

At the Global Frontier: Inside Korea's Four Strategic Sectors

March 2026

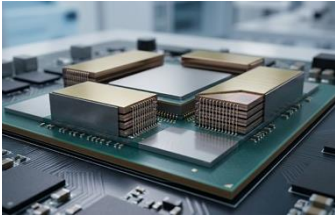


Source: News 1

The Lee administration is leveraging its legislative majority to consolidate Korea's position in key strategic sectors for the next decade: **AI and semiconductors**, where Korea leads global HBM supply; **defense**, where combat-proven systems are driving Korea's rise as a major arms exporter; **healthcare**, where regulatory changes are attracting foreign pharmaceutical investment; and **capital markets**, where governance reforms are narrowing the gap with global standards

This edition outlines key developments across these sectors and the policy measures underpinning them. A favorable political backdrop, including President Lee's 66% approval rating and the DP's strong prospects ahead of the 3 June local elections, provides the administration with room to push its agenda. However, uncertainty around US tariffs continues to shape the investment environment.

AI infrastructure boom created demand surge that only Korea can supply at scale



Source: Nano Banana



Source: Yonhap

HBM is driving Korea's GDP growth

Semiconductor exports hit \$20.54 billion* in January 2026, up 102.7% year-on-year, the tenth consecutive January record, **driven entirely by HBM and DRAM demand from AI server buildout**. Korea Development Institute (KDI) revised Korea's 2026 GDP growth forecast upward to 1.9% on the strength of this single export category. Total exports in January reached a record \$65.85 billion, with semiconductors accounting for roughly 31%.

Korea is no longer competing on volume. **SK Hynix holds approximately 62% of global HBM market share** and posted a 49% operating margin in 2025. Its full-year operating profit exceeded Samsung's entire company for the first time in history, marking a structural shift on the back of strong HBM pricing.

Legislative backing adds weight to industry progress

The government has doubled down on these gains with the **largest R&D commitment in Korean history: \$5.8 billion in strategic tech R&D for 2026**, a 30% year-on-year increase, backed by \$31.3 billion in policy finance covering the full commercialization cycle. This investment is **anchored by three major laws passed in just 12 months**. The **K-Chips Act** (February 2025) delivers 20% investment tax credits for large semiconductor firms. The **Semiconductor Special Act** (January 2026) creates a presidential committee and a ring-fenced Special Account running through 2036. And the **Korea-US Strategic Investment Special Act** (March 2026) commits \$350 billion in US-directed investment across priority sectors.

President Lee has signaled that semiconductors sit at the top of his policy agenda, announcing plans for a presidential special committee on semiconductor competitiveness and a government-wide five-year plan (2027-2031). MOTIR Minister Kim Jeong-gwan has echoed this framing, describing semiconductors as a core strategic asset that determines both industrial competitiveness and national security in the AI era.

*USD figures in this issue are approximate and based on a late March rate of about KRW 1,490 per USD.

Korea's edge now extends beyond chip manufacturing



Source: Dong-A Ilbo



Source: Business Korea

Startups outperforming chaebols at CES

At CES 2026, Korean firms won 168 of 284 Innovation Awards (roughly 60%) and swept all three Best of Innovation Awards in AI, the third consecutive year at number one. The more telling signal: **81.5% of Korean winners were SMEs**. The government's R&D architecture is providing the foundation for newcomers to compete, not just propping up existing players.

Korean startups are competing at the global frontier in **Physical AI, on-device NPU chips, and CXL memory infrastructure**. **DEEPX**, a Physical AI chip company with \$103 million in total funding, is in mass production with Hyundai/Kia and was featured in a presidential tech demo in March. **Rebellions**, Korea's first AI chip unicorn (\$1.4 billion valuation), powers the country's largest commercial AI service and is targeting a pre-IPO round of \$300-500 million in 2026. **Panmnesia** is the only Korean company addressing the memory-sharing bottleneck inside large AI data centers using CXL technology. Foreign companies evaluating Korea as a supply chain partner are increasingly finding a technology co-development partner.

