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THE PENINSULA

Why Does Korean Shipbuilding Matter for the United States?

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On June 20, 2024, Hanwha Ocean made a \$100 million bid to buy Philly Shipyard in South Philadelphia from its Norwegian owner, Anker ASA. While the deal is yet to receive final regulatory approval, it was nevertheless met with praise from the chair of Philly Shipyard ASA and Secretary of the Navy Carlos Del Toro. But this development is no bolt from the blue. Secretary Del Toro visited South Korea in February to urge Korean investment in US shipbuilding in order to re-energize dormant yards and introduce fresh competition. Indeed, as the world's second-largest shipbuilding nation, South Korea has been frequently courted as a potential partner to shore up the United States' decaying shipbuilding and maintenance capacity, which are critical to US national security and broader maritime security.

The Problem with US Shipbuilding

The causes for the decline in US shipbuilding are widely debated. Some place the blame on unfair practices by foreign competitors. Others dispute those claims or underscore the significance of market forces and a broader US shift toward deindustrialization. But the net result is clear. The US shipbuilding capacity has fallen off a cliff.

Meanwhile, modern Chinese shipyards far outpace the US yards currently in production—the United States has just four public and seven private shipyards. As the largest shipbuilding nation in the world in terms of both orders placed and hulls delivered, China operates more than 20 larger, more modern facilities. This advantage also means Chinese yards are more likely to have the excess capacity crucial not only for putting new hulls in the water to replace losses in the case of a contingency but also for conducting maintenance, repair, and overhaul (MRO) of aging or damaged ships under normal or wartime operating conditions.

What Korean Shipbuilding Brings

But the United States continues to maintain a unique advantage: its network of like-minded allies. In the age of economic security, allies have taken on greater importance as industrial-force multipliers. In this context, the United States has sought allied shipbuilders to provide local logistical support, including in South Korea. Nevertheless, such in-theater measures, while incredibly helpful for boosting US force projection in forward-deployed areas, cannot make up for the loss in outright production capability brought about by the decaying domestic industrial base.

Bringing in Korean support can prop up shuttered or struggling US yards and retain latent industrial capacity in the United States. Granted, this is a stopgap measure—injecting Korean capital into failing systems just to keep them open and running. The need for Korean investment to keep yards and machines from falling into irreversible decay is a sign of how low the bar is. Nevertheless, it is a necessary bar to reach in order to prepare for contingencies that will inevitably involve attrition. These measures can stem further degradation and could be the first step toward rebuilding the United States' domestic capacity.

Once established, Korean investment could transfer practices and know-how that assist in rebuilding US shipbuilding, for example, in confronting the chronic lack of manpower in the industry. South Korean yards also face manpower issues, and they have been actively grappling with the problem in order to meet global demand. Migrant workers have been tapped as a stopgap solution, and they already comprise 16 percent of the Korean shipbuilding workforce, while Korean workers only account for 14 percent of new hires. Yet all three major Korean shipbuilding companies—Hyundai, Samsung Heavy Industries, and Hanwha Ocean—view automation as a potential lasting solution to labor shortages. HD Hyundai's HD Korea Shipbuilding & Offshore Engineering Company has set tangible goals toward its "smart shipyard" project by 2030, partnering with the German firm Siemens to introduce greater automation in shipbuilding. Given continuous labor attrition, automation can augment the existing workforce and potentially enhance productivity. This kind of technical cooperation with Korean shipbuilders to develop greater automation capabilities could have knock-on effects on alleviating other critical manpower shortages, such as introducing augmentative automation to address the shortage of sailors. Indeed, a July 2024 report by the Congressional Research Service already benchmarks South Korean practices for reducing labor hours and streamlining production as a potential model for US builders—directly bringing that experience stateside could be the jump start that US shipbuilding needs.

Of course, South Korea, too, has something to gain from investing in the United States despite having a far larger shipbuilding industry. Korean shipbuilders currently face an order backlog of nearly 39 million compensated gross tons (CGT), the largest backlog in 12

years. Meanwhile, Chinese yards are outcompeting Korean builders with their larger production capacity. With the Philly Shipyard deal, Hanwha will be able to enhance its capacity in the United States to build LNG tankers—the largest category of ordered ships in Korean yards—reducing some of the backlog.

The Challenges Ahead

However, failing to address the deeper issues plaguing shipbuilding in the United States could not only undermine the potential benefits of Korean investment into US shipyards but also impose costs that outweigh the benefits for Korean shipbuilders seeking to expand capacity in the United States.

