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Cover: Lotus pattern decorated at window frames in temple
'Gwangheungsa', South Korea [Robert at Picasa]

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EXECUTIVE SUMMARY

South Korea presents a solid yet complex investment environment, combining strong innovation capacity and policy stability with structural vulnerabilities that temper long-term growth. Economic performance is expected to slow to a growth of 0.9% in 2025 amid weak domestic demand, political uncertainty, and global trade pressures, before recovering gradually with a growth of 1.8% in 2026 and 2.1% in 2027. A strong trade surplus and advanced export industries, particularly in semiconductors and shipbuilding, provide resilience, though energy import dependence and exposure to Chinese competition remain persistent constraints.

Politically, the restoration of institutional legitimacy following the 2024 constitutional crisis has strengthened policy continuity under President Lee Jae-myung's administration. Governance predictability has improved, yet rooted polarization and chaebol influence limit reform depth. Demographic contraction, with the lowest fertility rate in the world and an aging population set to double its dependency ratio by 2035, poses long-term fiscal and labor challenges. Regionally, stable inter-Korean relations and coordination with the United States reduce near-term security risks.

Technological and energy prospects remain strong drivers of ROK's competitiveness. Rapid advances in AI, robotics, and defense technology, alongside a growing share of low-emission energy generation expected to exceed 70% by the early 2030s, reinforce the country's innovation edge. However, reliance on imported energy and critical minerals from China constrains full strategic autonomy.

SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> ● Technological leadership in semiconductors, batteries and advanced shipbuilding ● Skilled, innovation-driven workforce ● Commitment to research and development (R&D) ● Resilient institutional framework 	<ul style="list-style-type: none"> ● Heavy dependence on energy imports ● Limited natural resources ● Demographic decline and aging population ● Overconcentration in chaebols ● Domestic political polarization
Opportunities	Threats
<ul style="list-style-type: none"> ● Green and digital transitions ● Expansion of AI and automation ● Growth of defense exports ● Regional partnerships 	<ul style="list-style-type: none"> ● Growing Chinese economic and political influence ● Global competition in advanced manufacturing ● Energy security and climate vulnerabilities ● Geopolitical exposure to supply chains

Time Frames used in this report:*Short term: 1-3 years**Medium term: 3-5 years**Long term: 5-10 years*

1. ECONOMIC FORECAST

√ South Korea's GDP growth in 2025 will decline to 0.9% in 2025 due to weak domestic demand, political uncertainty, and external pressures including US trade measures. Growth is projected to recover gradually to 1.83% in 2026 and 2.15% in 2027, supported by fiscal stimulus and improving consumer confidence.

√ South Korea will continue to face mounting competition from China across key industries, eroding its export strength and profitability. Overcapacity and price pressures will weigh on core sectors like batteries and electronics. Yet, Korea will retain an edge in high-value, green technologies and advanced shipbuilding.

√ Despite a strong 2025 trade surplus and resilient export growth, rising competition from China and partial US protectionism, as well as slow regional liberalization under RCEP, underline persistent structural vulnerabilities that could weigh on future trade performance and investment sentiment.

1.1 Analysis of Macroeconomic Indicators

Figure 1: Macroeconomic indicators

Indicators	2024 e	2025 f	2026 f	2027 f
Real GDP growth (% Growth)	2.00	0.90	1.83	2.15
Inflation rate (%)	2.32	1.99	1.85	1.97
Budget deficit (% GDP)	-0.78	-1.52	-1.36	-1.41
Public debt (% of GDP)	49.82	53.37	56.66	58.89
Unemployment rate (%)	2.80	3.0	3.0	2.90
Current account balance (% GDP)	5.28	4.80	3.92	4.13

Data Source: IMF (updated October 2025).¹

¹ IMF. "IMF Data Mapper, Republic of Korea." IMF, 2025. <https://www.imf.org/external/datamapper/profile/KOR>.

South Korea's economic activity demonstrates resilience in the short-to-medium-term; however, growth will remain below trend through 2025 as both domestic and external challenges persist. The GDP slowdown is driven by weakened private consumption, political uncertainty, and trade disruptions linked to US tariffs. What was initially a 25% tariff on South Korean goods has come down to a negotiated 15%, in exchange for a South Korean investment of USD 350 billion in the US, and the purchase of USD 100 billion worth of liquefied natural gas (LNG).² Inflation continues to decline toward the Bank of Korea's 2% target, yet remains exposed to risks from global supply fluctuations and energy price volatility. Unemployment is projected to stay low but may rise slightly as structural issues and demographic pressures affect the labor market. Fiscal pressures are expected to intensify as the budget deficit widens and public debt increases. Meanwhile, the current account surplus is set to continue narrowing until 2027 amid softer export performance amid global trade tensions, before bouncing back. Despite these challenges, medium-term prospects remain moderately positive, supported by policy easing, targeted investments, and a gradual recovery in key sectors such as technology and services.

GDP

South Korea's economic growth has decelerated since its post-pandemic rebound, with 2024 GDP growth at 2.02%, down from 4.61% in 2021.³ The December 3, 2024, declaration of martial law exacerbated existing economic fragility, deepening declines in consumer spending and investor confidence.⁴ According to the IMF's October 2025 forecast, GDP growth is forecasted at 0.90% in 2025 and is expected to rebound to 1.83% in 2026.⁵ Consequently, ROK's economy is expected to rebound in 2026 after being subdued in 2025, driven by easing domestic political uncertainties and accommodative policies.⁶ Nevertheless, it still represents a stark decline from the 2-2.5% growth rate of the previous decade.

² Ewe, Koh, and Kathryn Armstrong. "S Korea Announces Lowering of Tariffs as Part of New US Trade Deal." BBC News, October 29, 2025. <https://www.bbc.com/news/articles/cly4jz9zr50o>.

³ IMF. "Data Explorer." Imf.org, 2025. <https://data.imf.org/en/Data-Explorer>.

⁴ OECD. "OECD Economic Outlook, Volume 2025 Issue 1: Tackling Uncertainty, Reviving Growth." OECD, June 3, 2025. <https://doi.org/10.1787/83363382-en>.

⁵ IMF. "IMF Data Mapper, Republic of Korea." IMF, 2025. <https://www.imf.org/external/datamapper/profile/KOR>.

⁶ Ibid.

Similarly, the Bank of Korea forecasts a growth rate of 0.9% for 2025, and a relatively lower growth rate of 1.6% for 2026.⁷ The Bank of Korea expects high uncertainty regarding the future path of economic growth, including trade negotiations between the US and China, the imposition of product-specific tariffs, and the pace of recovery in domestic demand.

South Korea's slowdown is more structural than policy-driven, exacerbated by the recently unsettled domestic political situation and US tariffs, both of which depress domestic investment spending.⁸ On the other hand, real GDP growth in 2027 is expected to be 2.15%.⁹ This improvement is likely to result from a near-term mix of accommodative monetary and fiscal policies, along with targeted financial measures that support growth and preserve macroeconomic stability.¹⁰

Inflation rate

Consumer price inflation in ROK has been decreasing over the years, reaching 2.32% in 2024.¹¹ The IMF projects South Korea's average inflation rate to be 1.99% in 2025 before stabilizing.¹² The 2026 projection reduces the rate slightly to 1.85%.¹³ Despite these predictions, the IMF warned that uncertainty around the outlook remains high, with risks tilted to the downside.¹⁴ Lastly, the inflation rate for 2027 is expected to reach 1.97%, which aligns with maintaining a low, stable, and predictable inflation rate.

Budget deficit

According to the IMF, South Korea's fiscal position is expected to deteriorate moderately in the short term. The general government net borrowing was recorded at -0.78% of GDP in 2024.¹⁵ This deficit will widen to -1.52% of GDP in 2025, reflecting the government's

⁷ Bank of Korea. "Monetary Policy Decision." August 28, 2025.

⁸ Kim, Sang. "Weak U.S. And South Korean GDP Growth in the First Quarter of 2025, but for Different Reasons." Korea Economic Institute of America, June 10, 2025. <https://keia.org/the-peninsula/weak-u-s-and-south-korean-gdp-growth-in-first-quarter-of-2025-but-for-different-reasons/>.

⁹ IMF. "Data Explorer." Imf.org, 2025. <https://data.imf.org/en/Data-Explorer>.

¹⁰ The Chosun Daily. "IMF Projects 0.9% Growth for South Korea, Urges Fiscal Reforms." The Chosun Daily, September 24, 2025. www.chosun.com/english/market-money-en/2025/09/24/E35QJPQJR5HADCZWCQVHRN55NQ/.

¹¹ IMF. "Data Explorer." Imf.org, 2025. <https://data.imf.org/en/Data-Explorer>.

¹² KDI, "Monthly Economic Trends." KDI, September 2025. https://www.kdi.re.kr/eng/research/monTrends?pub_no=18874.

¹³ Ibid.

¹⁴ IMF. "IMF Staff Completes 2025 Article IV Mission to the Republic of Korea." September 23, 2025. <https://www.imf.org/en/News/Articles/2025/09/23/pr-25308-republic-of-korea-imf-staff-completes-2025-article-iv-mission>.

¹⁵ IMF. "Data Explorer" Imf.org, 2025, <https://data.imf.org/en/Data-Explorer>.

expansionary fiscal stance to stimulate domestic demand and offset weak private investment.¹⁶ The deficit is projected to narrow slightly in 2026 to -1.36% and to -1.41% in 2027, as fiscal consolidation efforts take effect, indicating a slight improvement in the fiscal balance.¹⁷ However, continued social spending and industrial subsidies under the Lee Jae Myung administration could delay the pace of adjustment.

Public debt

South Korea's public debt has increased significantly over the last few years, with its pre-pandemic rate in 2019 at 42.2% of the GDP.¹⁸ In contrast, it reached 49.82% in 2024 and is expected to increase to 53.37% of GDP by the end of 2025, continuing its upward trajectory.¹⁹ The forecast for 2026 and 2027 indicates that the rate of increase will continue, reaching 56.66% and 58.89% of the GDP, respectively, driven by the expansionary fiscal policy under the Lee Jae Myung administration.²⁰

The implications of this rising debt are profound, as it may limit the government's ability to invest in critical areas such as infrastructure, education, and social welfare. Additionally, a high debt burden could lead to increased borrowing costs and reduced investor confidence, ultimately impacting economic growth.²¹ This expected increase in debt levels suggests a continuing trend of rising financial obligations in relation to the nation's economic growth. While South Korea's debt ratio remains lower than that of major G7 countries, it faces more stringent funding conditions as a non-reserve currency nation.²²

Unemployment rate

South Korea has maintained a relatively low unemployment rate, at or below 3% in the post-pandemic period.²³ According to the IMF, it was at 2.80% in 2024, and is expected to rise

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Marketline. "South Korea In-depth PESTLE Insights." Marketline, August 2025.

<https://new.marketline.com/Analysis/details/country-analysis-report-south-korea-in-depth-pestle-insights-26059>.

²² Jung, Min-hee. "Korea's National Debt Ratio Surpasses Non-Reserve Currency Countries' Average." Business Korea, May 12, 2025. <https://www.businesskorea.co.kr/news/articleView.html?idxno=241954>.

²³ OECD. "OECD Employment Outlook 2025: Korea." 2025. https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/07/oecd-employment-outlook-2025-country-notes_5f33b4c5/korea-republic-of_3f6a1ffe/b0b5d16b-en.pdf.

slightly to 3.0% by the end of this year.²⁴ The forecast for this rate is to remain at 3.0% by 2026, and then decline to 2.90% in 2027. This reflects moderate economic growth and demographic pressures that continue to limit labor supply.

Regarding government investment in this area, on June 19th, 2025, the government noted that it had increased the budget under the Ministry of Employment and Labor by approximately KRW 1.6 trillion compared to the previous year.²⁵ The funding was primarily increased for projects aimed at alleviating employment crises in the construction and manufacturing sectors, as well as for unemployment benefits and national employment support. Sustaining employment levels will depend on continued fiscal support and investment in innovation and digital industries to offset the effects of an aging workforce.

Current Account Balance

South Korea's Current Account Surplus as a percentage of GDP stood at 5.28% in 2024.²⁶ However, the IMF estimates a moderate decrease, projecting it at 4.80% in 2025. In 2026, the positive balance will decrease to 3.92% of GDP.²⁷ The 2027 forecasted value, however, sits at 4.13%, representing a somewhat fair increase.²⁸ According to the Bank of Korea, ROK recorded a surplus of USD 5.7 billion in April 2025, marking the twelfth consecutive month of a positive balance. However, this surplus was the smallest in three months. The reduction in the surplus was attributed to a deficit in the Services account, driven by decreased travel and other business services, as well as a deficit in the primary income account resulting from reduced equity income.²⁹ The Current Account Surplus is expected to narrow, primarily due to a deterioration in the goods balance, driven mainly by US tariff policies.³⁰ Despite this moderation, South Korea is expected to maintain a healthy surplus, supported by a competitive export base and resilient service-sector recovery.

²⁴ IMF, "Data Explorer," Imf.org, 2025, <https://data.imf.org/en/Data-Explorer>.

²⁵ Chosun Biz. "Korea Boosts Unemployment Benefits for 190,000 amid Employment Crisis." Chosun Biz, June 19, 2025. <https://biz.chosun.com/en/en-society/2025/06/19/DFDXDDM5C5B6RFUT7FO7W3EWQE/>.

²⁶ IMF. "Data Explorer." Imf.org, 2025. <https://data.imf.org/en/Data-Explorer>.

²⁷ Ibid.

²⁸ Ibid.

²⁹ The Korea Herald. "S. Korea's Current Account Surplus Narrows in April amid US Tariff Pressure." The Korea Herald, June 10, 2025. <https://www.koreaherald.com/article/10505524#:~:text=S..tariff%20pressure%20%2D%20The%20Korea%20Herald>.

³⁰ Bank of Korea. "Recent Economic Developments." Bank of Korea, April 2025. <https://www.bok.or.kr/eng/bbs/E0000634/view.do?nttlId=10090945&oldMenuNo=400007&menuNo=400069&programType=newsDataEng&depth=400069&relate=Y>.

1.2 Industrial Competition and Chinese Pressure

South Korea's export-oriented economy has long been driven by its large industrial conglomerates, or *chaebols*, whose global expansion once allowed the country to surpass Japan in several advanced manufacturing sectors. ROK's top *chaebols* are Samsung, SK Group, Hyundai, and LG. In 2023, the five largest conglomerates accounted for 40% of the country's GDP.³¹ In recent years, however, these conglomerates have faced intensifying competition from China's rapid industrial ascent. What was once a complementary relationship has gradually evolved into a more direct rivalry, as Chinese firms move up the value chain and challenge South Korea's technological leadership.

This shift has been reinforced by China's policy direction under President Xi Jinping, who has since 2013 accelerated efforts to upgrade the country's industrial base and achieve greater technological self-sufficiency. China has transitioned from a low-value, labor-intensive production toward an innovation-driven manufacturing, which has reshaped the regional competitive landscape and given rise to a more direct contest across advanced sectors.³²

In 2023, ROK's industrial sector, which includes manufacturing, construction, mining, and utilities, accounted for approximately 31.6% of the country's GDP,³³ and employed 23.99% of the workforce.³⁴ Within this sector, the country excels in automobiles, electronics, shipbuilding, petrochemicals, and steel production.³⁵ The South Korean automotive industry has long been a key indicator of the country's economic growth, experiencing rapid expansion over the decades. South Korean firms maintain technological leadership, yet Chinese rivals are closing the innovation gap and expanding aggressively in price-sensitive markets.

³¹ The Korea Times. "South Korea's Major Conglomerates Dominate 40 Percent of GDP in 2023." The Korea Times, October 9, 2024. <https://www.koreatimes.co.kr/business/banking-finance/20241009/south-koreas-major-conglomerates-dominate-40-percent-of-gdp-in-2023>.

