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How South Korea Is Trying to Increase Its Supply-Chain Resilience

South Korea should enhance its supply-chain resilience in response to trade disruptions amid a changing world order.

By Randall Jones

May 27, 2026

Freight shipping container with the South Korean flag | Image: Shutterstock

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South Korea has become more dependent on China for imports and on the United States for exports. This concentration of trade with the two global superpowers poses risks for Korea. Protectionist policies by the United States have disrupted the global trading system, creating increased vulnerability and uncertainty for Korea's trade-dependent economy. In addition, supply-chain issues have posed a recurring challenge for Korea, reflecting its heavy reliance on certain countries for key inputs. To cope with the changing world order, Korea needs to enhance its supply-chain resilience.

Global economic integration and openness have created highly efficient and profitable supply chains that are potentially fragile, as disruptions to Korea's trade in recent years have shown. In July 2019, Japan imposed controls on fluorinated polyimide, photoresist, and hydrogen fluoride—all critical inputs for semiconductor production. In November 2021, China halted exports of urea, a crucial ingredient for diesel-powered vehicles. The 2022 Russian invasion of Ukraine disrupted Korea's imports of rare gases that are also essential for semiconductors. Ukraine accounted for 23 percent of Korea's neon imports, 31 percent of krypton, and 18 percent of xenon. And in 2023, China tightened export controls on gallium, germanium, and graphite—critical minerals central to advanced electronics, renewables, telecommunications, and defense.

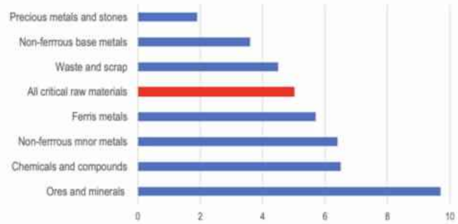
The war in the Middle East poses additional supply chain concerns. Samsung Electronics and SK Hynix, the world's largest makers of memory semiconductor chips, rely on Qatar for 65 percent of their helium imports, which are used to cool the chips during production. Qatar halted helium production shortly after the war began. Helium is just one of fourteen semiconductor supply-chain materials that the Korean government has flagged for monitoring due to its heavy vulnerability to the ongoing war.

Export Restrictions Are Surging

Most manufactured products include metals and minerals. A mobile phone, for example, contains up to fifty metals and minerals. While demand for critical raw materials is rising rapidly, supply has adjusted more slowly. Moreover, the extraction and processing of these are highly geographically concentrated; for example, the top three countries for cobalt, lithium, and nickel account for over two-thirds of global production, and nearly 90 percent for rare-earth elements. The high ownership concentration has prompted some governments to use export restrictions to pursue various objectives, such as promoting domestic processing, protecting local downstream industries, safeguarding domestic supply, and protecting the environment.

Export restrictions on critical raw materials have increased fivefold since 2009, according to a recent OECD study. The restrictions have risen across all critical raw material sectors, with the largest increases in ores and minerals and chemicals and compounds (Figure 1). Many of the restrictions apply to materials critical to supply chains central to energy and digital transitions and to defense. For example, around 70 percent of global exports of cobalt and manganese were subject to at least one export restriction between 2022 and 2024. The share is also high for graphite (47 percent), rare-earth elements (45 percent), and tin (41 percent).

Figure 1. Export restrictions have risen across all critical raw materials sectors, 2009–2024

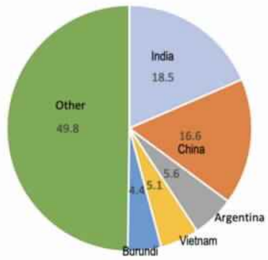


Note: The chart shows the increase factor for each critical raw material.

Source: "OECD Inventory of Export Restrictions on Critical Raw Materials 2026," April 28, 2026, https://www.oecd.org/en/publications/oecd-inventory-of-export-restrictions-on-critical-raw-materials-2026_d5ca8f62-en/full-report.html.

Export taxes and licensing requirements are the most widely used instruments for export restriction. In addition, export prohibitions have become more common. Between 2009 and 2024, the number of countries applying export prohibitions doubled to around thirty. India, China, Argentina, Vietnam, and Burundi introduced the highest numbers of new export restrictions between 2009 and 2024, accounting for slightly more than one-half (Figure 2).

Figure 2. Five countries accounted for more than half of the new restrictions on raw minerals, 2009–2024



Source: "OECD Inventory of Export Restrictions on Critical Raw Materials 2026," April 28, 2026, https://www.oecd.org/en/publications/oecd-inventory-of-export-restrictions-on-critical-raw-materials-2026_d5ca8f62-en/full-report.html.

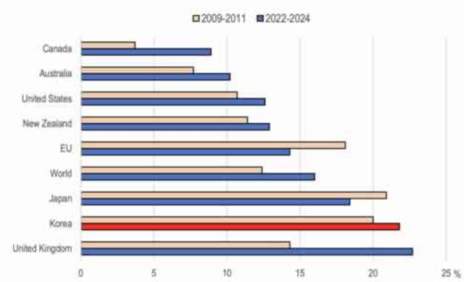
Korea Is One of the Most Exposed Countries

The share of critical raw materials that face at least one export restriction increased globally from 12 percent between 2009 and 2011 to 16 percent between 2022 and 2024 (Figure 3). Korea's exposure to such restrictions was 21.8 percent over the latter period, well above the global average and the second-highest among OECD countries. In addition, Korea relies heavily on non-OECD countries: it has the highest "foreign input reliance" on non-OECD countries in its upstream value chain—the share of total domestic output exposed to foreign disruptions upstream related to inputs into the production process—among OECD countries (Figure 4).

During the first nine months of 2021, Korea imported 12,586 products (in Korea's ten-digit Harmonized System), according to the Korea International Trade Association. For almost one-third (3,941) of those products, Korea relied on a single country for 80 percent or more of its total supply. China accounted for 80 percent or more of Korea's supply in 1,850 materials, including rare earths, followed by the United States (503) and Japan (438).

