Now Is the Time to Manage the U.S.-South Korea Alliance

If renewed U.S.-North Korea dialogue becomes intertwined with domestic political pressures, the uncertainty and risks surrounding the U.S.-South Korea alliance could grow further.

By Ellen Kim

August 31, 2026

President Donald Trump hosts a bilateral meeting with South Korean President Lee Jae Myung, August 2025 | Source: The White House

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The security situation on the Korean Peninsula is once again in a state of significant flux after U.S. President Donald Trump ordered a scaling back of combined U.S.-South Korea military exercises to facilitate the resumption of dialogue between the United States and North Korea. The announcement echoes a similar decision made in June 2018, when, ahead of the U.S. midterm elections, Trump suspended joint military exercises shortly after holding his first summit with North Korean leader Kim Jong Un in Singapore. However, the current situation is vastly different and far more complex. With the midterm elections just over two months away and the war with Iran dragging on, the Trump administration finds itself in need of a change in momentum and tangible diplomatic achievements. Under these circumstances, if renewed U.S.-North Korea dialogue becomes intertwined with domestic political pressures, the uncertainty and risks surrounding the U.S.-South Korea alliance could grow further.

The most immediate and pressing issue is the lack of clarity regarding the ultimate objective of U.S.-North Korea dialogue.

President Trump has refrained from mentioning North Korea's denuclearization as he seeks to bring Kim back to the negotiating table. However, this approach unsettles regional allies such as South Korea and Japan; it significantly undermines confidence in U.S. security commitments and pushes allies to seek alternative ways to ensure their own security and survival.

Meanwhile, North Korea currently has little reason to rush back into talks with the United States. Unlike in the past, when Pyongyang engaged in summits out of a desperate need for sanctions relief, the international security environment has changed significantly. At a time when the United States, China, Japan, Russia, and South Korea are all signaling interest in engaging North Korea, Kim is likely to adopt a "wait-and-see" approach until a negotiating environment favorable to his interests emerges.

At a time like this, friction within the U.S.-South Korea alliance presents an opportunity for North Korea. By treating South Korea as a hostile state and rejecting inter-Korean dialogue, North Korea has already significantly narrowed the South's diplomatic capacity to serve as a pacemaker between Washington and Pyongyang. If alliance cohesion were to weaken even further under these circumstances, there is a high probability that North Korea would engage in bilateral talks with the United States to fully exploit the rift between Washington and Seoul.

Therefore, this is a critical moment requiring careful management of the U.S.-South Korea alliance. Washington and Seoul should consider dispatching high-level envoys to quickly address the fallout from the decision to scale back joint military exercises and actively manage the alliance. Both sides should also separate thorny bilateral issues, such as tariffs, investments, and the Coupang dispute, from security matters and focus on resolving them through dedicated channels. Meanwhile, the allies should engage in close consultations and reach a prior consensus on the goals and principles of any renewed dialogue with North Korea. In addition, they need to develop new forms of leverage that go beyond existing frameworks in preparation for future talks with Pyongyang.

A U.S.-North Korea summit would no longer be confined solely to issues of peace and stability on the Korean Peninsula. North Korea's participation in the war in Ukraine and its advancing long-range ballistic missile capabilities have transformed the North Korean challenge into a global security issue that affects not only the Indo-Pacific region, but also the security of Europe and the U.S. homeland. In this sense, a U.S.-North Korea summit could provide a crucial opportunity to alleviate tensions across regions and restore stability on and beyond the peninsula. However, if such dialogue proceeds without adequate prior coordination and sufficient preparation between Washington and Seoul, it could instead undermine their shared interests and further increase uncertainty in the region.

The two governments must therefore maintain the robust U.S.-South Korea alliance as a constant in U.S.-North Korea dialogue. The moment the alliance shifts from a constant to a variable, the space for South Korea's security interests to be represented in U.S.-North Korea negotiations will rapidly diminish—and the alliance itself risks ending up on the negotiating table. The U.S.-North Korea dialogue should not become a negotiation that weakens the alliance. It should instead be grounded in a strong alliance, and the United States should use it to strengthen stability on the Korean Peninsula and beyond. That is the most critical preparation Washington and Seoul must now undertake.

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Ellen Kim is Senior Fellow and Director of Academic Affairs at the Korea Economic Institute of America (KEI). The views expressed here are the author's alone.

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Tariffs on Korean Imports: Implications for U.S. Manufacturing and Investment

For U.S. tariff policy to achieve its objective of encouraging investment in the United States, it should be sufficiently flexible to accommodate commercial realities.

By Hyun Jung "Jessie" Je

September 3, 2026

A welder in Houston, Texas, August 2023 | Source: Shutterstock

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Since the Donald Trump administration took office in 2025, the United States has imposed a broad range of tariffs to advance national security, strengthen supply-chain resilience, and address perceived unfair trade practices by major trading partners. Despite their different rationales, these measures are meant to strengthen U.S. manufacturing and encourage investment in strategic industries. However, significant tariffs continue to apply to intermediate goods and capital equipment that are essential to U.S. manufacturing investment. The adverse effects of tariffs currently imposed on imports from South Korea—a country that has made and continues to make substantial investments in the United States—showcase how tariff policies can support, rather than inadvertently constrain, U.S. manufacturing and investment.

Current Status of U.S. Tariff Measures

A few years ago, determining the applicable tariff rate for a U.S. import from a particular country was relatively straightforward. Today, however, even trade and customs experts can find it difficult to track the rapidly changing tariff landscape, with rates varying by product, country, and, in some cases, even by company. Chapter 99 of the U.S. Harmonized Tariff Schedule (HTSUS), which was originally designed to accommodate temporary tariff modifications, has become an increasingly complex and permanent feature of the U.S. tariff system.

With the previous tariffs imposed under the International Emergency Economic Powers Act (IEEPA) and Section 122 of the Trade Act of 1974 now replaced by new tariffs under Section 301 addressing forced-labor policy, the current U.S. tariff regime can broadly be characterized by two principal categories: product-specific tariffs imposed under Section 232 of the Trade Expansion Act of 1962 (Section 232) and country-specific tariffs imposed under Section 301 of the Trade Act of 1974 (Section 301).

