

Invested Allies

How the Private Sector Can Boost U.S.-South Korea Economic Security Cooperation

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Security

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Executive Summary

The United States is seeking to strengthen its domestic capabilities and supply chain resilience in a number of sectors critical for its economic security, including semiconductors, batteries, artificial intelligence (AI), and shipbuilding. Further cooperation with South Korea, a long-standing economic and security partner for the United States, could help realize these ambitions. Yet recent trade and geopolitical tensions may limit the scope and depth of cooperation at the government-to-government level.

As both governments navigate these tensions, the moment is ripe to nurture a long-term effort to elevate the role of the private sector in bolstering economic security and to leverage the two economies' respective strengths to achieve mutually beneficial outcomes. There are significant complements between the Korean and U.S. economies. South Korea has advanced capabilities in technology hardware and world-class firms looking for new production hubs. The United States, meanwhile, is a superpower in software, seeking to upgrade its domestic manufacturing capabilities, and home to a large and dynamic market. The challenge for U.S. policymakers is to identify where Korean companies can help plug gaps and effectively augment U.S. economic security capabilities, and then to facilitate mutually beneficial trade and investment flows. At the same time, realizing these opportunities will require navigating complex domestic political constraints on both sides, as well as ensuring various irritants in the bilateral relationship do not consume the economic security agenda and thwart broader progress.

Key Takeaways

- The United States is seeking to rebuild domestic capacity in several critical sectors where South Korea has particularly strong capabilities. South Korea is seeking to reduce its dependence on China and fend off growing competition from Chinese firms moving up the value chain. Deeper integration could help both partners achieve their respective economic security objectives.
- Recent U.S. and Korean presidential administrations have initiated new institutional frameworks for economic security cooperation. While these efforts have borne some fruit, the scope for substantially deeper government-to-government cooperation in the near term may be modest given limited trust and political constraints in both countries.
- Further supply chain integration led by the private sector could provide a more durable basis for long-term cooperation that outlasts political cycles. To realize this opportunity, Washington should provide consistent, concrete signals on how private sector trade and investment with U.S. security allies may contribute to U.S. economic security objectives.

Policy Recommendations

To facilitate selective supply chain integration in the semiconductor, batteries, AI, and shipbuilding sectors, the United States should:

- Provide certainty on tariff policy.
- Fast-track investment screening and export control licensing decisions for priority projects.
- Ensure Korean firms can get travel visas for their employees when needed.
- Leverage the Investment Accelerator program to speed permitting and remove regulatory obstacles.
- Use the AI Exports Program to help U.S. companies establish roles in South Korea's sovereign AI strategy.
- Provide concrete and actionable guidance on how allies can contribute to the Maritime Action Plan.

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- Continue existing minilateral government forums, which provide useful, if limited, scope for coordinating policies and projects among a broader group of like-minded partners.
- Work toward binding plurilateral sectoral trade agreements in strategic sectors.



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Introduction

The United States and South Korea have an enduring economic and security partnership, underpinned by a mutual defense treaty and the U.S.-South Korea Free Trade Agreement. With \$240 billion in bilateral trade in 2024, South Korea is the United States' seventh-largest trading partner, while the United States is the second-largest trading partner of South Korea, after China.¹ The United States has become one of the largest destinations of South Korean investment, receiving just over a third of outbound Korean foreign direct investment (FDI) in 2024.² South Korea is a leading source of investment in U.S. manufacturing and ranked as the top source of U.S. jobs generated by reshoring efforts and FDI between 2023 and the first quarter of 2025.³



U.S. President Donald Trump speaks during a bilateral lunch meeting with South Korean President Lee Jae Myung at the Gyeongju National Museum on October 29, 2025, in Gyeongju, South Korea. The leaders met on the sidelines of an Asia Pacific Economic Cooperation forum meeting, shortly before President Trump met with China's General Secretary Xi Jinping. (Andrew Harnik/Getty Images)

In recent years, the United States and South Korea have also developed similar economic security priorities, including bolstering their industrial and technological capabilities in the face of increasing competition from China and reducing supply chain vulnerabilities.⁴ Both countries have navigated a series of global economic shocks and disruptions, including from COVID, Russia's full-scale invasion of Ukraine in 2022, and, more recently, energy shortages arising from conflict in the Persian Gulf. Both have also faced economic coercion and retaliation from China: South Korea following the deployment of Terminal High Altitude Area Defense in 2016, and the United States in response to an expansion of export controls in 2025.⁵

