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After a Decade, the North Korea Travel Ban Needs a Second Look

It is unclear whether the current U.S. ban on Americans traveling to North Korea has improved North Korea's attitude toward the United States or the conditions under which the North Korean people suffer.

By Robert King

August 3, 2026

North Korea's national airline Air Koryo in Pyongyang, July 2014 | Source: Shutterstock

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For the tenth consecutive year, the U.S. Department of State has renewed its ban on Americans traveling to North Korea, extending the prohibition through August 31, 2027. The renewal arrived with the familiar warnings about arrest and detention and no public assessment of what a decade of prohibition has accomplished or whether it has done anything to change North Korea. What the ban has done is keep out not only tourists but also American humanitarian workers who bring urgently needed aid to ordinary North Koreans. Ten years in, that tradeoff deserves a closer look.

"Do not travel to North Korea due to the

the Democratic People's Republic of Korea for any reason," the State Department warns. "U.S. passports cannot be used to travel to, in, or through the Democratic People's Republic of Korea (DPRK or North Korea) unless they are specially validated for such travel by the Secretary of State. Special validations are granted only in very limited circumstances."

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The extension of the travel ban comes without any effort to identify whether it has been helpful. Over the last decade, the travel ban has been extended with no indication of improving North Korea's attitude toward the United States or the conditions under which the North Korean people suffer. The prohibition has kept American tourists from taking "unforgettable" and expensive tours to North Korea, but it has also prevented U.S. citizens from providing much-needed humanitarian assistance.

U.S. citizens can get a special validation passport from the State Department, which can be used to travel legally to or through North Korea, but such passports are not easily or quickly granted. "We may grant you an exception to travel [to North Korea] if you qualify," and "we only issue special validations [for travel to North Korea] on a limited basis," according to the department. Travel without permission can result in a person's passport being revoked, and individuals who violate the travel ban can be charged with "felony misuse of a passport."

The Death of Otto Warmbier

The United States banned travel to North Korea beginning September 1, 2017, by then Secretary of State Rex Tillerson. All secretaries of state since that time, both Republican and Democrat, have renewed the prohibition every year and have permitted few exceptions.

The prohibition began after North Korea returned University of Virginia college student Otto Warmbier to the United States after seventeen months of captivity, most of which he spent in a comatose state. Warmbier traveled to North Korea with other university students for a Christmas break trip in January 2016, but was arrested at the Pyongyang airport as he and the group tried to depart. North Korean authorities accused him of attempting to steal a propaganda poster off the wall of the hotel where he stayed in Pyongyang. Two months later, Warmbier was filmed inside a North Korean court confessing to the crime and begging for clemency.

Warmbier was sentenced to fifteen years' imprisonment at hard labor. A day or two after the trial and sentencing, he sank into a coma after apparently suffering a severe neurological injury under circumstances that have never been fully explained by the

North Korean regime, which refused to notify anyone outside the country of Warmbier's condition. Finally, after seventeen months, North Korea revealed Warmbier's condition, claiming it was the result of some sort of toxic mix of botulism and sleeping pills.

Medical professionals in the United States came to a different conclusion. After the North Koreans finally permitted a small team to enter the country and retrieve Warmbier, tests at a medical center in Cincinnati, Ohio, showed that he suffered cardiopulmonary arrest, which cut off blood flow and oxygen to his brain. Warmbier was in a state of "unresponsive wakefulness" (vegetative state) with extensive loss of brain tissue and muscular atrophy. He died just a week after he was returned to his family from North Korea. Less than two months later, the United States banned all travel to North Korea.

A rough estimate suggests that a thousand U.S. citizens visited North Korea the year before the travel ban was implemented in 2017. Few North Koreans came to the United States before or since the U.S.-imposed travel ban.

The prohibition cannot stop North Korean diplomats and government officials dealing with official matters at the UN headquarters in New York City because of international agreements which the United States has entered into. The number of North Korean diplomats accredited to the United Nations in New York is very small and carefully monitored. When this author was the U.S. special envoy for North Korean human rights issues, for example, he met with a North Korean deputy chief of mission at a coffee shop on Forty-Second Street and noticed a casually dressed FBI agent reading his newspaper two tables away.

When President Donald Trump and North Korean leader Kim Jong Un met in Singapore in June 2018, and nine months later in Hanoi in February 2019, Trump said he raised the Otto Warmbier case with Kim. The North Korean leader, according to Trump, "didn't know about it."

Fit for Purpose?

This year will mark a decade since the travel ban has been in effect. There has been little or no indication that the travel ban has caused North Korea to change or moderate its treatment of outside visitors. A

few U.S. citizens have been granted an exemption passport and have traveled with that document to North Korea for humanitarian purposes. Still, the number is very small and significantly smaller than before the ban was imposed in 2017.

The time has come for the U.S. government to rethink the ban on all U.S. citizens seeking to travel to North Korea. There is still good reason for concern that some naive tourists may fail to recognize the potential problems, dangers, and differences in Pyongyang that can involve serious risks of punishment for visiting U.S. citizens. Maintaining prohibitions on tourist travel still makes sense.

On the other hand, humanitarian assistance groups that provide urgently needed aid to the North Korean people do understand how to work with North Korean officials in providing help. They are much more sensitive and experienced in dealing with government officials in North Korea than the average American tourist visiting North Korea. There is much they can offer in terms of knowledge and experience if it is made easier for them to go to North Korea.

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Individuals with organizations that provide such humanitarian aid should be able to get the necessary U.S. travel documents without long delays and steep costs. It is in the interest of the United States to have American citizens providing humanitarian assistance to North Koreans, without consuming much of their all-too-limited financial resources to pay for expensive travel documents from the United States. The State Department should provide the documents without cost to humanitarian workers. Currently, the legal costs paid to the government are a burden to U.S. humanitarian groups that provide charitable help for North Koreans. The current language describing how to get the special permission required for a U.S. citizen to travel to North Korea for humanitarian reasons says, “We may grant you an exception to travel if you qualify.” The use of “may” is the wrong word. It should read that the United States “will” grant exceptions to all who qualify.

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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What the San Francisco AI Summit Means for U.S.-Korea Tech Cooperation

South Korean President Lee Jae Myung's AI summit will determine the direction of technology investment and private-sector partnership between the United States and Korea.

By Tom Ramage

July 23, 2026

The AI summit that South Korean President Lee Jae Myung convenes in San Francisco

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tomorrow is organized around two major growth drivers of the global AI revolution: high-bandwidth memory (HBM) and a national commitment to build data centers at scale. The discussions are expected to focus on both, alongside broader questions on AI rules and regulations. The outcome will shape the direction of technology investment and private-sector partnership between the United States and Korea.

U.S. and Korean industry leaders, including NVIDIA's Jensen Huang, OpenAI's Sam Altman, Broadcom's Hock Tan, Anthropic's Dario Amodei, Samsung Electronics' Lee Jae-yong, SK Group's Chey Tae-won, Hyundai Motor Group's Chung Eui-sun, and Naver Corporation's Lee Hae-jin, will also attend Friday's summit. The concentration of the largest voices in AI for the Korean president's visit reflects the growing importance of Korea in the global AI ecosystem and will likely inject new momentum in the U.S.-Korea AI partnership.