Dependence on China for manufacturing supply chains creates serious vulnerabilities for Korea's economic security and global competitiveness. This dependence is especially notable in large-scale and strategic industries, such as chemicals, cars, batteries, and electronics, including semiconductors. One potential bottleneck is magnesium, which Korea imports to manufacture cars, smartphones, and batteries. All of Korea's magnesium imports come from China, which produces more than 90 percent of the global supply. Moreover, its share of the global production of rare-earth elements is around 70 percent.

Figure 3. Countries that source a significant share of raw materials from countries imposing export restrictions



Note: The chart shows the percentage of imports subject to at least one export restriction. Calculation based on the value of imports in USD. The EU numbers exclude intra-EU trade.

Source: "OECD Inventory of Export Restrictions on Critical Raw Materials 2026," April 28, 2026, https://www.oecd.org/en/publications/oecd-inventory-of-export-restrictions-on-critical-raw-materials-2026_d5ca8f62-en/full-report.html.

Figure 4. Korea's "foreign input reliance" on non-OECD countries is the highest in the OECD area

Note: Foreign input reliance is the share of total domestic output exposed to foreign disruptions upstream (i.e., related to inputs into the production process). The measure accounts for the size of exposure to a partner in the value chain and the distance to that partner.
Source: "OECD Economic Surveys: Korea 2024," July 11, 2024, https://www.oecd.org/en/publications/oecd-economic-surveys-korea-2024_c243e16a-en.html.

Seoul's Policy Response

It is primarily the responsibility of private companies to reduce their supply-chain dependencies in line with their own business interests. In other words, market forces should help limit supply-chain vulnerability. Companies can accomplish this by expanding domestic production facilities, increasing stockpiles and inventories, and diversifying supply sources (so-called "redundant sourcing").

However, each of these strategies has a cost and may be rejected by profit-maximizing businesses. While firms tend to manage their own risks without internalizing external effects, the government must consider economy-wide spillover effects. In some cases, the total economic cost of supply-chain dependencies exceeds the private cost to companies, justifying a role for the government. The need for government intervention to ensure supply-chain resilience for national and economic security is greater when supply is concentrated in a small number of countries and firms, or when it is of strategic importance, such as in the case of energy.

The government has launched numerous initiatives to promote supply-chain resilience. In December 2023, it created the Industrial Supply Chain 3050 Strategy, which focuses on 185 "supply chain stabilization items" among imported materials and parts. The Ministry of Trade, Industry and Energy (MOTIE)—now the Ministry of Trade, Industry and Resources—identified these items based on their import dependence and economic importance.

The 3050 Strategy aims to reduce the dependence on these items from specific countries from an average of 70 percent in 2022 to 50 percent or less by 2030 through a range of policies: 1) supporting the development of technology; 2) encouraging mergers and acquisitions; 3) applying regulatory exemptions; 4) recommending that companies expand their inventories and helping them cover the associated costs; and 5) ordering companies to homeshore production in case of an emergency. This was followed in 2024 by MOTIE's "Eight Major Industry Supply Chain Leading Projects," which focuses on urea, graphite, battery cathode materials, rare-earth permanent magnets, magnesium, molybdenum, and rare gases used to produce semiconductors.

A second key initiative is the Framework Act on Supporting Supply Chain Stabilization for Economic Security, which took effect in June 2024. The Ministry of Economy and Finance (MOEF) designated 300 “economic security items” eligible for public support to promote stable production and stock management. It also operates an early-warning system for items essential for Korea’s national security. A supply-chain stabilization committee comprising ministers and private experts serves as the control tower for a nationwide supply-chain resilience policy master plan, which will be updated every three years.

In addition, the Export-Import Bank of Korea launched a supply-chain stabilization fund to support private-sector firms in reinforcing their supply chains. The government also plans to gradually expand its stockpiles of twenty key minerals and thirty-five other items to an average of one-hundred days of supply.

Conclusion

The Korean government has taken an active approach to addressing supply-chain risks. At the same time, it is important to limit the economic costs of such policies. Channeling resources to incumbent firms inevitably creates hurdles for emerging firms competing for labor and capital. Likewise, giving resources to incumbent industries can limit opportunities for new emerging industries. Homeshoring of production is likely to enjoy political and popular support but should be a last resort to boost supply-chain resilience because of its high cost. Careful cost-benefit analyses are needed to prevent unnecessary and costly interventions aimed at improving supply-chain resilience.

Randall Jones is a Non-resident Distinguished Fellow at the Korea Economic Institute of America (KEI). The views expressed here are the author's alone.

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Why the Prospect of a U.S.-North Korea Summit in November Is Uncertain

China's policy ambiguity regarding North Korea's denuclearization and the outcome of U.S.-Iran nuclear negotiations could serve as important indicators of the future direction of U.S.-North Korea relations and the prospects for renewed dialogue.

By Ellen Kim

June 1, 2026

U.S. President Donald Trump and Chinese President Xi Jinping participate in a bilateral meeting, May 14, 2026 | Image: The White House

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The White House recently announced that during the U.S.-China summit, U.S. President Donald Trump and Chinese President Xi Jinping confirmed their shared goal of denuclearizing North Korea. However, China's official readout of the meeting made no mention of North Korea. When questioned, a spokesperson from China's Ministry of Foreign Affairs responded by citing "continuity and consistency" in China's longstanding policy position on the Korean Peninsula, while refraining from explicitly addressing denuclearization. This once again underscored China's policy ambiguity regarding North Korea's denuclearization.

Such ambiguity began to surface more visibly after South Korea, China, and Japan failed to adopt a joint declaration reaffirming their commitment to denuclearizing the Korean Peninsula at their trilateral summit in May 2024. Since then, China has effectively ceased all references to denuclearization in official documents and diplomatic settings, raising concern among experts that China may be tacitly accepting North Korea's status as a nuclear-weapon state.

China's silence reflects a combination of factors. First, amid concerns that closer North Korea-Russia ties could weaken China's influence over North Korea, China appears intent on avoiding actions that might provoke North Korea while simultaneously seeking to strengthen bilateral ties. At the same time, China seems to recognize the reality of North Korea possessing roughly fifty nuclear warheads and, therefore, the practical limitations of denuclearization. As U.S.-China strategic competition intensifies and the regional security environment shifts rapidly, China has also found it necessary to recalibrate its strategic priorities; in this context, China's policy ambiguity is increasingly serving as a convenient instrument for advancing its strategic interests.

