



## THE PENINSULA

### **Diverging Interest Rates Compound Risks for South Korea**

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**Category:** [Indo-Pacific](#)



Two of the world's most influential central banks are pulling the global equity market in opposite directions.

In Washington, the Federal Reserve cut its benchmark by a quarter point to 3.50–3.75 percent. It is the third consecutive reduction in borrowing costs, with more cuts expected. Meanwhile, the Bank of Japan is expected to raise rates from 0.5 percent to 0.75 percent after its December meeting. It would be the highest level in thirty years.

These contrasting policy directions are creating a unique landscape for the global equity market and for South Korea, dampening foreign inflows into Korean equity markets despite improving global liquidity conditions.

#### **Diverging Rates, Converging Risks**

When the United States lowers interest rates, yields on U.S. government bonds decline, reducing the return on safe assets. In such an environment, investors tend to search for higher returns elsewhere, a process reinforced by lower global borrowing costs. Growth-sensitive sectors such as technology and semiconductors often benefit from this shift, and given their large weight in Korea's equity markets, foreign capital inflows can provide a tailwind for Korean stocks.

At the same time, Japan's gradual move toward monetary tightening introduces a countervailing force. As yields on Japanese government bonds rise to multi-year highs, global investors are presented with increasingly attractive risk-free alternatives. Higher returns on safe assets raise the opportunity cost of holding stocks, particularly in markets

that are sensitive to global financial conditions. As a result, a greater share of global capital may be reallocated within the safe-asset space, particularly toward Japanese sovereign debt, given the yen's status as a safe-haven currency and Japanese government bonds' status as a safe asset, rather than flowing into equities in Korea.

These dynamics are further shaped by Japan's role as the largest foreign holder of U.S. government bonds. As Japanese investors rebalance their portfolios in response to changing yield differentials, increased demand for domestic government bonds may affect Japan's financing conditions, thereby indirectly supporting the Japanese government's ability to pursue expansionary fiscal policies if political conditions permit.

Taken together, the divergence between U.S. easing and Japanese tightening reshapes global capital allocation. While lower U.S. rates can support equity inflows into Korea under favorable financial conditions, rising Japanese yields may temper those gains by drawing capital toward safer assets. All of this highlights how Korea's markets remain highly sensitive to shifts in global monetary policy rather than domestic fundamentals alone.

### **What the U.S.-Japan Policy Split Means for Korea**

With the Federal Reserve expected to begin cutting rates and the Bank of Japan preparing for gradual hikes in 2026, Korea finds itself caught between diverging global monetary paths. Cutting rates too early risks further currency depreciation and renewed pressure on financial stability, while staying restrictive for too long could weigh on domestic demand and investment as global financial conditions begin to loosen. For instance, the Korean won has remained weak against the U.S. dollar in recent months. In this current economic condition, the Bank of Korea's decision to lower its rate can be viewed as currency manipulation to depreciate the Korean won to advance exports. Yet, if Korea's rate remains high, domestic demand and investment will continue to dwindle due to the high cost of borrowing.

Looking ahead, the persistence of asynchronous monetary cycles suggests that uncertainty will remain a structural feature rather than a temporary shock. For an open, trade-dependent economy like Korea, this reinforces the need for active engagement in international policy dialogue, including the annual meeting of the Group of Twenty (G20) Finance Ministers and Central Bank Governors. This means that improving transparency regarding policy intentions, balance-sheet normalization, and financial-stability risks should be prioritized over mechanically coordinating rates, as suggested by U.S. Secretary of the Treasury Scott Bessent's [recent comment](#) on the South Korean won.

As divergence widens between the United States and Japan, capital flows are likely to become more sensitive to relative yield shifts and exchange-rate expectations, thereby raising the premium on domestic credibility and institutional coherence. Korea's long-term challenge, therefore, is to build a policy mix that anchors expectations domestically, reassures global markets, and preserves flexibility to adjust once global monetary paths begin to realign.

In this environment, successful policy will be defined less by the timing of rate moves and more by the credibility of the overall framework guiding them.

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*Feature image from [The Federal Reserve's official Flickr account](#).*

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**Return to the Peninsula**



## THE PENINSULA

### How APEC 2025 Laid the Path for Addressing South Korea's

#### Demographic Challenge

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Category: [Indo-Pacific](#)



An underappreciated part of South Korea's successful 2025 Asia-Pacific Economic Cooperation (APEC) summit at the end of October was its focus on demographic decline. While APEC summits traditionally address a broad range of economic issues, this year's summit elevated the impact of declining birth rates, shrinking workforces, and aging populations to the top of the regional policy agenda. "We've striven to narrow differences among APEC members ... and ultimately succeeded in reaching agreement on the Gyeongju Declaration and two other key documents," [South Korea's presidential Blue House said](#).

South Korea is confronting one of the fastest demographic transitions in the world, so the Lee Jae Myung administration should be congratulated for using the APEC meeting to advance a regional conversation about what economic competitiveness entails when labor pools contract and societies age rapidly.

#### Building a Sustainable Workforce for Tomorrow

Demographic shifts are a particular concern for South Korea, with the total population declining [for the first time](#) in 2021. As of last year, South Korea had a [fertility rate of 0.7](#)—one of the lowest in the world. Should current trends continue, the working-age population [will shrink](#) from 72 percent to 56 percent in 2040. Concurrently, the entire country will have become super-aged by 2029, with 20 percent of the population over the age of sixty-five.

The declining birthrate in South Korea will have significant public policy effects. The country is already examining how it will affect military readiness through its impact on military recruitment. In terms of fiscal policies, the demographic change will also affect the public pension system. Over the last three years, the number of pension subscribers has consistently fallen at an increasing rate, while the number of recipients has increased. If current birthrate trends continue, the national pension fund is projected to be depleted by 2056.

South Korea has tried to address the issue of demographic challenges for some time. Research has shown, however, that previous pronatalist policies, such as cash incentives for women, only change the timing at which women have children and not the total number. The Lee administration should look to alternative investments to address the impact of declining birthrates on economic productivity, rather than relying on monetary incentives to encourage women to have children.

Although a declining birth rate is an acute challenge, it is also one faced by other major economies. As such, it is noteworthy that the APEC participants developed the Collaborative Framework for Demographic Changes, which seeks to address the challenges associated with slowing population growth across the Indo-Pacific.

The framework includes five general recommendations for member states to implement. First, member economies are told to take initiative in building systems that can adapt to an aging and smaller workforce. This includes removing barriers to economic participation by increasing investments in workforce training and retraining across all ages. Members are also encouraged to invest in the silver economy, which will grow over the next several decades and could become a potential successor to sectors that have become less profitable. Second, the framework encourages member economies to modernize their workforces. In addition to investing in education to develop capable workers who can start and participate in new industries, members are called to enhance recognition of professional qualifications and licensing assessments that will aid the workforce in expanding possible areas of employment.

Third, technological innovation in the health services industry should be prioritized not only as a necessary tool for older populations but also as an engine of growth for an industry that will only grow in demand. Fourth, member states are encouraged to expand female workforce participation through training and education, as well as by supporting caregiving and other domestic duties predominantly performed by women. Finally, the framework highlights the need for member states to share information through government, academic, and civil society partners.

Adoption of the abovementioned principles would enable South Korea to maintain its status as a technological power and strengthen its already educated workforce. Given that South Korea's labor force is contracting and getting older, the country should turn to higher-growth industries such as healthcare, IT, semiconductor manufacturing, and environmental technology. These industries have not only grown at a faster rate than transportation, shipbuilding, and automobiles, but also are resistant to robotization and less physically demanding.