Investment framework at a glance

What distinguishes this architecture from previous government tech initiatives is durability. **The three laws passed in 12 months embed semiconductor policy into statute** through 2036, and a new **\$512 million Science & Technology Innovation Fund** channels over 60% of its capital toward 12 strategic tech areas, with semiconductors and displays taking 53% of that allocation. The bilateral channel, through the **Korea-US Strategic Investment Corporation**, adds a governance layer that outlasts any single budget cycle. For a foreign company assessing Korea as a long-term partner, the legislative record through early 2026 signals that government support for these sectors is built to last.

K-defense industry

The numbers

Korea's defense exports reached an estimated \$24 billion in 2025, **nine times the 2021 level, placing the country among the global top-10 arms exporters.** **The Big Four defense firms (Hanwha Aerospace, LIG Nex1, KAI, and Hyundai Rotem)** drove this growth, posting \$30 billion in combined revenue with a 13% average operating margin. Their combined **order backlog now stands at roughly \$74 billion, enough to sustain 4-5 years of production.** Exports now account for 60% of Big Four revenue, up from 35% just four years ago.

Iran war as turning point

This momentum continues to strengthen, with **the Gulf now serving as a live proving ground** for its missile defense, artillery, and armored systems. The Israel-Iran War and subsequent Iranian missile and drone campaigns through early 2026 depleted regional stockpiles and triggered emergency procurement. **The Cheongung-II missile defense system achieved a 96% intercept rate in UAE combat deployment, the first time a Korean defense system has been tested in actual conflict.** Following that performance, the UAE emergency-airlifted additional interceptors from Korea this month, and Saudi Arabia, Iraq, and Qatar have all signaled early delivery requests and add-on orders.

Why buyers choose Korea

Korea can **deliver in roughly 18 months**, compared to 3-5 years for Western suppliers, **at 20-40% lower cost.** In addition, its systems are NATO-compatible and fully **compliant with US and EU export controls**, with none of the end-use restrictions or political conditions that often slow procurement in the Middle East and Southeast Asia. Major deals now include **licensed local production and technology transfer** (Romania's K9 plant, Poland's K2 program), turning Korea from vendor into ecosystem partner. The government is targeting the world's fourth-largest arms exporter by 2030, backed by a \$107 million K-Defense Export Fund launching in the first half of 2026.

Amid global unrest, Korea's defense industry receives renewed focus



Source: Yonhap



Source: Chosun Ilbo

Korea's fast growing biohealth sector, emerging as clinical trial hub



Source: Korea Biomedical Review

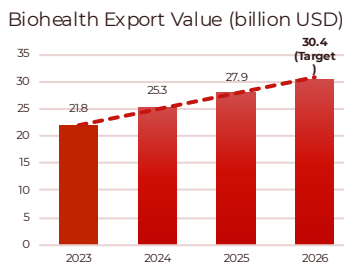
Structural reform driving the sector

Telemedicine is being formalized through the Medical Service Act amendment, taking effect December 2026. After more than 15 years of pilot programs, the law has broad bipartisan support, making its direction largely irreversible. It enables remote consultations via phone, video, and digital platforms, allowing nationwide scaling.

In addition, drug pricing reform, expected in the second half of 2026, represents Korea's first major pricing overhaul in over a decade. Innovative drugs will carry a 55-68% price premium linked to R&D intensity, while generic reimbursements will drop from 53.55% to the low-mid 40% range. On the device side, MFDS designated 45 products as innovative medical devices in 2025, up from 29 in 2024, and a new Immediate Market Entry Program took effect in January 2026 to reduce time to clinical adoption.

Export growth and global investment

Biohealth exports reached a record \$27.9 billion in 2025, up 10.3% year-on-year, with a target of \$30.4 billion in 2026. Pharmaceutical exports exceeded \$10 billion, with biopharma accounting for 62.6%. The overall market is projected to grow 20-21% in 2026, compared to roughly 5% globally, and is expected to surpass \$300 billion by 2027.