By contrast, the Trump administration has maintained its denuclearization stance but has not presented a concrete roadmap for North Korea policy. Instead, Washington has demonstrated its strong commitment to denuclearization through military pressure on Iran and intense negotiations over the dismantlement of Iran's nuclear program.

Against this backdrop, President Xi is expected to visit Pyongyang in June. Prior to the first U.S.-North Korea summit in 2018, Xi and North Korean leader Kim Jong Un held two summits to enhance strategic communication and policy coordination between the two countries. Given this precedent, observers are focusing considerable attention on whether Xi's upcoming visit could serve as a catalyst for the resumption of U.S.-North Korea dialogue. In particular, should President Trump attend the Asia-Pacific Economic Cooperation (APEC) summit in China this November, the period surrounding the summit could create an opening for renewed efforts toward a U.S.-North Korea summit.

However, premature optimism should be avoided. As China seeks to strengthen its political, economic, and strategic cooperation with North Korea on the occasion of the sixty-fifth anniversary of the signing of the Sino-North Korea friendship treaty this year, Beijing may continue to remain silent on the issue of denuclearization. Even if Xi attempts to play the role of mediator in U.S.-North Korea dialogue by conveying a message from Trump to Kim, North Korea may not readily embrace China's role given its longstanding preference for direct negotiations with the United States.

For South Korea, the government should closely monitor how the trajectory of U.S.-Iran nuclear negotiations may influence North Korea's strategy toward the United States and its negotiating posture. Although Pyongyang continues to firmly reject denuclearization, it is likely closely watching and analyzing how the Trump administration balances sanctions relief with nuclear dismantlement in its negotiations with Tehran. In this regard, the outcome of Iran's nuclear negotiations could serve as an important indicator for the future direction of U.S.-North Korea relations and the prospects for renewed dialogue. Policymakers should therefore manage developments on the Korean Peninsula with careful attention to these broader geopolitical dynamics.

This article was originally published in Korean in *Hankook Ilbo* on May 30.

Ellen Kim is Senior Fellow and Director of Academic Affairs at the Korea Economic

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June 1, 2026 · 1 min read

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Please email communications@keia.org to speak with Troy Stangarone or other KEI experts.

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North Korea's New Constitution Buries the Reunification Project

North Korea has firmly cemented division on the Korean Peninsula by removing all references to reunification with the South in its constitution.

By Robert King

May 21, 2026

North Korea's Supreme People's Assembly, September 2022 | Image: KCNA

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North Korea

has amended its constitution to remove

references to reunification with South Korea. The Supreme People's Assembly apparently made the change in March, but it was not publicly known or discussed until early May. This is the first time North Korea has added a clause to the constitution specifying the country's territory, and it specifically excludes South Korean territory.

The revisions are the latest affirmation of a longer-term downswing in the inter-Korean relationship. In December 2023, Kim Jong Un denounced South Korea as a "forward military base and nuclear arsenal" of the United States and stated he no longer believed unification could take place through peaceful means. On January 15, 2024, he announced that the North would abandon the goal of peaceful reunification, declaring that Pyongyang no longer sees Seoul as "the partner of reconciliation and reunification," but an enemy that must be subjugated, if necessary, with nuclear weapons. Germany and Austria, divided after World War II under broadly similar circumstances, were reunified decades ago. The Korean division has now lasted significantly longer than either, and Pyongyang has moved to cement it.

What the New Text Says

The revised North Korea constitution defines the country's boundaries as the territory north of the inter-Korean armistice line along the thirty-eighth parallel and south of the boundaries with China and Russia. The previous constitution defined the country as a "people-centered socialist state" that "represents the interests of the Korean people and struggles for the socialist cause." The newly amended document does not focus on the "Korean people," but the specific territory—South Korea is explicitly excluded.

This is a noteworthy change from previous constitutional texts, which called for "national reunification on the principles of independence, peaceful reunification, and great national unity" and that North Korea "struggles to strengthen the people's government in the northern part" and works to "achieve the complete victory of socialism, and to realize national reunification on the principles of independence, peaceful reunification, and great national unity." In the newly revised constitution, all such statements that imply or call for future reunification have been dropped.

The new North Korean constitution also downplays Kim's predecessors. The previous constitution frequently referenced and praised the previous supreme leaders. Kim Il Sung was the "founder of the Democratic People's Republic of Korea and father of socialist Korea" and the originator of the Juche ideology, which transformed North Korea into a "vibrant socialist country." In the earlier version of the constitution, Kim Jong Il was praised as "a peerless patriot and defender of socialist Korea" who built on his father's policies and transformed North Korea into a nuclear state and a military power.

These earlier florid phrases stand in stark contrast to the single, passing reference to the two previous leaders in the newly revised constitution: "Kim Il Sung-ism – Kim Jong Il-ism" are the guiding ideologies of North Korea.

Another interesting provision is the newly added requirement that the military fire a nuclear-armed missile if Kim Jong Un is assassinated. The North Korean leader clearly keeps up on current news, including the recent U.S.-Israeli targeting and killing of Iran's Ayatollah Ali Khamenei. Kim is making it clear that a similar action against North Korea will have nuclear consequences.

Abandoning the Rhetoric of Reunification

Beyond the constitutional amendment, North Korea has made numerous steps signaling its abandonment of the goal of Korean reunification. One of the most visible symbols was the destruction of the Arch of Reunification, built a year after the 2000 inter-Korean summit at a time when relations were in an upswing and serves as a well-known landmark, even appearing on several North Korean stamps.

The Monument to the Three-Point Charter for National Reunification, May 2014 | Image: Wikimedia Commons

In December 2023, Kim denounced South Korea as a "forward military base and nuclear arsenal" of the United States and stated he no longer believed unification could take place through peaceful means. Soon thereafter, on January 15, 2024, Kim announced that the North would abandon the goal of peaceful reunification. He said that Pyongyang no longer sees Seoul as "the partner of reconciliation and reunification," but an enemy that must be subjugated, if necessary, with nuclear weapons.

To drive home that point, Kim referred to the Arch of Reunification as an "eyesore," and he called for the North Korean constitution to be amended to identify South Korea as a "primary foe and invariable principal enemy." The arch was destroyed between January 19 and 23, 2024.