To promote growth and protect welfare schemes, South Korea must evaluate its economy's strengths and weaknesses and recalibrate investment to areas with greater potential that align with the country's changing workforce. South Korea's younger and shrinking workforce presents two primary challenges. First, a smaller workforce that does not produce at a rate significantly greater than its larger predecessors will stall in growth and be unable to maintain a pension system whose dependents outnumber its

contributors. Second, should the workforce remain bereft of tools that would allow them to be more productive, incomes will also remain stagnant, leading to lower consumption and thereby impacting growth.

There are several areas of the economy that are suitable for the new makeup of the South Korean populace. In 2025, healthcare was a particular area of the economy that boomed. South Korea reported net job growth of 220,000 jobs in November, with the healthcare sector comprising the majority of the job growth. Growth in the healthcare industry was driven by a marked uptick in eldercare needs, which coincided with population trends. The growing number of retirees also created an increase in IT employment, with companies moving investment toward healthcare tech. However, these employment increases were not only concentrated in these select areas but also in certain age groups. The majority of new jobs were filled by workers over the age of sixty, while youth unemployment has increased. These trends, which may be emblematic of trends other APEC countries will soon face, emphasize the importance of adopting the Collaborative Framework.

This economic pivot first necessitates public investment in technological literacy to equip the older workforce with essential skills and increase the capital-labor ratio of the smaller workforce. The increase in employment in the Korean IT industry has been driven by government investment and subsidies for domestic companies. In keeping with the framework's first recommendation, South Korea has also begun public-private partnerships to integrate AI into the workplace. These practices will streamline production and allow workers to become more productive. Youth unemployment, though, must be taken more seriously by the new administration. Reports show that increasing youth unemployment is primarily caused by a mismatch of graduate credentials and the preferences of employers. With the average Korean graduate having no work experience, employers are increasingly hesitant to bring on young workers. Skills programs in the country are mostly private, meaning the administration must step in to empower the next generation.

### A Strong Finish

South Korea's successful hosting of the APEC summit deserves credit, but the real significance lies in the Lee administration's decision to make demographics a major part of its policy agenda. With population decline accelerating faster in Korea than almost anywhere else in the world, the Collaborative Framework for Demographic Changes gives Seoul a platform to shape how Indo-Pacific economies confront a shared structural challenge. The Korean government now faces the far harder task of implementing reforms that raise productivity, expand workforce participation, and prepare older workers for new technology.

If Gyeongju is remembered not only as a diplomatic success but as the moment Korea began treating demographics as an economic strategy, APEC 2025 will be remembered most for reframing the country's path toward future competitiveness.

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*Feature image from the South Korean Blue House.*

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Return to the Peninsula



## THE PENINSULA

### North Korean Refugees Are Increasingly Finding Success in South Korea

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Author: [Robert King](#)

Category: [Indo-Pacific](#)



The number of North Korean refugees reaching South Korea in 2025 held steady at 224, roughly the same as the prior two years. But those who made it are increasingly satisfied with their decision, a shift that matters because it suggests North Koreans are successfully integrating into South Korean society despite significant barriers.

A new survey found that 81.2 percent of North Korean refugees are satisfied with their lives in South Korea, the highest percentage since polling began in 2011. The primary reasons cited were freedom and improved earning opportunities, and employment among refugees reached 61.3 percent while unemployment dropped to 5.4 percent. Though a wage gap persists—refugees earn an average of 23 percent less than those born in South Korea—most North Koreans believe they can improve their social and economic status as well as their children's.

#### **An Increasingly Perilous Journey**

The number of people who fled North Korea and were granted entry to resettle in South Korea in 2025 was roughly the same as it was in 2024 and 2023. Consistent with past statistics, women accounted for the majority of escapees in 2025, with 198 women reaching South Korea and only 26 men. The total in 2024 was 236, and in 2023, it was 196.

The last three years have seen an increase in the number of North Koreans who resettled in South Korea during the height of the COVID-19 pandemic, when North Korean border guards were ordered to prevent the entry of anyone outside of North Korea to avoid outbreaks. As such, the number of North Koreans who successfully fled and resettled in South Korea dropped dramatically from previous years. In 2021, only 63 North Koreans resettled in the South, and in 2022, the number was only 67. The number in 2025 was significantly lower than the last pre-pandemic figure in 2019, when 1,047 were admitted to South Korea. The peak year for North Korean defectors in the South was 2009, when 2,914 arrived. The number of North Koreans resettling in the South has not returned to pre-pandemic levels, but the increase over the last three years is noteworthy.

North Koreans who have found refuge in South Korea are disproportionately women. Government statistics indicate that 34,538 North Koreans have resettled in South Korea between the late 1990s and December 2025. Of that number, 72 percent are women. The resettlement numbers for women in the last three years were even higher. In 2025, some 88 percent were women. In 2024, it was 89 percent, and in 2023, it was 85 percent. During the pandemic, when the number of North Koreans defecting to the South significantly declined, the percentage of women was much lower. In 2022, only 48 percent of the 67 escapees were women, and in 2021, 36 percent of the 63 were women. That is most likely because men hold jobs in institutions where government control is strong, while women are more involved in the small, free-market economy permitted to function.

Since 2019, a significant portion of North Koreans who have reached the South are those who have been out of North Korea for longer periods than in earlier years. Recently, most have spent some time in China—in some cases, years—working illegally before making the final step and surreptitiously fleeing to South Korea.

The Chinese government has also tightened its border controls to prevent ethnic Chinese citizens from leaving the country without official sanction, which has made it more difficult and risky for North Koreans to escape through China. There are indications that the Chinese government is taking a tougher approach to identifying and controlling its own population, and this has affected North Koreans living and working in the country.

The North Koreans arriving in South Korea post-pandemic were also primarily young adults. In the first quarter of 2025, of the 38 North Koreans who resettled in South Korea, half were young women in their twenties and thirties. Those arriving now are largely individuals who left North Korea before the pandemic and lived outside the country, principally China, before seeking entry in South Korea. Therefore, it is unlikely that the number of new arrivals in South Korea will grow.

Because the inter-Korean border is heavily guarded by well-armed troops on both sides, North Koreans who seek refuge in South Korea seldom cross the demilitarized zone (DMZ). Occasionally, a North Korean border guard will successfully cross the land border, but that is unusual. Most refugees cross into China and escape through Laos, Thailand, or Cambodia. Due to tightening border restrictions during the pandemic, North Korea has been much more aggressive and much more successful in preventing North Koreans from crossing into China and then surreptitiously making their way into Southeast Asia.

The idea of fleeing North Korea and “defecting” to South Korea is sufficiently well-known in North Korea that two North Koreans soldiers, who fought alongside Russian troops in Ukraine and were captured by Ukrainian troops, requested that they be allowed to go to South Korea. The South Korean government recently acknowledged the possibility of the transfer. A recent news story by French news agency AFP reported the desire of these North Korean soldiers to go to South Korea.

### **North Koreans Are “Satisfied” With Life in South Korea**

The government-affiliated Korea Hana Foundation has conducted annual surveys of North Korean refugees since 2011 to determine their satisfaction with life in the South. Results of the latest survey were published in December 2025. The data was gathered from face-to-face interviews by specialized counselors at the Hana Foundation, conducted with some 2,500 refugees over the age of 15 who resettled in South Korea since January 1997.

Of those interviewed, 81.2 percent said they were “satisfied” with life in South Korea, citing “freedom and improved earning opportunities.” This figure was 1.6 percent higher than the previous year’s survey and the highest since polling began in 2011. The principal reason cited for this satisfaction was “being able to live freely” and being able to “earn income commensurate with their work.” The principal reason for dissatisfaction was “separation from family” still living in North Korea.

The increase in North Koreans’ positive outlook is most likely related to improved living and working conditions. The employment rate of refugees in South Korea reached 61.3 percent—up 1.2 percentage points from the previous year—and the unemployment rate dropped 0.9 points to 5.4 percent. These changes suggest that North Koreans are increasingly moving toward living and working conditions comparable to those of native South Koreans, though the differences are not completely erased.