Source: korea.net

Foreign investment is accelerating. **Eli Lilly** plans to invest approximately \$500 million over five years, including establishment of Lilly Gateway Labs in Korea and support for roughly 30 domestic biotech startups. **Roche** is investing approximately \$490 million, tied to clinical trials in rare and high-incidence diseases. On the government side, backing includes a \$644 million Inter-Ministerial Advanced Medical Device R&D Program (2026-2032), a \$103 million Phase III Drug Development Fund, and \$160 million in MOHW allocations for 2026, a 3.5x increase over the prior year.

Capital market reform

Capital markets as the funding engine

Semiconductors, defense, and biohealth define where Korea is growing. Capital market reform determines how capital is mobilized to support that growth, with the Lee administration placing the stock market at the center of its economic strategy as a mechanism for middle-class wealth creation. A self-taught former retail investor, the President has built credibility with "ants" (retail investors) by framing stock market reform as "economic justice," protecting and empowering ordinary investors. The DP's **K-Capital Market Reform Committee** serves as the legislative vehicle to turn these pledges into law.

Dismantling the Korea Discount

Three Commercial Act amendments form the backbone of reform. The first establishes a fiduciary duty to shareholders, requiring directors to consider the interests of both the company and its shareholders. The second strengthens audit committee independence and advances cumulative voting rights, making it easier for minority groups to place independent directors on boards. The third, passed in early 2026, mandates cancellation of treasury shares within one year, ending the practice of using treasury shares to defend management control instead of returning value to investors.

Separately, the separation of tax for dividend income lowers the effective tax burden on dividends, creating incentives for companies to raise payouts and for investors to favor dividend-paying stocks. Together with the governance reforms above, the goal is to shift household savings from real estate into equities.

From passive wealth to active wealth

President Lee argues that real estate creates "passive wealth" benefiting a few, while the capital market creates "active wealth" that funds R&D, creates jobs, and drives global expansion. For decades, Korean household wealth has been trapped in real estate, inflating housing costs without producing a single job or developing a single technology. The early results are significant: in 2026, the KOSPI surged 44% as of late February, pushing total market capitalization past \$3.76 trillion and overtaking France as the world's ninth-largest market.

Ending the 'Korea Discount'



Source: The Blue House



Source: Business Korea



Four sectors, one integrated growth strategy

Looking ahead

The four sectors covered in this edition are interconnected. The semiconductor boom funds the R&D pipeline; defense and biohealth exports diversify Korea's revenue base beyond chips; capital market reform channels household savings into the companies executing that R&D. Together, they accounted for the bulk of Korea's export growth in early 2026 and form the core of the administration's economic strategy heading into its second year.

The June 3 local elections will test whether the public endorses this trajectory. The DP leads in nearly all regions, including traditionally conservative areas where the gap is narrowing fast. A strong performance could give the ruling party greater leverage on outstanding legislative items, including areas where progress has been slowed by political and corporate resistance such as aspects of capital market reform.

Key variables to watch: the Iran conflict's duration and its effect on Korea's economy including defense sector; the trajectory of US tariff policy and the IEEPA legal challenge; drug pricing reform details expected in H2 2026; and the Semiconductor Special Act's full implementation beginning August 2026. We will continue tracking these developments in the months ahead.

CONTACT

 contact.kr@grcompany.com

GR Korea – Seoul

9F, ONE CENTINEL
70 Yeoui-daero,
Yeongdeungpo-gu Seoul 07325
T +82-2-556-4205
grkorea.com

GR Japan – Tokyo

Juzen Bldg.101, 2-9-6 Nagatacho
Chiyoda-ku, Tokyo 100-0014
T +81-3-6205-4205
F +81-3-6205-4206
grjapan.com

GR Taiwan – Taipei

7F, No.152, Sec. 1
Zhongxiao E. Road,
Zhongzheng Dist.,
Taipei City 100024, Taiwan
T +886-2-23515011
grtaiwan.com

The GR Company - Washington D.C.

1300 I Street, NW, Suite 411 E
Washington D.C., 20005
T +1-202-725-6273
grcompany.com

The GR Company – London

25 Wilton Road, Victoria,
London, SW1V 1LW, UK
T +44-77-3066-6918
grcompany.com

The GR Company – Singapore

Gateway West, Lv. 35
150 Beach Road, Singapore 189720
T +65-6727-4640
grcompany.com