The Response in South Korea

The South Korean response to North Korea's constitutional changes was carefully drafted to reaffirm the Lee Jae Myung administration's commitment to unification while also acknowledging the new North Korean position. On May 18, the

Ministry of Unification issued its first white paper on unification since President Lee took office almost a year ago. The paper commits to pursuing a policy of peaceful coexistence rather than one of hostility. This white paper is the first time the South Korean government has officially called North and South Korea "two states."

The white paper underscores the Lee administration's ongoing efforts to reduce enmity in inter-Korean relations and move the bilateral relationship from one of antagonism to "relations between two peaceful states aspiring to unification." The government said it will follow three principles in its relationship with North Korea: South Korea will respect North Korea's government, will not pursue unification by absorption, and will not engage in hostilities.

Minister of Unification Chung Dong Young, appearing before a National Assembly committee, called the policy change "a peace-oriented two-state approach," which is fundamentally different from North Korea's "two hostile states" policy. The new white paper was strongly criticized by the opposition party in the National Assembly, which opposition leaders called a violation of the constitution, prompting a reaffirmation of the policy from the Unification Ministry.

Divided States Through History

The Korean Peninsula was under Japanese rule from 1905 to 1945, and the division of Korea is an outgrowth of World War II. Other countries that were similarly divided at the end of World War II have long since been reunited. Germany and Austria were both divided in 1945. Austria had been annexed to Germany shortly before the outbreak of the war, and after the war ended, Austria was divided into four occupation zones, with the eastern zone under Russian control and the western zone under the control of the United States, Britain, and France. The capital city, Vienna, was likewise divided into four zones, each under the control of one of the four allied powers, although the city itself was surrounded by the Soviet zone.

Germany was divided the same way—a Soviet zone in the east, the United States in the south, Britain in the northwest, and France in the southwest. Berlin, like Vienna, was divided into four allied zones and surrounded by the Soviet occupation zone.

Austria was unified with its prewar boundaries, and the occupying powers withdrew their military forces under the terms of the Austrian State Treaty, signed by the four occupying powers and the Austrian government on May 15, 1955. The treaty stipulated that Austria must remain a non-aligned country—i.e., it could not join NATO, which had been established by the United States and its Western European allies in 1949 to collectively protect member countries from Soviet expansionist military actions.

The Soviet Union was particularly interested in preventing Germany from joining NATO and signed the Austrian State Treaty in the expectation or hope that Germany would follow the Austrian model. As in Austria, the Western occupation zones in Germany were merged and became the Federal Republic of Germany. West Germany joined NATO, and the United States and other NATO countries continued to maintain troops in the country due to lingering concerns about Soviet intentions.

The Berlin Wall taken from the West German side, 1986 | Image: Thierry Noir

The eventual reunification of East and West Germany was achieved after the Berlin Wall came down in November 1989, and the process was formalized in October 1990. The breakup of the Soviet Union at that same time provided the opportunity to end Soviet dominance in Eastern Europe.

Lessons From Europe

It is clear that German unification has had a significant impact on thinking about Korean unification. Both North and South Korea closely watched events unfold during German unification. President Moon Jae-in observed in 2019 that "the experience of Germany's unification gives hope for unification, and at the same time shows us the path that we need to follow."

Although the division of Germany and Austria after World War II has similarities with the Korean division, the differences are significant. Nonetheless, one important element of German reunification is that it happened unexpectedly, and once the process began, it moved far faster than anyone anticipated.

On the other hand, the inter-Korean division has lasted significantly longer than the divisions of Germany and Austria. It has been over eighty years since the Japanese occupation of Korea ended and over seventy-five years since the Korean War broke out, which solidified the separation of the two countries. German unification came forty-five years after the end of World War II.

Conclusion

North Korea's constitutional amendment is the latest affirmation of a course Kim Jong Un has been charting since late 2023. He no longer sees Seoul as "the partner of reconciliation" but as a "principal enemy." German reunification offers a reminder that these processes can move suddenly, but it did so because the government in the East lost the will and capacity to enforce separation.

Pyongyang under Kim is moving in the opposite direction. His hostility toward reunification, his move to bring North Korea much closer to Russia, the new requirement that the military fire a nuclear-armed missile if he is assassinated, and a constitution stripped of every statement that implies or calls for future reunification are all clear indications that he is taking no chances. The horizon of reunification has not just receded. Pyongyang has moved to cement the division itself.

Robert King is a Non-Resident Distinguished Fellow at the Korea Economic Institute of America (KEI). The views expressed here are the author's alone.

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To File, or Not to File, That is the Question

A court ruling tapped the brakes on Section 122 tariffs but did not stop them, leaving importers weighing lawsuits.

By Hyun Jung "Jessie" Je

May 13, 2026

The Port of Los Angeles, December 2022 | Source: Shutterstock

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On May 7, the U.S. Court of International Trade (CIT) invalidated the Donald Trump administration's 10 percent across-the-board tariffs imposed under Section 122 of the Trade Act of 1974. The ruling generated a sense of déjà vu, as the same court had ruled against tariffs under the International Emergency Economic Powers Act (IEEPA) just a year earlier.

Section 122 empowers a U.S. president to impose a temporary surcharge, not to exceed 15 percent ad valorem, in the form of duties when "fundamental international payment problems exist." The administration, which pivoted to Section 122 immediately after the Supreme Court voided IEEPA tariffs in February, argued that the current account deficit and the goods trade deficit contributed to the problem. This interpretation appeared to rest on shaky legal ground, which the CIT confirmed when it found that these deficits did not qualify as "balance-of-payments deficits" within the meaning Congress intended when it enacted the statute in 1974.

The ruling applied the brakes to Section 122, but it did not bring tariffs to a complete halt. The court declined to issue a universal injunction, granting limited relief only to the two private plaintiffs and the state of Washington. Section 122 tariffs will likely keep rolling until they expire on July 24, unless another tariff vehicle, such as Section 301, starts its engine first.

What Happens Next

As expected, the Department of Justice filed a notice of appeal on May 8, asking the U.S. Court of Appeals for the Federal Circuit to overturn the CIT's decision and uphold the Section 122 tariffs. In the most recent development, the court put the CIT ruling against the Section 122 tariffs on pause for ten days to allow for comments and review. Based on the earlier litigation timeline involving the IEEPA tariffs, the Federal Circuit is likely to issue a ruling after Section 122 measures expire. But the legal battle is set to continue beyond the life of the tariffs themselves, as both plaintiffs and non-party importers are expected to pursue refunds for duties already paid.