Similar priorities, however, do not always translate into tangible cooperation. Indeed, Washington and Seoul have had a number of disputes in recent years linked to economic security policies. South Korea pushed back forcefully against the Biden-era Inflation Reduction Act (IRA), arguing the law discriminated against South Korean electric vehicles (EVs); ultimately, the United States implemented regulations that softened the blow on Korean exports.⁶ Similarly, U.S. export control policies have been a frequent point of tension, as Korean semiconductor firms that produce in China have worried about their ability to procure key manufacturing equipment to maintain and expand operations.⁷ Frictions have been generated in the opposite direction as well: Seoul has long restricted access to its digital economy markets on national security grounds, with U.S. cloud service providers and online map providers complaining about lost commercial opportunities.⁸ These examples demonstrate that efforts to enhance cybersecurity, improve domestic capacity, or derisk supply chains can have negative impacts on allies, and that there is a persistent risk that both countries' independent pursuit of their own economic security objectives could generate tensions that constrain the space for cooperation.

In recent years, the United States and Korea have established a number of institutional frameworks to advance economic security cooperation, both bilaterally and working with other key partners. During the administrations of U.S. President Joe Biden and South Korean President Yoon Suk Yeol, Washington and Seoul established the Supply Chain and Commercial Dialogue and the Next Generation Critical and Emerging Technologies Dialogue, and they participated in a range of related plurilateral initiatives including the U.S.-Japan-Korea Trilateral Economic Security Dialogue, the "Chip 4 Alliance" (alongside Japan and Taiwan), the Indo-Pacific Economic Framework for Prosperity, and the Minerals Security Partnership.⁹ While the pace of institution building has slowed during President Donald Trump's second administration, the governments announced the U.S.-Korea Technology Prosperity Deal in October 2025, and South Korea is a member of the U.S.-led Pax Silica effort and serves as the inaugural chair of the Forum on Resource Geostrategic Engagement (FORGE).¹⁰

These forums can serve as useful venues for exchanging information and highlighting policy priorities. Yet, these government-to-government initiatives are subject to shifting politics, and many have faded away after only a few meetings. Indeed, significant political changes in both countries—the return of Trump to the White House and Yoon's declaration of martial law and subsequent conviction for insurrection—have made it difficult to sustain long-term progress on these government-led economic security initiatives.

Government-to-government dialogue will remain important, and Washington and Seoul should seek to make the most of initiatives launched in recent years. Yet, both governments will also be preoccupied with managing a series of tensions in the bilateral trade and investment relationship, which may narrow the aperture for new cooperative efforts. Moreover, the administrations of both President Trump and South Korean President Lee Jae Myung also have a range of other domestic and foreign policy priorities competing for their attention, which will further constrain diplomatic bandwidth. For these reasons, this report focuses primarily on opportunities and limitations to economic security at the private sector level.

The next section of this report discusses some of the bilateral tensions the Trump and Lee administrations are navigating. The following section assesses the scope for advancing private sector cooperation in four critical sectors—semiconductors, AI, batteries, and shipbuilding. A final section offers recommendations for U.S. policymakers on how to realize the potential of U.S.-Korean supply chain integration to advance U.S. economic security.

Navigating Bilateral Tensions

The U.S.-Korean trade and investment relationship is currently clouded by a number of complex policy disputes and uncertainties. While both governments appear committed to identifying practical steps forward to preserve economic cooperation, these tensions will shape and constrain further economic security alignment.

Trade Policy

The Trump administration's wide-ranging tariffs have been a significant thorn in the U.S.-Korea relationship. In April 2025, when President Trump announced his "Liberation Day" reciprocal tariffs on countries all over the world, South Korea initially faced a 25 percent tariff rate. U.S. sector-specific tariffs on automobiles and threatened tariffs on semiconductors, both critical Korean exports, have been an additional point of tension.¹¹

In July 2025, the United States and South Korea subsequently announced a deal that would lower the tariff rate on most Korean exports, including those facing sector-specific tariff rates, to 15 percent. This has not, however, fully resolved the tariff issues. President Trump has continued to threaten to raise tariffs on South Korea, in part due to the slow implementation of Korea's investment commitment discussed below.¹² And following the Supreme Court decision invalidating the president's reciprocal tariffs, the administration's efforts to rebuild its tariffs using alternative legal authorities have resulted in additional changes and uncertainty on tariff rates.¹³