The thriving Korean shipbuilding industry partially owes its success to aspects of Korea's industrial-economic ecosystem that fundamentally differ from that of the United States, which could lead Korean investment to fall short of expectations. Modern Korean shipbuilding has roots similar to many other heavy industrial projects that rose through joint civilian-military ventures during the authoritarian Park Chung-hee era. These projects were geographically centralized and involved a top-down, whole-of-society approach through which industry, military, science, education, and labor were closely monitored and managed. Every aspect, from training and deploying labor to identifying the capital- and technology-intensive sectors in Korea, was driven by the presidential Blue House. Even today, the shipbuilding industry is highly regionalized on the southeastern coast, with major shipbuilders nestled among heavy chemical and steel industries that allow for short supply chains and, thus, efficient construction.

Meanwhile, the United States has nowhere near that degree of government-directed centralization. Most importantly, US naval procurement is characterized by vulnerable and inefficient supply chains and only nascent proposals for workforce development programs. This is not to suggest that the United States must begin a massive, centralized overhaul of its industry like Korea's top-down restructuring of the 1970s. But this context is important to recognize as modern shipyards do not materialize in a vacuum. Modern shipyards are an amalgamation of all the advanced industries in a nation. For Korean shipbuilders to live up to their potential in the United States, they will need to stand on a solid foundation of US steel, chemical, and other industries, as they were able to in South Korea.

But even with the logistics in place, there are more hurdles to consider. Hanwha's deal to purchase Philly Shipyard includes deals with the US Navy, but the latter has had a bad run with onerous procurement processes, particularly in developing and fielding new designs. The Littoral Combat Ship (LCS) program is perhaps the poster child of endless design changes and shifting goalposts that ultimately led the US Navy to shift to funding a more conservative, proven design. That task fell to Fincantieri Marinette Marine, a US shipbuilding firm in Wisconsin owned by the Italian firm Fincantieri Marine—another US yard brought to life by an experienced foreign builder from an allied nation. The goal was to use Fincantieri's proven FREMM surface combatant design and build a modified variant in the United States as the new *Constellation*-class guided missile frigate. Ironically, this proven design, which was supposed to play to Fincantieri's strengths, has fallen prey to the same procurement problems that plagued the LCS program. Despite widespread recognition of these issues, progress has been desultory thus far. Unfortunately, there will be no outside help to save the United States from its broken procurement system.

Beyond the specifics of the labyrinthine US procurement and industrial network, there are overarching political challenges confronting Korean shipbuilders. On the surface, there are regulatory hurdles related to national security restrictions. Hanwha Ocean previously ran into this barrier when they entered a \$662 million bid to purchase Australian shipbuilder Austal. This bid failed, as national security regulations only allowed Austal to be sold to firms in AUKUS partner nations, which Korea is not—at least for now. But there are deeper political undercurrents in the United States that could pose serious challenges to expanding Korean investment in US shipbuilding. Foreign buyouts of US firms not only face poor public perception but also have become political poison in an environment where both sides of the aisle—Buy American and America First—fundamentally agree on the need for a more protectionist industrial policy. Nippon Steel's proposed purchase of US Steel has been the target of bipartisan political backlash and has become a major political third rail that both parties have been quick to eschew. It is not hard to imagine analogous political reluctance, if not outright opposition, to Korean bids to purchase US shipyards during such politically sensitive contexts.

Conclusion

Thanks to its massive shipbuilding capacity, the United States once enjoyed plentiful repair facilities for combatants and an enormous fleet of merchant marine vessels providing forward logistics. The United States ruled the waves not on aircraft carriers and fleet oilers but arguably on cranes and drydocks. But the advantages that once benefited the United States now belong to its adversaries.

Fortunately, allies like South Korea can help slow down the decay of US shipbuilding through investment and innovation. But money alone cannot solve the problem; there are certain measures that the United States must take to maximize the effectiveness of allied efforts. There remains much for us to do if we are to revitalize American shipbuilding and sustain the US Navy through peer competition on the global stage.

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Featured image: The decommissioned battleship New Jersey in Dry Dock no. 3 of the Philadelphia Navy Yard (not to be confused with Philly Shipyard) in May 2024. Open to the public as a museum since 2001, New Jersey underwent dry-docking in 2024 for long-term maintenance and preservation. The dry dock closed shortly after completing work on New Jersey in June 2024. Photo credit belongs to the author.

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