Meanwhile, Section 301 appears to be positioned as the next alternative tariff vehicle. The Office of the United States Trade Representative (USTR) may choose to accelerate two ongoing Section 301 investigations—one focused on structural excess capacity and the other on forced labor—in light of the CIT ruling, as shifting to Section 301 would likely present a more legally durable path and reduce the risk of further successful challenges. With the clock ticking toward the expiration of the Section 122 tariffs, USTR is expected to move quickly to ensure that all procedural and substantive requirements for imposing Section 301 tariffs are fully satisfied.

One Big Question Mark

At present, thousands of importers are asking a key practical question: whether they need to file their own lawsuits to secure tariff refunds. Even with a broad injunction against IEEPA tariffs, many importers still chose to file individual claims out of concern that they might otherwise miss the opportunity to recover what they had paid.

It remains unclear whether all affected importers will automatically qualify for refunds or whether they will need to file separate actions to preserve their rights. The CIT's ruling on Section 122 is welcome news for importers, but significant uncertainty and unanswered questions are likely to linger for some time.

Hyun Jung "Jessie" Je is Senior Fellow and Director for External Engagement at the Korea Economic Institute (KEI). The views expressed here are the author's alone.

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Can South Korea Fill the Middle East's Missile Defense Gap?

Iran war interceptor shortages and slow U.S. Patriot production are pushing Gulf states toward South Korea's Cheongung-II — if Seoul can scale capacity.

By Troy Stangarone

May 22, 2026

South Korean troops run toward a Cheongung-II surface-to-air missile, Nov. 2024 | Source: Republic of Korea Joint Chiefs of Staff

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The Iran war has rapidly depleted the Middle East's missile defenses. With uncertainty surrounding whether the current U.S.-Iran truce will hold, governments across the region are looking to restock interceptor inventories. The strong battlefiel performance of South Korea's Cheongung-II ballistic missile defense system has made it a serious procurement option for regional buyers, creating an opening for South Korean defense exporters amid a global shortage.

That opportunity comes with a near-term constraint. The Cheongung-II consortium produces only eight batteries a year, and South Korea's broader missile defense portfolio is weighed down by still-developing systems for long-range air defense and a low-altitude Iron Dome-type system, while dedicated drone interceptors are either just entering production or still in development. The clearer advantage is medium-term.

The Cheongung-II costs about a third of the U.S. Patriot system, and South Korean producers have shown they can scale faster and more affordably than most competitors. If they can expand capacity to match demand, the South Korean government stands to become a durable presence in allied missile defense procurement.

The Middle East's Interceptor Shortfall

The wars in Ukraine and Iran have underscored the centrality of layered air and missile defense systems against a mix of ballistic missiles, cruise missiles, and drones. Modern systems were built for missile interception, but they have increasingly been used against drone attacks. Because drones are far cheaper than interceptors, Ukraine has pioneered lower-cost counter-drone solutions to preserve its limited missile stocks.

Within that layered architecture, the Terminal High Altitude Area Defense (THAAD) system intercepts missiles at higher altitudes and longer ranges, while the Patriot system covers lower-altitude threats. These systems complement one another but still leave gaps, particularly against low-flying rockets, drones, and artillery—areas where systems like Israel's Iron Dome excel. In the current conflict, the United States has redeployed THAAD and

Patriot batteries from other regions to bolster Middle Eastern defenses, supplementing the Patriots already purchased by Gulf governments.

Prior to the war, U.S. arms sale data suggested Saudi Arabia held roughly 1,800 Patriot interceptors, Qatar held 1,000, and the United Arab Emirates held 900. Since the war began, Iran has launched just under 5,800 strikes through early April. Not every strike requires interception, but the volume has strained regional interceptor inventories.

There are different variants of Patriot missiles, but the vast majority used by Middle Eastern states are the PAC-3 variant, which is similar to the Cheongung-II. Both are missile-to-missile interceptors, but they have different ranges, speeds, and peak elevations.

By late March, the United Arab Emirates and Kuwait were estimated to have expended 75 percent of their Patriot missile stockpiles, while Bahrain was estimated to have expended 87 percent. Saudi Arabia does not publish stockpile or usage data, but applying similar usage rates implies that Qatar, Saudi Arabia, and the United Arab Emirates alone have used at least 2,775 interceptors.

The United States has also expended a significant amount of Patriot and THAAD missiles, with internal Pentagon documents putting the figure at more than 1,300. Estimates from the Center for Strategic and International Studies (CSIS), however, suggest that the United States, in the current conflict, has gone through 50 percent of its THAAD missiles.

To put the expenditure of THAAD and Patriot missiles in context, during the 2025 attack on Iran, the United States utilized ninety-two THAAD interceptors (14 percent of its stockpile) and thirty Patriot missiles. Over four years of war, Ukraine has received and used roughly 600 Patriot PAC-3 variant missiles and slightly more of the PAC-2 variant. No THAAD batteries have been deployed to Ukraine.

To replenish the region's supply of interceptors, the United States has approved the sale of 5,250 interceptors to Bahrain, Kuwait, Qatar, and the United Arab Emirates.

THAAD missile reload drill at Andersen Air Force Base, Guam, 02/2019 | Source: U.S. Army photo by Capt. Adan Cazarez, 94th Army Air and Missile Defense Command

Production Bottlenecks Push Demand to Seoul

The problems for Gulf states extend beyond usage rates to production constraints. The capacity to produce new Patriot and THAAD interceptors is limited. There are multiple variants of the Patriot missile in production, but the primary one in use is the PAC-3 MSE. Lockheed Martin hopes to increase production of the PAC-3 MSE from 600 to 2,000 per year by the end of 2030. It has also agreed to increase production of THAAD interceptors from 96 to 400 per year over the next seven years. But those expansion plans are contingent on Congress approving funding to justify the production expansion.

The United States is not the only source of Patriot missile production. Mitsubishi Heavy Industries is currently licensed to produce thirty PAC-3 interceptors per year, with the capacity to increase to sixty per year, but this is insufficient on its own to meet growing demand.