³² Zhang, Muhui and Yue Wu. "Toward Rivalry and Decoupling: South Korea's Changing Economic Dynamics with China." *Inha Journal of International Studies, Pacific Focus*, 40: 359-391, August 2025. <https://onlinelibrary.wiley.com/action/showCitFormats?doi=10.1111%2Fpafo.70000>.

³³ Business Monitor Online, "South Korea Economic Openness Analysis." Business Monitor Online. September 26, 2025. <https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6GV6-NM63-RRPH-8269-00000-00&context=1519360>.

³⁴ Statista. "South Korea Employment by Economic Sector 2013-2023." Statista, 2023. <https://www.statista.com/statistics/604702/employment-by-economic-sector-in-south-korea/>.

³⁵ Gedeth Network, "South Korea Economic Review." Gedeth Network, June 10, 2025. <https://gedeth.com/blog/2025/06/10/south-korea-economic-overview/>.

1.2.1 Short-Term Outlook: Consumer and Innovation Sectors

Over the next 1 to 3 years, it is likely that South Korea's key manufacturing and technology sectors, including steel, electric vehicles, batteries, and heavy and chemical industries, will continue to face escalating challenges amid China's rapid expansion in production and exports. The difficulties come from uneven global demand, aggressive Chinese market entry, overcapacity, and low prices. This intensifying competition has weakened the performance of major South Korean firms and heightened uncertainty across core industries. Technological convergence, tighter supply chains, and fierce industrial rivalry are expected to further test the resilience of South Korea's flagship sectors.

China's overcapacity across various industries puts pressure on ROK by flooding global markets with cheaper products, driving down prices, and intensifying competition. South Korean companies, which focus on high-quality and innovative goods, face reduced profit margins and limited market share as customers turn to cost-effective Chinese options.³⁶ In the same line, the surplus production of electric vehicle batteries in China, which is about twice domestic consumption, is also leading to global price declines and deteriorating performance for South Korean companies like Hanwha Solutions and LG Display.³⁷

In the smartphone market, Samsung continues to dominate the premium segment but faces increasing pressure from Xiaomi and Huawei, with Samsung's global market share slipping to around 18.0 % in 2024, while Xiaomi reached around 13.6 %.³⁸ Regarding home appliances, LG's strong position is being challenged by Chinese players such as Haier and Hisense, which have lower manufacturing costs and are aggressively expanding. Lastly, in the automotive sector, Hyundai and Kia are confronting BYD's rapid global rise, which reached over 4.27 million global vehicle sales in 2024, a year-on-year growth of about 41 %, which underscores the scale of the Chinese competitive threat.³⁹

³⁶ Lim, Jarvis. "Seoul Risks Crippling Key Industries, Economic Retaliation with Deeper China Ties: Analysts." The Epoch Times, October 29, 2025. <https://www.theepochtimes.com/world/seoul-risks-crippling-key-industries-economic-retaliation-with-deeper-china-ties-analysts-5936900?welcomeuser=1>.

³⁷ Suk-ye, Jung. "South Korean Manufacturing Faces Crisis amid Chinese Oversupply and Export Push." Business Korea, September 12, 2024. <https://www.businesskorea.co.kr/news/articleView.html?idxno=225097>.

³⁸ IDC. "Smartphone Market Insights," IDC, September 4, 2025. <https://www.idc.com/promo/smartphone-market-share/market-share/>.

³⁹ Lesjak, Žiga. "BYD Sales by Model and Country Statistics (Feb 2025)." Tridens, February 25, 2025. <https://tridenttechnology.com/byd-sales-statistics/>.

Moreover, China currently dominates the battery market, accounting for around three-quarters of global battery sales in 2024. The second-largest battery producer is South Korea, with a share of around 20% in 2024, followed by Japan with 7%. Three South Korean producers (LG Energy Solutions, SK On, and Samsung SDI) rank among the top six battery producers globally.⁴⁰

Responses to these challenges consist of practices like offshoring, such as companies like Samsung SDI, which sold its polarizing film businesses to Chinese companies due to their low-price strategies.⁴¹ Nevertheless, South Korean companies are also focusing on future growth and innovation. For instance, LG Energy Solution's USD 5.5 billion battery plant in Arizona will start mass production of cylindrical batteries in the first half of 2026.⁴²

In the short term, ROK is expected to stabilize its competitiveness by deepening specialization in advanced batteries and premium EVs. Yet, the persistence of Chinese overcapacity and state support will most likely prevent a full recovery in market share.⁴³

1.2.2 Medium-Term Outlook: Shipbuilding Industry

East Asia dominates the shipbuilding industry, with China and ROK accounting for 54.6% and 28% of ships in the region in 2024, respectively.⁴⁴ While Japan dominated the market in the 1950s, South Korea entered the sector in the 1970s and gradually established itself as a global leader in high-tech, high-value vessels, including liquefied natural gas (LNG) carriers, offshore platforms, and eco-friendly ships.⁴⁵ Hyundai Heavy Industries, Samsung, and Hanwha Ocean are the three *chaebols* that lead South Korea's high-value shipbuilding, focusing on LNG carriers, offshore platforms, and defense vessels, respectively.⁴⁶

⁴⁰ Jones, Randall S. "South Korea's Battery Industry Faces Challenges." ResponsesKorea Economic Institute of America, August 25, 2025. <https://keia.org/the-peninsula/south-koreas-battery-industry-faces-challenges/>.

⁴¹ Reuters. "Samsung SDI to Sell Polarizing Film Business to Chinese Firm for \$836 Mln." Reuters, September 9, 2024. <https://www.reuters.com/markets/deals/samsung-sdi-sell-polarizing-film-business-chinese-firm-836-mln-2024-09-09/>.

⁴² Chea, Sarah, "Exclusive: LG Energy's Arizona Battery Plant to Start Mass Production in First Half of 2026." Korea JoonAng Daily, March 5, 2025. <https://koreajoongangdaily.joins.com/news/2025-03-06/business/industry/Exclusive-LG-Energys-Arizona-battery-plant-to-start-mass-production-in-first-half-of-2026/2255270>.

⁴³ Suk-ye, Jung. "South Korean Manufacturing Faces Crisis amid Chinese Oversupply and Export Push." Business Korea, September 12, 2024. <https://www.businesskorea.co.kr/news/articleView.html?idxno=225097>.

⁴⁴ UNCTAD. "Ships Built by Country of Building, Annual (Analytical)." UNCTAD, June 10, 2025. <https://unctadstat.unctad.org/datacentre/dataviewer/US.ShipBuilding>.

⁴⁵ Lee, Dongkeun. "A Comparative Study of the Shipbuilding Industries of South Korea and Japan." Observer Research Foundation, February 11, 2025. <https://www.orfonline.org/research/a-comparative-study-of-the-shipbuilding-industries-of-south-korea-and-japan>.

⁴⁶ Sharma, Abhishek. "South Korean Shipbuilding: Capabilities, Competition, and Constraints." Observer Research Foundation, September 11, 2024. <https://www.orfonline.org/expert-speak/south-korean-shipbuilding-capabilities-competition-and-constraints>.

Despite maintaining its global-leading position, the South Korean shipbuilding industry is facing a steady decline in competitiveness. According to UNCTAD, China was the most prominent global shipbuilder by gross tonnage in 2024, leading across all commercial cargo-carrying segments except gas carriers, a sector where ROK holds the majority share. Therefore, South Korea is the second-largest global shipbuilder by gross tonnage, building high-value, green, and smart ships within the gas, container, and tanker segments.⁴⁷ To achieve this advantage, China has transformed itself from a low-cost builder into the global leader in total shipbuilding volume. Its industry leader is the state-owned giant China State Shipbuilding Corporation, one of the largest state-owned shipbuilding companies in the World, producing from bulk carriers to naval destroyers.⁴⁸

Medium-term risks for ROK from Chinese enterprises include price competition, overcapacity, intense demand competition, and state-backed expansion. Over the next three to five years, the segments most exposed to these pressures will be bulk carriers, oil tankers, and standard container ships, which align with China's mass-production capabilities and the demand for cost-efficient cargo transport. A clear example of China's advantage in this sector is container ship deliveries in 2024, where it accounted for 16.577.611 thousands of gross tons, compared to South Korea's 11.325.793.⁴⁹

Despite losing power in the areas mentioned above, ROK is expected to maintain its lead in high-value vessels, including LNG carriers, LPG carriers, VLCCs, and eco-friendly ships.⁵⁰ The gas segment is, in fact, the only sector where China does not hold the top market share in 2024 contracting.⁵¹ In terms of deliveries of gas carriers (thousands of gross tons), South Korea accounted for 6.817.843 in 2024, while China ranked second, with 1.710.48.⁵²

⁴⁷ UNCTAD. "Review of Maritime Transport: Staying the Course in Turbulent Waters." UNCTAD, September 2025. https://unctad.org/system/files/official-document/rmt2025_en.pdf.

⁴⁸ Mets. "Top 20 Shipbuilding Companies in the World (2025)." Mets, August 20, 2025. <https://mets.co.in/shipbuilding-companies-in-the-world/>.

⁴⁹ Ibid

⁵⁰ Yoon, Jang Seob. "Shipbuilding Industry in South Korea." Statista, April 16, 2025. <https://www.statista.com/topics/7200/shipbuilding-industry-in-south-korea/?srsltid=AfmBOoqyChmsUC4Y8NLd0Viv2am-9LMhExxjf8WvinqkB6NLT9h5klJj>.

⁵¹ UNCTAD. "Review of Maritime Transport: Staying the Course in Turbulent Waters." UNCTAD, September 2025. https://unctad.org/system/files/official-document/rmt2025_en.pdf.

⁵² Ibid.

Four years ago, some experts claimed that while ROK had long led in high-value-added shipbuilding, China could soon overtake it through rapid expansion and competitive pricing. Currently, this has partly proven true, as China now leads in segments like bulk carriers. However, the authors may have underestimated South Korea's resilience and continued leadership in advanced, eco-friendly vessels such as LNG carriers and green ships. Despite China's rapid progress, South Korea remains a key innovator and strong competitor in the global shipbuilding industry.⁵³

ROK's government and major shipbuilders are jointly strengthening the sector's medium-term capabilities through coordinated innovation and policy alignment. A collaborative framework among HD Hyundai Heavy Industries, Samsung Heavy Industries, and Hanwha Ocean is driving investment in green technology, autonomous shipping, and workforce training to align with the IMO's 2030 Strategy on Reduction of GHG Emissions from Ships.⁵⁴ Similarly, the South Korean government has taken notable steps toward decarbonising shipping and transport by launching initiatives such as the "2023 National Action Plan Toward Green Shipping by 2050",⁵⁵ which signals a strong government support for sustainability, creating opportunities in the forthcoming years for South Korean shipbuilders to lead in eco-friendly vessel design, enhancing their appeal to ESG-conscious investors.⁵⁶

Looking ahead, ROK's leading shipbuilders are expected to expand their leadership in advanced, eco-friendly vessels. However, China's continued dominance in mass-production sectors such as bulk carriers and standard container ships remains inevitable, limiting a full sectoral recovery.⁵⁷

⁵³ Izco Jiménez, Andrea, Elena López-Dóriga, and Lucía Sáez Ceballos. "South Korea. Political Risk Report. May 2021." Center for Global Affairs & Strategic Studies, University of Navarra, 11-16. <https://www.unav.edu/en/web/global-affairs/detalle/-/blogs/south-korea-political-risk-report-may-2021>.

⁵⁴ IMO. "IMO's Work to Cut GHG Emissions from Ships." IMO, 2023. <https://www.imo.org/en/mediacentre/hottopics/pages/cutting-ghg-emissions.aspx>.

⁵⁵ OECD, "The Role of Shipbuilding in Maritime Decarbonisation: Impacts of Technology Developments and Policy Measures." OECD, 2025. https://www.oecd.org/en/publications/the-role-of-shipbuilding-in-maritime-decarbonisation_0c8362c0-en.html.

⁵⁶ Ministry of Oceans and Fisheries. "Toward Green Shipping: 2023 National Action Plan." Ministry of Oceans and Fisheries, 2023. <https://wwwcdn.imo.org/localresources/en/OurWork/Environment/Documents/NAP/R.O.K%20National%20Action%20Plan%20-%20Toward%20Green%20Shipping%20by%202050.pdf>.

⁵⁷ UNCTAD. "Review of Maritime Transport: Staying the Course in Turbulent Waters." UNCTAD, September 2025. https://unctad.org/system/files/official-document/rmt2025_en.pdf.

1.3 Trade Balance and Geopolitical Pressures

As an export-oriented country, ROK has been recording a consistent trade surplus since 2008. In September 2025, South Korea's exports rose 12.7% year-on-year to USD 66.0 billion, while imports increased 8.2% to USD 56.4 billion. The trade balance reached a surplus of USD 9.6 billion, the largest since September 2018.⁵⁸ Therefore, it is a heavily dependent country on international trade, with its main trading partners in 2023 including China, with a 25% share in exports, and the US, which came second with a 16%.⁵⁹ This dependence on international trade makes South Korea particularly vulnerable to shifting global alignments. The rivalry between the US and China has led to a broad reconfiguration of global supply chains, posing significant challenges for South Korean industries.⁶⁰

1.3.1 China: Trade Dependence and Strategic Vulnerabilities

Since 2020, China and ROK's once complementary trade relationship has become increasingly competitive. In 2023, South Korea's long-standing surplus with China turned into a deficit for the first time in thirty years, driven by China's rapid technological progress, US-China tensions, and South Korea's strategic shift toward supply chain diversification.⁶¹

In August 2025, ROK's year-on-year decline in exports to China was mainly due to decreases in shipments of integrated circuits, disc chemicals for electronics, and combustion engines. Meanwhile, during the same month, the increase in South Korea's imports from China was primarily driven by imports of cars, disc chemicals for electronics, and iron structures.⁶² In August 2025, South Korea exported USD 11 billion and imported USD 11.6 billion from China, resulting in a negative trade balance of USD 557 million.⁶³ This change is influenced by China's rapid technological growth, industrial progress, and escalating US-China rivalry.

In the forthcoming years, the tariff war directed from the US to imports from China will have a prolonged adverse effect on ROK's exports to the latter, underlining the impact of

⁵⁸ Ibid.

⁵⁹ O'Neill, Aaron. "South Korea: Main Export Partners in 2023." Statista, April 3, 2025.

<https://www.statista.com/statistics/939680/most-important-export-partner-countries-for-south-korea/>.

⁶⁰ Cho, Eun Kyo, and Jung Shim Woo. "The Evolving Structure of Korea-China Supply Chains in High-Tech Industries and Korea's Response." Korea Institute for Industrial Economics and Trade, March 29, 2024.

https://www.kiet.re.kr/en/pub/economyDetailView?detail_no=2919&year=&month=&stype=&sval=&pg=2&pp=10.

⁶¹ Zhang, Xiaoyu. "Analysis of the Korea's Trade Deficit with China in 2023." Advances in Economics, Management and Political Sciences, 76, 74-80, April 18, 2024. <https://www.ewadirect.com/proceedings/aemps/article/view/11492>.

⁶² Ibid.

⁶³ Ibid.

geopolitical tensions in the South Korean trade-dependent economy.⁶⁴ China is an essential market for South Korean exports in many of the same sectors that dominate its trade flows to the US. About 80% of South Korean exports to China consist of intermediate goods used by Chinese firms in production, which are then shipped to the US as Chinese exports. Therefore, US tariffs resulting in falling Chinese exports to the US will also continue to lower the demand for ROK's intermediate goods exports to China.⁶⁵

On the other hand, China has applied export restrictions on seven rare earth elements (REEs) and magnets used, among others, in the electric vehicle (EV) sector.⁶⁶ The limits on these minerals, some of which are critical for EV, semiconductor, smartphone, and battery production, have posed challenges for the South Korean EV industry. While this may eventually strengthen supply chain resilience, South Korean carmakers and battery producers currently depend on China for over 80% of key materials.⁶⁷

In the short to medium term, ROK's heavy reliance on Chinese inputs increases the risk of trade disruptions. These restrictions add uncertainty to supply chains, raise production costs, and weaken export competitiveness, potentially challenging the sustainability of South Korea's positive trade balance. Furthermore, China's industrial expansion and ongoing trade frictions with the United States are expected to weigh on South Korean exports, particularly in semiconductors, consumer electronics, and automotive products, underscoring the structural vulnerability of its export-dependent economy to global market and geopolitical shifts, which will potentially result in a negative trade balance with the Chinese economy.⁶⁸

1.3.2 United States: Tariff Policy and Industrial Realignment

ROK's commercial relationship with the United States remains one of its most significant bilateral partnerships. Lately, the trade activity between the two nations has reflected shifts in

⁶⁴ Revere, Evans J.R. Kuyoun Chung et al. "How will South Korea navigate US-China competition in 2025?" Brookings Institution, January 22, 2025. <https://www.brookings.edu/articles/how-will-south-korea-navigate-us-china-competition-in-2025/>.