Country-Specific Measures Under Section 301

On July 23, 2026, the Office of the United States Trade Representative (USTR) announced tariffs on sixty economies, following Section 301 investigations into the failure of these economies to prohibit and effectively enforce a ban on imports of goods produced with forced labor. Unlike

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the previous tariffs imposed under IEEPA and Section 122, which applied to more than 200 U.S. trading partners, these new Section 301 tariffs cover 86 countries, with each European Union member state counted separately, accounting for 99.3 percent of total U.S. imports in 2025, as illustrated in Figure 1.

Figure 1. Share of U.S. Imports from Section 301-Tariffed Countries

The 86 countries subject to Section 301 tariffs on force-labor practices account for 99.3 percent of total U.S. imports based on 2025 trade data.

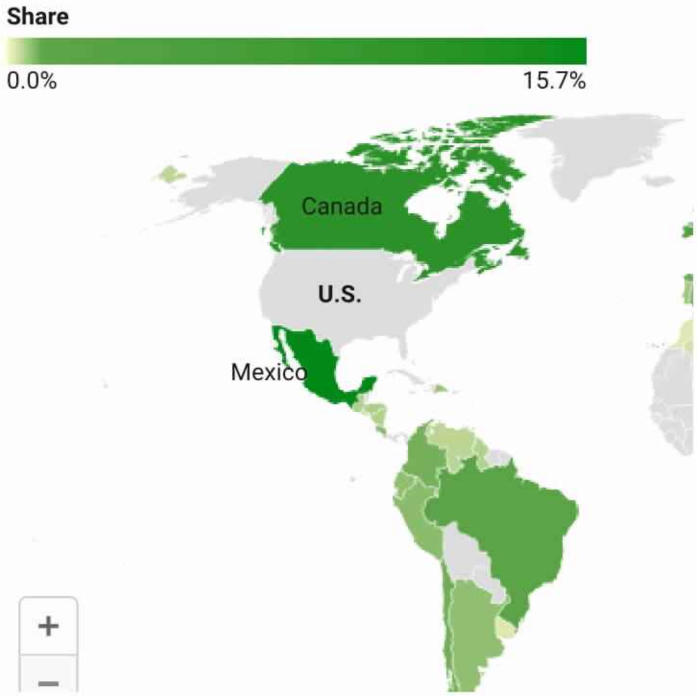

Figure 2 shows how four different tariff categories apply under the Section 301 action on forced-labor policy: 10 percent and 12.5 percent, each applied either in addition to the most-favored-nation (MFN)

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tariff or net of it. An MFN tariff is the non-discriminatory tariff rate a WTO member applies to imports from other WTO members. A 10 percent tariff applies to seventeen countries, including Canada, Mexico, India, Indonesia, and the United Kingdom, which together accounted for 36.6 percent of U.S. imports in 2025.

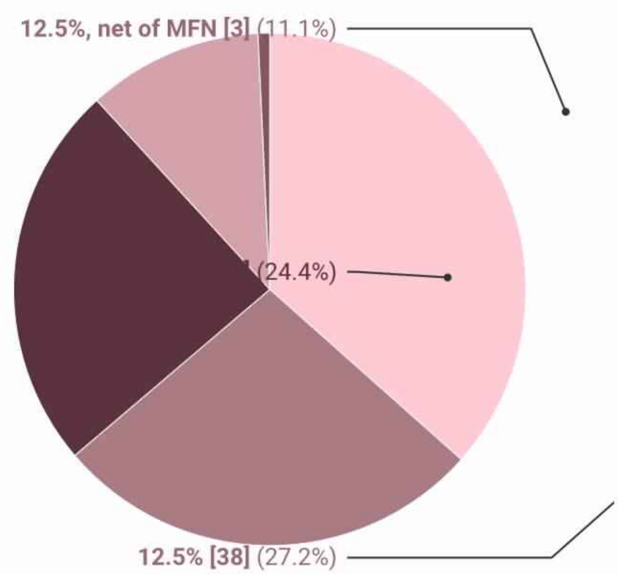
For imports from the European Union and Taiwan, "10 percent net of MFN" means the Section 301 tariff is applied together with the MFN tariff. If the applicable MFN tariff rate is less than 10 percent, the Section 301 tariff makes up the difference, bringing the combined tariff rate to 10 percent. For example, a product with a 2.5 percent MFN tariff would face an additional 7.5 percent Section 301 tariff, resulting in a combined rate of 10 percent. If the MFN rate is 10 percent or higher, no additional Section 301 tariff applies. For example, a product with a 15 percent MFN tariff would have a zero Section 301 tariff and, thus, be subject only to the 15 percent MFN tariff. The European Union and Taiwan accounted for 18.5 percent and 5.9 percent of U.S. imports in 2025, respectively.

Similarly, a 12.5 percent tariff applies, net of MFN, to imports from Korea, Japan, and

Switzerland, which together accounted for 11.1 percent of U.S. imports. The remaining thirty-eight countries are subject to a flat 12.5 percent Section 301 tariff in addition to the MFN tariff. All other countries not subject to Section 301 tariffs remain subject to the U.S. MFN tariff rates, which average approximately 3.3 percent on a simple-average basis.

Figure 2. Share of U.S. Imports by Section 301 Tariff Category

[] Number of Countries



USTR is likely to conclude a separate Section 301 investigation into structural overcapacity in industrial sectors across sixteen economies, encompassing forty-two countries including South Korea in the near future. Although any resulting tariff measures would take time to implement following USTR's publication of a proposal based on its findings, the investigation could ultimately lead to additional tariffs on top of the existing Section 301 tariffs, further increasing the tariff burden on affected imports.

Table 1 shows the twenty largest U.S. trading partners by imports, which account for 84.8 percent of total U.S. imports in 2025, each facing different Section 301 tariff rates. It remains unclear whether the additional excess-capacity Section 301 measure would increase these rates to levels comparable to the country-specific IEEPA tariffs previously imposed by the Trump administration.