There remains a significant wage gap between North Koreans living in South Korea, who earn an average monthly income of KRW 2.61 million (USD 1,817)—by comparison, the average income of the South Korean population is KRW 3.2 million (USD 2,228). Some 62 percent of North Koreans expressed satisfaction with their social and economic achievements, and 72 percent said they believe they can improve their social and economic status as well as their children’s.

One particular concern for North Korean refugees involves mental health. Many defectors have suffered extreme trauma in the North and during their journey to escape to South Korea. They are unlikely to seek the help of trained professionals, as most refugees do not know where to find such help. According to a survey of North Korean refugees in South Korea, about 15 percent admit to having suicidal thoughts, which is triple the rate in South Korea. That is noteworthy because South Korea has the highest suicide rate among OECD countries.

The number of North Koreans who can leave North Korea, travel through China, escape to Southeast Asia, and gain admission to South Korea continues to be modest. Most of the small number of refugees now in South Korea appear to be individuals who left North Korea before the pandemic and took a longer time to get to South Korea. There is no indication that this is likely to change.

One noteworthy action the Lee Jae Myung administration is considering is changing the term for North Koreans who have become South Korean citizens. The current official term most often used is translated into English as “defector.” Shortly after President Lee

assumed office last summer, the *Korea Herald* reported that Minister of Unification Chung Dong-young reported that a study had been commissioned to change the official terminology (*talbukmin* in Korean). The intention is to come up with a less political term. The word *bukhyangmin* (“people who hail from North Korea”) is reportedly the term most favored by the North Korean community in the South.

Perhaps the bigger question over the course of Lee's presidency is whether improved living conditions and employment rates will continue to narrow the gap between North Koreans in the South and native South Koreans, or whether mental health challenges, family separation, and other obstacles will keep integration incomplete.

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*Feature image from [Shutterstock](#).*

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Return to the Peninsula



## THE PENINSULA

### Q4 2025 U.S.-Korea Trade, Investment, and Diplomacy Ledger

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Author: [Tom Ramage](#), [Soobeen Park](#)

Category: [Indo-Pacific](#)



Q4 2024 was the first full quarter where the new U.S.-South Korea trade agenda hit the ground. A 15 percent tariff rate went into effect, a USD 350 billion investment commitment was formalized, and both sides started turning months of negotiations into concrete deals.

The October 31 **strategic investment memorandum of understanding (MOU)**, which the U.S. and Korea signed at the Asia-Pacific Economic Cooperation (APEC) Summit in Gyeongju (and subsequently released publicly on November 14), laid more groundwork for the large investment package originally agreed to back in July. Meanwhile, among other investments, the retinue of U.S. business leaders accompanying the U.S. president to the APEC Summit allowed deals involving AI and advanced GPU chip supply to follow suit, while later in the month, a Korean firm subsidiary (Crucible Metals) took advantage of a **USD 210 million** CHIPS and Science Act award to help build out the U.S. critical and strategic mineral supply of gallium, bismuth, germanium, indium, antimony, tellurium, cadmium, palladium, copper, silver, gold, zinc, and other materials used in semiconductor production.

Korea's participation in multilateral fora also brought in greater responsibilities for the country. After concluding its presidency of the UN Security Council on October 1, Korea participated in the Group of Twenty (G20) Finance and Central Bank Deputies Meeting. Korea also attended the G20 Finance and Central Bank Deputies Meeting (of which Korea will assume the presidency in 2028) and the Group of Seven (G7) Foreign and Finance Ministers' Meetings, before joining the inaugural "Pax Silica" initiative led by the United

States on December 12. Along similar lines, the December 3-4 Wassenaar Arrangement Plenary in Vienna, Austria, announced Korea as the chair for 2026, with Korea's Ambassador to Austria Ham Sang Wook as president.

Both the investments and diplomatic meetings and negotiations between the countries in Q4 help set the stage for further alignment on economic security and cross-border trade into Q1, as Washington and Seoul make progress on implementing the commitments in their strategic investment MOU and July 30 trade deal. Follow-through in any of the sectors in which they made bilateral investments will likely set the tone for commitments to investments going forward.

#### Major Q4 2025 U.S.-Korea Investments, Deals, and Partnerships

Date	U.S. Entity	Korean Entity	Project	Location
December 22	U.S. Navy	Hanwha	President Donald Trump announces the U.S. Navy will <u>work with</u> Hanwha on FF(X) frigate class as part of "Golden Fleet" initiative.	United States
December 18	Boeing	Hanwha Systems	<u>Contract to supply</u> Electronic Large Area Display (ELAD) to Boeing F-15K (Korean Air Force) and F-15EX (U.S. Air Force) cockpits.	N/A
December 17	U.S. Department of Defense	Korea Zinc; Crucible Metals LLC	Korea Zinc <u>grants rights</u> to the U.S. government to acquire stakes in operator of "U.S. Smelter."	Clarksville, Tennessee
December 15	U.S. Navy Naval Supply Systems Command (NAVSUP); Military Sealift Command (MSC)	HJ Shipbuilding & Construction (HJSC)	Mid-term availability (MTA) <u>contract for MRO</u> of the USNS Amelia Earhart.	Busan, Korea

December 15	U.S. Department of Defense; U.S. Department of Commerce	Korea Zinc	Strategic partnership to <b>jointly invest</b> in the construction of \$7.4 billion large-scale "U.S. Smelter" for critical minerals.	Clarksville, Tennessee
December 5	University of Utah, Center for Medical Innovation	Yonsei University College of Medicine, Graduate School of Medical Device Industry	MOU to <b>strengthen collaboration</b> in global medical device development.	N/A
December 3	General Dynamics NASSCO	DSEC Co.; Samsung Heavy Industries	Tri-Party <b>memorandum of agreement</b> for shipbuilding projects in the U.S. market.	United States
December 1	SimonMed Imaging	Lunit	<b>Strategic partnership</b> to deploy large-scale custom foundation models for chest X-ray (CXR) report generation.	United States
November 26	DigitalBridge Group	KT Corporation	<b>MOU to collaborate</b> on next-generation AI data centers in Korea.	Korea
November 26	Major investor-owned utility	LS Electric	<b>USD 312 million contract</b> to supply high voltage transformers in the United States.	United States
November 19	N/A	CJ Olive Young	<b>Announcement to open</b> its first U.S. store in California in May 2026.	Pasadena, California

November 19	N/A	YuYu Pharma	Establishment of U.S. subsidiary through USD <b>4.5 million investment</b> to target pet pharmaceutical and health supplement markets.	United States
November 17	N/A	LG Electronics	<b>Opening of SKS Chicago Showroom</b> to showcase SKS home appliances.	Chicago, Illinois
November 17	N/A	LS Electric	USD 76 million transformer supply contract to <b>supply power</b> to AI data centers in the United States until 2028.	United States
November 13	Etibus Group	Amazon Web Services	Strategic Collaboration Agreement to <b>accelerate digital innovation.</b>	N/A
November 13	N/A	LG Chem	USD 2.5 billion cathode material <b>supply contract</b> for U.S. electric vehicle-related companies.	United States
November 12	Anduril	HD Hyundai Heavy Industries	Strategic collaboration agreement to <b>develop autonomous surface vehicles.</b>	N/A
November 12	N/A	Rebellions	<b>Announcement for the establishment</b> of U.S. subsidiary office.	United States