⁶⁵ Chai, Hua and Hyeryoun Kim. "Korea in a Changing Global Trade Landscape: Korea." International Monetary Fund, March 5, 2025. <https://doi.org/10.5089/9798229003384.018>.

⁶⁶ Baskaran, Gracelin and Meredith Schwartz. "The Consequences of China's New Rare Earths Export Restrictions." Center for Strategic & International Studies, April 14, 2025. <https://www.csis.org/analysis/consequences-chinas-new-rare-earths-export-restrictions#:~:text=On%20April%204%2C%20China's%20Ministry.export%20the%20minerals%20and%20magnets>.

⁶⁷ Chai, Hua and Hyeryoun Kim. "Korea in a Changing Global Trade Landscape: Korea." International Monetary Fund, March 5, 2025. <https://doi.org/10.5089/9798229003384.018>.

⁶⁸ Kim, Kyoung You. "Toll Roads: How US Tariffs Are Rewriting Korea's Automotive Playbook." KIET, June 24, 2025. [https://www.kiet.re.kr/en/pub/issueView?issue_no=824&skey=&sval=&pgin which Trump demanded a greater contribution from South Korea for the stationing of US troops in the country, resulting in a stalemate in negotiations to renew=1&pp=10](https://www.kiet.re.kr/en/pub/issueView?issue_no=824&skey=&sval=&pgin%20which%20Trump%20demanded%20a%20greater%20contribution%20from%20South%20Korea%20for%20the%20stationing%20of%20US%20troops%20in%20the%20country%20resulting%20in%20a%20stalemate%20in%20negotiations%20to%20renew%20I&pp=10).

export and import dynamics compared to the previous year. In August 2025, South Korea exported USD 8.74 billion and imported USD 5.98 billion from the US, resulting in a positive trade balance of USD 2.76 billion.⁶⁹ Compared with August 2024, exports fell by 12% and imports by 3.8%.⁷⁰ ROK's main exports to the US were cars, office machine parts, and refined petroleum, while its key imports included crude petroleum, LNG, and cars.⁷¹ The overall decline was mainly driven by lower sales of office machine parts, refined petroleum, and oxometallic or peroxometallic salts, as well as reduced imports of integrated circuits, petroleum gas, and crude petroleum.⁷²

Despite the existence of a Free Trade Agreement since 2012, the Trump administration's renewed protectionist stance announced in early 2025 reciprocal tariffs on South Korean imports. However, what was originally a steep 25% tariff has come down to 15% on South Korean imports under a provisional deal between the two countries, in exchange for a USD 350 million investment package from South Korea and the purchase by government-controlled Korea Gas Corporation of around 3.3 million metric tons of US LNG per year.⁷³ Therefore, it constitutes a beneficial deal, considering that ROK has managed to secure more safeguards to cushion any potential shock to the domestic foreign currency market, like a USD 20 billion annual limit on South Korean investment in the US⁷⁴

However, there have been recent visa and investment issues affecting South Korean firms on US projects, which underscores that large-scale US investments could lead to increased risks rather than actual benefits. Major companies that have decided to invest in the US, including LG Energy Solution and Hyundai Motor Co., are re-examining their strategies.⁷⁵

In the short term, ROK is expected to maintain a positive trade balance with the US, supported by strong demand for high-tech products. However, in the medium term, the surplus is likely to narrow as tariffs, despite being reduced, will lower export volumes.

⁶⁹ The Observatory of Economic Complexity. "South Korea and United States Trade." OEC, 2025.

<https://oec.world/en/profile/bilateral-country/kor/partner/usa>.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Reuters. "South Korea Releases Details of Trade Deal Struck with the US." Reuters, October 30, 2025.

<https://www.reuters.com/business/autos-transportation/south-korea-releases-details-trade-deal-struck-with-us-2025-10-30/>.

⁷⁴ Ibid.

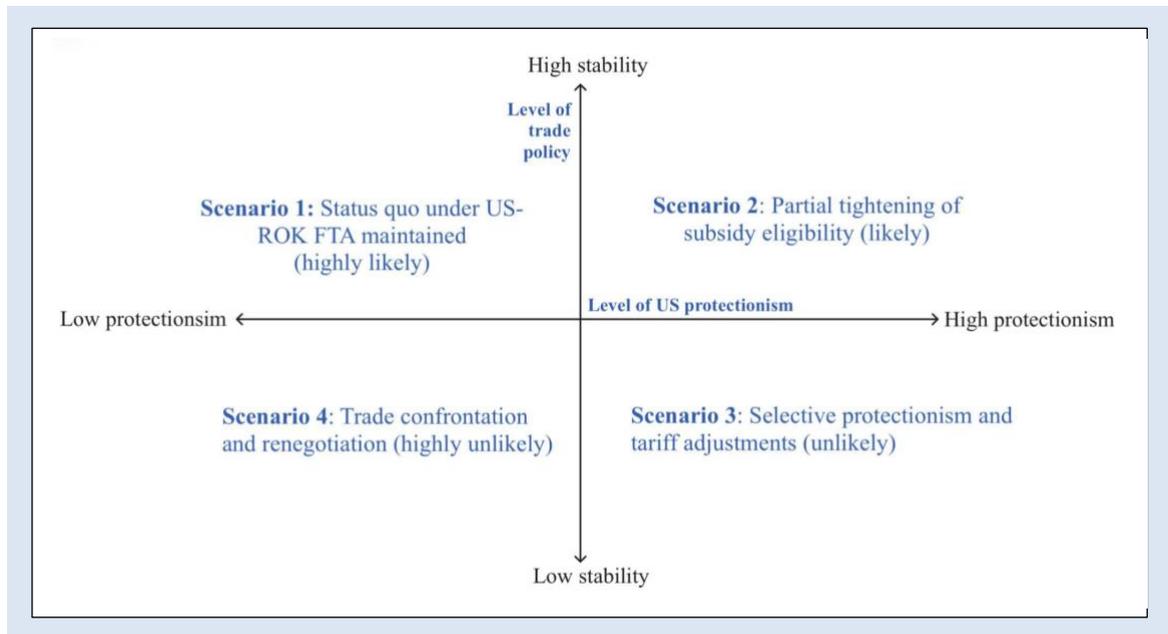
⁷⁵ Jung, Min-hee. "Korean Conglomerates Reconsider U.S. Investment Plans." Business Korea, September 15, 2025.

<https://www.businesskorea.co.kr/news/articleView.html?idxno=251902>. tariff framework over the medium term due to

1.3.3 Scenario Construction I: The Future of the US–ROK Tariff Deal

Research question: How likely is a change in the US-ROK tariff framework over the medium term due to US industrial policy and protectionist pressures?

Figure 2: Scenarios on potential futures regarding the US-ROK Tariff Deal



Scenario 1: Status quo under US-ROK FTA maintained (highly likely)

This scenario is the most plausible, as it was recently announced that the two countries will continue to benefit from the existing trade framework. Despite the US’s ongoing industrial realignment, no major tariff modifications have been implemented. South Korean firms maintain access to the US market through local investment, and the 15% negotiated tariff on South Korean goods remains in place.

Scenario 2: Partial tightening of subsidy eligibility (likely)

This scenario assumes a stricter application of the US local content rules under its industrial policies. South Korean companies could face reduced access to financial incentives and tax credits, especially in EV and semiconductor production. While the trade relationship would remain functional, these measures would raise operating costs and tighten US requirements, likely prompting South Korean companies to expand production in the United States to maintain competitiveness.

Scenario 3: Selective protectionism and tariff adjustments (unlikely)

In this case, Washington introduces targeted protectionist measures in specific industries, such as electric vehicles, batteries, and shipbuilding, while maintaining the existing 15% tariff on South Korean goods. For instance, an increase in import tariffs on electric vehicles from 15% to 25%. Although the overall framework would remain in place, these selective actions would heighten uncertainty, strain bilateral relations, and weaken South Korean competitiveness in key strategic markets.

Scenario 4: Trade confrontation and renegotiation (highly unlikely)

This scenario remains the least plausible, as recent US engagement with Asian partners indicates a moderate shift away from strict protectionism. A full-scale confrontation would require a reversal of this cooperative trend, leading to a sharp deterioration in bilateral relations and renewed calls to renegotiate the trade framework. Such a turn would likely trigger retaliatory measures and disrupt investment flows, causing long-term uncertainty and regional instability.

1.3.4 Regional Outlook: Integration through RCEP and CPTPP

As of June 2024, ROK has 21 Free Trade Agreements (FTA) in effect with 59 countries, including both regional and cross-regional agreements, the majority of which have comprehensive and in-depth contents.⁷⁶

RCEP

The Regional Comprehensive Economic Partnership (RCEP), effective since January 2022, is the world's largest free trade area. South Korea was among the founding members, together with the ASEAN members, Australia, China, Japan, and New Zealand.⁷⁷ Representing 32.6% of global GDP and 28.8% of global trade in 2025, it is the world's largest FTA in terms of its

⁷⁶ Chai, Hua and Hyeryoun Kim. "Korea in a Changing Global Trade Landscape: Korea." International Monetary Fund, March 5, 2025. <https://doi.org/10.5089/9798229003384.018>.

⁷⁷ Itakura, Ken. "Impact of the Regional Comprehensive Economic Partnership: A Global Computable General Equilibrium Simulation." Economic Research Institute for ASEAN and East Asia, October 21, 2022. <https://www.eria.org/research/impact-of-the-regional-comprehensive-economic-partnership-rcep-a-global-computable-general-equilibrium-cge-simulation>.

aggregate output.⁷⁸ The RCEP not only enhances ROK's access to regional markets but also reduces reliance on traditional markets.⁷⁹

RCEP aims to phase out tariffs on the majority of goods within ten years, reinforcing supply chain connectivity and trade flows.⁸⁰ As the first FTA including China, South Korea, and Japan, it deepens industrial integration through more flexible rules of origin, which facilitate cross-border production and efficiency.⁸¹ The agreement is projected to eliminate 83% of customs duties between Japan and South Korea over the next two decades.

However, it is not the most comprehensive of South Korea's FTAs, as its trade liberalization is incomplete and excludes key sectors such as agriculture and automotive products. Moreover, tariff exceptions among China, Japan, and South Korea dilute its immediate impact.⁸²

Despite these structural limitations, RCEP will continue to enhance ROK's trade resilience by stabilizing regional supply chains, diversifying markets, and reducing its dependence on traditional partners such as the US. In terms of FDI, the RCEP could be an impetus for European companies to invest in member states like South Korea, to form a regional supply chain, and benefit from the lowered tariffs and harmonized rules of origin.⁸³ Nevertheless, the RCEP agreement continues to lack the regulatory depth and market access of the CTPP, which could affect ROK's trade surplus in the medium to long run if deeper liberalization remains stalled.⁸⁴

⁷⁸ World Economics. "Regional Comprehensive Economic Partnership (RCEP)" World Economics, November 2025. [https://www.worldeconomics.com/Regions/RCEP/#:~:text=Regional%20Comprehensive%20Economic%20Partnership%20\(RCEP\)&text=Data%20is%20combined%20for%20the,years%20\(2015%2D2025\).](https://www.worldeconomics.com/Regions/RCEP/#:~:text=Regional%20Comprehensive%20Economic%20Partnership%20(RCEP)&text=Data%20is%20combined%20for%20the,years%20(2015%2D2025).)

⁷⁹ Vietnam National Trade Repository, "The Growing Role of the RCEP Agreement in Global Trade amid Rising Protectionism." Vietnam National Trade Repository, September 15, 2015. <https://vntr.moit.gov.vn/news/the-growing-role-of-the-rcep-agreement-in-global-trade-amid-rising-protectionism#:~:text=Amid%20rising%20global%20protectionism%2C%20the.and%20encompassing%202.3%20billion%20people.>

⁸⁰ Pena, Yuxi. "Japan and South Korea's Engagement in the Chinese Market Post-RCEP Implementation: A Case Study of the Semiconductor Industry." Asia and the Global Economy, Volume 4, Issue 2, July 2024. <https://www.sciencedirect.com/science/article/pii/S2667111524000094?via%3Dihub.>

⁸¹ Ministry of Commerce of the People's Republic of China. "With RCEP in Effect, How Can China, Japan, and South Korea Capitalize on this Momentum for Cooperation?" Ministry of Commerce of the People's Republic of China, January 19, 2022. https://fta.mofcom.gov.cn/article/rcep/rcepfgd/202201/47161_1.html

⁸² Kuriyama, Carlos, Swylyn C. Calizo, and Jason Carlo Ong Carranceja. "Study on Tariffs: Analysis of the RCEP Tariff Liberalization Schedules." Asia Pacific Economic Cooperation, May 2022. <https://research.apec.org/rcep/#:~:text=RCEP%20is%20the%20largest%20regional,and%2028.8%25%20of%20global%20trade.>

⁸³ Zhang, Ganyi. "A More Integrated Asian Economy under the RCEP." Upplly, January 4, 2022. <https://market-insights.upply.com/en/a-more-integrated-asian-economy-under-the-rcep#:~:text=Upon%20the%20RCEP%20entering%20into,for%20Korean%20and%20Japanese%20autos.>

⁸⁴ Koo, Min Gyo, "Navigating Shifting Tides: South Korea and Northeast Asian Trade Integration." The National Bureau of Asian Research, *Asia Policy*, Volume 20, Number 1, January 2025, 81–101. [https://www.nbr.org/publication/navigating-shifting-tides-south-korea-and-northeast-asian-trade-integration/.](https://www.nbr.org/publication/navigating-shifting-tides-south-korea-and-northeast-asian-trade-integration/)

CPTPP

Launched in 2012, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is an FTA among 12 countries that together accounted for 9.9% of global GDP in 2025.⁸⁵ Its members are Australia, Canada, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.⁸⁶ South Korea has made several attempts to join the trade bloc in the past, particularly in 2021 under the then-president Moon Jae-in. However, the process stalled due to strong opposition from farmers concerned about further opening South Korea's agricultural and fisheries markets.⁸⁷

If ROK were to join the CPTPP, the trade bloc would help reduce South Korea's reliance on the US and China and strengthen supply chain resilience. That is why South Korean manufacturing industries argue that the government needs to diversify trade by joining the CPTPP, minimizing damages from import competition by strengthening related systems alongside trade policies and promotion measures.⁸⁸ As mentioned previously in this report, ROK's trade concentration is higher than that of major countries like Japan and China.⁸⁹ Consequently, South Korea's adherence to this multilateral trade agreement would strengthen its supply chain and reduce its reliance on traditional markets like the US and China, while accounting for the risks these markets pose to ROK's future trade balance.

***Investment Implication:** South Korea's investment outlook remains cautious as growth stays below trend through 2025, pressured by fiscal deficits, political uncertainty, and external trade tensions. Investor sentiment may remain subdued amid rising public debt and competitive pressures from China. Nonetheless, opportunities persist in technology, green shipbuilding, and renewable energy, supported by government incentives and innovation. A moderate recovery from 2026 suggests a selective focus on high-quality Korean equities and globally diversified exporters.*

⁸⁵ World Economics. "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)." World Economics, November 2025. <https://www.worlddeconomics.com/Regions/CPTPP/>.