The approved interceptor sales to Bahrain, Kuwait, Qatar, and the United Arab Emirates significantly exceed the CSIS estimates of U.S. interceptor stock| that the vast majority of these sales will require new production. It will take years to produce the supply needed to meet the new demand.

Higher usage rates and limited missile-interceptor production capacity in the United States and Japan are pushing Gulf states to expand their supplier base, with the Cheongung-II's battlefield success raising interest. The Cheongung-II is an upgrade of South Korea's original indigenously designed surface-to-air guided missile defense system and was first deployed in November 2020. Neither the Cheongung-II nor its original model was combat tested prior to the war in the Middle East.

Prior to the war, Iraq, Saudi Arabia, and the United Arab Emirates already had agreements in place to purchase the Cheongung-II system and are now looking to South Korea as a potential solution to ongoing shortages. In 2022, the United Arab Emirates agreed to acquire ten Cheongung-II batteries (each battery holds thirty-two interceptors). It was followed by Saudi Arabia, which agreed to purchase ten batteries, while Iraq has a contract for eight batteries. Two of the United Arab Emirates' ten batteries have been delivered to date, while Iraq and Saudi Arabia are still awaiting delivery. The three countries have all requested accelerated delivery.

Kuwait and Qatar are also reported to be interested in acquiring the Cheongung-II, with Qatar reportedly in negotiations and seeking early delivery.

Because of potential delays in the delivery of Patriot missile systems, countries beyond the Middle East may look to other sources for missile defense. Switzerland is reportedly the first country outside the Middle East to consider purchasing the Cheongung-II system.

South Korean armed forces test a Patriot interceptor, November 2024 | Source: Republic of Korea Joint Chiefs of Staff

Seoul's Capacity Constraints

Despite rising demand for missile defense, South Korea may be unable to meet international needs in the short term.

The Cheongung-II is produced by a consortium in South Korea. LIG Nex1 integrates the overall system and produces the interceptor missiles, while Hanwha Aerospace produces the vehicles and mounted launchers, and Hanwha Systems provides the advanced radar.

After the initial contracts in the Middle East were signed, the consortium increased its production capacity, but it is currently only able to produce eight batteries a year. Interceptor production rates are not publicly available, but if they align with Cheongung-II battery production, they are likely less than 300 a year, limiting South Korea's ability to quickly supply new interceptors without drawing on existing government stocks. The government may be reluctant to draw off its own stocks and risk lessening deterrence against North Korea.

Looking more broadly at missile defense, there are other short-term constraints on South Korean exports. The indigenous Long-range Surface-to-Air Missile (L-SAM) system was completed only at the end of 2024 and entered mass production last year. South Korea is fast-tracking the development of a Low Altitude Missile Defense system similar to Israel's Iron Dome and drone interceptors, but currently lacks the first capability and has limited abilities on the latter.

Whether Seoul realizes that potential depends on execution. LIG Nex1 and Hanwha affiliates must manage potential supply chain constraints and guarantee that expanding testing is available to ensure quality. If they can manage those challenges, South Korea could emerge as a major supplier of missile defense systems in the years ahead.

Troy Stangarone is a Visiting Senior Fellow at the Korea Economic Institute of America (KEI) and Non-Resident Fellow with the Carnegie Mellon Institute for Strategy and Technology. All views expressed are the author's alone.

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Energy Shock and Economic Resilience: South Korea and the Iran War

The 2026 Iran War and closure of the Strait of Hormuz have upended global trade and access to energy, prompting governments in Asia and throughout the world.

Tom Ramage

May 18, 2026

An illustration of a U.S. bank note. South Korean national flag, and oil barrels | Source: Shutterstock

The 2026 Iran war and the closure of the Strait of Hormuz have upended global trade and energy access, prompting governments in Asia and around the world to take measures to secure supply chains, ensure continued power generation, and stabilize domestic economies. The disruption to shipments, shortages of key materials, and substantial increases in crude oil and transportation fuel prices raise questions about the impact of the Middle East conflict on the Korean economy and whether it presents a true crisis. This report examines key indicators and signals on the impact of the Iran war on Korea's economy and assesses the general outlook going forward.

This report was jointly published as Issue 20 in the "U.S.-ROK Policy Brief" series by the George Washington University's Institute for Korean Studies and Seoul National University's Institute for Peace and Unification Studies.

Tom Ramage is Economic Policy Analyst at the Korea Economic Institute of America (KEI). The views expressed are the author's alone.

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How South Korea Is Weathering the Iran War Oil Shock

Should the conflict remain localized, its economic impact on Korea will likely remain limited to a speedbump in the country's economic growth trajectory, rather than a full derailment.

By Tom Ramage

May 18, 2026

A liquefied natural gas tanker, April 2026 | Image: Shutterstock

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The 2026 Iran war and the closure of the Strait of Hormuz have upended global trade and energy access, prompting governments in Asia and around the world to take measures to secure supply chains, ensure continued power generation, and stabilize domestic economies. The disruption to shipments, shortages of key materials, and substantial increases in crude oil and transportation fuel prices raise questions about the impact of the Middle East conflict on the Korean economy and whether it presents a true crisis. This report examines key indicators and signals on the impact of the Iran war on Korea's economy and assesses the general outlook going forward.

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Read the summary below, or the full report by clicking here.

Main Takeaways

Growth forecasts not immediately derailed

In the aftermath of the U.S.-Israeli strikes against Iran, the International Monetary Fund maintained Korea's growth forecast at 1.9 percent, while the OECD marginally reduced it to 1.7 percent from 2.1 percent in its original December outlook. Annual growth figures do not appear to be in crisis mode and are likely maintained in part by Korea's sizeable export figures. The Korean government's USD 17.7 billion supplementary budget similarly intends to increase growth by 0.2 percent.

Economic indicators show sectoral vulnerability, but not flashing red

Year-over-year (YoY) core inflation—inflation that does not include energy and food costs—was at 2.3 percent in March, down from 2.5 percent in February (the month leading up to the strikes). Headline consumer price index (CPI) inflation stood at 2.2 percent in March, up from 2.0 percent the month before. The effects of inflation remained concentrated in the fuel and transportation sector, at 5.0 percent in March, up from 1.1 percent the month before. Meanwhile, on April 20, prices for regular gasoline in Korea were up 18.3

percent from February 28. The Korean government has instituted fuel price maximums and placed limits on the export of petroleum products, while the Korean Navy's Cheonghae Unit is assisting Korean vessels transiting through alternative routes in the Red Sea.