The main thrust of the conversations will likely be Korea's support for AI infrastructure in the United States and its provision of cutting-edge HBM chips used in graphics processing units (GPUs) that

supply AI data centers for large language models (LLMs). Samsung and SK Hynix collectively account for some 80 percent of the global market share for HBM chips, serving as the basis for a growing retinue of partnerships with U.S. firms to maintain and develop supply chains for compute power in AI. Korean HBM chip exports are particularly salient as they likely helped shield the country's economy from some of the hardest impacts of the war in Iran.

The U.S. CEOs meeting with President Lee in San Francisco may use the summit as an opportunity to gain greater access to advanced Korean memory chips and strengthen investment ties between the two countries.

Likewise, Korea's growing investments in its own domestic data centers require substantial deployment of U.S. GPUs, necessitating new and major private-sector partnerships. In June 2026, President Lee announced a "megaprojects" blueprint for semiconductors, physical AI, and AI data centers, including a KRW 550 trillion investment in data centers by 2029. Earlier this year, Shinsegae, a large Korean conglomerate, announced a 250 MW data center with U.S.-based Reflection AI—the

largest data center built by a Korean company and the first partnership agreement under the U.S. Department of Commerce's American AI Exports Program. And notably, on the sidelines of the 2025 Asia-Pacific Economic Cooperation (APEC) summit in Korea, NVIDIA pledged to deploy a quarter million GPUs across Korea to support cloud infrastructure. A major feature of Friday's discussions may center on U.S. tech companies' involvement and support in such projects, particularly in the form of strategic investment cooperation. Korea's robust startup culture around AI shops may also provide a substantial area for partnerships and investment cooperation between domestic Korean startup ventures and Silicon Valley's tech ecosystem.

An additional area ripe for cooperation could center on Korea's role in shaping AI governance and its place in the global AI ecosystem. At the AI Seoul Summit in May 2024, the United States announced the International Network of AI Safety Institutes, with Korea as one of the inaugural members, and San Francisco served as the first meeting location later that year. This year's Group of Seven (G7)

summit in France, attended by Lee, also discussed the participating countries' collective efforts toward AI safety, leading to a declaration by G7 members to work with AI companies for the "safe and beneficial deployment" of AI. Likewise, Anthropic's recent office expansion in Korea materialized alongside a memorandum of understanding (MOU) with Korea's Ministry of Science and ICT to advance AI safety, marking greater integration between Silicon Valley's private sector and the Korean government to work together on building resiliency against digital threats.

The potential for adversarial entities and rogue actors to misuse advanced AI models for nuclear proliferation, malicious cyber operations, and large-scale disinformation campaigns hastens the pace at which tech leaders in both the United States and Korea should establish agreements on the use of AI globally, including which guardrails should be in place and how digital governance is coordinated. President Lee's apparently forthcoming "San Francisco AI Declaration" will outline the administration's priorities here, such as determining the tools to

safely and equitably share AI technologies with partner countries.

Overall, the outcome of Lee's visit to San Francisco will help set the future direction of technology investments and private-sector partnerships between the two countries. Korea first iterated plans to become a "top three AI global power" in 2024, and the Lee administration instituted a National AI Strategy Committee to help facilitate that goal in 2025, calling it a "survival strategy" for Korea's future.

With the AI summit facilitating the government's vision to become an "AI powerhouse," its outcome could decide how Korea's AI strategy and the U.S.-Korea AI relationship unfold in the coming years.

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

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South Korean Firms Are Powering U.S. Energy Storage

Storing electricity is just as critical as the ability to generate it, making battery energy storage systems (BESS) an essential component of power systems.

By Soobeen Park and Hyun Jung "Jessie" Je

July 29, 2026

A technician performing maintenance work on an industrial battery energy storage unit, February 2025 | Source: Shutterstock

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The rapid expansion of AI data centers and advanced manufacturing is driving up

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electricity consumption in the United States. Early this year, the U.S. Energy Information Administration (EIA) projected electricity demand growth of 1 percent in 2026 and 3 percent in 2027. This would be the strongest four-year period of electricity demand growth in the United States since 2000. It also projects that, for the first time this year, electricity consumption in the commercial and transportation sectors, which include data centers, will surpass residential consumption.

This demand for electricity makes grid reliability and peak demand management increasingly important. Power systems must continuously balance electricity supply and demand in real time, particularly during periods of high electricity consumption. Simply increasing electricity generation is not sufficient to meet this challenge, as electricity produced during periods of low demand must be available when demand peaks.

Therefore, the ability to store electricity is just as critical as the ability to generate it, making battery energy storage systems (BESS) an essential component of power systems. BESS can stabilize the grid and reduce strain during periods of peak

demand by storing electricity when supply is abundant and discharging when demand rises. As demand from AI infrastructure and advanced manufacturing continues to grow, expanding energy storage capacity will become more significant for maintaining grid reliability and supporting economic growth.

Figure 1. U.S. Electricity Consumption

(Unit: Billion kWh)

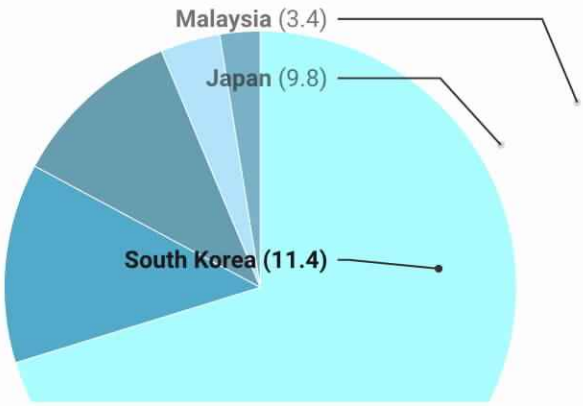
Battery Storage Manufacturing Supply Chain

Unlike batteries used in electric vehicles (EVs), most battery energy storage systems use lithium iron phosphate (LFP) graphite batteries—a market sector currently dominated by Chinese firms, as illustrated in Figure 2. In 2025, China accounted for 63.5 percent of U.S. imports of non-EV

lithium-ion batteries, compared with 11.4 percent from Korea and 9.7 percent from Japan. According to the International Energy Agency (IEA), China accounts for approximately 80 percent of global lithium-ion battery manufacturing capacity and about 97 percent of global anode material production capacity.

Figure 2. Share of U.S. Imports of Non-EV Lithium-Ion Battery by Country in 2025

(Unit: %)



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Note: Import data of Non-EV Lithium-Ion Battery is based on HS

Expanding Investment, Reducing Dependence

Against this backdrop, the United States has introduced a range of policy measures and industrial initiatives aimed at strengthening BESS supply chains across

the entire value chain—from critical mineral processing and battery component manufacturing to system assembly and deployment. These efforts seek to reduce dependence on imported battery technologies and materials while enhancing national energy security and supply chain resilience.