November 3	N/A	Iljin Electric	<b><u>Announcement</u></b> <b><u>that it is entering</u></b> the 500-kilovolt ultra-high-voltage transformer market in California.	California, United States
October 31	NVIDIA	NAVER Cloud	MOU for the <b><u>joint</u></b> <b><u>development</u></b> of a physical AI platform.	N/A
October 31	NVIDIA	Yonsei University, Samsung Electronics, SK Telecom, KT, LG Uplus, Electronics and Telecommunications Research Institute (ETRI)	Partnership for <b><u>joint research</u></b> on Artificial Intelligence- Radio Access Networks (AI- RAN).	N/A
October 31	NVIDIA	Ministry of Science and ICT (MSIT)	<b><u>Mutual</u></b> <b><u>cooperation</u></b> <b><u>agreement</u></b> between NVIDIA and MSIT to strengthen Korea's AI ecosystem.	Korea
October 30	Cleveland Cliffs	POSCO	Cleveland Cliffs announces POSCO as its <b><u>MOU</u></b> <b><u>counterparty</u></b> from September 17 MOU.	N/A
October 30	Solid Power	Samsung SDI	<b><u>Joint Evaluation</u></b> <b><u>Agreement</u></b> for Solid Power to partner with Samsung SDI and BMW for development of all-solid-state battery (ASSB) vehicle.	N/A
October 30	NVIDIA	Samsung	<b><u>Partnership to</u></b> <b><u>build</u></b> AI factory in Korea for Samsung with 50,0000 NVIDIA GPUs.	Korea

October 30	NVIDIA	SK Group	<u>Partnership to build</u> AI factory in Korea serving SK subsidiaries with more than 50,000 NVIDIA GPUs.	Korea
October 30	NVIDIA	Hyundai Motor Group	<u>Collaboration to develop</u> physical AI industry in Korea, using NVIDIA Blackwell AI chips.	Korea
October 26	HII	HD Hyundai Heavy Industries	Memorandum of Agreement (MOA) to <u>collaborate on shipbuilding</u> .	N/A
October 24	Fermi America	Hyundai E&C	<u>Design contract</u> for the construction of four large-scale nuclear power plants in the United States.	United States
October 23	GE Aerospace	Hanwha	Agreement for Hanwha to <u>purchase aircraft engine kits</u> from GE Aerospace.	N/A
October 22	Tesla	Samsung Electronics	Announcement by Tesla CEO Elon Musk that <u>Samsung will co-produce</u> Tesla's AI5 chipset with TSMC.	N/A
October 14	General Atomics Aeronautical Systems, Inc. (GA-ASI)	Hanwha Aerospace	<u>Agreement to co-develop</u> short take-off and landing (STOL) unmanned aerial vehicle (UAV).	N/A
October 13	N/A	Doosan Enerbility	<u>Contract to supply</u> two 380 MW gas turbines to a major U.S. tech company.	United States

October 8	Honeywell	LS Electric	<b>Strategic partnership agreement</b> to co-develop energy storage systems for data centers in the United States.	United States
October 1	OpenAI	Sk Hynix; Samsung	<b>Strategic partnership</b> for Samsung and SK Hynix to join OpenAI's Stargate Initiative.	United States

#### Q4 2025 Trade and Diplomacy Timeline

**December 16** Director-General for Diplomatic Strategy and Intelligence Jeong Yeon-doo **holds a consultation** with Chargé d'Affaires ad interim Kevin Kim in Seoul on the implementation of the U.S.-South Korea Joint Fact Sheet.

**December 15-16** South Korea's Minister of Economy and Finance Koo Yun-cheol **attends** the G20 Finance and Central Bank Deputies Meeting in Washington, DC, discussing Korean domestic and foreign economic policy issues with G20 counterparts.

**December 12** The United States holds the inaugural "Pax Silica" Summit in **Washington, DC**, convening Australia, Israel, Japan, the Netherlands, Singapore, South Korea, the United Arab Emirates, and the United Kingdom, with guest contributions from Canada, the European Union, Taiwan, and the OECD.

**December 10** The United States and South Korea hold the **tenth bilateral Senior Economic Dialogue** in Washington, DC, following up on measures discussed at the bilateral summit in August, as well as cooperation plans for strategic industries.

**December 8** Minister Koo **virtually attends** the G7 Finance Ministers' Meeting, discussing export controls and measures to enhance the stability of critical mineral supply chains.

**December 3-4** South Korea attends the twenty-ninth plenary meeting of the Wassenaar Arrangement in Vienna, Austria, where it is **announced as the 2026 chair**, with Korean Ambassador Ham **servicing as president**.

**November 14** The United States and South Korea **release the official text** of the strategic investment MOU for USD 350 billion South Korean investment in the United States, following the **Joint Fact Sheet** on November 13.

**November 11-12** South Korea's Minister of Foreign Affairs Cho Hyun **attends** the G7 Foreign Ministers' Meeting in Niagara Falls, Canada. He meets with U.S. Secretary of State Marco Rubio and **requests an expedited release** of a joint U.S.-South Korea summit document on trade and security, following the October 29 leader-level summit.

**November 4** U.S. Secretary of Defense Pete Hegseth and South Korea's Minister of National Defense Ahn Gyu-back **hold** the fifty-seventh U.S.-Korea Security Consultative Meeting (SCM). They discuss extended deterrence and alliance coordination in response to North Korea's nuclear and missile threats. The two sides agree to maintain a strong combined defense posture and to expand cooperation in the defense industry, maintenance, repair, and overhaul (MRO), advanced technologies, and joint readiness. They also **agree** to hold the first meeting of the U.S.-South Korea Defense Science and Technology Executive Committee (DSTC) in the near future.

**October 29** President Donald Trump and President Lee Jae Myung hold an official summit on the sidelines of the 2025 APEC Leaders' Meeting, **announcing the official conclusion** of tariff deal negotiations. U.S. Secretary of Commerce Howard Lutnick also **meets with** South Korea's Minister of Trade, Industry and Resources Kim Jung-kwan as part of the U.S.-South Korea business roundtable. The United States, South Korea, and Japan **hold** a trilateral foreign ministerial meeting to discuss trilateral economic cooperation and shared cooperation on North Korea.

**October 24** Foreign Minister Cho **meets with** Georgia Governor Brian Kemp as part of the latter's **visit to Seoul** to discuss expanded economic cooperation between Korea and the state of Georgia.

**October 23** Tennessee Governor Bill Lee **attends a meeting** hosted by the Korea International Trade Association (KITA) while leading a Tennessee government delegation to Korea. In attendance are Hyundai Motor Company Vice President Kim Dong-wook, Metabiomed Chairman Oh Seok-song, YG-Won Chairman Song Ho-geun, Exicon Chairman Choi Myung-bae, and members of the U.S.-Korea Economic Council.

**October 22** The United States and South Korea **hold the second meeting** of the U.S.-ROK Business Travel and Visa Working Group to discuss efficient operations for South Korean company investments in the United States.

**October 20** Montana Governor Greg Gianforte **meets with** Korean government officials and business leaders, including Prime Minister Minseok Kim, Minister of Trade Yeo Han-koo, and Foreign Minister Cho in Seoul, during his trip to South Korea and Japan.

**October 16** Commerce Secretary Lutnick **holds trade talks** with Industry Minister Kim alongside Chief Presidential Secretary for Policy Kim Yong-beom and Trade Minister Yeo, as part of the Korean government delegation to Washington.

**October 2** Defense Minister Ahn **meets with** U.S. Secretary of the Army Daniel P. Driscoll in Seoul to discuss the security situation on the Korean Peninsula and alliance cooperation. They discuss maintaining a strong combined defense posture in response to North Korea's nuclear and missile threats and expanding cooperation in science and technology, maintenance, repair, and overhaul (MRO), and unmanned systems.

**October 1** President Lee **appoints** former Minister of Foreign Affairs Kang Kyung-wha as the South Korean Ambassador to the United States. The U.S. Department of the Treasury and the South Korean Ministry of Economy and Finance also **release the full text** of a Foreign Exchange Policy Agreement following discussions between U.S. Treasury Secretary Bessent and South Korea's Finance Minister Koo in September. South Korea **concludes its term** as president of the UN Security Council.