Table 1. Tariffs on U.S. Major Importing Countries

No.	Country	Sec 301 on FR*	Sec 301 on EC **	Prev IEE Tar
1	Mexico	10% (USMCA)	✓	USM
2	Canada****	10% (USMCA)		USM
3	China***	12.5%	✓	20
4	Taiwan	10% net of MFN	✓	15
5	Vietnam	12.5%	✓	20
6	Germany	10% net of MFN	✓	15
7	Japan	12.5% net of MFN	✓	15
8	Ireland	10% net of MFN	✓	15
9	South Korea	12.5% net of MFN	✓	15
10	Switzerland	12.5% net of MFN	✓	39
11	India	10%	✓	25
12	Thailand	12.5%	✓	19
13	Italy	10% net of MFN	✓	15
14	France	10% net of MFN	✓	15
15	United Kingdom	10%		10
16	Malaysia	10%	✓	19
17	Brazil***	12.5%		10
18	Singapore	12.5%	✓	10
19	Netherlands	10% net of MFN	✓	15
20	Indonesia	10%	✓	19

Immediately following the imposition of Section 301 tariffs, importers as well as a coalition of twenty-five Democratic state governments filed a lawsuit in the U.S. Court of International Trade (CIT) seeking to overturn the tariffs. A three-judge panel will hear the case, with oral arguments scheduled for September 30. Some trade experts expect the Trump administration to lose again, but the Section 301 tariffs are likely to remain in effect for some time, potentially until the Supreme Court reaches a final decision.

Sectoral Measures Under Section 232

Several sector-level tariffs are also in place and under investigation through Section 232 of the Trade Expansion Act of 1962. Since Section 232 was enacted more than six decades ago, it was rarely used to impose tariffs until the Trump administration-initiated Section 232 investigations into steel and aluminum in 2017, which led to import restrictions, including tariffs and quotas. The administration initiated several additional Section 232 investigations in other areas during its first term, but none resulted in tariff measures. Immediately after Trump began his second term, however, his administration began announcing Section 232 investigations across multiple industrial sectors, including semiconductors, critical minerals, and pharmaceuticals.

Tariffs are currently imposed under nine Section 232 measures covering steel, aluminum, copper, automobiles, timber and lumber, medium- and heavy-duty vehicles (MHDVs), advanced computing chips, pharmaceuticals, and unmanned aircraft systems. For two additional Section 232 investigations—processed critical minerals and commercial aircraft—the U.S. government has decided to continue negotiations with trading partners rather than immediately impose tariffs. The administration also issued decision on polysilicon and it derivatives , although the resulting tariffs have not yet taken effect. In addition, four Section 232 investigations covering wind turbines, robotics and industrial machinery, personal protective equipment, and anthracite coal are currently underway.

Table 2. Section 232 Measures

Applicable Section 232 treatment can vary by HTS classification, origin, U.S. content, end use, and partner-specific arrangements.

Sector/Product	Measure	Date Effecti
IN EFFECT		
Steel, Aluminum & Copper	50% on Annex I-A; 25% on Annex I-B; temporary 15% on Annex I-C, Annex-III *Reduced rate for qualifying U.S. primary aluminum onshoring*	Apr. 6, 2 Jun. 8, 2 Jul. 20, 2
Automobiles & Auto Parts	25% on covered autos/parts	Autos: A 3, 202 Parts: M 2025
Timber, Lumber & Wood Products	10% on timber/lumber; 25% on covered furniture, cabinets and vanities Scheduled increase to 30% on upholstered furniture and 50% on cabinets/vanities	Oct. 1 2025 Jan. 1, 2
MHDVs, Parts & Buses	25% on Medium- and Heavy-Duty Vehicle (MHDV)/parts; 10% on buses	Nov. 1, 2
Advanced Computing Chips & Derivatives	25% on specified chips/derivatives; qualifying U.S. end uses excluded	Jan. 1 2026
Pharmaceuticals	100% baseline; 20% with approved onshoring; partner-specific and zero-rate exceptions Existing tariff	Annex compan Jul. 31, 2 Others:

	framework extends to remaining covered companies	29, 20
UAS & UAS	100% on specified UAS/critical	UAS: Se 2026

Tariffs on Korean Imports

Korea was the ninth-largest source of U.S. imports in 2025, and Korean companies have made substantial investments across a wide range of industries in the United States. As a result, higher U.S. tariffs have sharply impacted Korea, especially because most Korean exports to the United States had previously benefited from preferential treatment under the U.S.-Korea Free Trade Agreement (KORUS FTA).

Following months of negotiations, the United States and Korea reached the Korea Strategic Trade and Investment Deal in July 2025. After publishing a joint fact sheet on November 13, the U.S. government implemented the adjusted tariffs agreed upon by the two countries. The United States reduced its Section 232 sectoral tariffs on automobiles, auto parts, timber, lumber, and wood derivatives to 15 percent on an MFN-inclusive basis. It also agreed to apply a Section 232 tariff rate of no more than 15 percent on pharmaceuticals originating from Korea and to provide

Korea with no less favorable terms with respect to semiconductors.

Consistent with the spirit of the 2025 trade deal between the two countries, the United States recently decided to apply a 15 percent tariff, net of MFN duties, to polysilicon and its derivatives, as well as unmanned aircraft systems and their components originating from Korea.

As illustrated in Table 3, most products from Korea are subject to a 12.5 percent tariff, net of MFN duties, under Section 301 on forced-labor practices. A 15 percent tariff, net of MFN duties, under Section 232 on the automotive sector applies to 214 automobiles and auto parts based on 8-digit HTS codes. In addition, 866 metal products are subject to Section 232 tariffs of 50 percent, 25 percent, or 15 percent, net of MFN duties.

According to Annex II, which lists products excluded from the Section 301 tariffs on forced-labor practices, 1,907 products originating from Korea are subject to U.S. MFN tariff rates or preferential tariff rates under the KORUS FTA. However, the carveouts are narrowly defined, with more than 1,000 of the 1,907 products covered by only two exemption categories. These include articles used in pharmaceutical applications, accounting for 700 8-digit HTS codes, and articles of civil aircraft and their parts and components, accounting for 356 HTS codes. Therefore, products outside these narrowly defined carveouts remain subject to Section 301 tariffs rather than U.S. MFN or preferential tariff rates under the KORUS FTA.

