperability with existing frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD), the

5) Larch, M., Wanner, J., 2024, The consequences of non-participation in the Paris Agreement, *European Economic Review*, 163.

European Sustainability Reporting Standards (ESRS), and the Global Reporting Initiative (GRI), with the aim of providing companies and investors with a consistent and comparable information architecture. However, the SEC's recent decision to repeal climate risk disclosure requirements has significantly undermined the consistency and reliability of global sustainability disclosure frameworks. As a result, multinational corporations must comply with divergent national reporting requirements, increasing the risk of overlapping or fragmented disclosures. This, in turn, reduces the comparability and usability of ESG information for investors and threatens the credibility of the broader sustainable finance market.

Third, there are growing concerns that major financial institutions may scale back their participation in the sustainable finance market. Global financial institutions play a pivotal role in the sustainable finance ecosystem by facilitating the supply and demand of ESG investing and developing a range of sustainability-linked financial products. However, rising anti-environmental sentiment in the US, along with mounting political pressure on global financial institutions, is increasingly jeopardizing these functions. In recent months, several major global institutions have exited primary climate initiatives in response to the intensifying political backlash within the US. Just prior to President Trump's inauguration, the six largest US banks—JPMorgan Chase, Bank of America, Citigroup, Morgan Stanley, Wells Fargo, and Goldman Sachs—announced their withdrawal from the Net-Zero Banking Alliance (NZBA).[6] Similarly, in 2025, firms including BlackRock and J.P. Morgan Asset Management exited the Net-Zero Asset Managers Initiative (NZAM).[7] Their retreat from net-zero commitments may constrain the global supply of green capital.

Korean financial institutions' strategic response

The environmental and climate policy reversal under the second Trump administration has introduced considerable disruption and uncertainty into the global sustainable finance market, and Korea is by no means immune to its effects. This development calls for a coordinated response from financial authorities and industry stakeholders.

First, Korea must prepare for growing uncertainty surrounding the global sustainability disclosure framework. The Trump administration diverges sharply from global trends led by

6) The Guardian, Jan. 8, 2025, Six big banks quit net zero alliance before Trump inauguration.

7) Reuters, Mar. 21, 2025, JPMorgan asset management unit quits industry climate coalition.

the EU and the ISSB by rolling back climate disclosure mandates and removing requirements for public pension funds to incorporate ESG factors into investment decisions. In contrast, Korea has been working to align with international sustainability finance frameworks by adopting ISSB-based sustainability disclosure standards and refining its domestic green taxonomy (i.e. K-Taxonomy). However, the US retreat from global standardization efforts could weaken the international compatibility of Korea's disclosure regime, eroding both market acceptance and regulatory effectiveness. This poses particular challenges for export-oriented companies and those reliant on foreign capital, which may face increased compliance costs and overlapping reporting obligations. These companies may push for delays or relaxations in the implementation of disclosure requirements. In response, regulatory authorities should consider supplementary measures that uphold international alignment and mitigate compliance burdens for domestic companies.

Second, Korea must proactively address the risk of a contraction in the sustainable finance market. The potential reduction in ESG investing in the US could have adverse spillover effects on Korea's sustainable finance ecosystem. A slowdown in global capital flows could weaken the appeal of issuing ESG bonds by narrowing the green premium (greenium) and increasing the cost of certification and disclosure, ultimately reducing issuer participation. Korean securities firms may scale back underwriting, distribution, and product development amid declining demand for ESG bonds and funds, while asset managers are likely to face pressure to reduce ESG fund offerings and adjust their portfolio strategies. To navigate these challenges, Korea should adopt a comprehensive policy approach that preserves the credibility of the regulatory framework, leverages public-sector investment to catalyze sustainable finance, and enhances strategic communication with domestic investors.

Third, Korea should pay close attention to the adverse impact of declining carbon prices on green industries. The Trump administration seeks to expand energy production and relax emissions regulations, with the aim of promoting a "fossil fuel renaissance". This move could exert downward pressure on global carbon markets, particularly given its position as the world's largest oil and gas producer. A resulting decline in global carbon prices could undermine the profitability of green projects in Korea and delay joint public-private investment in green infrastructure, thereby posing an obstacle to the country's efforts to achieve its Nationally Determined Contribution (NDC) targets. In response, Korea should closely

monitor developments in global carbon markets and be prepared to engage in international coordination efforts aimed at stabilizing carbon prices when necessary.

The Trump administration's shift in environmental policy is likely to introduce structural uncertainty and constrain growth potential across the global sustainable finance market, including Korea. In this context, Korea should strengthen collaboration with key partners such as the EU, the UK, and Japan, while actively pursuing engagement with ASEAN member states to advance the development of a pan-Asian sustainable finance platform. Ensuring the stable growth of sustainable finance will require not only the establishment of a long-term strategy but also tactical agility to adapt to an increasingly volatile global policy environment.