Until recently, the Inflation Reduction Act (IRA) was the primary driver of this strategy by providing significant financial incentives for domestic battery manufacturing and energy storage deployment. Section 48E offers investment tax credits for qualifying standalone BESS projects, reducing upfront capital costs and improving project economics. Section 45X provides production tax credits for domestically manufactured battery components and processed critical minerals, incentivizing firms to expand U.S.-based manufacturing capacity. Together, these provisions stimulated substantial investment in domestic battery production and energy storage infrastructure. Although the 2025 "One Big Beautiful Bill Act" removes many of the IRA's tax provisions, the original 2030 phase-out for the 48E and 45X tax credits survived.

In parallel, Washington's implementation of the Prohibited Foreign Entity (PFE) rules has further reshaped sourcing and manufacturing strategies for companies serving the U.S. market. Designed to reduce reliance on battery materials, components, and processing linked to entities of concern, the PFE requirements directly affect eligibility for IRA tax incentives. As a result, companies seeking to benefit from these incentives are increasingly expected not only to manufacture within the United States but also to diversify their supply chains away from China and other prohibited foreign entities. Consequently, compliance with domestic content and supply-chain security requirements has become an increasingly important consideration in investment and procurement decisions across the U.S. BESS industry.

These policy and industrial initiatives have accelerated the development of a domestic BESS manufacturing ecosystem in the United States. According to the American Clean Power Association, domestic battery module manufacturing capacity meets current U.S. demand, while domestic battery cell manufacturing capacity is

projected to reach demand levels by the end of 2026.

Despite this progress, significant supply chain challenges remain. Many companies that are expanding battery manufacturing in the United States continue to depend on established global supply chains for battery materials and intermediate products. In particular, according to the IEA, a substantial share of global refining and processing capacity for critical battery materials remains concentrated in China. Reducing this dependence will require developing alternative sources of raw materials, intermediate products, and processing capacity.

However, qualifying new suppliers, securing reliable sources of critical minerals, and constructing new refining and processing facilities are time-intensive processes that require significant capital investment and regulatory approvals. These challenges are especially pronounced in upstream segments of the BESS supply chain, such as graphite processing and other critical mineral refining, where domestic capacity remains limited and is likely to require a longer timeframe to establish.

Korean Companies and BESS Manufacturing

As the United States advances the development of a domestic BESS supply chain, Korean companies have adapted to the evolving policy and market environment and have emerged as important contributors to this transition.

LG Energy Solution has indicated that the IRA's tax incentives have created additional opportunities for suppliers with U.S.-based production capacity, while the implementation of PFE rules has strengthened the competitive position of battery manufacturers with established production and sourcing networks outside China. Other Korean battery manufacturers, including SK On and Samsung SDI, have likewise expanded investments in U.S. energy storage systems, battery manufacturing, and battery materials production.

Figure 3 illustrates the broad participation of Korean firms across the U.S. battery and BESS supply chains. Several companies have announced plans to repurpose existing EV battery manufacturing facilities for BESS production. Converting existing

manufacturing assets enables companies to expand domestic BESS manufacturing capacity more rapidly and cost-effectively than constructing new facilities. In addition, LG Chem is investing in cathode manufacturing in Clarksville, Tennessee, demonstrating that Korean investment extends beyond battery cell production into midstream battery materials.

Nevertheless, important constraints remain. Although Korean firms are expanding manufacturing capacity in the United States, many of their operations continue to rely on upstream supply chains for critical minerals and battery materials that are heavily concentrated in China. As a result, achieving a fully localized and resilient U.S. BESS supply chain will require continued diversification of upstream material sourcing and further investment in domestic refining and processing capacity, particularly as eligibility for the Section 48E investment tax credits is increasingly conditioned on compliance with the Foreign Entity of Concern restrictions governing ownership structures and the sourcing of certain components and materials.

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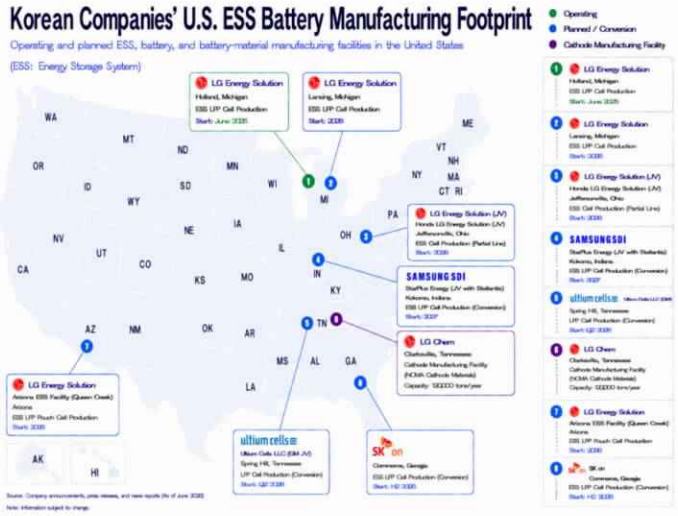
Figure 3. Korean Battery Companies' U.S. Manufacturing Footprint



Not Just Where, But How

Domestic BESS manufacturing is now moving in a positive direction to strengthen its supply-chain resiliency and security. However, diversifying supply chains and reducing reliance on imports across the entire value chain, from upstream materials to downstream manufacturing facilities, will require time and careful planning. U.S. industrial policies and incentives should consider business realities, including market conditions, investment risks, and operational challenges associated with onshoring production. To develop effective and sustainable policies, Congress and the Donald Trump administration should

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continue to engage with industry stakeholders and incorporate their perspectives into the policymaking process.

Soobeen Park was Research Intern at KEI (2025-2026). Hyun Jung "Jessie" Je is Senior Fellow and Director for External Engagement at the Korea Economic Institute (KEI). The views expressed are the authors' alone.

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Explaining South Korea's Stock Market Boom

The sharp rise in the South Korean stock market is driven by rising global demand for AI semiconductor chips, domestic corporate reform, and the rapid growth of leveraged ETFs.

By Randall Jones

July 22, 2026

South Korea's KOSPI index surpassed the 5,000 level for the first time on January 22, 2026 | Source: Shutterstock

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The KOSPI, South Korea's benchmark stock market index, nearly doubled during the

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first half of 2026, the largest increase in the world (Figure 1, Panel A). The surge in global demand for AI semiconductor chips has been the main driver of rising equity prices. Samsung Electronics and SK Hynix, the two leading Korean chipmakers, now account for more than half of Korea's market capitalization. Reforms to corporate governance and the rapid growth of leveraged exchange-traded funds (ETFs) also help explain the sharp rise in the stock market. The semiconductor-led exports boom prompted the government to raise its GDP growth forecast to 3.0 percent in 2026, up from 2.0 percent in January.