⁸⁶ Government of Canada. "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)." Government of Canada, 2024. <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpp/index.aspx?lang=eng>.

⁸⁷ Lee, Sohyun Zoe. "Presidential Agenda Setting and Foreign Economic Policy: Explaining South Korea's Delayed Application to the CPTPP." *Asian Affairs* 55 (2): 263–88. <https://doi.org/10.1080/03068374.2024.2384644>.

⁸⁸ Ibid.

⁸⁹ Jung, Min-hee. "Korea's Export Concentration Highest among Major Countries." *Business Korea*, September 18, 2025. <https://www.businesskorea.co.kr/news/articleView.html?idxno=252334>.

2. POLITICAL AND INSTITUTIONAL STABILITY

√ South Korea enters 2025 with restored institutional legitimacy after the 2024 constitutional crisis, Lee Jae-myung's electoral victory and broad approval above 60% provide a foundation of political stability while upcoming 2026 local elections will test the durability of his mandate.

√ The Democratic Party's absolute majority ensures policy continuity and incremental reform in corporate governance and labor markets, yet reliance on chaebols and entrenched political polarization continue to constrain reform depth and pace.

√ Inter-Korean relations remain stable under the Exchange-Normalization-Denuclearization framework, coordination with the United States reduces escalation risk but limited progress toward reunification keeps geopolitical volatility a persistent factor.

√ A record-low fertility rate of 0.72 and an old-age dependency ratio projected to almost double by 2035 intensify fiscal and social pressures, demographic contraction is emerging as the main structural constraint on long-term growth and policy flexibility.

2.1 Lee Jae-myung Presidency: Democratic Stability After Constitutional Crisis

ROK's political trajectory since late 2024 illustrates both the fragility and resilience of its democratic institutions. The constitutional crisis triggered by the declaration of martial law briefly threatened civilian supremacy but ultimately reaffirmed the strength of constitutional checks and public accountability. The election of President Lee Jae-myung in June 2025 closed this period of instability, providing a renewed democratic mandate and the opportunity to recalibrate governance.⁹⁰ His presidency opens with broad political support and a reform agenda aimed at restoring institutional trust, consolidating civil-military balance, and advancing long-delayed governance and corporate reforms that will shape the country's medium-term political stability.

⁹⁰ Butler, Gavin and Yuna Ku. "Who is Lee Jae-Myung, South Korea's New President?" BBC News, June 3, 2025. <https://www.bbc.com/news/articles/c4gepwxeqgo>.

2.1.1 Post-Crisis Electoral Legitimacy and Mandate Strength

South Korea's contemporary political landscape has been defined by intense polarization, geopolitical pressures, and, most recently, a constitutional crisis that tested the resilience of its democratic institutions.⁹¹ The election of President Lee Jae-myung in June 2025 was not an ordinary electoral transition but the culmination of a period of significant political turmoil, marking a decisive public response to the preceding administration of Yoon Suk-yeol.⁹² Understanding this evolution is critical for assessing the stability and policy direction of the new government.

In 2021, authors predicted that the Democratic Party would likely retain the presidency in 2022, assuming that Moon Jae-in's pandemic management and the "rally-round-the-flag" effect would sustain voter loyalty.⁹³ This forecast overlooked the electorate's structural fatigue, including a decline in trust in the progressive administration, a widening generational gap over economic justice, and an increasing sense of policy slowdown. Yoon Suk-yeol's conservative comeback showed that crisis-driven approval ratings were not a reliable predictor of long-term political alignment. Instead of strengthening continuity, the pandemic intensified latent polarization. It accelerated the electorate's shift toward accountability-oriented voting, shifting South Korea's political center of focus and paving the way for subsequent institutional instability.

Public assessment of the previous Yoon Suk-yeol administration's diplomatic performance reveals the depth of dissatisfaction that shaped Lee's electoral mandate. Only 29% of South Koreans believed that President Yoon had performed well on diplomacy, reflecting widespread rejection of what voters characterized as erratic behavior in foreign affairs. This negative judgment created substantial political space for fundamental policy reorientation and established clear public expectations for steady and competent governance.⁹⁴

⁹¹ Engel, Benjamin, Dylan Motin, et al. "The Future of the Korean Peninsula and Beyond." National Committee on American Foreign Policy, December 2022. <https://www.researchgate.net/publication/367380562>.

⁹² Ibid.

⁹³ Izco Jiménez, Andrea, Elena López-Dóriga, and Lucía Sáez Ceballos. "South Korea. Political Risk Report, May 2021." Center for Global Affairs & Strategic Studies, University of Navarra, 40–42. <https://www.unav.edu/en/web/global-affairs/detalle/-/blogs/south-korea-political-risk-report-may-2021>.

⁹⁴ Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

President Lee's approval ratings demonstrate exceptional mandate strength in his initial months. Foreign policy initiatives enjoy strong approval exceeding 60%, representing remarkably broad-based public support that extends well beyond partisan boundaries.⁹⁵ Within his own party, support reaches 90%,⁹⁶ while among moderates and independents approval stands at 60%.⁹⁷ According to the latest Gallup Korea survey (24 Oct 2025), Lee's overall approval rating stands at 56%, underscoring the continued solidity of his public mandate.⁹⁸

The public placed diplomacy at the top of the policy agenda despite favorable economic conditions, signaling that citizens viewed diplomatic repair as an urgent national priority.⁹⁹ The mandate Lee received was thus clear in its direction: rebuild ROK's diplomacy through what his administration characterizes as pragmatic diplomacy: a realistic, results-oriented approach acknowledging South Korea's constraints while pursuing concrete achievements.¹⁰⁰

***Investment Implication:** Policy continuity probability through mid-2026 assessed at 70-80%, declining to 60-70% through 2027 depending on April 2026 electoral outcomes. The current favorable policy environment supports continued investment in South Korean assets, though the political calendar introduces elevated volatility risk in Q1-Q2 2026.*

ROK's intense political calendar presents the first significant test of Lee's mandate sustainability significantly earlier than typical presidential cycles. Local elections scheduled for April 2026 will serve as a referendum on Lee's performance less than one year into his presidency, occurring as the traditional six-month "honeymoon period" concludes.¹⁰¹ These

⁹⁵ Choi, Soo-Hyang. "Lee Starts Term With 64% Rating on South Korea Recovery Optimism," Bloomberg, June 27, 2025. <https://www.bloomberg.com/news/articles/2025-06-27/south-korea-lee-starts-term-with-strong-rating-on-recovery-hopes>.

⁹⁶ Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

⁹⁷ Korea JoongAng Daily. "President Lee's Approval Rebounds to 60%." Korea JoongAng Daily, September 19, 2025. <https://koreajoongangdaily.joins.com/news/2025-09-19/national/politics/President-Lees-approval-rebounds-to-60/2403411>.

⁹⁸ The Korea Times. "Lee's Approval Rating Rebounds to 56%: Poll." The Korea Times, October 24, 2025. <https://www.koreatimes.co.kr/southkorea/politics/20251024/lees-approval-rating-rebounds-to-56-poll>.

⁹⁹ Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

¹⁰⁰ Lee, Shinae. 2025. "Lee Jae-Myung's Pragmatic Diplomacy: Between Alliance and Autonomy." Sasakawa Peace Foundation, August 1, 2025. https://www.spf.org/iina/en/articles/lee_06.html.

¹⁰¹ Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

elections serve as the next key metric for assessing whether the administration maintains political momentum or begins to experience erosion of public support.

2.1.2 Military-Civilian Relations: Institutional Risk Assessment

The political neutrality of the South Korean military was severely compromised by the sudden and irregular declaration of martial law on the night of December 3, 2024.¹⁰² This crisis severely compromised the long-held principle of military political neutrality, mandating an immediate assessment of institutional stability, military loyalty, and associated defense sector investment risks.

The decision by President Yoon to invoke martial law, the first such instance since ROK's transition to democracy in the 1980s, was an extraordinary response to ongoing political deadlock and declining approval ratings.¹⁰³ The consequences were immediate and damaging. The apparent involvement of military leadership in disrupting democratic processes damaged the armed forces' reputation for professional and ethical conduct.¹⁰⁴ The martial law invocation was an extreme measure that violated the democratic norm of mutual tolerance among political actors.¹⁰⁵

South Koreans, mindful of the nation's history of military dictatorship under Generals Park Chung-hee (in power from 1961 to 1979) and Chun Doo-hwan (in power from 1980 to 1988), were greatly disturbed, fearing a return to the "bad old days".¹⁰⁶

President Yoon justified his declaration of martial law as a necessary response to what he described as "anti-state actors" and "pro-North Korean forces" working to destabilize the government.¹⁰⁷ In practice, however, the decision appeared driven less by concrete security threats than by escalating political pressure. His administration was trapped in confrontation with an opposition-controlled legislature that repeatedly blocked his agenda and cut key

¹⁰² Yoon, Sukjoon. "President Lee's Reshuffle of the South Korean Military." *The Diplomat*, September 10, 2025. <https://thediplomat.com/2025/09/president-lees-reshuffle-of-the-south-korean-military/>.

¹⁰³ Ibid.

¹⁰⁴ Ibid.

¹⁰⁵ Persson, Kira. "Authoritarian Echoes: Martial Law Returns to South Korea." *Bloomsbury Intelligence and Security Institute*, January 6, 2025. <https://bisi.org.uk/reports/authoritarian-echoes-martial-law-returns-to-south-korea>.

¹⁰⁶ Asia Media Centre. "Korea's Dark History of Martial Law." *Asia Media Centre*, December 4, 2024. <https://www.asiamediacentre.org.nz/korea-s-dark-history-of-martial-law>.

¹⁰⁷ Baik, Havin. "Martial Law in South Korea: Understanding the Why." *Korea Economic Institute of America*, January 17, 2025. <https://keia.org/the-peninsula/martial-law-in-south-korea-understanding-the-why/>.

spending proposals.¹⁰⁸ The declaration was broadly interpreted as a politically driven effort to reassert authority and consolidate support in the middle of falling approval ratings and persistent street protests, rather than a proportionate response to a verifiable national security crisis.¹⁰⁹

Despite the gravity of the attempted authoritarian move, ROK's democratic structure demonstrated significant resilience.¹¹⁰ This resilience is measurable through several key institutional metrics.

Horizontal Accountability

The National Assembly acted swiftly, unanimously voting to overturn the martial law declaration within hours.¹¹¹ Subsequently, the legislature successfully impeached Yoon, a decision the Constitutional Court unanimously upheld.¹¹² These rapid, coordinated judicial and legislative actions confirmed the strength of checks and balances against executive overreach.

Vertical Accountability

The South Korean people affirmed their rejection of autocratic tendencies through the subsequent presidential election, resulting in the victory of opposition leader Lee Jae-myung. This indicates that while nationalist polarization remains pronounced among political elites, the general population maintains a moderate and consistent preference for democracy.¹¹³

Upon taking office in June 2025, President Lee Jae-myung faced the urgent task of ensuring the loyalty of the armed forces and reestablishing civilian control. The defense establishment loyalty indicator was low. This fragility is now reflected in the actions taken by the new government to secure military loyalty.¹¹⁴

¹⁰⁸ Ibid.

¹⁰⁹ Ibid.

¹¹⁰ Sang-Hun, Choe. "How South Korea's Democracy Prevailed Over a Reckless Leader." The New York Times, April 5, 2025. <https://www.nytimes.com/2025/04/05/world/asia/south-korea-democracy-martial-law.html>.

¹¹¹ Persson, Kira. "Authoritarian Echoes: Martial Law Returns to South Korea." Bloomsbury Intelligence and Security Institute, January 6, 2025. <https://bisi.org.uk/reports/authoritarian-echoes-martial-law-returns-to-south-korea>.

¹¹² Kim, Jung. "South Korea's Democracy: Both Resilient and Fragile." European Democracy Hub, July 23, 2025. <https://europeandemocracyhub.epd.eu/south-koreas-democracy-both-resilient-and-fragile/>.

¹¹³ Ibid.

¹¹⁴ Park, Anna J. "President Emphasizes Recovery of OPCON, Defense Budget Boost on Armed Forces Day." The Korea Times, October 1, 2025. <https://www.koreatimes.co.kr/southkorea/defense/20251001/president-emphasizes-recovery-of-opcon-defense-budget-boost-on-armed-forces-day>.

On September 1, Lee executed an unprecedented “clean sweep”, retiring all existing four-star officers and promoting three-star personnel to fill the seven most senior leadership positions, including the JCS Chair and service chiefs.¹¹⁵

The political turbulence directly affects the stability and continuity of defense sector investments. The new administration is expected to manage an increased defense budget, driven partly by US encouragement for South Korea to raise spending to 3.8% of GDP (up from 2.3%).¹¹⁶ Lee has agreed that the increased 2025 budget will be allocated to enhancing the Korea Triad System and acquiring advanced missile defenses.¹¹⁷

The recurrence of high-level political conflict, exemplified by South Korea’s status as the only advanced democracy to impeach two presidents within eight years, highlights persistent dysfunction that weakens democratic responsiveness and reinforces perceptions of institutional fragility, despite the system’s underlying resilience.¹¹⁸ Prolonged protests and the extended judicial process surrounding Yoon’s removal risk sustaining political volatility, constraining Seoul’s ability to advance the bipartisan structural reforms necessary to address pressing economic challenges.¹¹⁹

2.1.3 Chaebol Reform and Political Economy Constraints

ROK’s economy remains heavily concentrated in a handful of family-run conglomerates: *chaebols*, whose combined sales account for more than half of national GDP.¹²⁰ Companies like Samsung, Hyundai, and SK dominate everything from finance to electronics, reflecting a system rooted in post-war state support that closely ties government and business. While this

¹¹⁵ Yoon, Sukjoon. “President Lee’s Reshuffle of the South Korean Military.” *The Diplomat*, September 10, 2025. <https://thediplomat.com/2025/09/president-lees-reshuffle-of-the-south-korean-military/>.

¹¹⁶ The Korea Times. “US Officials Considered Demanding Korea Raise Defense Spending to 3.8% of GDP in Tariff Talks: Report.” *The Korea Times*, August 10, 2025. <https://www.koreatimes.co.kr/foreignaffairs/20250810/us-officials-considered-demanding-korea-raise-defense-spending-to-38-of-gdp-in-tariff-talks-report>.

¹¹⁷ Yoon, Sukjoon. “President Lee’s Reshuffle of the South Korean Military.” *The Diplomat*, September 10, 2025. <https://thediplomat.com/2025/09/president-lees-reshuffle-of-the-south-korean-military/>.

¹¹⁸ Kim, Joseph. “Yoon Suk Yeol’s Impeachment Should Be a Time for South Koreans to Reflect on Democracy.” *George W. Bush Institute*, April 10, 2025. <https://www.bushcenter.org/publications/yoonsukyeols-impeachment-should-be-a-time-for-south-koreans-to-reflect-on-democracy>.

¹¹⁹ Persson, Kira. “Authoritarian Echoes: Martial Law Returns to South Korea.” *Bloomsbury Intelligence and Security Institute*, January 6, 2025. <https://bisi.org.uk/reports/authoritarian-echoes-martial-law-returns-to-south-korea>.

