



📍 202.464.1982 📍 1800 K Street NW

THE PENINSULA

Two Years into the Ukraine War: The Impact on Korea

Published April 18, 2024

Author: [Maximilian Hess](#)

Category: [Current Events](#)



Russia's February 2022 full-scale invasion of Ukraine has been one of the defining geopolitical moments of the modern era—and while not as headline grabbing as its ramifications for Europe and the so-called 'BRICS' (Brazil, Russia, India, China, South Africa) agenda, its impact on the Korean Peninsula has been profound.

Vladimir Putin's war has significantly impacted Korean business, its defense industry, and the geopolitical balance between Korea and the Kim regime in the North. These changes will play a key role not only in shaping the politics of the peninsula while the invasion continues, but may also have a significant impact on domestic politics in Korea as well as Seoul's positioning with regards to growing tensions between the wider West, in particular the United States and China.

The most immediate change resulting from the full-scale invasion was Korea's joining the international sanctions regime against Russia. Korea was the closest Western ally that did not impose sanctions on Russia after Putin first invaded Ukraine in 2014. It was not alone in joining this expansion, with Singapore and Switzerland also coming on board with the regime, while Japan—which had implemented some but not all of the sanctions that the West imposed in the years between 2014 and 2021—expanded its sanctions program as well. But Seoul's introduction of sanctions against Russia had unique costs for Korea's economic and geopolitical position.

Firstly, Russia had [backed](#) some of the crucial votes for sanctions against North Korea on the United Nations Security Council, where Moscow holds veto power, through 2017. And secondly after 2014, Korean businesses had also taken advantage of Seoul's lack of Russia

sanctions to expand their operations in Russia, taking up space left behind by Western competitors, with Korea's strength in the engineering and shipbuilding sectors serving to meet crucial Russian needs.

That is not to say that Korean companies served as a major source of sanctions evasion for the Russia; sanctions at the time against Russia primarily targeted its military and ability to borrow abroad and relations with Seoul on these matters remained limited. The thinking was that sanctions should seek to deter Russia from further aggression—its moderately cooperative position with regards to North Korean sanctions was interpreted by some as a signal that Putin did not yet seek to embrace the international pariah status he has welcomed since February 2022.

Seoul's March 2022 introduction of sanctions against Russia has, however, significantly impacted Korean businesses that operated in Russia. In a reversal of the post-2014 position, South Korean shipbuilders in particular have taken significant losses in cancelling contracts to provide icebreakers and liquefied natural gas (LNG) carriers for Russia—though this has been somewhat ameliorated by the global demand for LNG carriers meaning that new off-takers for the ships once contracted to Russia have often been found. Other Korean businesses have also effectively been forced to sell out their Russian assets due to the sanctions, most notably Hyundai, which took a \$219 million hit in selling the St. Petersburg factory it launched in 2010 for a nominal sum. Factories owned by LG Electronics and Samsung Electronics have also been shuttered due to a lack of parts, though the firms are reportedly considering leasing them to Russian competitors to try to minimize losses.

Some challenges have also been observed in South Korea's joining of the sanctions regime. Most notably, Seoul was late in joining sanctions on so-called dual-use technologies, i.e. those that can be diverted for military purposes, only joining these restrictions in February 2023. Russia was scrambling to secure such goods and according to the Korean Ministry of Foreign Affairs, exports of machinery to Russia had increased substantially in 2022 before the move was announced. Seoul also has not formally joined the G7's oil price cap on Russia, which has led to a handful of isolated incidents of alleged evasion being observed at South Korean ports even as Seoul decreased its imports of Russian fuels from \$13.2 billion in 2021 to \$5.5 billion in 2023.

The 2022 energy crisis prompted by the war and Putin's weaponization of gas supplies in response to sanctions has played a significant role in the global inflationary environment experienced thereafter. The war has had a profound impact on total Russia-Korea trade, with oil imports largely decimated—a phenomenon which has spilled over into other sectors, such as seafood imports. Nevertheless, even with challenges to Korea's business dealings with Russia, Korea was well insulated compared to many of its Western allies given Russia's relatively limited role in its economy, including its low share of just nine percent of Seoul's 2021 energy imports. But energy prices rose above wider Korean inflation in 2022, in line with global market prices, while Korean inflation spiked to at 5.1 percent in 2022—though this was half of the heights it reached in Western Europe. Inflation moderated back to 3.6 percent in 2023, still double its average in the 10 years prior, but at this stage is relatively unimpacted by Russian action. Additional oil shocks could still bring significant costs given the global pricing environment.

Politically, however, the costs will be more long-lasting for Korea. Russia has been receiving ammunition from the Kim regime and in turn has opposed the extension of sanctions programs at the United Nations it backed prior to the full-scale invasion of Ukraine. Russia has repaid the favor through increasing its fuel supplies to Pyongyang, violating some of those UN sanctions regimes it once backed and in March 2024 the Kremlin blocked the extension of the UN's Panel of Experts on North Korea. It is also blocking weapons inspectors from carrying out their duties in the North. According to the White House, Pyongyang is also seeking additional support from Russia in modernizing its military arsenal in exchange for the support it has given the Kremlin.

As a positive externality, the war has helped fuel growth in South Korea's own defense industry, notwithstanding domestic constraints on selling arms to countries at war. Ukraine's neighbors, in particular Poland, have expanded defense spending in the aftermath of the war and Korean manufacturers, in particular Hanwha, have benefited significantly. Some of these states—including the United States itself—are also buying Korean artillery shells to replace those that they are providing to Kyiv or to re-export them to Ukraine. As such, Seoul's increasingly important role in the defense procurement has increased its importance as a Western ally at a time when questions over the West's ability to meet potential future military hardware needs is under more scrutiny than at any point since the end of the Cold War.

Within Korea, the impact of Russia sanctions has enflamed political debates about Seoul's exposure to potential other economic conflicts between the West and its rivals—particularly China. The costs to Korea of joining even a far lesser sanctions regime against Beijing would be far greater—though the United States overtook Beijing as South Korea's main export market briefly in 2023 for the first time in over 20 years. The economic war between Russia and the West prompted by Putin's full-scale invasion of Ukraine has demonstrated the costs of such conflict to such a trade-dependent economy as Korea, as well as the associated geopolitical risks. Despite this, Seoul has managed it relatively well, and though the war will continue for the foreseeable future, additional major costs for the South Korean economy are unlikely. Geopolitical costs in relation to Pyongyang and Beijing, however, could still prove significant.

Maximilian Hess is a Central Asia Fellow in the Eurasia Program at the Foreign Policy Research Institute and the founder of the London-based political risk firm Enmetena Advisory. He is also the author of Economic War: Ukraine and the Global Conflict between Russia and the West. The views expressed here are the author's alone.

Photo from Shutterstock.

KEI is registered under the FARA as an agent of the Korea Institute for International Economic Policy, a public corporation established by the government of the Republic of Korea. Additional information is available at the Department of Justice, Washington, D.C.

Return to the Peninsula