However, the KOSPI Volatility Index exceeded its 2008 global financial crisis peak and the Korea Exchange triggered market-wide circuit breakers seven times, more than in the entire history of the mechanism before 2026. The market's concentration in two companies and one sector, combined with the growing role of ETFs, has contributed to the increased volatility. The index has since declined roughly 27 percent from its June 19 high. Korea's outsized dependence on the semiconductor industry as a driver of

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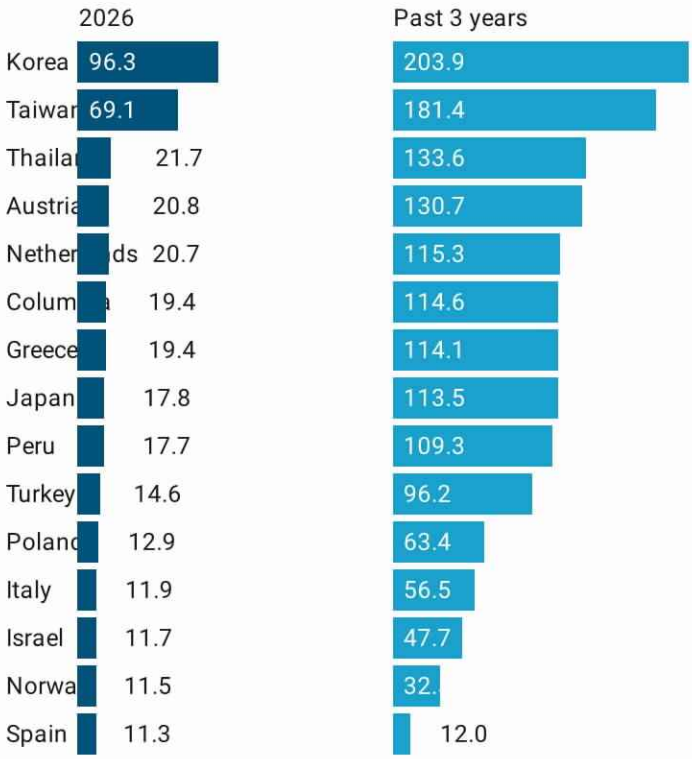
economic growth poses risks by exposing it to external shocks and cyclical volatility.

Figure 1. Best Performing Stock Markets in 2026



Panel A shows the increase in 2026 as of July 6, 2026

The "Korea Discount"

President Lee Jae Myung made boosting the stock market a core economic objective, aiming to shift the Korea discount to a Korea premium. Despite being an advanced economy with globally competitive industries, Korean equities have persistently traded at a significant discount relative to global peers. In addition, Korea's stock market capitalization averaged 93 percent of GDP between 2014

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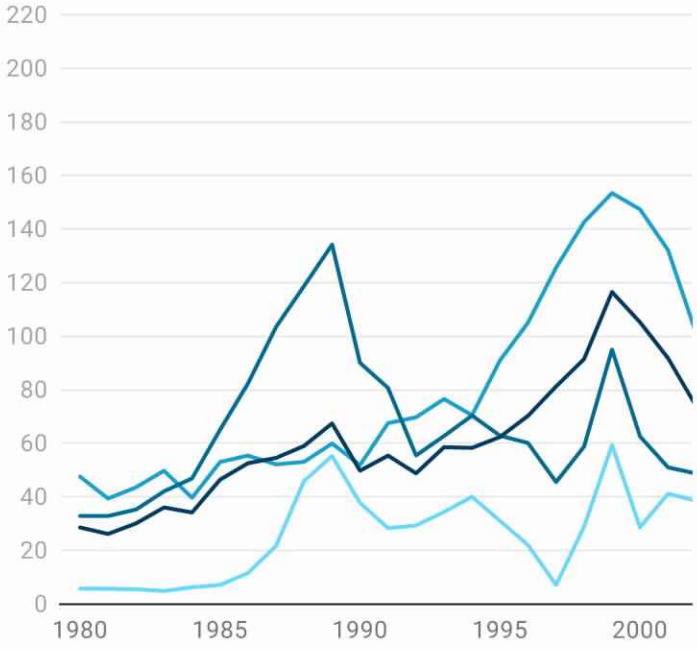
and 2024, well below the OECD average (Figure 2), reflecting its bank-centered financial system. The average price-to-book ratio of firms in the KOSPI index over this period averaged 0.99, compared to 1.8 in Japan and 3.7 in the United States, indicating that a significant share of Korean-listed companies traded below book value. In other words, the market values them less than their net assets.

The Korea discount has been attributed in part to weak corporate governance. The complex ownership structures of large family-controlled business groups have favored the founding families at the expense of minority shareholders. In 2023, the Asian Corporate Governance Association (ACGA) ranked Korea's corporate governance eighth among twelve Asia-Pacific economies, coming in ahead of China and some ASEAN countries but behind India and Malaysia. The report noted that Korea faced significant weaknesses in the disclosure of basic governance practices such as board evaluations, director remuneration, and director training. Moreover, it lacked a clear roadmap to improve corporate governance.

Several other factors have contributed to the Korea discount. Many conglomerates have kept dividend payout ratios low, prioritizing growth and cross-subsidizing weak affiliates over maximizing shareholder returns. The concentration of Korean companies in cyclical, capital-intensive industries appears to heighten volatility and vulnerability to global supply-chain shifts. Geopolitical risk related to North Korea may have also contributed to the Korea discount.

Figure 2. Market Capitalization of the Korean Stock Market



Factors Driving Korea's Equity Prices

The semiconductor boom has been the most important factor. Record-breaking

demand for memory chips to build AI infrastructure has led to sharp upward revisions in the earnings of Korea's two leading semiconductor producers. Projections of earnings per share for listed companies, excluding Samsung Electronics and SK Hynix, were revised upward by 48 percent in May 2026 (Figure 3). In contrast, the projection for the total market, including the two semiconductor producers, was 261 percent. Consequently, SK Hynix's share price has risen 10.1 times since June 2025, while the share price of the larger and more diversified Samsung Electronics has risen 5.6 times. Both companies recently joined the list of fourteen companies worldwide that are valued at more than USD 1 trillion. Samsung Electronics' operating profit in the second quarter of 2026 was more than nineteen times higher than a year earlier. SK Hynix and Samsung Electronics now account for 55.5 percent of KOSPI's market capitalization, compared to 22 percent at the end of 2023 (Figure 4). On July 10, SK Hynix raised USD 26.5 billion in the biggest U.S. initial public offering ever by a foreign company.

In addition, Korea has pursued corporate governance reform as a top priority. The

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Financial Services Commission launched the Corporate Value-Up Program in February 2024 to encourage listed companies to improve capital efficiency, upgrade governance, and increase shareholder returns to help overcome the Korea discount. The program included the Korea Value-Up Index (KVI), which comprises firms that meet a range of governance criteria. Since its launch in October 2024, the shareholder return in the one hundred companies included in the KVI has outperformed the KOSPI 200 (the two hundred largest and most liquid publicly traded companies) by 17 percent.