Table 3. Number of Products for Korean Imports by Tariff Category

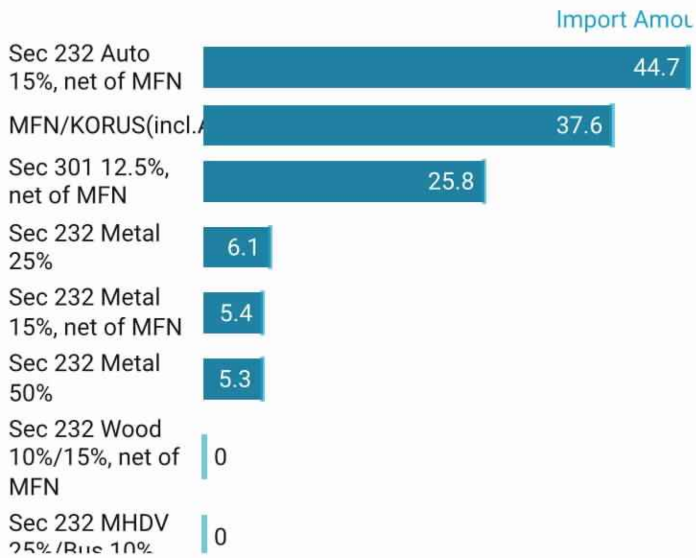
Tariff Category	No. of 8-Digit HTS Codes	No. of 10-Digit HTS Codes (Under Multi-category)
Sec 301 12.5%, net of MFN	8,308	88
MFN/KORUS (Incuding Aircraft/Pharma carveouts)	1,907	68
Sec 232 on Auto 15%, net of MFN	214	25
Sec 232 on Metal 50%	546	20
Sec 232 on Metal 25%	229	60
Sec 232 on Metal 15%, net of MFN	91	16
Sec 232 on MHDV 25%	18	1
Sec 232 on Bus 10%	10	
Sec 232 on Wood		7

Unlike the distribution of products by tariff category, Figure 3 presents a different picture of the impact of U.S. tariffs on imports from Korea when measured by import value. Based on U.S. import data for 2025, U.S. imports of Korean products subject to Section 232 tariffs on the automotive sector are valued at USD 44.7 billion, accounting for approximately 36 percent of total U.S. imports from Korea. U.S. imports of steel, aluminum, copper, and their extensive derivatives subject to Section 232 tariffs amount to approximately USD 17 billion, or roughly 14 percent of total imports.

In addition, approximately USD 26 billion of U.S. imports from Korea are subject to Section 301 tariffs. This figure could be higher when considering products covered by the carveouts for aircraft and pharmaceutical applications, which accounted for approximately USD 5.4 billion in U.S. imports from Korea. If Section 232 tariffs on unmanned aircraft systems and polysilicon take effect on September 3 and December 4, respectively, a portion of U.S. imports from Korea currently subject to U.S. MFN or preferential tariff rates under the KORUS FTA will face a 15 percent tariff, net of MFN duties.

Figure 3. U.S. Import Value from Korea by Tariff Category

(Unit: USD Billion)



Disaggregating U.S. imports from Korea by industry and tariff category, Table 4 shows that almost all imports of transport equipment face the 15 percent Section 232 tariff rate. It is also notable that the United States imposes Section 232 tariffs ranging from 15 to 50 percent on metal products, while Section 301 tariffs apply to most imports of metals and electrical appliances from Korea. Meanwhile, the majority of U.S. imports of information and communication technology (ICT) and computer products from Korea are not covered by either Section 301 tariffs or other Section 232 measures.

Table 4. U.S. Import Value from Korea by Industry and Tariff Category

(Unit: USD Million)

Industry	Auto 15%,net of MFN	Metal 50/25/15%,net of MFN	Se 30 12.! net MF
Agriculture, forestry, fishing, food, beverages, tobacco	0	201	1,9
Mining, quarrying, refinery, fuels, chemicals, electricity, water	363	1,766	3,8
Construction, wood, glass, stone, basic metals, housing, electrical appliances, furniture	1,267	11,162	8,9
Textile, apparel, shoes	0	0	1,7
Transport equipment (incl.auto)	42,821	3,664	1,5
ICT, media, computers	233	3	1,9
Health, pharmaceuticals	0	13	3,9
Government, military and other	4	0	1
Total	44,688	16,810	25,7

Tariffs on Investment-Generating Imports

Mapping tariff rates by product and country is difficult not only because of the number and complexity of the measures in place, but also because the U.S. government frequently adjusts them to account for inflation, production costs, and business realities. Most recently, it exempted from the Section 301 forced-labor tariffs products that could cause economy-wide disruptions or cannot be produced in sufficient quantities in the United States. However, these exemptions may be insufficient to create an investment-friendly environment in the United States.

Accordingly, if the ultimate objective of U.S. trade policy is to attract investment in domestic manufacturing, one solution could be to treat so-called investment-generating imports differently from other imports, particularly when they are essential inputs or capital equipment for U.S.-based production. Table 5 shows that U.S. imports of intermediate and capital goods from Korea remain subject to relatively high tariff rates, ranging from 12.5 to 50 percent, under Section 301 and Section 232 measures. Intermediate consumption refers to goods used as inputs in the production of other goods, while gross fixed capital formation includes machinery, equipment, and other assets used to establish or expand productive capacity.

Korean companies across a diverse range of sectors, including semiconductors, automobiles, batteries, critical minerals, steel, and robotics, have invested and plan to make additional investments in the United States. In particular, companies in the early stages of constructing their U.S. facilities often need to import high-value, specialized equipment that is not readily available from U.S. suppliers. Applying high tariffs to such equipment could increase the cost of establishing U.S. manufacturing capacity and potentially undermine the investment objectives of U.S. trade policy.