¹²⁰ Kim, Victoria, and Daisuke Wakabayashi. “Chaebol Families Dominate South Korea’s Economy: What to Know.” *The New York Times*, December 18, 2023. <https://www.nytimes.com/2023/12/18/business/chaebol-south-korea.html>.

model drove rapid growth, it has also left behind structural weaknesses, including inequality, corruption, and the perception that these firms are “too big to jail.”¹²¹

President Lee Jae Myung’s administration faces the delicate challenge of leveraging the *chaebols*’ considerable economic power to sustain growth and global competitiveness, while at the same time honoring its commitment to curb their dominance and address deeply rooted structural issues like corruption and weak corporate governance.¹²²

The core question of whether President Lee will be more inclined to combat corruption sometimes generated by elements of the oligarchy linked to *chaebols* suggests a duality in his approach: strong rhetoric on governance reform paired with pragmatic reliance on *chaebols* for immediate economic needs and geopolitical maneuvers.¹²³

Lee made lifting governance standards and improving stock market returns one of his top priorities.¹²⁴ His reformist stance includes curbing the dominance of *chaebols* and rewriting the commercial code to strengthen the board’s fiduciary duty to shareholders, aiming to eliminate the long-standing “Korea discount” that has historically undervalued South Korean stocks.¹²⁵

However, the reality of Lee’s political position demands cooperation. Shortly after taking office, Lee hosted the chiefs of the five largest business groups. *Chaebol* leaders, including Samsung’s Lee Jae-yong and Hyundai’s Chung Euisun, are now frequently invited to high-profile events, such as Lee’s appointment ceremony and major diplomatic trips, including the ROK-US summit, where they discuss pending trade and investment issues.¹²⁶ This engagement signals the administration’s pragmatic need for the *chaebols* to support the flagging economy and navigate external threats, such as potential US tariffs.¹²⁷

¹²¹ Ibid.

¹²² The Straits Times. “South Korean President Lee to Meet Chaebol Heads in Bid to Revive Economy,” The Straits Times, June 13, 2025. <https://www.straitstimes.com/asia/east-asia/south-koreas-lee-to-meet-chaebol-heads-in-bid-to-revive-economy>.

¹²³ Cha, Sangmi. “Korea Boosts Shareholder Rights in Key Law to Support Stocks.” Bloomberg, July 3, 2025. <https://www.bloomberg.com/news/articles/2025-07-03/korea-s-reform-drive-gets-a-boost-as-lawmakers-vote-for-changes>.

¹²⁴ Ibid.

¹²⁵ Jie, Ye-eun. “President Lee Invites Chaebol Chiefs to People’s Appointment Ceremony,” The Korea Herald, August 15, 2025. <https://www.koreaherald.com/article/10554788>.

¹²⁶ Ibid.

¹²⁷ The Straits Times. “South Korean President Lee to Meet Chaebol Heads in Bid to Revive Economy.” The Straits Times, June 13, 2025. <https://www.straitstimes.com/asia/east-asia/south-koreas-lee-to-meet-chaebol-heads-in-bid-to-revive-economy>.

2.2 Inter-Korean Dynamics and Regional Security

President Lee has articulated a clear policy framework toward the Democratic People's Republic of Korea, hereafter referred to as North Korea, representing a fundamental departure from the Yoon administration's confrontational approach. The "END initiative": Exchange, Normalization, and Denuclearization, signals return to engagement while maintaining the long-term objective of a nuclear-free Korean Peninsula.¹²⁸ This framework attempts to balance pragmatic short-term confidence-building through exchange and normalization with strategic long-term denuclearization goals, explicitly acknowledging that progress will be incremental and require sustained effort over extended timeframes.

The Exchange component emphasizes people-to-people contacts, academic interactions, NGO activities, and humanitarian cooperation as mechanisms for gradually reducing tensions and creating mutual interests. The Normalization pillar works to establish regular diplomatic channels and reduce adversarial dynamics. The Denuclearization element maintains the ultimate strategic objective while recognizing that immediate progress on nuclear issues remains unlikely given current circumstances and North Korean conditions for dialogue.¹²⁹

Administration officials maintain explicitly cautious realism regarding near-term prospects, stating that they are not very optimistic about rapid improvements. This tempered assessment contrasts sharply with the Yoon administration's confrontational rhetoric, while avoiding unrealistic expectations that could lead to public disappointment and political vulnerability. The messaging strategy prioritizes managing expectations downward to create space for incremental progress to be viewed positively rather than promising breakthroughs that may not materialize.¹³⁰

ROK faces significant implementation obstacles given that Pyongyang closed official communication channels in 2019, predating both the Yoon and Lee administrations.¹³¹ This

¹²⁸ UNGA. "Address by President Lee Jae Myung at the General Debate 80th Session of the UN General Assembly." United Nations, September 23, 2025. <https://gadebate.un.org/en/80/republic-korea>.

¹²⁹ Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

¹³⁰ Ibid.

¹³¹ Aum, Frank and Ankit Panda. "Pursuing Stable Coexistence: A Reorientation of U.S. Policy Toward North Korea." Carnegie Endowment for International Peace, April 2025. https://carnegie-production-assets.s3.amazonaws.com/static/files/Aum%20Panda_North%20Korea%20Policy-1.pdf.

prolonged silence reflects North Korea's broader strategic calculus rather than responses to specific South Korean policy choices, indicating that even well-intentioned engagement initiatives face fundamental obstacles in finding receptive counterparts.¹³²

***Investment Implication:** Engagement policy orientation reduces probability of deliberate escalation from South Korean side but does not eliminate risk of North Korean provocations. Policy framework creates more favorable environment for eventual inter-Korean economic projects, but implementation timeline remains highly uncertain and contingent on factors beyond Seoul's control.*

President Lee clearly recognizes US engagement as indispensable for meaningful progress with North Korea. The administration's best-case scenario involves the United States playing a peacemaker role by resuming dialogue with North Korea, creating political space for inter-Korean engagement.¹³³

The August 25th summit, during which President Donald Trump hosted South Korean President Lee Jae Myung at the White House, produced significant signals regarding coordinated policy. Both Lee and Trump stated clearly their desire to re-engage with North Korea. President Trump indicated his intention to meet with Kim Yo-jong by the end of October of this year, demonstrating his willingness to pursue personal diplomacy.¹³⁴ The North Korean President responded with surprisingly positive comments about President Trump, but explicitly conditioned dialogue on not discussing denuclearization.¹³⁵

However, North Korean actions remain inherently unpredictable and could produce security incidents regardless of South Korean policy choices. Historical patterns demonstrate North

¹³² Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

¹³³ Ripley, Will, Yoonjung Seo, et al. "South Korea's President Downplays US Trade Rift and Welcomes Trump as 'Peacemaker.'" CNN, October 23, 2025. <https://edition.cnn.com/2025/10/23/asia/south-korea-president-lee-jae-myung-trump-intl-hnk>.

¹³⁴ Yeung, Jessie, Gawon Bae, and Mitchell McCluskey. "Trump Tells South Korean President He Wants to Meet North Korea's Kim Jong Un." CNN, August 26, 2025. <https://edition.cnn.com/2025/08/25/asia/trump-south-north-korea-kim-jong-un-intl-hnk>.

¹³⁵ Kim, Jack. "North Korea's Kim Says He Is Open to Talks If US Drops Denuclearisation Demand." Reuters, September 23, 2025. <https://www.reuters.com/world/asia-pacific/north-korea-can-talk-us-if-it-stops-insisting-denuclearisation-kim-says-2025-09-21/>.

Korea's capacity for provocations timed to maximize political impact or extract concessions.¹³⁶ The President Lee administration's use of back channels and emphasis on dialogue create mechanisms for managing tensions when they arise but don't eliminate the risk of escalation.¹³⁷

President Lee has also emphasized building cooperation within the ROK-Japan-US trilateral framework, recognizing that regional security challenges require coordinated responses among democratic allies. This tripartite structure provides mechanisms for information sharing, policy coordination, and joint responses to regional developments, particularly regarding North Korea and China-related challenges.¹³⁸ The emphasis on trilateral cooperation recognizes that South Korea cannot address its security environment through bilateral relationships alone and requires multilateral frameworks that leverage collective capabilities and provide political support for difficult policy choices.¹³⁹

While the trilateral framework has clearly strengthened deterrence and policy coordination, its long-term durability remains an open question. Divergent threat perceptions, domestic political cycles, and differing approaches toward China continue to test how far alignment can move beyond shared rhetoric.¹⁴⁰ Nevertheless, sustained efforts to institutionalize cooperation, most visibly during the September 2025 ministerial meeting in New York, demonstrate that all three governments are investing in turning dialogue into structure. New mechanisms for defense planning, intelligence exchange, and maritime security cooperation are gradually translating political intent into operational substance.¹⁴¹

The emphasis on pragmatic diplomacy rather than ideological positioning reflects an understanding that ROK's complex strategic environment requires flexibility and realism.¹⁴²

¹³⁶ Yoo, Sangbeom and Sangjin Kim. "The Pattern of North Korea's Local Military Provocations." *The Korean Journal of International Studies* 15, n.º 1, 71-84, April 30, 2017. <https://doi.org/10.14731/kjis.2017.04.15.1.71>.

¹³⁷ UNGA. "Address by President Lee Jae Myung at the General Debate 80th Session of the UN General Assembly." United Nations, September 23, 2025. <https://gadebate.un.org/en/80/republic-korea>.

¹³⁸ Ibid.

¹³⁹ Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

¹⁴⁰ Ibid.

¹⁴¹ United States Department of State. "Joint Statement from the Trilateral Meeting of the United States of America, Japan, and the Republic of Korea in New York City." United States Department of State, September 22, 2025. <https://www.state.gov/releases/2025/09/joint-statement-from-the-trilateral-meeting-of-the-united-states-of-america-japan-and-the-republic-of-korea-in-new-york-city>.

¹⁴² Jeong, Hanbeom, Jeonghun Min, and Victor Cha. "The Impossible State Live Podcast: President Lee's First 100 Days." Center for Strategic and International Studies, October 1, 2025. <https://www.csis.org/events/impossible-state-live-podcast-president-lees-first-100-days>.

2.2.1 Possible future scenarios of Inter-Korean Relations

Research question: How will political stability, regime resilience, and regional power competition shape the plausibility of Korean reunification by 2040?

DRIVERS	SCENARIO 1 Managed Interdependence	SCENARIO 2 Entrenched Division	SCENARIO 3 Shock Reunification
Leadership Alignment	++	-	+
US–China Strategic Competition	+	--	--
North Korean Regime Stability	++	++	--
Security Dynamics	+	-	+
Economic Readiness	++	+	--
Public Opinion and National Identity	+	-	-
International Support	++	-	+

Legend:

- + + → very positive impact on the plausibility of this scenario
- + → positive impact on the plausibility of the scenario
- → negative impact on the plausibility of the scenario
- - → very negative impact on the plausibility of the scenario

Scenario 1 – “Managed Interdependence” (Most Plausible)

Reunification in this scenario is not an event but a gradual and calculated process.

South Korea, emerging from a decade of political turbulence and reform, adopts a pragmatic, incremental approach under the END policy, where diplomacy becomes governance and

engagement is built for endurance. This path is plausible because North Korea's objective remains regime survival through calculated engagement and selective modernization.¹⁴³

Political will aligns on both sides of the 38th parallel. Seoul reduces demographic and economic pressures, while Pyongyang gains limited economic lifelines without losing control. This balance allows for functional cooperation through liaison channels, hotlines, humanitarian coordination, and small economic corridors that gradually establish "habitual cooperation".¹⁴⁴ International partners such as the UN, EU, and ASEAN quietly reinforce this process by funding cross-border infrastructure and social programs.

By the mid-2030s, regular trade, logistics, and humanitarian exchanges normalize coexistence. Trust remains limited but effective, and both Koreas learn to manage tension through established procedures rather than confrontation. According to a September 2025 survey by the National Unification Advisory Council, 69% of South Koreans still consider unification necessary, while 47% see North Korea as a potential partner for cooperation.¹⁴⁵ Most cite the reduction of war risk and shared economic opportunity as their primary motivations, favoring engagement that strengthens stability rather than rapid absorption.¹⁴⁶

By 2040, the peninsula functions as two sovereign states operating within an increasingly integrated economic and infrastructural ecosystem. The border still exists, but it's no longer a wall of separation; it has become an interface of managed interdependence.

Scenario 2 – "Entrenched Division" (Moderate Plausibility)

In this scenario, the *status quo* hardens into permanence.

The hopes of rapprochement fade, not through war or rupture, but through quiet exhaustion. The momentum of the END framework dissipates as great-power rivalry intensifies, communication narrows to crisis management, and humanitarian cooperation steadily declines.

¹⁴³ Hutagalung, Simon. "END Policy: A New Path For Koreans Peninsula Peace" Eurasia Review, September 20, 2025. <https://www.eurasiareview.com/30092025-end-policy-a-new-path-for-koreans-peninsula-peace-oped/>.

¹⁴⁴ Ibid.

¹⁴⁵ Yoo, Jaehoon "68% of South Koreans Say 'Unification Is Necessary'... 47% View North Korea as a Partner for Cooperation and Support ," The Asia Business Daily, October 26, 2025.

<https://www.asiae.co.kr/en/article/2025102615151593338>.

¹⁴⁶ Ibid.

The DMZ becomes a symbol of cold stability. North Korea, relying on familiar survival strategies, consolidates control with discreet backing from Beijing and Moscow. In Seoul, electoral turnover and public apathy lead successive governments to deprioritize engagement, and the language of reconciliation vanishes from policy discourse.

By the early 2030s, the border once again defines both states. Military deterrence remains credible, but diplomacy is confined to emergency channels. As global crises multiply, the peninsula drifts down the international agenda. China maintains a buffer, the United States upholds deterrence, and Japan expands its defensive posture, each actor preferring predictability over risk.¹⁴⁷

By 2040, division has hardened into permanence. Two systems coexist without cooperation, politically polarized, economically divergent, and indifferent primarily to unification.

Scenario 3 – “Shock Reunification” (Moderate Unplausible)

A succession crisis or systemic failure in North Korea triggers rapid regime collapse. Although collapse is unlikely in the short term, the regime’s succession structure and information control make it vulnerable to elite fracture if faced with simultaneous domestic and external shocks.¹⁴⁸

Faced with a humanitarian catastrophe, Seoul (backed by the US and the UN) assumes the lead in a large-scale stabilization and absorption effort. Reunification becomes a security emergency, not a diplomatic choice. China, seeking to shield its frontier, is creating friction with allied forces. The US–China rivalry, already tense, escalates into direct strategic contestation over the peninsula’s reconstruction and alignment.

Economically, the integration shock is severe. ROK’s GDP contracts sharply under the fiscal burden of reconstruction. Inflation spikes, debt ratios rise, and social cohesion struggles.

¹⁴⁷ Wit, Joel S. “Recalibrating US Strategy on North Korea.” Stimson, May 2025. https://www.stimson.org/wp-content/uploads/2025/05/25-0516_Wit_North-Korea-Policy-Review.pdf.

¹⁴⁸ Hutagalung, Simon. “From Deterrence To Integration Korea’s Gradual Path To Stability Analysis.” Eurasia Review, October 24, 2025. <https://www.eurasiareview.com/24102025-from-deterrence-to-integrationwill-be-koreas-gradual-path-to-stability-analysis/>.

By 2040, ROK will be technically unified but socially fragmented and fiscally drained. What began as triumph ends as an unification achieved through collapse rather than consensus, leaving a nation whole in territory but divided in experience.

2.3 Demographic Decline and Long-Term Stability Implications

South Korea is undergoing one of the most rapid demographic transitions in the world, positioning it to become the third-oldest population in the OECD by 2050.¹⁴⁹ This section analyzes the core components of the crisis and models their critical impact on economic sustainability.

The demographic crisis stems fundamentally from a rapidly aging population coupled with high longevity. This imbalance is structurally shrinking the labor pool and escalating the state's and the workforce's dependency burden.

The profound demographic challenges facing South Korea, marked by the world's lowest fertility rate of 0.72 in 2023, call for a fundamental upgrade to its growth model, focusing intensively on productivity and labor utilization to ensure economic sustainability.¹⁵⁰ This decline in the fertility rate is severe enough to warrant specific budgetary attention from the Ministry of Health and Welfare (MOHW), which prioritized addressing the declining fertility rate as a key area of fiscal allocation in the 2024 state budget.¹⁵¹ Previous policy measures have not tackled the core drivers of the crisis: unstable incomes and the high cost of childcare and education. Policymakers are now shifting toward more focused interventions to address these underlying issues.¹⁵²

Structural gender and labor-market rigidities further compound the demographic challenge. ROK's long working hours, seniority-based wage system, and rigid employment practices make it difficult for parents (especially women) to combine career and family life. Despite

¹⁴⁹ OECD. "Adapting Regional Policy in Korea: Preparing Regions for Demographic Change." OECD Rural Studies, June 23, 2022. <https://doi.org/10.1787/6108b2a1-en>.