Figure 3. Semiconductors Lead the Upward Revision of Projections for Earnings Per Share

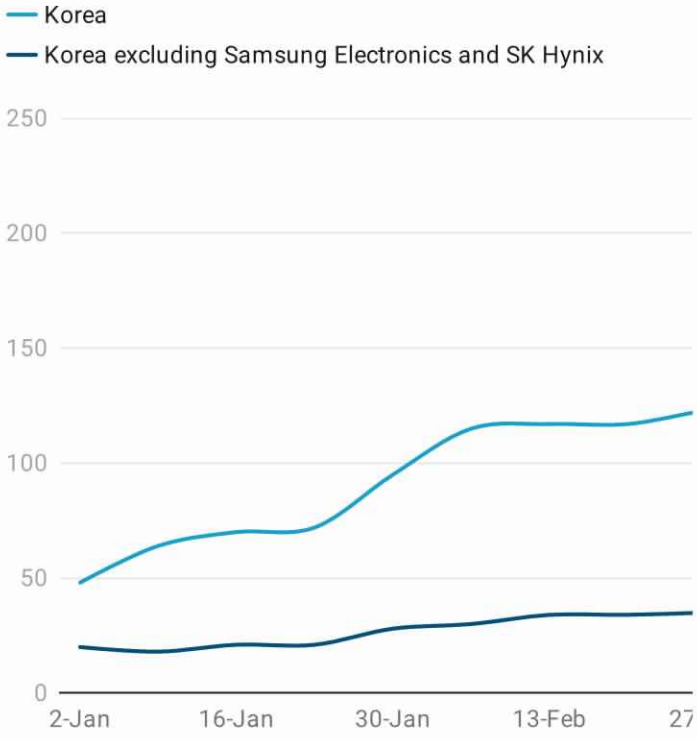

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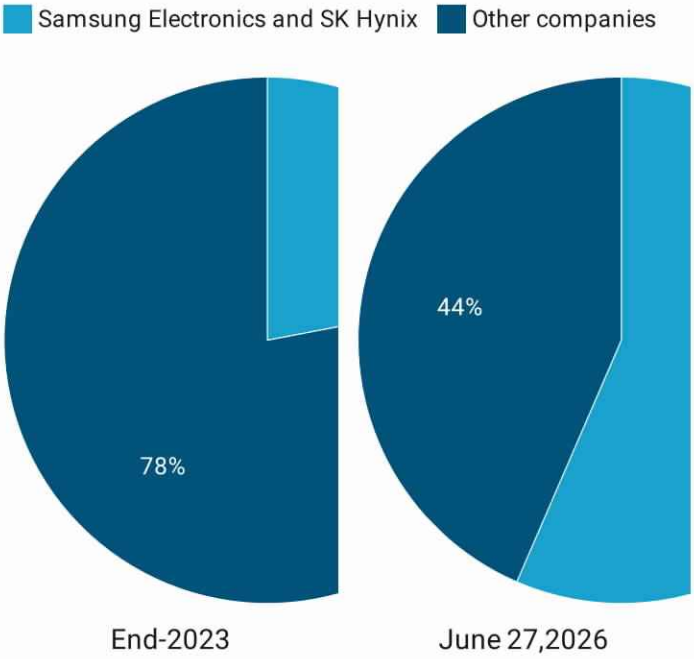
Figure 4. Samsung Electronics, SK Hynix Account for More Than Half of KOSPI Market Capitalization



President Lee took office in June 2025, promising to promote the development of the stock market through corporate governance reforms. In July 2025, the Commercial Act was revised to include shareholders in the scope of directors' duty of loyalty. Outside directors were renamed "independent directors" to promote their independence from management and controlling shareholders. In addition, their mandatory share was increased from a quarter of the total number of directors to one-third in July 2026. The Commercial Act was revised again in August 2025 to prohibit firms from opting out of cumulative

voting by amending their articles of incorporation and to increase the minimum number of audit committee members who must be elected separately from the other directors from one to two. In January 2026, a major tax reform significantly changed how dividend income is taxed for both firms and investors to promote higher dividend payments. Such reforms may have encouraged investors to invest in the stock market, contributing to a near doubling in the KOSPI index between May 2025 and January 2026 (Figure 5).

Figure 5. Korea's Stock Market Performance Since 2000

An index where 2015 = 100. The figure for 2026 is the average of

The run-up in the KOSPI index in 2026 was led by domestic investors. Foreign investors

offloaded a record net KRW 148.3 trillion (USD 96.7 billion) of Korean equities in the first half of 2026, a record high. Sales by foreign investors were primarily driven by profit-taking on the major semiconductor producers, global asset rebalancing, and the depreciation of the won against the dollar. Overall, foreign institutional investors have withdrawn a significant amount of capital from Korea since the beginning of the war in the Middle East at the end of February (Figure 6).

Domestic investment was promoted by the growing popularity of exchange-traded funds (ETFs), which are pooled investment vehicles that hold baskets of assets and trade on stock exchanges. The total net assets of Korean ETFs have risen fourfold during the past three years. Average daily trading turnover in ETFs increased from KRW 6.6 trillion in December 2025 to KRW 34 trillion in June 2026 (USD 23 billion). ETFs, which account for about 30 percent of stock market trading volume and 6 percent of total market capitalization, provide cheaper and easier access to high-profile stocks than buying individual shares.

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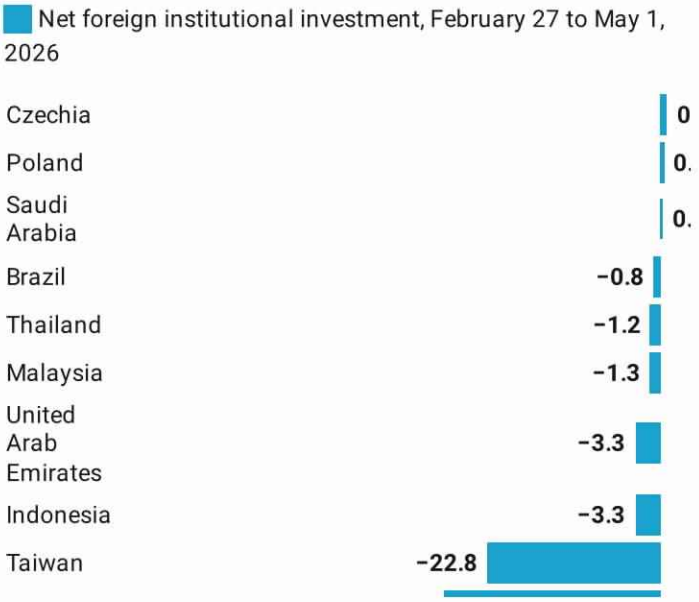
Leveraged ETFs, which are specialized funds designed to multiply the daily return of an underlying index or asset, typically using complex derivatives, are playing an increasing role. A “2x” leveraged ETF provides twice the daily returns of the underlying stock they track, resulting in amplified gains and losses. Leveraged ETFs account for about one-fifth of the 1,142 ETFs in Korea. In May 2026, the Korea Exchange introduced single-stock leveraged ETFs that track Samsung Electronics or SK Hynix. They are designed exclusively for short-term, intra-day trading.