Table 5. U.S. Import Value from Korea by End-use and Tariff Category

(Unit:USD Million)

Industry	**Auto** 15%, net of MFN	**Metal** 50/25/15%, net of MFN	**Sec 301** 12.5%, net of MFN
Intermediate Consumption	**13,000**	**8,590**	**11,945**
Gross Fixed Capital Formation	**836**	**6,506**	**6,144**
Final Consumption	30,852	1,714	5,884
Total	44,688	16,810	25,773

Policy Implications

Although U.S. tariff policy applies broadly, the U.S. government has accommodated exceptions in certain circumstances. Relevant agencies have engaged interested parties through public comment periods and hearings before making final recommendations to the president, and the scope of covered products has been amended or adjusted on various occasions after implementation. In addition, recent Section 232 measures have created incentives for companies to invest in U.S. production of products subject to the measures. But there is no official, transparent procedure by which both domestic and foreign companies that have invested in or plan to invest in U.S. production can request tariff relief.

For U.S. tariff policy to achieve its objective of encouraging investment in the United States, it should be sufficiently flexible to accommodate commercial realities and avoid inadvertently creating barriers to U.S. manufacturing or discouraging companies from making or expanding investments in domestic production.

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South Korea Should Be an Economic Model for Besieged Cuba

Cuba's recent outreach to South Korea suggests that the island country views Korea as a potential model for state planning and export-driven economics under autocratic conditions.

By Benjamin R. Young

August 27, 2026

Street view of Havana, Cuba, May 2019 | Source: Shutterstock

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As the United States continues to tighten sanctions against Cuba, the country is looking externally for examples of state-driven economic development to apply back home. Cuba's recent outreach to South Korea suggests that the island country views Korea as a potential model for state planning and export-driven economics under autocratic conditions. To ensure Cuba does not deepen its economic dependence on revisionist anti-U.S. countries such as Russia and Venezuela, the United States should encourage its allies and partners to support the Cuban economy by carving out exceptions in its sanctions regime for allied assistance and private-sector investments.

In June of this year, the Cuban Embassy in Seoul hosted a seminar on "Business Opportunities in Cuba." Cuban officials touted the potential bonanza awaiting Korean companies across investment sectors ranging from healthcare and agriculture to tourism. Yet the seminar seemed less like a celebration of opportunity than a sign of desperation by a sanctions-ridden, cash-strapped Cuban government. More importantly, there was an elephant in the room: the recently tightened U.S. sanctions on the communist-ruled island. “The political and economic pressure on Cuba is growing as the United States continues to impose new economic sanctions,” Cuban Ambassador to Korea Claudio Monzón Baez said. “But this does not mean Cuba has no opportunities. Cuba remains a land of opportunity and possibility.”

While the Cuban regime enacts historic economic reforms under U.S. economic pressure and threats of military action, it is also notable that Cuban officials are increasingly looking abroad for examples of state-driven economic development. Recently, Cuba’s ambassador to Hanoi praised Vietnam’s economic development and its hybrid communist-capitalist model. “Vietnam’s socio-economic achievements in recent years have inspired the Cuban people and expressed hope that the two countries would continue sharing experience, particularly lessons from Vietnam’s 40 years of Doi Moi (renewal) process,” Cuban Ambassador Rogelio Polanco Fuentes said during a May 2026 meeting with Vietnam’s prime minister.

But Cuba’s recent establishment of diplomatic relations with South Korea and its ongoing efforts to court Korean investors suggest that Havana sees the country as a potential economic archetype. Korea's economic development during the 1970s and 1980s was remarkable. Supported by significant state planning and exports, multinational conglomerates such as Hyundai and Samsung drove rapid industrial growth. Relevant to the Cuban situation, the Korean government under Park Chung Hee was no beacon of liberal democracy, although economic development gradually allowed a flourishing of a democratization movement. The "Miracle on the Han River" cannot be perfectly replicated in Cuba, but its broader lessons of state planning and export-driven economics under autocratic conditions are clear: inefficient economies are not always doomed to permanent ineptitude.

Cuba's robust biotechnology sector and organic farming practices are some of the most promising pathways for Korean investment. Nonetheless, Korean interest in the Cuban market will remain low for the foreseeable future. This is due to increased U.S. scrutiny of events on the island. The United States has moved an unprecedented number of intelligence assets near Cuba. As such, Korean companies will be wary of attracting American ire and risking their much more lucrative business opportunities in the United States. Given Secretary of State Marco Rubio's permanent fixation with Cuba, this is a rational and pragmatic approach by Korean businesses.

By imposing harsh sanctions and an oil blockade on Cuba, Washington risks plunging the island into further chaos and instability. Food and medicine scarcity are now a fact of everyday life in Cuba. Inflation and high oil costs make travel extremely costly on the island. A crisis similar to the situation in Haiti, with armed gangs roaming the streets, could soon be on the horizon.

While Korea's history vastly differs from that of Cuba, it is worth remembering that U.S. officials once lambasted Korea for incompetence and authoritarianism. For example, in 1961, Assistant Director of U.S. Operations Mission to Korea Hugh Farly lamented in a letter to Deputy National Security Advisor Walter Rostow that the Korean society was "shot through with graft, corruption, and fraud." He worried that the Korean government's incompetence naturally led to growing public interest in communist politics. Given Korea's remarkable transition from an aid recipient to an OECD aid donor, Cuba is correct to look to Seoul for economic guidance and assistance.

Rectifying the economic maladies in Cuba will not be as simple as dogmatically applying a foreign model, whether it be Korean or Vietnamese. Nonetheless, the U.S. government should consider offering lifelines to Cuba from allied nations. Rather than allowing Cuba to fall back into Chinese or Russian spheres of influence, the United States should encourage assistance from allies, such as Korea, to support Cuba. This would be a win-win situation for Washington. Cuba would no longer depend on external support from revisionist anti-U.S. powers, such as Russia or Venezuela. Including exceptions in the current sanctions regime for Korean businesses would give Cuba's private sector a chance to grow and, more importantly, learn from a successful, liberal foreign nation.

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Continued benefits from deeper ties with Russia and China may help sustain North Korea's economic growth, but a lack of energy, the continuing drag from sanctions, the sharp depreciation of the North Korean won, and rising prices for basic foods are likely to pose serious challenges.