¹⁵⁰ Yang, Y., H. Hwang and J. Pareliussen. "Korea's Unborn Future: Lessons from OECD experience." OECD Economics Department Working Papers, No. 1824, October 18, 2024. <https://doi.org/10.1787/75aa749c-en>.

¹⁵¹ Ministry of Health and Welfare, Republic of Korea. "A Welfare State Where People Are Happy and Healthy Press Release." Ministry of Health and Welfare, Republic of Korea, January 10, 2025. <https://share.google/TgOj21x3hlfCAnfi0>.

¹⁵² Morgan Stanley. "South Korea's Plan to Reverse a Population Crisis." Morgan Stanley, January 14, 2025. <https://www.morganstanley.com/ideas/south-korea-population-decline-aging-crisis>.

extensive government spending on childcare and parental leave, such institutional barriers continue to suppress fertility, illustrating that demographic recovery depends as much on workplace reform and gender equity as on fiscal incentives.¹⁵³

Recent demographic analysis carried out by the Korean Pediatric Society shows that the decline in fertility has become structurally embedded, as the number of women in their prime reproductive years continues to fall.¹⁵⁴ Even modest improvements in fertility rates would not significantly increase total births, given the shrinking base of potential mothers. Beyond demographics, deeply rooted social patterns, such as delayed marriage and intense educational competition, often referred to as “education fever”, have led families to favor quality of upbringing over family size.¹⁵⁵ These behavioral shifts, linked with urban pressures and high living costs, illustrate how South Korea’s economic success has paradoxically reinforced demographic decline.

According to the IMF, demographic aging alone could reduce ROK’s potential growth by roughly 0.7% points per year through 2050 as the labor force contracts by more than one-quarter.¹⁵⁶ However, a coordinated package of labor-force participation reform, productivity reallocation, and AI diffusion could offset and even reverse this challenge. Higher female and senior participation could recover one-fifth of lost growth; improved allocative efficiency could add about 0.22% points annually;¹⁵⁷ and widespread AI adoption could contribute roughly 0.44%,¹⁵⁸ more than neutralizing the demographic headwind.¹⁵⁹ Figure 3 below illustrates this effect, showing how successive policy measures progressively close the potential growth gap created by demographic decline.

Recent labor market data reinforces the depth of ROK’s structural employment challenges. According to the Economically Active Population Survey (made in July 2025), the economically active population reached 29.75 million, only a 0.5% year-on-year increase,

¹⁵³ Pareliussen, Jon. “What We Can Learn from Korea’s Demographic Meltdown.” CEPR, March 24, 2025.

<https://cepr.org/voxeu/columns/what-we-can-learn-koreas-demographic-meltdown>.

¹⁵⁴ Kim, Chae Young, and Sung Hoon Chung. “Demographic Transition in South Korea: Implications of Falling Birth Rates.” Korean Pediatric Society, June 27, 2024. <https://doi.org/10.3345/cep.2023.01599>.

¹⁵⁵ Ibid.

¹⁵⁶ Anand, Rahul, Diaa Noureldin, et al. “Korea’s Rapid Aging Doesn’t Have to Be Economic Destiny.” IMF, April 3, 2025. <https://www.imf.org/en/News/Articles/2025/04/03/cf-koreas-rapid-aging-doesnt-have-to-be-economic-destiny>.

¹⁵⁷ Ibid.

¹⁵⁸ Ibid.

¹⁵⁹ Ibid.

while the labor force participation rate rose slightly to 65.0%. The number of employed persons climbed to 29.03 million, up 0.6%, and the employment-to-population ratio edged up to 63.4%. Additionally, the economically inactive population remained at 16 million, underscoring the demographics of an aging society and the difficulty of mobilizing the domestic labor force.¹⁶⁰

Investment Implication: *The data portrays how Korea’s long-term stability will depend less on demographic volume than on the speed and credibility of its policy execution. Successful reform could sustain per-capita income growth and innovation intensity despite a smaller population, preserving Korea’s position among the most resilient advanced economies in Asia.*

Politically, demographic aging is expected to consolidate the influence of older voters, shifting national priorities toward pension protection and healthcare expansion. This reorientation could narrow fiscal space for growth-oriented policies, entrenching generational divides over taxation, welfare, and immigration.¹⁶¹ As the number of younger voters contracts, their demands for affordability, housing access, and work–life balance risk becoming under-represented, creating long-term governance tensions between sustainability and redistribution.¹⁶²

At the community level, demographic contraction is steadily eroding the foundations of social cohesion. Over time, the shrinking tax base and the loss of scale efficiencies in public services will constrain the capacity of local governments to deliver welfare and long-term care, deepening regional inequality as peripheral areas age faster than metropolitan centers.¹⁶³

Within this shifting social landscape, younger generations are redefining their relationship with work, consumption, and family. A growing share of South Koreans in their mid-twenties are prioritizing personal fulfillment and financial autonomy over traditional milestones such as marriage or parenthood. This change in values, shaped by stagnant real wages, limited job

¹⁶⁰ Ministry of Data and Statistics, Republic of Korea. “Economically Active Population Survey in July 2025”. Ministry of Data and Statistics. August 2025. https://mods.go.kr/board.es?mid=a20105020000&bid=11732&tag=&list_no=.

¹⁶¹ Moon, Katharine H.S. “South Korea’s Demographic Changes and Their Political Impact.” Brookings, 2015. <https://www.brookings.edu/articles/south-koreas-demographic-changes-and-their-political-impact/>.

¹⁶² Ibid.

¹⁶³ OECD Rural Studies. “Adapting Regional Policy in Korea.” OECD, 2022. <https://doi.org/10.1787/6108b2a1-en>.

security, and rising housing costs, has intensified demographic headwinds by delaying family formation.¹⁶⁴

2.3.1 Immigration and the Structural Labour Gap

South Korea is entering a critical phase of labour-market contraction, driven by decades of low fertility and rapid ageing. The government's long-standing efforts to boost birth rates have yet to deliver tangible results, as any demographic turnaround would take decades to translate into new entrants to the workforce. Consequently, Seoul is beginning to view immigration not as a social issue, but as an economic necessity.¹⁶⁵ This dynamic positions migration as a potential stress test for ROK's social cohesion and governance capacity.¹⁶⁶

In September 2023, Seoul launched a pilot programme that recruited 100 Filipino domestic workers to provide childcare and household services. The initiative aimed to relieve childcare pressures while expanding the labour force, using a dual policy approach intended to support both workforce participation and higher birth rates.¹⁶⁷ Udaya Rai, president of the Seoul-Gyeonggi-Incheon Migrants' Trade Union (MTU), highlighted the challenges faced by migrant workers in ROK, noting that while the country relies heavily on foreign labor, there is still significant societal resistance to multicultural integration.¹⁶⁸

Public attitudes remain ambivalent: although immigration applications have nearly tripled between 2022 (56,000) and 2024 (165,000), structural barriers persist.¹⁶⁹ Migrant workers continue to face limited legal protection, wage disparities, and social discrimination.¹⁷⁰ Key

¹⁶⁴ Jamal, Basant. "The 'YOLO' Dilemma. Analyzing the Economic Risks of South Korea's Population Decline." Future for Advance and Research & Studies, September 26, 2024. <https://www.futureuae.com/en/Mainpage/Item/9715/the-yolo-dilemma-analyzing-the-economic-risks-of-south-koreas-population-decline>.

¹⁶⁵ Cann, David. "South Korea: Can Immigration Grow Its Workforce?," Business Daily, April 8, 2025. <https://www.bbc.com/audio/play/w3ct6s6d>.

¹⁶⁶ Kim, Chae Young, and Sung Hoon Chung. "Demographic Transition in South Korea: Implications of Falling Birth Rates." Korean Pediatric Society, June 27, 2024. <https://doi.org/10.3345/cep.2023.01599>.

¹⁶⁷ Ministry of Employment and Labor. "Announcement on the Implementation of the Pilot Project for Caregiver Recruitment." Ministry of Employment and Labor, May 2024. https://dmw.gov.ph/resources/dsms/DMW/Externals/2024/Advisory%20EPS%20Caregivers.pdf?fbclid=IwZXh0bgNhZW0CMTAAAR3HQex75cFq6QSu-4E5K5qN9smq9TjgtZwXhH86SgDNz1LpkoH5L5GfZpk_aem_AXPfsIuyWdezyxDZFktp8ECg6Hv4xAXJFHmfDAU7IMyHpR_PH7UQfFlkjSQjWS2oCAfiKz0S1rFXsY1FYpvsutDO.

¹⁶⁸ Cann, David. "South Korea: Can Immigration Grow Its Workforce?," Business Daily, April 8, 2025. <https://www.bbc.com/audio/play/w3ct6s6d>.

¹⁶⁹ Ibid.

¹⁷⁰ United Nations. "Concluding Observations on the Combined Twentieth to Twenty-Second Periodic Reports of the Republic of Korea." United Nations, June 4, 2025. https://tbinternet.ohchr.org/_layouts/15/treatybodyexternal/Download.aspx?symbolno=CERD%2FC%2FKOR%2FCO%2F20-22&Lang=en.

sectors such as agriculture, manufacturing, and care services already depend on migrant labour.¹⁷¹ Yet foreign workers still account for only about 5% of the labour force.¹⁷² With a population of 51.8 million, immigration remains too limited to meaningfully counter Korea's demographic decline.¹⁷³

In short, the key question is no longer if South Korea will rely on immigration, but how effectively it can integrate it into its growth model.

***Investment Implication:** This presents a structural paradox. South Korea's long-term growth target of 2% is unattainable without foreign workers, yet its current social and policy frameworks are insufficient to attract and retain them sustainably. Future competitiveness will depend not only on the scale of immigration but on the country's ability to build a more attractive, inclusive, and rights-based environment for migrant talent.*

¹⁷¹ Korea View. "Korean Agriculture's Dependence on Migrant Workers." Korean Economic Institute of America, March 25, 2020. <https://keia.org/the-peninsula/korean-agricultures-dependence-on-migrant-workers/>.

¹⁷² Woo-ryang, Kang, and Seo-young Kim. "S. Korea's Population Rises for 2nd Year on Foreign Influx." The Chosun Daily, July 29, 2025. <https://www.chosun.com/english/national-en/2025/07/29/ORBX7F23PREV3JH6AV2LIXP6V4/>.

¹⁷³ Ibid.

3. TECHNOLOGY AND RESOURCES PROSPECTS

√ By the early 2030s, South Korea is forecasted to generate over 70% of its electricity from low-emission sources, led by renewable capacity exceeding 72 GW and sustained nuclear expansion. However, continued reliance on imports for more than three-quarters of its primary energy and vulnerability to Persian Gulf supply routes will keep energy security a persistent strategic risk.

√ In the coming years, diversification of critical minerals through joint ventures in third countries could slightly reduce reliance on China; however, around 80% of the minerals South Korea demands still originate there. Persistent supply chain risks could weigh on industrial output and external stability if trade tensions intensify.

√ Rapid expansion in robotics, AI, and defense technology, driven by over 20% annual growth in AI markets and a rising 2.2% global share in arms exports, is expected to reinforce South Korea's industrial strength. Nevertheless, dependence on high-end chips and geopolitical uncertainty in the US-China rivalry may continue to constrain full technological autonomy.

3.1 Energy Security and Electricity Transition

South Korea is highly dependent on imports to meet its energy needs, as it does not possess significant reserves of fossil energy resources.¹⁷⁴ In 2020, only 7% of ROK's primary energy was supplied by domestic resources,¹⁷⁵ and in 2023, the share of domestic production in primary energy consumption was only about 16.3%, reinforcing the country's energy-dependent status.¹⁷⁶ The increase reflects the expansion of nuclear generation and renewable capacity, together with improved energy efficiency and slower growth in imported fuels, which temporarily raised the domestic share without changing ROK's structural dependence on external energy sources.

¹⁷⁴ Advanced Energy Technologies. "Energy Industry in South Korea." AERNET, April 9, 2025. <https://aenert.com/countries/asia/energy-industry-in-south-korea/>.

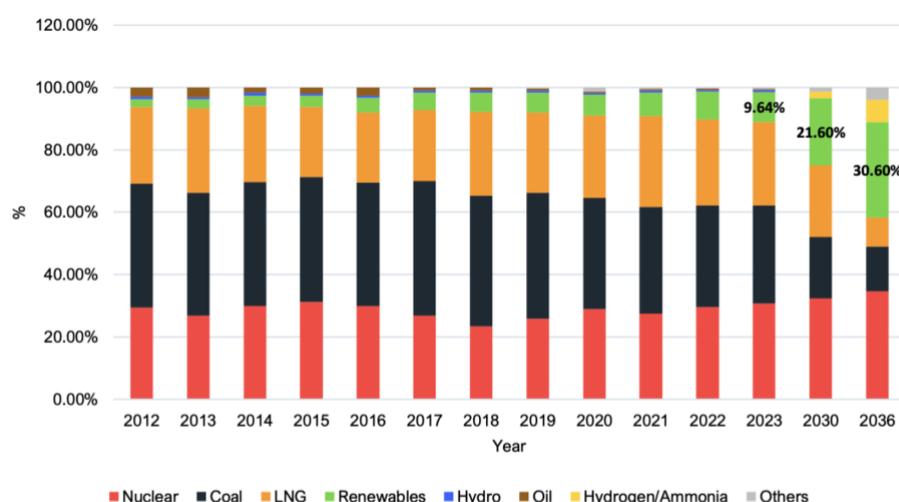
¹⁷⁵ Park, Won Young, Yong Hyun Song, et al. 2025. "A Clean Energy Korea by 2035: Transitioning to 80% Carbon-Free Electricity Generation." Cell Reports Sustainability, Volume 2, Issue 1, January 24, 2025. <https://doi.org/10.1016/J.CRSUS.2024.100262>.

¹⁷⁶ Ibid.

South Korea is committed to achieving carbon neutrality by 2050 and has set an enhanced nationally determined contribution (NDC) target for 2030 to reduce emissions by 40% below 2018 levels.¹⁷⁷ The medium-term evolution involves a strategic shift away from the current heavy reliance on fossil fuels. In 2024, the total primary energy consumption was heavily weighted toward fossil fuels: oil (36.5%),¹⁷⁸ natural gas (19.7%),¹⁷⁹ and coal (19.7%).¹⁸⁰

The 11th Basic Plan on Electricity Supply and Demand, finalized by the Ministry of Trade, Industry and Energy in February 2025, reinforces South Korea’s commitment to a cleaner and more resilient power mix.¹⁸¹ The plan also authorizes the construction of two new large-scale nuclear reactors and one small modular reactor (SMR), balancing baseload stability with the accelerated integration of renewables.¹⁸²

Figure 3: South Korea’s Power Mix by Energy Resources by Year.



Sources: MOTIE, KEPCO

Note: Data for 2023 estimated from monthly KEPCO updates; 2030 and 2036 projections include hydrogen and ammonia co-firing in power generation, Others include hydropower.

Source: Institute for Energy Economics and Financial Analysis.¹⁸³

¹⁷⁷ D’Ambrogio, Enrico. “South Korea’s Pledge to Achieve Carbon Neutrality by 2050.” European Parliamentary Research Service, June 2021. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690693/EPRS_BRI\(2021\)690693_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690693/EPRS_BRI(2021)690693_EN.pdf).

¹⁷⁸ International Energy Agency. “Korea Oil Supply.” IEA, 2025. <https://www.iea.org/countries/korea/oil>.

¹⁷⁹ International Energy Agency. “Korea Natural Gas Supply.” IEA, 2025. <https://www.iea.org/countries/korea/natural-gas>.

¹⁸⁰ International Energy Agency. “Korea Coal Supply.” IEA, 2025. <https://www.iea.org/countries/korea/coal>.