Figure 6. KOSPI Sees Big Sell-Offs Since Start of Iran War



Conclusion

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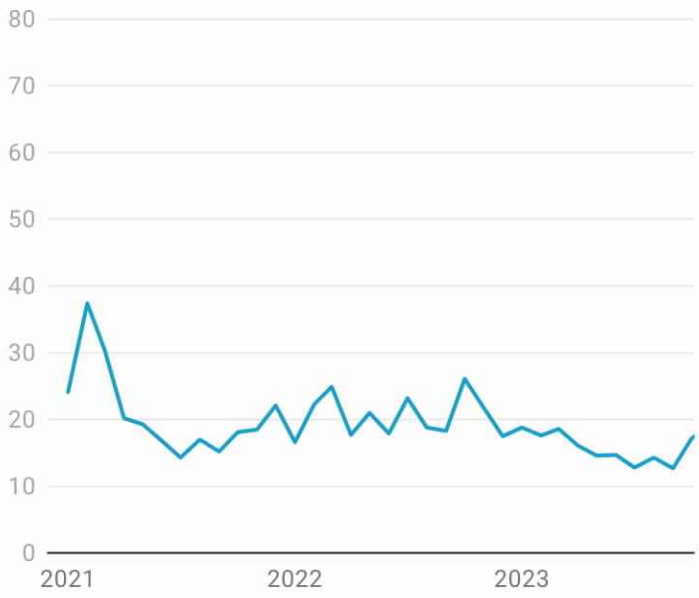
The sharp rise in the Korean stock market has boosted its market capitalization as a share of GDP close to the OECD average (Figure 2). In absolute terms, the Korean stock market now exceeds all Group of Seven (G7) countries except the United States and Japan.

However, there are concerns about the risk of a bubble, given the speed and size of the increase in the KOSPI index and its concentration in the two semiconductor giants, which account for more than half of Korea's market capitalization. While some analysts question its sustainability, others note that the stock market surge is underpinned by soaring revenues for Samsung Electronics and SK Hynix, shortages of the high-bandwidth memory semiconductor chips they produce, and robust investment in AI infrastructure. Korean stocks still trade at relatively modest valuations even after the recent surge, and some experts expect further gains. In late June, the government announced a USD 576 billion initiative to solidify Korea's leading role in semiconductors. The boom in semiconductors may spread to other sectors of the economy.

Figure 7. KOSPI Volatility Spikes Year-on-Year



A higher number means high volatility. Measured on the first day

It is clear that the introduction of single-stock leveraged ETFs tracking the daily performance of Samsung and SK Hynix has increased stock market volatility (Figure 7). Indeed, the Korea Volatility Index has exceeded its peak during the global financial crisis in 2008. Korea Exchange has triggered market-wide circuit breakers six times this year after the KOSPI index fell more than 8 percent from the previous session's close. Before 2026, circuit breakers had been activated only six times. The KOSPI index fluctuated more than 4 percent on nine trading days in June.

Given the high-risk nature of leveraged ETFs, the Financial Supervisory Service

now requires retail investors to sit through mandatory educational courses and pass a quiz before trading these products. In addition, the Bank of Korea plans to strengthen its monitoring of ETFs. On July 7, Deputy Prime Minister and Minister of Economy and Finance Koo Yoon-chul stated, "We are well aware of the concerns that leverage ETFs increase market volatility." He added that discussions on how to minimize volatility are underway. On July 17, the government tightened regulations on investment in single-stock leveraged products. In addition, the authorities temporarily banned listings of new leveraged ETFs linked to major tech firms until market conditions stabilized. In sum, volatility and the economy's concentration on two companies and one sector are bigger worries than the level of the KOSPI. Over the medium-term, diminishing Korea's dependence on key sectors and firms by reducing the polarization of its economy between manufacturing and services and between large firms and small and medium-sized enterprises is a priority.

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The Trump Effect on South Korea-Japan Relations

Despite ideological differences at the leader level, South Korea and Japan have deepened their bilateral partnership due to shared challenges against an unpredictable United States and China.

By Daniel Sneider

July 21, 2026

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The August 2023 U.S.-South Korea-Japan trilateral summit at Camp David provided powerful impetus for Seoul and Tokyo to

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restore warm ties, an undertaking initiated by former South Korean President Yoon Suk Yeol.

in leadership in all three countries. Even the potentially disastrous pairing of a conservative nationalist government in Tokyo and a progressive administration in Seoul has not slowed the pace of the bilateral partnership's deepening.

South Korean President Lee Jae Myung and Japanese Prime Minister Sanae Takaichi sit at two ends of the political spectrum, but their May 2026 meeting in Lee's hometown of Andong on May 18–19 was marked by a spirit of warmth. Even Lee's critics, who feared that his long-held harsh views on the legacy of Japanese colonial rule would reverse progress, were pleased.

Former South Korean Ambassador to Japan Shin Kak-soo was "quite impressed with how [Lee] handled South Korea–Japan relations after taking office," noting that the meeting in Andong "went very well"—a view shared by senior South Korean officials in off-the-record discussions.

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This success can be credited to South Korea and Japan's shared challenges of hedging against both China and an unpredictable United States, with U.S. President Donald Trump's trade wars and military interventions sending shocks across both economies. Lee's decision to avoid past sources of contention like wartime history issues with Japan can be read as a calculated effort to use closer ties with Tokyo to insulate South Korea from growing chaos in an unpredictable security environment.

The most powerful factor in this is the prospect of U.S. withdrawal from global leadership under Trump 2.0. Another South Korean senior official noted off the record that South Korea and Japan have "shared anxieties about Washington" and that "it is not about China."

Senior South Korean officials are discussing the need for closer security ties with Japan in response to U.S. retreat, including potentially finessing the territorial disputes by signing a non-aggression pact and moving towards a mutual defense treaty. While this would go beyond what most South Koreans would tolerate—and much less in Japan—its mere consideration

is a remarkable sign of the impact of Trump-driven uncertainty.

This tightening is taking place without active U.S. involvement at the highest level. While trilateral meetings are still being held among senior officials and statements are being issued with common views on regional and global security issues like North Korea, this is the product of institutional inertia created by former U.S. President Joe Biden's administration. There is no evidence of a connection between those official pronouncements and the White House, and Trump has never expressed any interest in trilateral cooperation, nor is he eager to follow in Biden's footsteps.

Despite the factors impelling closer ties, there are serious concerns in Seoul and Tokyo that the rhetoric of bilateral partnership has not been sufficiently reflected in concrete actions.

The most cited example of this is the potential admission of South Korea to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a move which could forge closer trade and investment alliances and counter

U.S. mercantilism. While Seoul has expressed its interest in joining, it has yet to formally apply. Domestic politics remain a constraint, reflected in the ongoing restrictions on the purchase of Japanese seafood due to the Fukushima nuclear accident and its aftermath.

A similar dynamic is visible in the arena of defense cooperation. Japanese Minister of Defense Shinjiro Koizumi visited Seoul in June 2026 and reaffirmed tightening defense ties and trilateral cooperation with the United States. But he was unable to get Seoul to sign off on a long-sought military logistics pact, which would institutionalize joint operations. Lee told reporters earlier in June that public sentiment on history issues was the obstacle to signing what would otherwise be a logical agreement.