By Randall S. Jones

September 2, 2026

North Korean leader Kim Jong Un reviews produce at a greenhouse near the North Korea-China border, June 2026 | Source: North Korean state media

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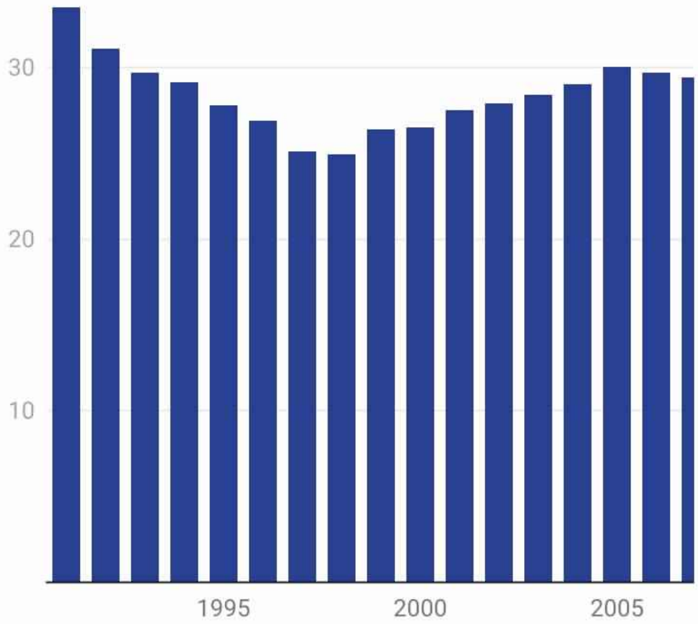
North Korea's economy grew 3.5 percent in 2025, the third straight year above 3 percent, according to the Bank of Korea (Figure 1). Output has now passed its 2017 level (Figure 2), the year the United Nations imposed its toughest sanctions on the regime. Most of the growth came from weapons production for Russia and trade with China. However, the impact on living standards was likely to have been limited, given that the North Korean won has lost roughly three-quarters of its value against the U.S. dollar since May 2024, and rice costs more than five times what it did then.

Figure 1. North Korea's Real GDP, 1991–2025



Unit: Trillion KRW

Figure 2. North Korea's Real GDP Growth, 1991–2025

North Korea's real GDP has surpassed its pre-sanctions level

Sustained growth has been attributed to a "new Cold War strategy" centered on

Russia and China to counter sanctions. In exchange for providing weapons and troops to Russia in its war against Ukraine, Russia has supplied North Korea with weapons technology, food, oil, and tourism, contributing to what *The Wall Street Journal* dubbed the "world's most surprising economic success story."
A mutual defense and cooperation treaty between the two countries lifted North Korea's international status and eased its economic isolation. Meanwhile, Chinese President Xi Jinping traveled to North Korea in June 2026—his first visit in seven years—to promote increased trade and aid.

Heavy and Chemical Industries Drive Output Growth

Estimates by the Bank of Korea (BOK) show robust manufacturing growth (Table 1), driven in part by North Korea's production of artillery shells and ballistic missiles for Russia. Construction growth was led by non-residential building and civil engineering, including the "20×10 policy" (see below). However, mining output growth slowed due to reduced coal production, while electricity, gas, and water production fell because thermal power generation declined.

The BOK estimates North Korean GDP at current prices using South Korean prices and value-added ratios. Its estimates should be viewed with a grain of salt, as the North has not published regular national account statistics since the 1960s, nor has it published any budget information in level terms since the early 1980s. Further compounding the difficulty of assessing the North Korean economy is the lack of a functioning financial system and a credible central bank, as well as wide regional variation in prices and the availability of goods. However, few alternatives to the BOK estimates exist as long as the Kim Jong Un regime maintains such severe secrecy.

Table 1. Output Growth by Sector in 2024 and 2025

	2024	2025
Agriculture, Forestry, and Fishing	−2	4
Mining and Manufacturing	8	5
Mining	9	2
Manufacturing	7	7
Light Industry	−1	4
Heavy and Chemical Industries	11	8
Electricity, Gas, and Water Supply	1	−0
Construction	12	6
Services	1	2
Government	1	1

The Enormous Gulf Between North and South Korea

Rapid development has brought South Korea's economic structure in line with those of the most advanced countries. Agriculture, forestry, and fishery and mining account for less than 2 percent of the South Korean economy, compared with nearly one-third in the North (Figure 3). In addition, services' share is 61 percent in the South, double that in the North.

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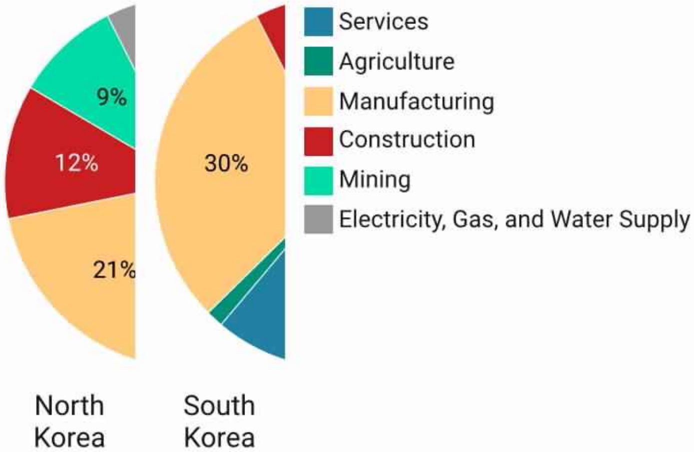
Figure 3. Share of Nominal GDP, 2025

Significant differences in the industrial structures of North and South Korea



Despite sustained growth in North Korea, its gross national income (GNI) is less than 2 percent of South Korea's level (Table 2). South Korea's per capita GNI is twenty-eight times larger, and its life expectancy at birth is ten years longer. Fertilizer use per hectare of arable land and electricity consumption per capita are both less than 7 percent of South Korea's levels. North Korea compares favorably on demographics, with an old-age dependency ratio ten percentage points lower than South Korea's.