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*Feature image from the [Republic of Korea Flickr Account](#)*

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*Additional information is available at the Department of Justice, Washington, D.C.*

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**Return to the Peninsula**



## THE PENINSULA

### Redrawing America's Security Bargains in Northeast Asia

Published February 11, 2026

**Author:** [Daniel Sneider](#)

**Category:** [Indo-Pacific](#)



The stability of Northeast Asia has long rested on two strategic bargains with South Korea and Japan, forged out of the Korean War and formalized in security treaties. South Korea was compelled to accept the de facto division of the country in exchange for a treaty commitment, manifested in continuous U.S. ground forces, to defend against any North Korean threat of attack. With Japan, the bargain was different. The security pact provided a broad U.S. security umbrella, allowing Japan to focus on its economic recovery. In exchange, Japan provided bases and infrastructure that allowed U.S. air, naval, and marine infantry forces to project power regionally and globally. Both bargains depended on extended deterrence, or the credible threat that the United States would use force, including nuclear weapons if necessary, to protect its allies. That commitment also reduced incentives for South Korea and Japan to develop their own nuclear arsenals.

#### **U.S. National Security and Defense Strategies**

Donald Trump's White House believes in a very different version of these security bargains. This was laid out in two documents—the [National Security Strategy](#) (NSS), issued in late November, and the [National Defense Strategy](#) (NDS), issued in late January.

Taken collectively, the Trump administration's policymakers envision a situation in Northeast Asia and the Western Pacific where South Korea has the principal, if not almost sole, responsibility for defense against a potential North Korean attack. U.S. forces are repurposed and perhaps redeployed with a regional mission, mainly aimed at China, with potential use in situations such as a Taiwan contingency. Both South

Korea and Japan are pushed, in turn, to not only spend much more but also to focus their spending on building capacities to defend the First Island Chain rather than their own territories.

As this writer noted in an earlier commentary, the NSS contained no mention of the U.S. defense of Korea and Japan, nor of extended deterrence commitments. Instead, Washington says it “must urge these countries to increase defense spending, with a focus on the capabilities—including new capabilities—necessary to deter adversaries and protect the First Island Chain.”

Strikingly, the NSS did not reference the Korean Peninsula broadly and did not reaffirm the long-standing goal of North Korean denuclearization. There was also no mention of the new strategic alliance between North Korea and Russia, despite Russia's potential to vastly improve North Korea's weapons of mass destruction program. The document also dilutes the potential China threat, focusing primarily on economic terms.

The NDS largely follows that framework but offers at least some limited discussion of the security environment in Northeast Asia and the Western Pacific. China's military buildup is less of a direct threat in the NDS's language than a rising power that needs to be balanced by the United States and its allies. The goal is one of an offshore counterweight, one more appropriate to the reduced global role envisioned by the Trump administration. The document also acknowledges that North Korea poses “a direct military threat” to South Korea and Japan and that the former must stay vigilant against the threat of invasion. While there is a nod to North Korea's nuclear capability, there is no mention of the role of the nearly 30,000 U.S. forces stationed in South Korea.

Instead, the NDS states South Korea “is capable of taking primary responsibility for deterring North Korea with critical but more limited U.S. support.” What that support may be is not spelled out, but both the NSS and NDS hint that this may include the removal of U.S. ground and air forces, or at least their redeployment elsewhere. “This shift in the balance of responsibility is consistent with America's interest in updating U.S. force posture on the Korean Peninsula,” according to the NDS. Extended deterrence is totally absent, or even the clear commitment made in the security treaty to fully defend South Korea.

### **The Colby Speech**

Under Secretary of Defense for Policy Elbridge Colby presented the implications of these policy statements more explicitly during recent visits to South Korea and Japan in late January. Colby stated the central purpose of U.S. national security policy in the Western Pacific as the search for a “stable balance of power” with China. To that end, Colby told an audience of elite Korean policymakers:

“We are focused on building a military posture in the Western Pacific that ensures that aggression along the first island chain is infeasible, that escalation unattractive, and war is indeed irrational. This includes a resilient, distributed, and modernized force posture” across the region.

Colby praised South Korea's defense spending, calling the country a “model ally.” But in what may be considered a stunning omission for any senior U.S. defense official visiting Seoul, there was not a single word devoted to North Korea, its nuclear and missile buildup, its military axis with Moscow, or the United States' seventy-three-year-long commitment to defend against it.

This was not lost on the audience. “In an 18-minute address, Colby mentioned China seven times but did not refer to North Korea even once,” the major daily *Chosun Ilbo* wrote in its account. Colby, whom the South Korean media credited as leading the drafting of the NDS, which was issued just before his arrival, “made these points during meetings with senior South Korean government officials.”

### **The Pursuit of a Trump-Kim Summit**

The White House directed Colby to omit North Korea from his public comments as part of an effort to convince North Korean leader Kim Jong Un to meet President Trump again, a source within the administration told this writer on condition of anonymity. Talk of a meeting, perhaps tied to Trump’s planned visit to China in April, has been widely circulating. “The White House is opening a line of communication to Kim,” the source said.

“Considering how the Trump administration has sent mixed signals on this from day one, it is not really that surprising,” says Clint Work, a Research Fellow at the National Defense University. “I read it similarly, as an effort to tamp down language so as to try and open an avenue to, at the very least, talk with Pyongyang,” Work told the author.

South Korean officials offered little in the way of public reaction to Colby’s message. One reason for this is that President Trump threatened higher tariffs on South Korea the same day that the message was delivered, ostensibly because the National Assembly is slow-walking approval of a trade deal made last year. The timing was so coincidental that it sparked speculation that the tariff move was meant to reinforce Colby’s defense message, but sources within the Trump administration deny that intent.

For its part, the Lee Jae Myung administration may see a U.S. retreat serving its own goals of greater defense autonomy and engagement with North Korea. The South Korean president recently called on the country to rid itself of a “submissive mentality” of being dependent on others. A less engaged United States may accelerate the timetable for South Korean forces to assume operational control on the peninsula, create space for South Korea to enrich nuclear fuel, and incentivize new kinds of defense partnerships, such as in nuclear submarine technology. Support for nuclear armament remains high across South Korea as well.

South Korean policymakers have long resisted the idea that U.S. forces in the country should have any role other than defending against North Korea, or be reduced. But there is more willingness, says Work, to acknowledge and grapple with the idea that U.S. forces may need the “strategic flexibility” to deploy outside the peninsula.

South Korea-based researchers articulated the long-standing counterpoints to such flexibility in a recent paper published at one of the nation’s foremost think tanks, the Asan Institute for Policy Studies. “South Korean administrations have resisted any changes to U.S. force posture on the Korean Peninsula, whether in terms of total size or operational focus,” argue Peter Lee and Esther Dunay. “This is due to the ongoing North Korean military and nuclear threat, fears of a potential entanglement in any Taiwan Strait conflict, and longstanding fears of alliance abandonment.”

On the surface, the U.S. alliances with South Korea and Japan remain intact and manageable. But beneath that appearance of solidarity, the Trump administration’s attempts to redraw the security bargains that have underlain stability and peace in Northeast Asia are creating growing tension and uncertainty.

"We're burning a lot of bridges," the administration source told this writer. "We're stressing the relationships with our allies."

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*Feature image from [Under Secretary Elbridge Colby's official X account](#).*

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**Return to the Peninsula**



## THE PENINSULA

### **U.S.-South Korea Relations in 2026: Key Issues to Watch**

Published February 2, 2026

**Author:** [Scott Snyder](#), [Jennifer Ahn](#), [Tom Ramage](#), [Arius Derr](#), [Ellen Kim](#), [Soobeen Park](#), [Sebastian Garcia](#), [Yujin Son](#)

**Category:** [Economic Security](#), [Economics](#), [Indo-Pacific](#), [South Korea](#), [The United States](#), [U.S. Foreign Policy](#), [US-Korea alliance](#)



The U.S.-South Korea relationship underwent profound changes in 2025 due to a myriad of factors, including new leadership, protectionist trade policies, and continued volatility on the Korean Peninsula and across the Indo-Pacific. As both countries grapple with new realities in the bilateral relationship, Seoul faces the challenge of strengthening alliance credibility while expanding strategic autonomy in a more contested regional environment. President Lee Jae Myung's ambitious domestic reform agenda and pragmatic foreign policy orientation collide with shifts in U.S. domestic priorities and the Donald Trump administration's expectations for greater allied responsibility under the 2026 National Defense Strategy.