Beyond immediate issues, two policy areas —China and North Korea—could also drive the neighbors apart.

Lee has been careful to maintain good ties with Beijing, both in the economic realm and in potentially seeking China's help in dealing with North Korea. The divergence between Lee's policy toward China and

the hostile state of China-Japan relations was noted at the Andong meeting.

Both governments share a commitment to the eventual denuclearization of the Korean Peninsula. But Lee seems ready to back a possible Trump summit with North Korean Supreme Leader Kim Jong Un, which could offer de facto acceptance of North Korea's nuclear status. Japan has always been fearful that this outcome could lead to a separation of the Korean Peninsula from U.S. extended deterrence commitments and leave Japan exposed to Pyongyang's nuclear threat.

The relationship also remains marred by the lingering issues of wartime history and justice that have been carefully put aside but not resolved. Compensation cases against Japanese companies for wartime workers in Japanese mines and factories continue to make their way through South Korean courts. Takaichi has carefully avoided doing anything to inflame Seoul, but it would only take a visit to the controversial Yasukuni Shrine—something she did regularly for several decades—to relight the fires of South Korean patriotism.

For now, the path to improved ties looks open, thanks in large part to Trump and to a lesser extent to Chinese President Xi Jinping. But the question of how long it will remain so is far less certain.

This article was originally published in East Asia Forum on July 12.

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South Korea Is Building for the Alliance and for Itself

South Korea continues to enhance its military buildup, but there is potential for friction with the United States as the two countries approach defense issues under differing frameworks.

By Daniel Sneider

July 20, 2026

South Korean Air Force pilots at Osan Air Base, February 9, 2026 | Source: U.S. Forces Korea

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The United States and South Korea describe the latter's defense buildup with

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the same enthusiasm but mean two different things. American officials call it "alliance modernization," while South Korean officials increasingly call it "autonomous defense." Neither side has much incentive to dwell on the difference, but it is getting harder to avoid.

As the Donald Trump administration tells it, South Korea is increasing defense spending and equipment procurement within the context of a redesigned U.S. strategy to restructure the roles of both U.S. and South Korean forces on the Korean Peninsula and beyond.

Modernization is the "administration's shorthand for pushing U.S. allies to adapt to a changing regional security environment and shoulder more of the defense burden," Brookings Institution's Andrew Yeo observed last fall. Writing for the latest edition of KEI's *Korea Policy*, Korea National Defense University's In Hyo Seol described modernization as "a redistribution of roles on a foundation of

This framework is a more comfortable one for those concerned about friction between the United States and South Korea.

Differences over specific issues, such as the timeline for returning wartime operational control (OPCON) of South Korean armed forces, can be more easily managed if both Washington and Seoul share the same goal of alliance modernization.

Autonomous Defense

But the reality is more complicated. South Koreans increasingly place their defense buildup and its key components within a different, though not entirely contradictory, policy framework called "autonomous defense."

Autonomous defense traces its roots to the fear of abandonment in the 1970s, when then President Richard Nixon withdrew 20,000 troops from the peninsula during the Vietnam War. More recently, defense autonomy for South Korea means greater self-reliance, indigenous weapons procurement sustained by arms exports, and ultimately limiting the reliance on U.S. forces as a deterrent to North Korea.

South Korean policymakers have long grappled with a persistent tension in defense policy between a desire for more

autonomy and the reality of the operational indispensability of the U.S.-South Korea alliance. “The goal of autonomy policy is to hold our own while being alliance compatible,” a senior South Korean official told the author on a recent visit to Seoul. In other words, South Korea hopes to shift the alliance’s internal balance of power, reduce technological dependency on U.S. defense systems, and build sufficient indigenous capability to make Seoul a more equal partner.

On the surface, the Trump administration’s goals of shifting a greater share of defense burdens to its allies and encouraging a more regional approach to security would seem to be compatible with South Korea’s preferences. But Washington has been clear about the limits: allies are expected to spend more, not to build alternatives.

The OPCON transfer initiative, for example, was initially targeted in 2012 but has since been replaced by a conditions-based threshold with no fixed timeline. The conditions range from South Korea’s own capability, both in equipment and command, to lead combined forces, its strike and air defense capabilities, and most nebulous of all, the existence of a

regional security environment that would be compatible with the transfer.

In 2019, the allies determined that South Korea met a minimum baseline capability and interoperability with U.S. Forces Korea (USFK). Further progress slowed until recently, when the Trump and Lee Jae Myung administrations agreed that a second stage, full operational capability, would be verified this year. Seoul seems likely to establish 2028 as a new target year for OPCON transfer to occur by.

That push has been met, however, with resistance from the U.S. military, led by USFK Commander Xavier Brunson, who suggested earlier this year that this timeline was too optimistic. The U.S. Senate has backed that up by proposing tighter conditions for OPCON transfer.

Arms Production and Exports

Similar tensions lurk not far below the surface when it comes to South Korea's indigenous arms production and its successful export drive across Europe and Asia. Sales of armored vehicles, artillery, jet aircraft, and missile defense systems have transformed the country into a global

leader of arms sales. Earlier this month, President Lee attended a NATO forum and suggested such weapons sales could underpin an evolution of South Korea-NATO ties. But senior Trump administration officials have seemingly pushed back on the notion that allies could or should replace reliance on American weapons.

South Korean President Lee Jae Myung gives a keynote speech at the NATO Defense Industry Forum, July 7, 2026 | Source: The Blue House

"The simple fact of the matter is that no alternative country or countries can compete with the U.S. defense industrial base, either in quantity or quality," Pentagon policy chief Elbridge Colby asserted on social media last week. The United States "makes the best equipment, and we make it at a scale that no plausible competitor can match," Colby continued. Access to the U.S. defense industrial base "is a privilege, not a right."

Thus, even in its most ambitious formulation, South Korea's autonomous defense still involves maintaining the U.S. extended deterrence commitment in the face of threats from North Korea. Some sort of U.S. military presence makes that political commitment concrete.

"The withdrawal of USFK is not something we want to see," a senior Lee administration official told this writer. "But if it becomes a reality for us, and we have to fend for ourselves, we need to block the threat of nuclear weapons."

The most obvious way to do so—and the one that has attracted the most attention in American policy circles—is a South Korean nuclear weapons program. Alternatively, policymakers in Seoul are interrogating whether rapid changes in defense technology might create a reliable form of conventional deterrence. The first option is still beyond the pale, while the second is still a ways down the road.

"We are learning the lessons of the Ukraine and Iran wars," the senior official explained, notably laser weapons and AI-powered defense systems that can "potentially

intercept hundreds of missiles at one time."

For now, neither the United States nor South Korea has an interest in forcing the question. But indigenous production, export markets, command authority, and the first sketches of a conventional answer to nuclear coercion add up to more than burden-sharing.

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Q2 2026 U.S.-South Korea Trade and Investment Ledger

America's new tariff framework comes alongside significant South Korean investment into strategic sectors across the United States.