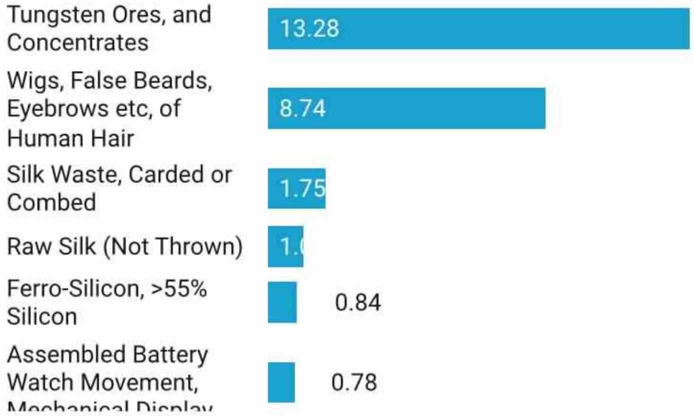
Table 2. Comparison of Economic and Social Indicators in North and South Korea

	North Korea (A)	South Korea (B)	Ratio (B/A)
Nominal GNI (KRW trillion)	49	2,717	56
Per Capita GNI (KRW ten thousand)	187	5,257	28
Merchandise Imports (current billion USD)	27	6,319	238
Merchandise Exports (current billion USD)	5	7,093	1,514
Population (millions)	25,917	51,685	2
Life Expectancy at Birth, Total (years)	74	84	1
Age Dependency Ratio, Old (% of working-age population)	19	29	2
Land Area (square kilometers)	120,410	97,600	1
Agricultural Land (square kilometers)	25,953	15,680	1

The gap in international trade is even more significant, reflecting North Korea's isolation from global markets. At USD 4.7 billion in 2025, North Korean exports were less than 0.1 percent of South Korea's (Table 2). In addition to its minimal level, North Korean trade is concentrated with China, which accounted for 98 percent of its official trade in 2024. Inter-Korean trade has dropped to practically zero, reflecting the impact of international sanctions on the North, its COVID-19 lockdown, and policy changes in North Korea.

North Korean exports are concentrated in niche products, such as tungsten ores and concentrates and wigs and related hair products, where North Korea accounts for a non-negligible share of global exports (Figure 4). Beyond these products, North Korea's export market shares are confined to low-value-added or semi-processed materials. The absence of higher value-added manufactured goods and technologically complex products reflects both weak industrial capacity and the impact of international sanctions.

Figure 4. Percent of North Korean Exports Concentrated in Niche Products



Challenges Facing North Korea

In contrast to the Eighth Party Congress in 2021, which acknowledged that the 2016–2020 economic plan had "failed," the February 2026 Ninth Party Congress declared the "fulfillment" of the 2021–2025 plan.

In a follow-up speech in March 2026 to the Supreme People's Assembly, Kim set a target of increasing industrial output by around 1.5 times during the new 2026–2030 economic plan. He identified electricity and coal as key bottlenecks constraining economic growth, along with corruption. Moreover, international sanctions continue to restrict finance, investment, and formal trade. Although North's trade with China is rising, it remains only about half of its 2014 peak.

Another concern is the sharp depreciation of the North Korean won. In the two years since May 2024, the won has lost about three-quarters of its value relative to the dollar (Figure 5). Large but uneven increases in official wages across the state sector since late 2023 contributed to exchange depreciation and boosted demand for foreign currency, while stricter controls on foreign-exchange transactions and market activity limited its supply. The plunging value of the won pushes citizens away from the local currency and toward the U.S. dollar, triggering inflation and sharp increases in basic food and import prices. Indeed, the price of rice rose by 5.2 times between May 2024 and May 2026 (Figure 4).

The weaker roles of markets and the private sector also have negative implications for economic growth. Although market mechanisms exist only informally and at the regime's discretion, private markets became the backbone of the civilian economy before the COVID-19 pandemic. But
Kim used the pandemic to suppress market forces, roll back already-limited enterprise autonomy, and reestablish price setting

and foreign-exchange allocation. In addition, the revitalization of the state grain distribution system monopolized food sales, thereby weakening private traders.

North Korea's five-year plan for 2026–2030 suggests that Kim will strengthen centralized economic control and governance further while retaining selected market-oriented mechanisms. In other words, North Korea does not intend to abandon market-oriented mechanisms completely, but instead to maintain them in a more tightly centralized economic system.

Figure 5. North Korea Economic Indicators

The North Korean won has depreciated sharply since 2024

The Kim regime has increased its emphasis on economic growth. In particular, the ongoing 20×10 program, launched in 2024, has been incorporated into the 2026–2030 economic plan. The program aims to promote regional development and narrow the urban-rural economic divide by building modern industrial factories in twenty cities and counties per year over ten years. In addition, the Ninth Party Congress in 2026 focused more on regional development, housing, health care, public services, and rural living conditions.

However, North Korea's continued emphasis on defense spending suggests limited bandwidth for other priorities, notably economic growth. In September 2025, Kim announced a new policy of simultaneous development of nuclear and conventional forces. Kim appeared to favor continued emphasis on military spending in a March 2026 speech to the Supreme People's Assembly: "Our style of development strategy was very correct as we directed great efforts to the development of the State and the economy while giving priority to getting a security guarantee of our own and consistently carrying on the line of bolstering up our nuclear forces."

Conclusion

North Korea appears to have achieved sustained economic growth following declines in the wake of the implementation of tighter international sanctions in 2017 and the COVID-19 pandemic. Continued benefits from deeper ties with Russia and China may help sustain growth during the 2026–2030 economic plan. However, a lack of energy, the continuing drag from sanctions, the sharp depreciation of the North Korean won, and rising prices for basic foods are likely to pose serious headwinds. In addition, the diminished role for market forces and the continued emphasis on military development will limit the North's growth potential.

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Continued Anticipation for Strategic Projects Under the U.S.-South Korea Investment MOU

Korea has set up a more robust framework by establishing supporting institutions and appropriate funding, which helps explain the longer timeline.