Below, KEI experts compiled and analyzed the key issues to watch in 2026. We examine the Lee administration's domestic policy agenda and its impact on economic competitiveness, the mechanics of alliance modernization and burden-sharing, prospects for U.S.-North Korea engagement, South Korea's push to achieve developed-market status, the evolving U.S.-South Korea trade and investment relationship under the shadow of tariff uncertainty, and South Korea's ambitions for AI leadership in the new year.

#### **The Lee Jae Myung Administration's Domestic Reform Priorities**

In a meeting with senior secretaries and advisors in November 2025, South Korean President Lee outlined his **domestic reform agenda**, emphasizing the regulatory, finance, public, pension, education, and labor sectors. President Lee highlighted the need to pursue structural reform as the primary means for facilitating a sustained economic growth rate and avoiding the “low-growth trap” affecting other leading economies. With the ruling party holding a majority in the National Assembly and a steady approval rating of around 60 percent, Lee possesses both the support and bandwidth to pursue his reform agenda. Both **conservatives** and **progressives** have expressed confidence that the Lee administration can produce tangible results in the outlined areas, underscoring the need for the government to maintain political stability and public support as it implements its reforms.

However, the pursuit of institutional reform has plagued past administrations in South Korea, particularly when the motivations for reform are seen as political rather than in the national interest. In addition, the speed and nature of reform are often called into question, and personal scandals within the government deplete the political capital and momentum needed to pass necessary legislation. The Moon Jae-in administration's pursuit of prosecution reform as a top domestic priority was challenged throughout President Moon's five-year tenure, facing **strong opposition** from the conservative party and **polarized public opinion** over involved personnel. The previous Yoon Suk Yeol administration's pursuit of labor reform faced backlash from key union groups and the public, leading to **numerous union strikes** against the government's proposed policies and the eventual **loss of momentum and public confidence** surrounding certain policy agendas. To avoid a similar fate of reform policies becoming a lightning rod for public criticism or political backlash, it is critical for the Lee administration to enact its desired structural reform in a manner that ensures both public buy-in and tight internal coordination across the bureaucracy.

In anticipation of the inevitable challenges that come with institutional reform, **President Lee stated**, “Just as transformation requires discomfort, our society cannot move in a better direction or correct irrationalities without some degree of conflict and resistance. Only by enduring that struggle does real change occur.” Whether the Lee administration can strike the right balance between consensus and transformation and address public concerns in a transparent manner will determine the South Korean government's success in addressing deep-rooted inefficiencies across critical sectors and pushing forward tangible resolutions.

### **The Lee Jae Myung Administration's Pragmatic Foreign Policy**

Under the Lee administration, foreign policy rhetoric is increasingly framed around prioritizing national interest, pragmatic diplomacy, and enhancing strategic autonomy rather than rigid bloc politics. The Ministry of Foreign Affairs has repeatedly described its guiding principle as “**pragmatic diplomacy**,” that protects South Korean interests, alongside a push for “**everyday, business-focused diplomacy**.” Many in Seoul view 2026 as a year to **widen the country's maneuverability** in a more volatile regional order without signaling a departure from the U.S.-South Korea alliance.

With regard to the United States, pragmatism will mean doubling down on deterrence and advanced defense capabilities while navigating tougher conversations on burden-sharing and alliance modernization. The United States is signaling a shift toward a more **limited U.S. role in deterring North Korea**, with South Korea expected to shoulder greater defense responsibilities. This trend is paired with deeper cooperation on specific capabilities such as **nuclear-powered submarines**, as well as renewed debate over **OPCON transfer** and

command arrangements. Together, these shifts point to an alliance in transition, with South Korea assuming greater responsibility for deterrence and the United States adopting a more flexible strategic posture in the Indo-Pacific.

On China and Japan, **expect compartmentalization**: maintaining the U.S. alliance as the backbone of South Korean national security while resisting pressure to choose sides in U.S.-China competition and steadily rebuilding practical cooperation with Japan. Lee's approach toward China emphasizes "**maximum flexibility**," seeking to stabilize ties with China through strategic autonomy and selective cooperation even as security coordination with the United States continues. At the same time, the Lee administration is likely to institutionalize a "**new normal**" of cooperation with Japan to reduce political vulnerability while expanding practical coordination. These efforts have been supported by active summit diplomacy aimed at keeping Seoul's regional options open.

North Korea is where pragmatism faces its hardest test. Lee's instinct appears to be crisis prevention paired with calibrated engagement, yet Pyongyang remains hostile, largely ignoring outreach while leaning further into its "**two hostile states**" narrative and coercive signaling. The **January drone incidents** underscored how quickly tensions can escalate, with **Lee warning** that unauthorized flights into North Korean airspace could amount to war-provoking behavior.

Taken together, 2026 is likely to be defined by careful diplomatic balancing, as Seoul strengthens its alliances while expanding strategic flexibility in a more contested regional environment. Pragmatism, rather than ideological alignment, will remain the guiding logic shaping South Korea's foreign policy choices.

### **The 2026 U.S. National Defense Strategy and Expectations on South Korea**

The **2026 U.S. National Defense Strategy** envisions a U.S. strategy that is less focused on coalition-building, development, and prosperity in the Indo-Pacific as part of a values-driven U.S.-China competition, and more focused on deterring Chinese aggression through peace through strength.

To achieve this objective, the National Defense Strategy imposes a rigorous, sparing prioritization of China-centered deterrence by denial while requesting that allies take greater responsibility for their own defense. For South Korea, the most significant aspect of this revised strategy is that the United States expects South Korea to do more to defend itself against external threats, including North Korea and China. Under this framework, South Korea will continue to enhance its own autonomy in the defense sphere while minimizing the potential for conflict within the U.S.-South Korea alliance. At the same time, South Korea has an increasingly important role to play in the strengthening of the U.S. defense industrial base as a critical partner and technology provider.

Prior to the release of the strategy, the main bureaucratic vehicle for pursuing a revamped U.S.-South Korea strategy was "alliance modernization." As part of this conversation, South Korea provided reassurances to the United States regarding its willingness to raise defense spending, take a greater role in deterring North Korea, and provide support for the maintenance of peace across the Taiwan Straits. In the course of the development of the National Defense Strategy, South Korea came to be referred to as a "model ally," suggesting that the U.S.-South Korea alliance had already evolved to encompass a regional deterrence framework, rather than being solely focused on deterrence on the Korean Peninsula.

The 2026 National Defense Strategy prioritizes hemispheric defense and China-based deterrence but says less about Indo-Pacific strategy than previous national defense strategies, including those pursued in the first Trump administration. As a result, South Korea's [2022 Indo-Pacific strategic framework](#) will receive less attention, and South Korea will therefore be free to pursue its own defense and security relationships with Southeast Asia with less consideration for U.S. framing and priorities. However, the task of coordinating respective defense and security priorities toward China will remain important for "alliance modernization," even as the Lee administration attempts to further stabilize South Korea-China relations in 2026.