¹⁸¹ Kim & Chang. “Korea’s 11th Basic Plan on Electricity Supply and Demand Finalized and Confirmed.” Kim & Chang, March 24, 2025. https://www.kimchang.com/en/insights/detail.kc?sch_section=4&idx=31716.

¹⁸² Ibid.

¹⁸³ Kim, Michelle Chaweon. “South Korea’s Power Trilemma.” Institute for Energy Economics and Financial Analysis, March 2024. https://ieefa.org/sites/default/files/2024-03/Final_South%20Korea%27s%20Power%20Trilemma_Mar24_0321.pdf.

According to the IEA’s World Energy Investment 2025 report, electricity demand in ROK is projected to rise by around 2–3% annually through the early 2030s, driven by accelerated electrification of transport, data centers, and AI-related computing.¹⁸⁴ The government anticipates this surge and plans to expand total generation capacity to more than 170 GW by 2038, supported by the 11th Basic Plan’s renewables buildout and new nuclear capacity.

In parallel, President Lee’s early remarks suggest a stronger tilt toward renewables and potentially a pause on major new nuclear build-projects; he noted that large reactors take around 10 years to deliver and emphasised the faster rollout of solar and wind as the feasible near-term path.¹⁸⁵ While the 11th Basic Plan already authorised two new large reactors and one SMR, the new administration’s tone raises policy-execution uncertainty around nuclear expansion and may shift incremental capacity further into renewables and storage.¹⁸⁶

***Investment Implication:** South Korea’s power system is set to remain import-dependent but increasingly carbon-free, with renewables and nuclear balancing reliability needs and political constraints. Execution risk, particularly grid expansion and project permitting, will define whether medium-term decarbonisation targets are met.*

3.1.1 Outlook for South Korea’s energy mix and electrification capacity

Although ROK has now set clear carbon-neutrality and renewable energy expansion goals, its energy system still carries the legacy of decades of reliance on fossil fuels. This historic dependence continues to slow the pace of decarbonisation and expose the country to volatility in global fuel markets.¹⁸⁷

New investments in LNG and co-firing technologies could undermine climate commitments

¹⁸⁴ International Energy Agency. “World Energy Investment 2025 Report.” International Energy Agency, (pp. 228-232), June 2025. <https://iea.blob.core.windows.net/assets/1c136349-1c31-4201-9ed7-1a7d532e4306/WorldEnergyInvestment2025.pdf>.

¹⁸⁵ Cho, Jae-Hyun, and Park Jeong-Hoon. “Exclusive: Nuclear Reactor Site Selection Halts Under Lee Jae-Myung Administration.” The Chosun Daily, October 27, 2025. <https://www.chosun.com/english/industry-en/2025/10/27/NBT4IGKIDNBCLLEO7TA5VEKPMY/>.

¹⁸⁶ Ibid.

¹⁸⁷ Tachev, Viktor. “The 2025 APEC Meeting: Opportunity For South Korea to Step Up.” Energy Tracker Asia, October 13, 2025. <https://energytracker.asia/the-2025-apec-meeting-opportunity-for-south-korea-to-step-up/>.

while aggravating air-quality pressures.¹⁸⁸ These structural headwinds have shaped perceptions of South Korea as a late mover in the energy transition, a reputation the new administration is now seeking to change.

Low-emission sources supplied just over 40% of ROK's electricity in 2024, and this share is expected to reach 47% by 2027, according to the IEA.¹⁸⁹ Power demand increased by about 1.4% year on year, with summer peaks close to 88 GW, highlighting growing pressure on the national grid. By 2038, total electricity demand could rise to around 129 GW, roughly 30% higher than in 2023, driven mainly by the rapid expansion of semiconductor manufacturing and AI data centers. To meet this rising demand, the government plans to expand renewable capacity to approximately 72 GW by 2030, accelerate offshore wind auctions, and increase nuclear generation, which is projected to account for more than one-third of total power supply by 2027.¹⁹⁰

ROK's simultaneous drive for AI leadership and carbon neutrality is redefining its industrial trajectory, strengthening its global competitiveness, and opening up meaningful investment opportunities in digital technologies, semiconductors, and renewable energy. By aligning digital transformation with decarbonization, the country is emerging as a reference point for economies seeking to balance technological progress with sustainable growth.¹⁹¹

Addressing infrastructure resilience is essential, as roughly 78% of existing data center power usage is concentrated in the Seoul metropolitan area, severely straining local grids.¹⁹² To counter this geographical obstruction and ensure stability, the government has implemented two key legislative measures: the Special Act on Distributed Energy (effective in June 2024), designed to incentivize the relocation of data centers outside the capital region; and the Power Grid Act, enacted in February 2025, which aims to expedite necessary grid expansion and reform regulatory processes related to utilities and power purchase agreements.¹⁹³

¹⁸⁸ Ibid.

¹⁸⁹ Çam, Eren, Marc Casanovas and John Moloney. "Electricity 2025; Analysis and Forecast to 2027." International Energy Agency, February 2025. <https://iea.blob.core.windows.net/assets/7c671ef6-2947-4e87-bcea-af0e1288e1d7/Electricity2025.pdf>.

¹⁹⁰ Ibid.

¹⁹¹ The Renewable Energy Institute. "South Korea Accelerates Toward a Renewable Future with AI." The Renewable Energy Institute. <https://www.renewableinstitute.org/south-korea-accelerates-toward-a-renewable-future-with-ai/>.

¹⁹² Park, Sun Ryung. "South Korea Looks to Canadian Energy to Fuel Its AI Ambitions." Asia Pacific Foundation of Canada, September 10, 2025. <https://www.asiapacific.ca/publication/south-korea-looks-canadian-energy-fuel-its-ai-ambitions>.

¹⁹³ Ibid.

Crucially, the government's approach leverages AI itself as a tool for sustainability, recognizing its dual role as both a substantial energy consumer and a potent instrument for optimizing energy use. Industry leaders acknowledge the potential of AI to enhance the optimization and integration of renewable energy sources into the grid.¹⁹⁴

Moreover, South Korea's strategic global partnerships, such as those with OpenAI, Samsung, and SK under the Stargate initiative, are enabling the nation to integrate frontier expertise in infrastructure design.¹⁹⁵ If these collaborations result in the establishment of new AI data centers in ROK, these facilities are expected to harmonize best practices in areas such as data flow management, cost optimization, and energy optimization, in that way, setting new standards for sustainable AI ecosystems.¹⁹⁶ This emphasis on advanced infrastructure development, together with significant adjustments to the national energy mix, supports South Korea's strategy to meet its rapidly rising electricity demand.

Despite ambitious carbon-neutrality commitments, ROK's power sector remains hindered by structural inefficiencies and a persistent preference for financing fossil fuels. Market concentration, limited competition, and delayed liberalization continue to slow the transition toward affordable and sustainable energy.¹⁹⁷ From 2016 to 2021, domestic financial institutions directed more capital to coal projects than to renewable initiatives, in contrast to the global shift toward clean energy investment.¹⁹⁸

South Korea's resource self-sufficiency rate, at 13% compared with Japan's 34%, underscores its enduring vulnerability to external supply shocks and price volatility.¹⁹⁹ These structural and financial imbalances highlight that South Korea's energy challenge is fundamentally systemic, magnifying its exposure to geopolitical risk and constraining the pace of its transition.

¹⁹⁴ Delegation of the European Union to the Republic of Korea. "EU-Korea Green Partnership Highlights the Integral Role of Artificial Intelligence in Achieving a Sustainable Energy Future." EEAS, August 29, 2025. https://www.eeas.europa.eu/delegations/south-korea/eu-korea-green-partnership-highlights-integral-role-artificial-intelligence-achieving-sustainable_en?s=179.

¹⁹⁵ OpenAI. "AI in South Korea, OpenAI's Economic Blueprint," OpenAI, October 23, 2025. <https://cdn.openai.com/global-affairs/f9361fe7-e452-4c78-94dc-e6946c73c858/openai-south-korea-economic-blueprint-october-2025.pdf>.

¹⁹⁶ Ibid.

¹⁹⁷ Kim, Michelle Chaweon. "South Korea's Power Trilemma." Institute for Energy Economics and Financial Analysis, March 2024. https://ieefa.org/sites/default/files/2024-03/Final_South%20Korea%27s%20Power%20Trilemma_Mar24_0321.pdf.

¹⁹⁸ Yi, Yang, and Youngho Kim. "White Paper on Fossil Fuel Finance." Korea Sustainability Investing Forum, January 25, 2024. https://kosif.org/bbs/board.php?bo_table=s5_1&wr_id=36&stx=PCAF&sdiv1=&sdiv2=&sdiv3=&ckattempt=1.

¹⁹⁹ Kim, Michelle Chaweon. "South Korea's Power Trilemma." Institute for Energy Economics and Financial Analysis, March 2024. https://ieefa.org/sites/default/files/2024-03/Final_South%20Korea%27s%20Power%20Trilemma_Mar24_0321.pdf.

3.1.2 Implications of Persian Gulf hydrocarbon dependence

ROK's reliance on hydrocarbon imports, particularly crude oil and LNG, from the Persian Gulf region poses a significant and enduring energy security risk in both the short- and medium-term. This risk is primarily rooted in the singular geographic vulnerability of transit routes and is contextualized by accelerating Asian energy demand, which heightens the strategic importance of Middle Eastern supply.

The most severe risk is associated with the Strait of Hormuz, a critical area through which the majority of South Korea's crude oil imports flow. If this strait faces closure due to regional conflict, ROK would be among the nations worst affected, along with India and China.²⁰⁰ This vulnerability is amplified by the total volume of global crude trade destined for the continent, as approximately 84% of all oil passing through the Strait goes to Asia.²⁰¹

In the immediate short term, ROK has mitigated physical supply disruption risk by establishing a substantial domestic buffer, maintaining a strategic petroleum reserve equivalent to about 200 days of supply.²⁰²

Looking toward the medium term (up to 2030), ROK is actively pursuing strategies to secure its supply stability through intensified bilateral relations with the Gulf Cooperation Council (GCC) states. This approach is driven by South Korea's intrinsic security interests, allowing it to emerge as a significant external power in the Middle East and a cooperative security partner for GCC nations.²⁰³ This increased trust is critical for enabling state-led economic initiative. An example of this would be South Korean companies securing major long-term contracts totaling \$19.2 billion with Qatar Energy to build LNG carriers.²⁰⁴

Furthermore, major Gulf suppliers are expanding their output capacity, helping secure long-term, stable sourcing; for instance, the UAE's Ruwais LNG project is set to more than double the country's annual LNG production capacity to 15.6 million tons by 2028.²⁰⁵

²⁰⁰ AFP News. "India, China, South Korea To Be Worst Affected By Iran's Closure Of Strait Of Hormuz As 84% Oil Goes To Asia." The Eurasian Times, June 23, 2025. <https://www.eurasiantimes.com/india-china-south-korea-to-be-worst-affected-by-irans-closure-of-strait-of-hormuz/>.

²⁰¹ Ibid.

²⁰² Ibid.

²⁰³ Suzuki, Noriko. "Strategic Energy Partnerships: The GCC and South Korea's Path to Energy Security." Gulf Research Center, November 11, 2024. <https://www.grc.net/single-commentary/203>.

²⁰⁴ Ibid.

²⁰⁵ Ibid.

In terms of structural mitigation, ROK is planning long-term diversification by commissioning three new nuclear reactors, as mentioned above, aiming to raise the country's nuclear power share to 35.2% by 2038.²⁰⁶ While this mitigates future carbon intensity and overall energy dependence in the long run, the risks associated with Persian Gulf hydrocarbon supply instability will persist throughout due to continued reliance on oil and gas imports.

***Investment Implications:** South Korea's reliance on Persian Gulf hydrocarbons creates ongoing geopolitical risk but also targeted investment opportunities. While exposure to supply disruptions via the Strait of Hormuz warrants a continued risk premium, government-led diversification, through LNG logistics, shipbuilding, nuclear power, and renewables, supports sustained capital flows into energy security and low-carbon infrastructure.*

3.2 Strategic Minerals and Tech Supply Chain Autonomy

South Korea's high-tech industries remain highly exposed to supply chain disruptions from China and Japan, on which they depend for critical minerals and advanced materials. China dominates the global refining of lithium, graphite, and rare earths, which are essential inputs for batteries, EVs, and renewable energy components. On the other hand, Japan controls advanced semiconductor materials like hydrogen fluoride and photoresists. This dual dependence leaves ROK's manufacturing base and its national economy exposed to geopolitical and trade tensions.

Recent economic modeling suggests that interruptions in critical mineral imports from China could lead to notable outpost losses across South Korean industries.²⁰⁷ A fragmentation scenario involving five to six months of delayed imports of germanium, graphite, and rare earth elements was estimated to reduce ROK's GDP by up to 0.89%. This underscores the potential macroeconomic costs of supply chain shocks in an economy so tightly integrated with both China and Japan. Despite efforts such as building strategic reserves, ROK remains a resource-poor country and is one of the largest energy consumers worldwide.

²⁰⁶ Ibid.

²⁰⁷ Kim, Young Gui. "The Economic Impacts of Supply Chain Fragmentation in Critical Minerals" Korea Institute for International Economic Policy, May 15, 2025.
https://www.kiep.go.kr/gallery.es?mid=a20301000000&bid=0007&list_no=11839&act=view.

Similarly, Japan's 2019 export restrictions on high-purity hydrogen fluoride and photoresists exposed South Korea's structural vulnerabilities and prompted local R&D and import substitution.²⁰⁸ Nevertheless, both ROK and Japan now share similar risk profiles as resource-poor economies, which has led to an increasing collaboration in this area. For instance, they are pursuing joint ventures in third countries such as Chile, Australia, and Indonesia to secure access to hydrogen, ammonia, and LNG.²⁰⁹

On the other hand, the global green transition has further intensified the competition for critical minerals, shifting the challenge from energy dependence to material dependence. As electric vehicles require up to six times as many minerals as conventional cars, South Korea's vulnerability to external mineral supply constraints is becoming a strategic concern.²¹⁰ To mitigate this, in 2018, Korea's Framework Act on Resource Circulation (FARC) was launched, which seeks to advance a circular economy that promotes recycling and efficient resource use to strengthen long-term supply resilience.²¹¹ Nevertheless, ROK's geographic proximity and industrial interdependence with China and Japan mean that any disruption in either relationship could echo across its high-tech sectors.

Therefore, while diversification, recycling, and bilateral cooperation initiatives represent meaningful progress, ROK will not achieve greater autonomy in the technological sector given its dependence on key materials for its supply chain development. Looking ahead, South Korea's strategic dependence will largely be shaped by the evolution of global trade and technology blocs. Moreover, a deepening US-China decoupling could heighten supply risks and diversification costs. Over the next decade, advances in alternative materials and resource recovery could gradually reduce vulnerabilities. Still, sustained investment, innovation, and alliance management will be essential to achieving lasting supply chain resilience.

²⁰⁸ Makioka, Ryo, and Hongyong Zhang. "The Impact of Export Controls on International Trade: Evidence from the Japan-Korea Trade Dispute in Semiconductor Industry" *Journal of the Japanese and International Economies*, Volume 74, December 2024. <https://doi.org/10.1016/j.jjie.2024.101336>.

²⁰⁹ Kim, Nayul, Wonbin Doh and Eojin Kim. "60th Anniversary of Korea-Japan Diplomatic Normalization: Current Status and Development Strategy of Korea-Japan Business Cooperation." *Korea International Trade Association and Institute of International Trade*, June 20, 2025.

²¹⁰ Lee, Kyounga, and Jongmun Cha. "Towards Improved Circular Economy and Resource Security in South Korea" *Sustainability* 13, no. 1: 17, 22 December, 2020. <https://doi.org/10.3390/su13010017>.

²¹¹ *Ibid.*

3.3 Prospects for Technological Self-Sufficiency and AI Leadership

South Korea is accelerating efforts to strengthen technological self-reliance and secure leadership in robotics and AI. By building on initiatives like the National AI Strategy (2019)²¹², and the 4th Master Plan for Intelligent Robots (2024-2028), the South Korean government is seeking to position the country among the top global innovation centers by 2030.²¹³ These initiatives promote public-private collaboration and large-scale R&D investment to reduce dependence on foreign technology and support industrial transformation.