By Nils Wollesen Osterberg

August 26, 2026

Workers in South Korea load cargo onto a bulk carrier, October 2024 | Source: Shutterstock

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The one-year mark of the U.S.-South Korean investment memorandum of understanding (MOU) is approaching this fall—without a single investment announcement. By contrast, Japan has announced several major projects, including a natural gas power plant and crude oil export facilities. Korea has committed to announcing investment projects worth USD 350 billion before the end of Trump's presidential term in January 2029, with USD 20 billion disbursed each year. On top of that, the U.S. administration is likely eager to show off high-profile investments to signal successful outcomes from its trade policy before ballots are cast in the November midterm election and to ramp up pressure on Korea. Naturally, there are questions regarding the source of the delay. However, while negotiations on initial projects continue, Korea has used the time to set up a more robust framework by establishing supporting institutions and appropriate funding, which helps explain the longer timeline and signals the country's commitment to the MOU.

Korea took a more formal approach to implement its side of the MOU. While the MOU itself outlines a project selection process dominated by the United States and refers only to a “Consultation Committee” on the Korean side to provide input, Korea passed a special bill to establish a number of committees and clearly allocated funding for MOU-related investment projects through the newly launched U.S.-Korea Strategic Investment Corporation (KUIC). The bill, called the “Special Act on Strategic Investment Management between South Korea and the United States,” was detached from other domestic political issues in Korea because both parties recognized the importance of implementing the MOU after Trump threatened higher tariffs if inaction continued.

Establishing new institutions takes time and helps explain Japan’s head start, but it also signals a longer-term commitment. By July, the Korean side had staffed KUIC, as part of a structured approach to help ensure a stronger, long-lasting deal. The bill formally commits funding and establishes institutions with the sole mission of implementing the MOU, a structure that is harder to undo than Japan’s comparably more ad hoc approach. While some may argue that the additional committees introduce bureaucracy and red tape, the special bill provides a pathway for projects that are not commercially reasonable and would otherwise be excluded under the MOU framework, which arguably favors the United States. Rather than describing the Korean approach as dawdling, it could be viewed as a means of securing a commitment.

Another explanation for the delayed investment announcements may be divergent understandings of otherwise ambiguous terms in the agreement. For instance, the MOU clearly states "U.S. ownership" of investment projects but falls short of specifying whether the ownership will be private or public and how that ownership is defined. If the Korean government expects U.S. subsidiaries of Korean companies to own projects while the United States expects some part of its government to own investments, this signals divergent views that may contribute to delays.

In fact, equity has been an ongoing topic of discussion surrounding a potential natural gas power plant in Texas within the MOU framework. While the MOU clearly outlines aspects such as a U.S.-dominated project selection process, funding deadlines, and distributions of free cash flows, some terms may leave room for interpretation. Minister of Trade, Industry, and Resources Kim Jung-kwan highlighted his commitment to resolving issues at the working level ahead of meetings in Washington last week aimed at finalizing investment decisions.

The two governments are not the only parties involved; each project also relies on U.S. and Korean companies. Their corporate incentives and business models matter. The MOU states that suppliers will be selected for each project, with preference given to Korean vendors, and that Korea will suggest a project manager that will receive a management fee. If project ownership indeed falls to the U.S. government, the incentives for private companies (American or Korean) more closely resemble those of government procurement than of traditional investments in which companies hold equity.

Procurement-style incentives will likely suit companies in some strategic industries better than others. Large energy projects, including nuclear plants, combined-cycle power plants, pipelines, and transmission lines, align closely with these incentive structures, in which plants and infrastructure may be owned and operated by separate entities under long-term agreements.

The model arguably fits less well with semiconductor production facilities, for instance, which are owned and operated by the same company and where control of sensitive technologies is crucial, making it difficult to surrender ownership. Financial markets chase AI investments, making funding cheap and accessible for semiconductor companies outside the MOU investment framework. Therefore, it may be challenging to attract corporate partners for projects in some of the sectors outlined in the MOU—even if both governments agree—due to procurement-style incentives and a lack of corporate ownership in MOU-related projects.

Another recent MOU between KUIC, financial institutions, and major Korean shipbuilders HD Hyundai Heavy Industries, Samsung Heavy Industries, and Hanwha Ocean aims to facilitate shipbuilding investments. This signals a pragmatic approach by the Korean government to implement its USD 150 billion in shipbuilding investments in the United

States and perhaps overcome some potential incentives-related challenges. Minister of Economy and Finance Koo Yun Cheol called on Korean shipbuilders to identify projects that benefit and create shipbuilding opportunities in both countries, including for small and medium-sized shipbuilders and equipment suppliers. It also aims to help financial institutions and shipbuilders better share early-stage project risks.

While Korean investments appear delayed, causing frustration within the U.S. administration, a robust framework to support MOU-based investment projects has been established. In fact, it arguably signals a more lasting commitment to the agreement and attempts to better align incentives between the two countries and corporate entities. The MOU assigns project selection and approval to the United States, meaning that any Korean influence relies on the goodwill of the United States. As such, it is not in Korea's interest to stall the MOU's implementation. Moreover, failure to implement the MOU could lead to higher tariffs on Korean exports to the United States.

Some of the terms in the MOU may well pose challenges for projects in particular strategic sectors, even though they are outside the Korean government's control. Speculation about early projects suggests that the gas-fired power plant in Texas could be the first if the parties can resolve outstanding issues. Shipbuilding, with USD 150 billion earmarked within the MOU, is another plausible contender for early investments. The Korea-U.S. Shipbuilding Partnership Center was established in Washington last month, and Secretary of Commerce Howard Lutnick has emphasized the importance of shipbuilding investments and promised to help navigate regulatory hurdles. There are also clear efforts in Korea to stimulate shipbuilding projects in the United States. On the flip side, recent comments from Industry Minister Kim suggest that semiconductor projects are unlikely to be among the first investments despite enthusiasm from Washington. Regardless, Korea's first MOU announcement will be informative and help signal what types of investments fit within the framework.

Nils Wollesen Osterberg is Economic Policy Associate at the Korea Economic Institute *of America. The views expressed here are the author's alone.*

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