### **U.S.-North Korea Relations in the New Year**

Despite U.S. President Donald Trump's repeated calls for a summit with North Korean leader Kim Jong Un in 2025, U.S.-North Korea relations entered the new year with a continued standoff between the two countries. In early January, North Korea [strongly criticized](#) the U.S. military operation in Venezuela, calling it "the rogue and brutal nature of the U.S." and "the most serious form of encroachment on sovereignty and [a] wanton violation of the UN Charter and international laws." During U.S. Under Secretary of Defense for Policy Elbridge Colby's travel from South Korea to Japan in late January, North Korea [test-fired two ballistic missiles](#) toward the East Sea, vowing to increase its nuclear deterrent.

Yet speculation persists about a possible reengagement between Trump and Kim in 2026. Media and pundits suggest that spring could be the most likely window for a bilateral summit, as Trump is scheduled to visit Beijing in April. In this scenario, Trump could stop by South Korea to meet Kim at the demilitarized zone (DMZ). Alternatively, a Trump-Kim summit could take place after the China trip to avoid overshadowing the summit between Trump and Chinese leader Xi Jinping. If past precedents hold any predictive value, one possible indicator that the Trump-Kim summit is underway would be a Xi-Kim summit meeting in May or later, recalling that Kim met with Xi before meeting Trump in both 2018 and 2019.

While there is considerable unpredictability regarding both Trump and Kim, the prospect of a near-term breakthrough in the current U.S.-North Korea deadlock appears increasingly bleak. With the [Ukraine peace talks at a standstill](#) over the status of occupied Ukrainian territories, the North Korea-Russia strategic partnership will continue to make Kim see little need to engage in dialogue with the United States. More significantly, a series of U.S. military operations in Iran and Venezuela—for example, a military attack on [Iranian nuclear facilities in 2025](#), the [arrest of Venezuelan President Nicolas Maduro](#), and the dispatch of a ["massive armada"](#) to Iran in January 2026—has undoubtedly heightened Kim's fears regarding regime survival and hardened his grip on his nuclear deterrent, motivating him to reject U.S. overtures for dialogue.

What deserves attention going forward is how North Korea will perceive the growing ambiguity surrounding the Trump administration's denuclearization policy and the U.S. push for burden-sharing and strategic flexibility of U.S. Forces Korea (USFK) on the peninsula amid a shift in U.S. focus to the mainland and the Western Hemisphere. If Kim sees the confluence of these developments as a waning U.S. security commitment to South Korea or a decoupling of its security from that of South Korea, there is a danger that North Korea will recalibrate its strategic calculus. Kim could decide to seize a U.S.-North Korea dialogue as an opportunity to drive a wedge between the United States and South Korea and create a rupture in the alliance. A strong, clear U.S. nuclear deterrence commitment to South Korea is critical at this moment to preempt North Korea's miscalculation and adventurism.

President Lee has **vowed to resolve** the "Korea Discount"—the relative undervaluation of the South Korean stock market compared to its peers in the Indo-Pacific. The bulk of this work lies in enacting and stewarding reforms in corporate governance and market accessibility. A range of measures is required to help push forward South Korea's accession to MSCI's **developed market** status. Such a distinction would mark a major breakthrough in addressing the Korea Discount.

MSCI's most recent **Market Classification Review** acknowledged South Korea's recent stock market reforms, such as improved foreign investor access, increased availability of investment instruments, and relief of the country-wide short-selling ban. Nevertheless, the report dictated that the country would spend at least another year on its emerging market list while it assessed South Korea's overall market stability amid its broad deployment of regulatory changes. The country already fulfilled the requirements for economic development and size and liquidity for **developed market classification status**—market accessibility is the third and final factor standing in the way of full reclassification. Market accessibility requires greater ease of access for foreign investors, greater availability of investment instruments, and particularly fewer constraints on foreign exchange trading for the won.

Reforms to the South Korean financial system need to be in place for the duration of a monitoring period for reclassification, after which MSCI would move the country to a developed market "watch list" on an interim basis. Some existing reforms are likely to weigh in favor of this. The **debut of an alternative trading system (ATS)** through the Nextrade exchange in March 2025, for instance, helped better align trading hours with international markets, expand the availability of investment instruments, and spur the Korea Exchange to make similar reforms.

The Lee administration appears resolute in making the final changes to improve market accessibility to get into the MSCI Developed Markets list—a major psychological feature of the Korea Discount sobriquet. In an attempt to improve foreign investors' access, President Lee **announced plans** to establish twenty-four-hour trading for the won, beginning in July 2026. The Lee administration has also been proactive in amending provisions to the **Commercial Act** to add shareholder protections aimed at improving South Korea's overall corporate governance structure. And most recently, on January 9, the Ministry of Economy and Finance published a **targeted policy document** to execute on the administration's comprehensive plans to achieve developed-market status, including greater foreign trading access for the won. The MSCI will review these reforms in June 2026, during which South Korea could be placed on the official watchlist for developed market status, allowing **full inclusion** in June 2027.

Ongoing regulatory efforts to improve corporate governance and anticipation surrounding the Lee administration's expected market changes, alongside South Korean tech companies' roles in supporting the global AI transition, have already pushed the KOSPI index to a **5,000-point record**, with even **larger valuations projected** through the end of the year. The intense performance of the South Korean stock market, combined with the high likelihood of achieving developed-market status, could make 2026 the year investors begin to shed the country's association with the Korea Discount. Few indicators would more clearly capture the pace of South Korea's economic ascent.

#### **Tariffs and the U.S.-South Korea Trade Relationship**

For decades, the United States and South Korea had assumed that free trade would guarantee South Korea's stable access to the U.S. market. South Korean companies establishing production in the United States also assumed steady access to imported components and skilled labor from South Korea. These assumptions are starting to weaken. Global value chains (GVCs) are getting costlier and riskier due to tariffs, shifting the main economic dynamic of the relationship from one focused on trade to one centered around corporate investment decision-making. Accordingly, to understand the U.S.-South Korea economic relationship today, it is important to look beyond trade data and track where firms are choosing to produce and invest.

In 2025, the Trump administration repositioned the persistent U.S. trade deficit as a structural economic and security challenge under its "America First Trade Policy" and introduced reciprocal tariffs under the International Emergency Economic Powers Act (IEEPA) to address that challenge. Following negotiations between the United States and South Korea, the trade deal set a 15 percent tariff floor on the majority of South Korean-origin goods, except for Section 232 goods such as steel (which is subject to its own 50 percent tariff).

In 2026, South Korean exporters will continue to carry tariff costs, but the scope of trade diversion may be more limited under a relatively consistent tariff environment. For example, as a result of South Korea's investment fund negotiations, the South Korean automotive industry will compete on a more level playing field with other top auto exporters, such as Japan. As the uncertainty in 2025 highlighted, expanding domestic production in the United States secures a more stable basis for market access. Manufacturing further upstream in the value chain can reduce exposure to policy volatility and provide predictable access to inputs for the significant manufacturing investments that South Korean companies have already made in the United States. In this context, investments become a strategic tool for securing market access by minimizing vulnerability to policy uncertainty and strengthening access to key inputs.

Recent moves by South Korean firms, such as Hanwha Ocean and Korea Zinc, illustrate exactly how this shift is playing out as they build projects in the United States. Their investments are not simply about expanding sales; instead, they focus on building production bases and supply chains within U.S. borders. These moves also align with U.S. national priorities, with Hanwha Ocean tied to the defense industrial base and Korea Zinc tied to critical minerals.

The upcoming U.S. Supreme Court decision related to IEEPA may affect how U.S. universal and reciprocal tariffs are implemented. Even so, the broader policy objective of using trade measures to encourage production and investment in the United States is unlikely to change, as alternative policy tools remain at the president's disposal. Trade conditions are therefore likely to remain relatively set. For investment, however, the memorandum of understanding (MOU) between the United States and South Korea accompanying the trade deal effectively lowers the cost of capital for South Korean firms investing in the seven strategic industries inside the United States. As a result, rather than trade, the more important shifts in the U.S.-South Korea relationship will come from where investment decisions are made, with the biggest moves likely to come from the defense industry, energy, critical minerals, and AI.