The global manufacturing robot market is led by China, Japan, the United States, ROK, and Germany, which dominate 77.6% of the total market.²¹⁴ Ranking fourth worldwide in manufacturing robot market share and first in robot density (with more than 1,000 robots per 10,000 workers), ROK stands out as a global robotics powerhouse.²¹⁵ Similarly, South Korea's AI market, worth USD 5.5 billion in 2024, is projected to grow at over 22% annually, driven by strategic public funding, data-center expansion, and partnership with global technology firms.²¹⁶

Recently, the AI and technology sectors have gained weight in South Korea's equity markets, underscoring their economic relevance. The Korean Composite Stock Price Index (KOSPI) has risen by more than 66% this year, making it the world's best-performing major stock market.²¹⁷ This improvement has been driven mainly by investor confidence in AI and by corporate governance reforms, particularly benefiting the semiconductor industry. SK Hynix and Samsung Electronics, two key players in the AI-driven demand for their semiconductors, together represent roughly 30% of the KOSPI.²¹⁸ The market performance thus reinforces ROK's prospects for technological self-sufficiency and its ambitions to consolidate AI leadership.

²¹² Ministry of Science and ICT. "National Strategy for Artificial Intelligence." The Government of the Republic of Korea, December 2019.

<https://www.msit.go.kr/bbs/view.do?sCode=eng&nttSeqNo=9&bbsSeqNo=46&mId=10&mPid=9>

²¹³ Kim, Eun-jin. "Korean Gov't Finalizes 4th Robot Plan." Business Korea, January 17, 2024.

<https://www.businesskorea.co.kr/news/articleView.html?idxno=209659>.

²¹⁴ Invest Korea. "All Eyes on K-Robots: The Status and Strategy of Korea's Robotics Industry." Invest Korea, May 9, 2025. https://www.investkorea.org/ik-en/bbs/i-5025/detail.do?ntt_sn=490807.

²¹⁵ Ibid.

²¹⁶ Fortune Business Insights. "South Korea Artificial Intelligence Market Size." Fortune Business Insights, October 25, 2025. <https://www.fortunebusinessinsights.com/south-korea-artificial-intelligence-market-114036>.

²¹⁷ Financial Times. "Foreign Buyers Bet South Korea Is the New Japan." Financial Times, September 28, 2025.

<https://www.ft.com/content/e2cbe1af-8802-418b-a9d6-4afb26af3101>.

²¹⁸ Ibid.

Currently, an AI-dedicated center is being built in the city of Ulsan, which is expected to become the largest in the country by 2027.²¹⁹ Similarly, a partnership with NVIDIA for the deployment of 260,000 Graphics Processing Units (GPU) nationwide will create a national-scale AI infrastructure that supports both public and private sector innovation.²²⁰ Such projects underscore the country's ambition to develop secure domestic computing capacity and cloud infrastructure. Similarly, key industrial leaders such as Samsung, LG, and Hyundai are integrating AI in the Robotics and Automation market.²²¹

Nevertheless, several challenges could slow ROK's path to full self-sufficiency. For instance, high initial investment costs, often exceeding USD 500,000 for small and medium-sized firms, limit access to automation technologies and slow market adoption.²²² At the same time, a persistent skills gap constrains growth, with more than 60% of companies reporting difficulties in finding qualified professionals in AI and robotics as education and training systems struggle to keep pace with demand.²²³ The dominance of *chaebols* also constrains smaller innovators, while geopolitical friction in the US-China technology rivalry introduces additional uncertainty. Moreover, the AI and robotics sectors remain highly dependent on foreign supply chains for software, high-end chips, and cloud/data infrastructure, particularly from the US and Taiwan, making them vulnerable to export restrictions, production delays, or logistical disruptions that could slow adoption and innovation.²²⁴

If current trends continue, South Korea is likely to consolidate its position as a global leader in applied robotics and industrial AI by the early 2030s. Ongoing investments in national AI infrastructure, public-private R&D, and workforce development will expand domestic capabilities, reduce reliance on foreign technology, and accelerate industrial automation. At the same time, continued dependence on imported high-end chips, software, and cloud infrastructure means that any disruptions in supply chains could temporarily slow adoption and innovation. Nevertheless, by strengthening domestic capacity, integrating AI across key

²¹⁹ The Economic Times. "SK AI Data Center to Become Korea's Largest AI Facility by 2027." The Economic Times, November 3, 2025. <https://economictimes.indiatimes.com/tech/artificial-intelligence/sk-ai-data-center-to-become-koreas-largest-ai-facility-by-2027/articleshow/125056874.cms?from=mdr>.

²²⁰ Martin, Scott. "Korea Joins AI Industrial Revolution: NVIDIA CEO Jensen Huang Unveils Historic Partnership at APEC Summit." NVIDIA, October 31, 2025. <https://blogs.nvidia.com/blog/korea-ai-apec-ceo-summit/>.

²²¹ Invest Korea. "All Eyes on K-Robots: The Status and Strategy of Korea's Robotics Industry." Invest Korea, May 9, 2025. https://www.investkorea.org/ik-en/bbs/i-5025/detail.do?ntt_sn=490807.

²²² Geetanshi. "South Korea AI in Robotics & Automation Market." Ken Research, October 2025. <https://www.kenresearch.com/south-korea-ai-in-robotics-automation-market>.

²²³ Ibid.

²²⁴ Bibi, Jaweria. "The US-China Semiconductor War: How it Impacts South Korea's Tech Industry." Zenodo, June 25, 2025. <https://doi.org/10.5281/zenodo.15735613>.

industries, and maintaining international cooperation, ROK is expected to achieve substantial technological self-sufficiency and reinforce its competitiveness in advanced manufacturing and AI-driven sectors.

3.4 Defense Industry as Economic Driver

The South Korean defense industry is currently experiencing a boom, driven by global demand as states seek to rearm amid rising geopolitical tensions. South Korea is now one of the world's leading arms exporters.²²⁵ The Stockholm International Peace Research Institute listed ROK as No. 10 among global arms exporters for the 2020-2024 period, holding a 2.2 % market share.²²⁶

3.4.1 Arms Exports and Industrial Potential amid Global Rearmament

Several factors are strongly driving and enhancing the growth trajectory of ROK's defense industry. The fundamental enabling factor is the "ferocious global arms race" currently underway, which has created an escalating demand for weapons, including tanks, artillery, fighter jets, and ships.²²⁷ Europe, in particular, is rearming due to concerns over Russian aggression and worries regarding America's declining commitment to the transatlantic alliance.²²⁸ In the same line, NATO allies recently agreed to more than double their defense spending target from 2% of GDP to 5% by 2035, generating a massive surge in demand.²²⁹

South Korea is well-positioned in this context, given its ability to deliver defense systems faster than European or US suppliers, often within a few months.²³⁰ Its weapons, including flagship items like the K2 tank and FA-50 fighter jets, offer a competitive balance of cost and capability while maintaining interoperability with Western systems.²³¹ A crucial strategic advantage for ROK lies in its key "all-in-one package deal strategy", whereby manufacturers are increasingly structuring export deals to include comprehensive packages, such as technology transfer and

²²⁵ Jung, Min-kyung. "From Ashes of War to Arsenal of World: South Korea's Defense Industry Boom." The Korean Herald, August 14, 2025. <https://www.koreaherald.com/article/10554365>.

²²⁶ Mathew, George, Katarina Djokic, et al. "Trends In International Arms Transfers, 2024." SIPRI, March 2025. https://www.sipri.org/sites/default/files/2025-03/fs_2503_at_2024_0.pdf.

²²⁷ The Economist. "Meet the World's Hottest Upstart Weapons Dealers." The Economist, August 31, 2025. <https://www.economist.com/international/2025/08/31/meet-the-worlds-hottest-upstart-weapons-dealers>.

²²⁸ Ibid.

²²⁹ NATO. "Defence Expenditures and NATO's 5% Commitment." NATO, August 27, 2025. https://www.nato.int/cps/en/natohq/topics_49198.htm.

²³⁰ The Economist. "Meet the World's Hottest Upstart Weapons Dealers." The Economist, August 31, 2025. <https://www.economist.com/international/2025/08/31/meet-the-worlds-hottest-upstart-weapons-dealers>.

²³¹ Jung, Min-kyung. "From Ashes of War to Arsenal of World: South Korea's Defense Industry Boom." The Korean Herald, August 14, 2025. <https://www.koreaherald.com/article/10554365>.

licensed local production, aligning with buyer nations' desire to develop their own domestic defense industries.²³²

Major agreements illustrate this approach, with companies like Hanwha Aerospace and Hyundai Rotem establishing joint production lines in countries like Poland and Romania.²³³ Moreover, strong integration between South Korea's military and its defense industry enables the reallocation of domestic orders to prioritize exports and scale up production within the nation's advanced manufacturing infrastructure.²³⁴

The South Korean government is also emphasizing R&D funding for cutting-edge niches, such as AI, robotics, drones, and semiconductors for military use, positioning the country as a natural supplier for next-generation systems, ensuring long-term competitiveness in high-tech segments of the global arms market.²³⁵

Given the current trajectory of global defense demand, ROK is expected to strengthen its position among the world's top arms exporters, leveraging speed, cost-effectiveness, and technology transfer deals to capture new markets. The defense sector is likely to become a significant driver of medium-term economic growth, particularly through industrial scaling, job creation, and advanced manufacturing. However, maintaining competitiveness will require careful management of supply chains, continued investment in cutting-edge technologies, and adaptation to shifting geopolitical conditions.

3.4.2 Structural Enablers and Constraints for Sector Expansion

Despite this momentum, several factors could hinder medium-term growth of the defense sector. One major risk is the industry's reliance on foreign components and technology. Production of South Korean-made fighter jets for Poland, for instance, has been stalled because the US has yet to authorize the export of some components.²³⁶

²³² Grgić, Gorana. "South Korea Is up in Arms, and That's a Good Thing for European Defences." October 29, 2025. <https://monocle.com/affairs/defence/south-korea-defence-sector/>.

²³³ Jung, Min-kyung. "From Ashes of War to Arsenal of World: South Korea's Defense Industry Boom." The Korean Herald, August 14, 2025. <https://www.koreaherald.com/article/10554365>.

²³⁴ Lee, Joyce and Josh Smith. "Insight: Inside South Korea's Race to Become One of the World's Biggest Arms Dealers." Reuters, May 29, 2023. <https://www.reuters.com/business/aerospace-defense/inside-south-koreas-race-become-one-worlds-biggest-arms-dealers-2023-05-29/>.

²³⁵ Grgić, Gorana. "South Korea Is up in Arms, and That's a Good Thing for European Defences." October 29, 2025. <https://monocle.com/affairs/defence/south-korea-defence-sector/>.

²³⁶ The Economist. "Meet the World's Hottest Upstart Weapons Dealers." The Economist, August 31, 2025. <https://www.economist.com/international/2025/08/31/meet-the-worlds-hottest-upstart-weapons-dealers>.

Furthermore, the global arms market is becoming more crowded, setting the stage for more intense competition, particularly from ambitious middle powers like Turkey, which offers affordable, NATO-standard weapons.²³⁷ Internally, ROK faces the risk of losing its hard-earned technological advantage as an emerging wave of skilled engineers leaves for Western companies that provide more competitive salaries.²³⁸

Raising the share of research and development within the defense budget from the current 17–18% toward 20–23% will be essential for South Korea to maintain its competitiveness.²³⁹ However, new EU rules on industrial defense that prioritize systems with substantial European design and manufacturing content will complicate South Korean firms' access to partnership contracts.²⁴⁰

Moreover, major deals are susceptible to the domestic politics of buyer nations; the new Polish government, for example, openly questioned the financing offer for the previously agreed multi-billion euro deal, calling it “unacceptable”.²⁴¹ Finally, there is a risk of friction with Washington over market share and industrial subsidies, given the global trend toward “reshoring policy” aimed at bringing strategic industries back to the US.²⁴²

ROK's advanced technological capabilities, especially in missiles, naval vessels, and armored vehicles, position it as a competitive supplier in the high-tech defense market. Furthermore, government support through R&D incentives, export financing, and strategic partnerships enhances the sector's capacity for innovation and global reach.

However, several challenges could limit growth. Defense exports are highly sensitive to geopolitical shifts, changing alliances, and foreign procurement policies, which can disrupt contracts or slow approvals. Competition from traditional arms exporters such as the US and Russia, as well as emerging European players, may also constrain market share. Domestically, reliance on key imported components and technological inputs could expose South Korea to supply chain disruptions, particularly in semiconductors and other critical components for

²³⁷ Ibid.

²³⁸ Jung, Min-kyung. “From Ashes of War to Arsenal of World: South Korea's Defense Industry Boom.” The Korean Herald, August 14, 2025. <https://www.koreaherald.com/article/10554365>.

²³⁹ The Economist. “Meet the World's Hottest Upstart Weapons Dealers.” The Economist, August 31, 2025. <https://www.economist.com/international/2025/08/31/meet-the-worlds-hottest-upstart-weapons-dealers>.

²⁴⁰ Grgić, Gorana. “South Korea Is up in Arms, and That's a Good Thing for European Defences.” October 29, 2025. <https://monocle.com/affairs/defence/south-korea-defence-sector/>.

²⁴¹ Ibid.

²⁴² Jung, Min-kyung. “From Ashes of War to Arsenal of World: South Korea's Defense Industry Boom.” The Korean Herald, August 14, 2025. <https://www.koreaherald.com/article/10554365>.

advanced weapon systems. Additionally, ethical concerns and export restrictions in some markets may reduce opportunities.

If current trends continue, ROK's defense sector is likely to remain a strategic driver of industrial growth. Still, its trajectory will depend on maintaining technological leadership, securing diversified export markets, and managing geopolitical and supply chain risks.

***Investment Implications:** South Korea's defense expansion strengthens its strategic autonomy but heightens exposure to geopolitical and regulatory friction. Sustaining export momentum will depend on navigating EU industrial barriers, U.S. reshoring pressure, and buyer-nation politics without undermining core alliances, making defense diplomacy and policy consistency decisive for long-term stability.*

CONCLUSION

South Korea's outlook over the next decade reflects a balance between resilience and structural transformation across its economic, political, and technological dimensions. Economically, the country is expected to regain moderate growth momentum after a short-term slowdown, supported by fiscal stimulus, gradual recovery in domestic demand, and continued export strength in high-value industries. However, persistent dependence on imported energy and exposure to external shocks, particularly from the United States and China, will require ongoing diversification efforts and adaptive economic management. The focus on green transition and sustainable industrial development will be central to maintaining competitiveness and investor confidence.

Politically, the restoration of institutional legitimacy and policy continuity under President Lee Jae-myung provide a foundation for stability and predictability, key elements for foreign investors. Yet, demographic decline and entrenched polarization may constrain reform depth and social cohesion, calling for sustained governance efforts to preserve fiscal balance and labor flexibility. ROK's ability to uphold institutional resilience and consensus-driven policymaking will remain essential to mitigating internal risks and maintaining a favorable investment climate.

Technological prospects will continue to define ROK's global position. Advances in artificial intelligence, defense innovation, and green energy are expected to consolidate its leadership in strategic industries, even as reliance on imported resources and regional tensions limit full autonomy. For investors, this future landscape suggests an environment of relative stability and high innovation potential, where opportunities will emerge from long-term structural transitions rather than short-term gains. South Korea is thus poised to remain one of Asia's most dynamic and forward-oriented economies, offering investors a setting where reform, innovation, and resilience converge to sustain value creation in an increasingly uncertain global context.

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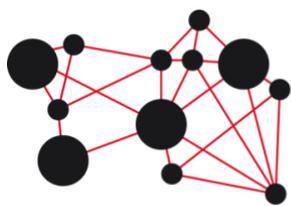
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