The won is volatile, but capital markets show signs of promise

On March 3, the USD/KRW exchange rate surpassed 1,500 for the first time since March 2009 (the throes of the global financial crisis). This continued a persistent trend in the exchange rate negatively impacting Korea, affecting everything from public consternation over the USD 350 billion U.S.-Korea investment fund to the purchasing power of Koreans abroad. At the same time, however, Korea's stock market still shows promise for breaking records through the end of the year, after hitting an initial record just two days before the strikes.

Although the KOSPI fell 19.2 percent to its post-strike bottom of 5,093.54 on March 4 from its 6,307.27 high on February 26, it quickly rebounded to the 6,000-point mark in April and is projected to hit 8,000 points by the end of the year. The exchange rate issue is likely to be positively impacted by new central bank leaders in both the United States and Korea settling into their terms, possibly setting new policies toward interest rates and making progress toward eliminating the U.S.-Korea interest rate gap. The KOSPI's success, on the other hand, demonstrates the strength of the Korean economy amid the crisis, driven by strong confidence in its semiconductor sector and other advanced industries.

The path ahead

Should the conflict remain localized, its economic impact on Korea will likely be limited to a speed bump in the country's economic growth trajectory, rather than a full derailment. Still, it will take additional months of economic data for the effects of price increases and supply chain issues to be made fully apparent. In the interim, rather than the health of the Korean economy being the main consideration in assessing the war's effects, Korea's energy sources—both how they are generated and where they are sourced—may be the more significant factors to examine in judging what direction the country goes from here.

Tom Ramage is a Fellow & Economic Policy Analyst at the Korea Economic Institute of America (KEI). The views expressed here are the author's alone.

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Tactical and Operational Lessons North Korea Is Learning From the Iran War

The Iran war highlights to North Korea the importance of buried infrastructure, dispersed missile forces, and indigenous drone development.

By Benjamin R. Young

May 19, 2026

Iranian missiles, September 2019 | Image: Shutterstock

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The Iran war may push North Korea to lower its nuclear threshold rather than raise it, and that is the lesson U.S. and South

Korean war planners should fear most. Watching a U.S.-Israeli air campaign batter a near-nuclear partner state offers North Korea validation for buried infrastructure, dispersed missile forces, and indigenous drone development.

Iran's ability to strike back against U.S. and Israeli air power carries real strategic validation for North Korean leader Kim Jong Un. Iran's extensive network of mobile missile launchers and underground munitions depots proved sufficiently dispersed to deny U.S. and Israeli strike aircraft a clean sweep of high-value targets. In this light, North Korea's own investments in buried military infrastructure look increasingly sound. The hardening and expansion of those underground facilities will almost certainly move up Kim's list of priorities. This could mean deeper excavation and more concealed entry points for these underground facilities, many of which are buried deep in North Korea's mountainous terrain.

Another area demanding close attention is Iran's effective use of low-cost attack drones. The Shahed drone series is the latest proof that cheap, mass-produced loitering munitions can overwhelm sophisticated air defenses. While North Korea's drone program remains less mature than Iran's, Kim has made indigenous drone development a stated priority.

Operationally, Iran's "mosaic defense" doctrine, which decentralizes command authority to regional commanders in wartime, proved remarkably resilient under pressure. Even as U.S. and Israeli strikes claimed the lives of key political and military figures, the Islamic Republic did not crumble. The regime's institutional architecture is robust and designed precisely to absorb such blows and fight on. In North Korea's highly personalist dictatorship, it remains to be seen whether Kim would ever relinquish total control of his military. North Korea's wartime command and control strategy is highly secretive and likely known to only the most senior commanders in the Korean People's Army (KPA).

Iran's parallel institutions, spanning the clerical establishment, the Islamic Revolutionary Guard Corps (IRGC), the regular armed forces, and the security services, stand in sharp contrast to North

Korea's hyper-centralized party-state system, in which power flows from a single point of authority: Kim Jong Un. Even after the assassination of Ayatollah Ali Khamenei, the Iranian regime continued combat operations in a decentralized fashion. The IRGC, with its pervasive control of Iran's main economic and defense sectors, now stands as the central player in Iranian policymaking and upholds the integrity of the entire system.

Kim Jong Un and army commanding officers, May 2026 | Image: KCNA

North Korea offers no comparable institutional architecture. In typical communist fashion, political and military power descends exclusively from the Korean Workers' Party (KWP), and within the KWP, from Kim himself. The KPA does not operate independently of the KWP; it is an instrument of it. There are no parallel power centers, no institutionally autonomous economic actors, and no political establishment capable of filling a leadership vacuum if Kim were killed. It is doubtful that Kim's teenage daughter has the experience or support networks to preserve her father's regime. Where Iran's system is designed to survive decapitation of its supreme leader, North Korea's is designed around the assumption that decapitation will never occur. This makes the situation on the Korean Peninsula a powder keg, which is why Kim codified preemptive nuclear strikes if the regime feels threatened.

The Iranian experience carries uncomfortable implications for U.S. and South Korean war planners. At its core, the conflict has demonstrated that even a sustained, technologically superior air campaign cannot guarantee rapid regime collapse. If Iran, a larger, more geographically exposed state, could absorb relentless punishment and continue fighting, North Korea, with its deeper tunnels, denser mountain terrain, and robust nuclear arsenal, presents an even more daunting operational challenge.

The nuclear dimension is where the Iranian lesson resonates most. Iran was a near-nuclear state. North Korea is an established nuclear power with sophisticated missile delivery systems. U.S. and South Korean planners must now contend with the very real possibility that a sustained conventional air campaign could rapidly cross Pyongyang's nuclear threshold. Kim will likely conclude from the ongoing war that Iran's ultimate vulnerability stemmed from its failure to develop nuclear weapons. The Iran conflict may even cause Kim to lower his nuclear threshold rather than raise it, further complicating U.S-South Korea deterrence planning.