#### **Impact of U.S. Domestic Politics on South Korean Investments**

The U.S.-South Korea partnership enters the year ahead with industrial interdependence deeper than ever—and governance risk newly priced into South Korean investment decisions. The immigration raid against the Hyundai metaplant in Georgia late last year revealed a structural tension between Washington's push for reindustrialization and an immigration enforcement posture that can disrupt allied industrial projects overnight. Short-term damage control restored stability on the surface, but the absence of a durable visa and workforce immigration policy in the new year leaves South Korean firms navigating a U.S. operating environment where political volatility remains a material business risk.

South Korean investment in the United States continues, driven by supply-chain diversification away from China, a tariff floor under evolving trade arrangements, and sustained demand for advanced manufacturing. Hyundai's **decision to expand** rather than retreat underscores that U.S. market access still justifies long-term integration. But firms will tighten compliance procedures, rethink travel, and build redundancy into project timelines. Congressional paralysis on visa reform and ongoing hardline enforcement mean workforce mobility remains the critical chokepoint in the partnership's industrial agenda.

The coming year will determine whether Washington can reconcile immigration enforcement with its industrial strategy before credibility costs accumulate. If coordination improves, the Hyundai raid will fade into a stress test that accelerated institutional adaptation. If not, South Korean firms may begin recalibrating future investment away from maximum U.S. exposure, slowing U.S. reindustrialization momentum. In this phase of the alliance, success will be measured less by summit communiqués than by whether factories open on schedule, visas are issued predictably, and South Korean technical expertise continues flowing into U.S. production lines.

### **The Future of South Korea's AI Policy**

South Korea has become the first country to enact comprehensive AI sector regulation, with the AI Basic Act coming into effect on January 22, 2026. The speed with which the government has moved to adopt such legislation stems from South Korea's ambition to become a first mover in emerging technologies, from joining the United States and China in the "**AI G3**" to becoming the global leader in physical AI by 2030. Some South Korean businesses, however, have raised concerns that the government has moved too quickly, leaving them with little time to prepare and curtailing their ability to innovate.

Ahead of the enactment of the AI Basic Act, the Presidential Council on National Artificial Intelligence Strategy released its **AI Action Plan** in December 2025. Consisting of ninety-eight tasks to be accomplished before the end of the Lee administration's term in 2030, the plan calls for significant investment in the build-out of data centers and other key infrastructure, innovation in **physical AI**—AI models designed for use in robots and autonomous vehicles—and AI talent development projects.

Regulatory reforms serve as the basis of this ramp-up of South Korea's AI economy, and the government has touted the AI Basic Act as a regulation guided by an "**innovation-first**" principle, allowing companies to develop AI systems without government approval in a bid to speed up innovation. Exceptions are in place for "high-impact" AI systems used in sensitive fields, such as healthcare, and following a one-year grace period, firms will have to establish methods of risk assessment and monitoring and ensure transparency by watermarking all AI-generated content or face significant fines.

AI safety has been a top priority in the Lee administration's AI strategy. Last September, President Lee [chaired a UN Security Council debate](#) on AI and international security in which he urged the international community to develop "inclusive and human-centric AI" and "compete for national interest while cooperating for the benefit of humankind at the same time."

Some South Korean companies believe the government has not successfully struck a balance between safety and innovation. [Startups in particular](#) are raising concerns that the law's definition of "high-impact" AI is too vague and encourages them to be risk-averse with their AI development to avoid hefty penalties. Lee has expressed his sympathy for such concerns, and the Ministry of Science and ICT announced the development of a guidance platform and support center for companies to be released during the grace period, though business leaders also fear the timeline for enforcement of the law is too rushed. Clarifying regulatory definitions around AI is also critical to safeguard the influx of AI investment from major U.S. firms and support [ongoing joint initiatives](#) with U.S. companies from Amazon Web Services to Intel. Whether the AI Basic Act will serve as the foundation for a thriving AI ecosystem and propel South Korea's status as a global AI leader and norm-setter will draw considerable attention in 2026.

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*Feature image from the [South Korean Defense Ministry](#).*

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Return to the Peninsula



## THE PENINSULA

### 2025 Year in Review: The Trump Tariff Strategy From IEEPA to

#### Section 338

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Author: [Yohan Moon](#)

Category: [Indo-Pacific](#)



*The following is part of a new miniseries from KEI surveying the most important developments and trends in the U.S.-South Korea relationship in 2025. You can read all year-in-review pieces by [clicking here](#).*

In 2025, tariffs emerged as one of U.S. President Donald Trump's most visible and legally contested economic policy tools. While the administration framed its tariff strategy as advancing three objectives—inciting U.S. production, creating negotiating leverage, and raising government revenue—the year ultimately revealed how difficult it is to pursue all three simultaneously once tariffs are tested in court.

The Trump administration's most ambitious tariff policy effort came on "Liberation Day," April 2, 2025, when the president announced a universal 10 percent tariff on nearly all imports and higher country-specific "reciprocal" rates to follow under the [International Emergency Economic Powers Act \(IEEPA\)](#). According to an official [U.S. Customs and Border Protection \(CBP\) statement](#), the baseline tariff took effect on April 5, with reciprocal rates scheduled for April 9.

The legal challenge arrived quickly. On [May 28, 2025](#), the [U.S. Court of International Trade \(CIT\)](#) issued a permanent injunction blocking the administration's sweeping IEEPA-based tariffs, holding that the Commerce Clause vests tariff-setting authority in Congress and that IEEPA "does not confer such unbounded authority" to the president. The ruling covered both the universal tariffs and [fentanyl-related import duties](#). Although the U.S. Court of Appeals for the Federal Circuit granted a [temporary](#)

administrative stay on May 29, it later affirmed the CIT's core holding *en banc* on August 29, 2025, leaving only questions of remedy and timing unresolved. The dispute ultimately moved to the U.S. Supreme Court, which heard oral arguments on November 5, 2025.

What proved most consequential in court was not the rhetoric of leverage or reshoring, but revenue. During oral arguments, administration lawyers emphasized that the tariffs were regulatory rather than fiscal, implicitly conceding that a tariff regime defended primarily as a revenue-raising measure risks resembling taxation, a power constitutionally reserved for Congress. That tension sat at the heart of the judiciary's skepticism.

In practice, the IEEPA tariffs did raise substantial revenue. Reuters reported that the United States collected over USD 100 billion in tariff revenue by July 2025, including a record USD 22.8 billion in May alone. By mid-December, CBP confirmed that tariff collections since January 20 exceeded USD 200 billion, underscoring why refund exposure became a major concern as litigation progressed.

For trading partners like South Korea, this mattered less because of the absolute revenue numbers and more because of policy instability. When tariffs rest on contested legal authority, even negotiated rate reductions cannot fully offset the uncertainty faced by manufacturers, exporters, and investors planning long-term supply chains. South Korea occupies a unique position in this debate. Under the U.S.-Korea Free Trade Agreement (KORUS FTA), nearly all South Korean tariffs on U.S. goods are scheduled to be eliminated by 2026, including the long-standing beef tariff. That makes the U.S. argument for reciprocal tariffs as a response to tariff-based discrimination difficult to sustain using traditional customs duties alone.

As a result, any future tariff pressure would more likely target non-tariff measures, regulations, standards, or administrative practices, rather than headline tariff rates. This shift raises the stakes considerably, because it transforms routine regulatory frictions into potential triggers for sweeping trade retaliation.

The defining tariff story of 2025 was not simply that courts constrained IEEPA. It was that tariffs justified as negotiating leverage or industrial policy become legally fragile once they function as revenue instruments. As the administration looks ahead, the central question is no longer whether tariffs will remain part of Trump's toolkit, but which statutory foundation can sustain them without collapsing under constitutional scrutiny.

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*Feature image from [The White House](#).*

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