By Tom Ramage

KEI

South Korean President Lee Jae Myung (center) applauds an investment agreement between the United States and Korea, July 2026 | Source: The Blue House

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America's new tariff framework comes alongside significant South Korean

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investment into strategic sectors across the United States, and Q2 2026 showed this pattern taking hold across energy, AI, and defense. Most notably, Samsung Heavy Industries, along with a consortium of Korean institutions, secured a USD 2.9 billion floating liquefied natural gas (FLNG) project for Samsung Heavy Industries to build off the coast of Louisiana—the first of its kind in the United States.

Likewise, other energy-related projects, particularly on the development of electrical grid infrastructure for AI data centers as well as cooperation on small modular reactors for nuclear power, are likely to shape the mold for other partnerships down the line as more commitments come in under the terms of the USD 350 billion tariff agreement.

Q2 2026 U.S.-South Korea Trade and Investment Ledger

Date Announced	U.S. Entity	Korean Entity	F
June 24	Trumbull Energy Center Combined Gas Turbine Power Plant	Hanwha Energy, Korea Southern Power Co. (KOSPO)	H k s c a t p
June 17	Anthropic	Ministry of Science and ICT	A c c s v s s
June 14	Quanta Services	Hyosung HICO	C S H f v p v b
June 10	Delfin Midstream	Samsung Heavy Industries; Ministry of Land, Infrastructure and Transport, Ministry of Climate, Energy and Environment, Ministry of Oceans and Fisheries, Korea Overseas Infrastructure and Urban Development Corporation, Korea Ocean Business Corporation	S c s $ D V
			k s c

June 4	Center for Excellence in Education	Korean Air	a f s f F S I p
June 1	Lilly	Hanmi	L li t r H s g c k
May 28	Anthropic	Samsung, SK Hynix	S S p A S f

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

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Betting on the Future: Prediction Markets, Cryptocurrency, and South Korean Law

How South Korea navigates the opportunities and challenges of prediction markets and squares them with ongoing efforts to lead in the cryptocurrency space will determine whether Polymarket and its competitors gain a foothold in the country.

By Terrence Matsuo

July 27, 2026

Polymarket and prediction market screens, July 2025 | Source: Shutterstock

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South Korea's first criminal investigation of

police are treating Korean Polymarket winners as illegal gamblers, even as the Lee Jae Myung administration courts the crypto industry that makes those payouts possible. How that contradiction is resolved will determine whether Polymarket and its competitors gain a foothold in the Indo-Pacific's most digital-asset-fluent market.

There exists a tension between two bodies of South Korean law that developed on separate tracks and have not yet had to reckon with each other. One is the regulatory architecture Seoul has built to grow its digital asset industry, now among the largest in the world. The other is a decades-old prohibition on gambling that Korean authorities enforce against citizens even when they place bets abroad. Prediction markets are the first significant industry that sits inside both.

Korea has been an early and heavy adopter of cryptocurrency. The first cryptocurrency exchanges were established in 2013 and 2014, and interest in them has continued to grow, according

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to Chainalysis data. In 2025, the Korean won was the second-most-used currency for buying cryptocurrencies. This has also encouraged Seoul to regulate the market and protect consumers. In late July, the Blue House announced it would support the passage of the National Assets Basic Act. The legislation identifies digital assets as a national development objective, legalizes Bitcoin and Ethereum exchange-traded funds, and supports the development of a stablecoin backed by the won. It also assigns unique oversight and management over virtual assets and digital properties. It follows the introduction of the Digital Asset Basic Act, which would "establish a comprehensive legal foundation that treats digital assets as a distinct asset class worthy of its own regulatory apparatus." There was also the 2024 Act on the Protection of Virtual Asset Users, which requires virtual asset providers to offer insurance to consumers for lost assets and penalizes market manipulation and other "unfair trading practices." This regulatory and technology framework is designed to elevate Korea as a major player in the crypto space.

But its posture on gambling runs in the opposite direction. Barring limited exceptions, gambling is illegal for Korean citizens under the Criminal Act, punishable by fines of up to KRW 20 million or up to three years in prison. The prohibition applies to Koreans abroad; earlier this year, a district court sentenced a former Buddhist monk to ten months in prison after he was caught playing slots and baccarat overseas in Macau.

Prediction market companies like Polymarket, which lets users wager cryptocurrency on the outcomes of elections and other news events, say they are not gambling but rather providing an alternative way to aggregate knowledge in society. “People don’t lie when money’s involved,” said Tarek Mansour, founder of Polymarket competitor Kalshi, in a 2024 interview. “You want to be right about your predictions so you don’t lose money.” Supporters of prediction markets in Korea may emphasize this aspect to defend their legality.

Although the Criminal Act does not define gambling, the Supreme Court of Korea has one, and its most recent application is bad news for prediction markets and their

supporters. In September 2025, the top court reversed a lower court's acquittal in a case involving an online platform where users predicted the outcomes of sports matches and wagered cash-convertible "game money" against predetermined odds. The lower court had accepted the defendant's argument that betting against fixed odds was a "speculative act" rather than gambling. The Supreme Court disagreed, defining gambling as "two or more participants wagering assets and determining gains or losses by chance," with "chance" meaning "a situation in which the outcome is determined by facts that the parties cannot predict with certainty or freely control." The court held that neither participants nor operators could predict or control sports results, so the platform's wagers on game money depended on chance and constituted gambling. Thus, even if prediction marketeers say their systems are gamifying users' inferences and predictions, Korean authorities may still conclude that because outcomes are not known in advance, they constitute a type of (illegal) gambling.

Korea is not the only country in the Indo-Pacific where policymakers are scrutinizing

prediction markets. In December 2023, Taiwanese authorities arrested seventeen people and confiscated around USD 5,500 for placing bets on the outcome of the presidential election on Polymarket. In January 2025, Singaporean authorities ordered domestic internet service providers to block access to Polymarket's website. In the United States, the Commodity Futures Trading Commission (CFTC) may limit the type of bets that consumers can place. In early June, CFTC said it wanted to regulate "prediction wagers it finds aren't in the public interest or that seem highly susceptible to manipulation." This comes after the April 2026 arrest of an American soldier who allegedly won over USD 400,000 after viewing classified information about the arrest of then Venezuelan leader Nicolas Maduro and his wife.

It is unclear how the Lee administration will navigate the opportunities and challenges of prediction markets and square them with ongoing efforts to lead in aspects of the cryptocurrency space. The proposed Digital Asset Basic Act includes a framework for regulating stablecoins backed by the won. In addition to licensing

and registration of firms dealing in digital assets, it also includes regulations prohibiting the use of non-public information and other efforts to manipulate the market. This follows the 2026 Economic Growth Strategy released in January 2026, which included legalizing spot exchange-traded funds (ETFs) for Bitcoin and other digital assets.The wide adoption of cryptocurrencies has made Korea a prime location for the expansion of prediction markets. As prediction markets spread and become more popular worldwide, regulators and policymakers in Korea will need to find ways to balance the public's interest in the industry with the legal frameworks governing such activities.

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

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