For South Korea specifically, the Iranian war experience offers little comfort. Seoul remains geographically exposed to devastating conventional fire from artillery and rocket systems arrayed just north of the demilitarized zone (DMZ). If Kim accelerates his indigenous drone program with Iranian lessons in mind and Russian technology in hand, South Korea's layered air defenses will face an increasingly sophisticated saturation threat.

As seen in Iran's resolve, the most uncomfortable implication for U.S-South

Korea war planners is the reality that a conflict with North Korea would not be short. The alliance must therefore ensure that its munitions stockpiles can sustain a prolonged military campaign. The wars in Ukraine and the Middle East have already placed significant strains on U.S stockpiles. A Korean contingency would test them even more.

This reality places the U.S-South Korea alliance in a profound strategic dilemma. Deterrence demands a credible and overwhelming offensive capability. Kim must believe that any act of aggression will be met with devastating force from allied forces. Yet the Iranian experience demonstrates that devastating force may not be decisive, which risks emboldening rather than deterring a hereditary dictatorship that has spent decades studying how smaller powers survive confrontations with stronger ones.

This tension pulls alliance strategy in two directions simultaneously: toward greater investment in bunker-busting munitions and advanced air defense on one hand, and toward renewed emphasis on diplomatic off-ramps and escalation management on the other.

After concluding a summit meeting with Xi Jinping in Beijing, Donald Trump should prioritize another visit to the Indo-Pacific and meet once again with Kim. Given Trump's penchant for spectacle and theatrics, a reunion of the two leaders could reduce tensions on the peninsula and reignite diplomatic talks. Nonetheless, it remains to be seen whether Kim sees any personal benefit in meeting with the mercurial U.S leader.

Benjamin R. Young is Non-resident Fellow at the Korea Economic Institute of America (KEI) and Assistant Professor of Intelligence Studies at Fayetteville State University. The views expressed here are the author's alone.

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Hard Choices for Seoul After Strait of Hormuz Attack

An attack on the HMM Namu is squeezing Seoul between U.S. alliance pressure, oil dependence, and exposure to China.

By Sia Choi

May 14, 2026

U.S. Marines aboard USS New Orleans (LPD 18) stand watch in the Arabian Sea during naval blockade operations against Iran, April 2026 | Source: U.S. Central Command

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A fire and explosion on a South Korean-operated tanker in the Strait of Hormuz on May 4 underscored the extent to which the

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ongoing war in Iran has exposed the fragility of South Korea's energy security, U.S.-South Korea alliance management, and Indo-Pacific priorities. Roughly 20 percent of global petroleum moves through the Strait of Hormuz, along with 70 percent of South Korea's crude oil. Within hours of the explosion, President Donald Trump pressed the country to join a U.S.-led maritime security mission in the Strait of Hormuz, forcing the Lee Jae Myung administration to make a choice it has thus far avoided making.

The two-dozen crew members escaped the Panama-flagged HMM Namu unharmed. While the Iranian Embassy in South Korea denied responsibility or involvement, a South Korean government investigation confirmed unidentified airborne objects as the source of the attack, causing a fire in the vessel's engine room. The South Korean presidential office stated that the ship was complying with all maritime rules and that any attack on commercial cargo ships cannot be justified.

Meanwhile, the apparent Namu attack underscores South Korea's longstanding balancing act between its security alliance with the United States, dependence on

Middle Eastern energy imports, and strong economic ties with China. Trump has called on allies to enhance maritime security, cooperate on sanctions against Iran, and participate in supply chain restructuring. Such enhanced cooperation, however, could be sensitive for the alliance, as it could expose South Korea to military risks, economic burdens, and worsening relations with countries such as China and Iran.

A ship sits idle near the Strait of Hormuz, Feb. 2026 | Image: Shutterstock

South Korea should strengthen maritime security cooperation with the United States and partners while adopting flexible alliance strategies, such as minimizing, leveraging, or balancing responses to U.S. security requests with efforts to diversify energy, logistics, and diplomatic ties across the Indo-Pacific and the Middle East. The

South Korean government has worked with the private sector to reduce its energy dependence on the Middle East, partnering with Australia and North African countries, including Algeria and Libya, to secure a stable crude oil supply.

The Namu incident could also influence domestic debates over South Korea's future role in regional and global maritime security crises. Seoul is unlikely to engage in direct military operations in the Middle East due to high diplomatic, legal, and security constraints. However, it may face growing pressure from the Trump administration to contribute more to safeguarding key sea lines of communication and assume higher costs stemming from the relocation of U.S. military assets off the peninsula.

Added to the ongoing conflict in the Middle East, the Namu incident is likely to heighten existing strategic concerns in South Korea. Given the importance of the Strait of Hormuz to global energy flows and South Korea's heavy reliance on Middle Eastern oil imports, the incident may further expose the country to regional instability and disruptions in maritime trade. The strait is a vital chokepoint for worldwide energy trade, accounting for 20 percent of global petroleum flows. Over 60 percent of South Korea's crude oil and 50 percent of its naphtha, a key petrochemical feedstock, were transported through the strait in 2025. Further, the semiconductor and display industries rely on Qatar for 64 percent of helium imports, amplifying concerns about supply chain shortages.

Looming at present is a cost-push inflation cycle in which rising oil and liquefied natural gas prices weaken the already pressured won and increase production, transportation, and energy costs. The longer the instability in the strait persists, the higher shipping insurance premiums and freight costs will rise, further imperiling South Korea's foreign exchange rate. In this sense, the Iran war could trigger a macroeconomic shock in South Korea, slowing growth and destabilizing the overall economy.

In the short term, South Korea now appears more likely to lean into non-combat roles such as maritime surveillance, intelligence sharing, logistical support, participation in multinational naval coordination, and protection of commercial shipping routes, while also strengthening cooperation on energy security, strategic reserves, and supply chain resilience as part of a broader economic security strategy.

Seoul should pursue a calibrated approach, balancing alliance commitments with domestic political constraints and the need to avoid escalation in the Middle East. Yet the longer instability persists in the Middle East, the harder it will be for Seoul to sustain the balance between alliance obligations, energy dependence, and economic exposure to China that has long defined its regional posture.

Sia Choi is Communications Intern at KEI. The views expressed are the author's alone.

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