U.S. President Donald Trump shakes hands with South Korean President Lee Jae Myung during a bilateral meeting in the Oval Office of the White House in Washington on August 25, 2025. A significant focus of the meeting was the trade and investment deal announced the previous month. (Mandel Ngan/AFP/Getty Images)

Meanwhile, a separate trade conflict is developing on digital trade issues. Korean policies and proposals related to network usage fees, restrictions on cloud providers, regulations aimed at addressing false information online, platform competition, and AI safety have drawn the attention of U.S. policymakers.¹⁴ Seoul's response to a major data breach of Coupang, an e-commerce company headquartered in the United States but which operates primarily in South Korea, has become a particular flashpoint; American investors in the company have characterized the Korean government's fines related to the data breach as discriminatory and excessive, and have petitioned the U.S. government to impose new tariffs in response.¹⁵

Ultimately, while neither the Korean government nor Korean exporters were thrilled with the 15 percent tariff deal, both determined they could live with it if it provided stability and predictability. The real problem is that the combination of shifting U.S. legal bases for tariffs, bilateral disagreements on the pace of implementing the investment-related provisions of the deal, and separate disputes over digital trade have all introduced new uncertainty on U.S. tariff rates.

Investment Policy

The centerpiece of the deal to lower U.S. tariffs on South Korea from 25 percent to 15 percent was a Korean pledge to invest \$350 billion in critical sectors in the United States, including \$150 billion earmarked specifically for shipbuilding. But implementation has been slow. The Korean government worried investments at such a scale would strain limited foreign exchange reserves and put pressure on the won.¹⁶ It reached a compromise deal with the United States where all \$350 billion in investments are meant to be announced before the end of Trump's presidential term, but South Korea will not be obligated to disburse more than \$20 billion in any calendar year.¹⁷ The South Korean parliament passed legislation to implement the investment deal on March 12, 2026.¹⁸ No specific investments under the program have yet been announced, although the Korean government has established a dedicated team to manage the program, and there have been some initial bilateral talks aimed at identifying candidate projects.¹⁹ If implementation remains slow, there is a risk the Trump administration could respond by once again threatening new tariffs.

U.S. immigration policy has also emerged as a particularly salient barrier to Korean investment in the United States. In September 2025, Immigration and Customs Enforcement (ICE) officers raided a Hyundai-LG plant in Georgia and detained and shackled some 300 Korean workers. In the aftermath of the raid, several Korean companies paused or delayed planned investments.²⁰ While U.S. officials subsequently expressed regret for the raid, rebuilding trust will take time.²¹

Advancing Economic Security Through Supply Chain Integration in Strategic Sectors

The Trump and Lee administrations will be kept busy managing this range of tensions in the bilateral trade and investment relationship and appear unlikely to commit to meaningful new bilateral institutional frameworks on economic security. Yet this could still present an opportunity. Where their predecessors were more focused on building institutions to support a cooperative values-based diplomatic relationship over the long term, both Trump and Lee have focused on more near-term tangible dealmaking, with the private sector in the lead. A mutually beneficial approach would see increased cross-border trade and investments leveraging both partners' strengths in key strategic sectors in a manner that enhances domestic capabilities, opens new markets, reduces supply chain risks and security vulnerabilities, and preserves sovereignty and domestic control where necessary.

This report focuses on four sectors—semiconductors, batteries, AI, and shipbuilding—critical to U.S. economic security. These sectors share three criteria that make them promising candidates for deepening cooperation. First, they feature complementarities between the technological strengths and commercial interests of the U.S. and Korean private sectors, allowing for mutually beneficial gains. Second, in each sector China is emerging as a key competitor and moving up the technological value chain, creating incentives for companies in both countries to diversify their supplier and customer bases away from China.²² Third, they are mature enough to offer substantial commercialization opportunities today, while other areas of potential cooperation—such as quantum, space, or biotech—are in earlier stages of market development.²³ Indeed, each of the sectors highlighted in this report already demonstrate a meaningful, concrete foundation of private sector activity to build upon.

Yet, there will be tensions and trade-offs between the Trump administration's objective of onshoring new domestic capacity in strategic sectors and integrating supply chains with South Korea and other allies. There may be some particularly sensitive areas, such as production for military end uses, where the U.S. government wants complete control over the production process and will limit any foreign involvement. More generally, supply chain integration should be pursued in a manner that reduces, further deepens, over-dependencies on a limited number of suppliers. Supply chain integration should be welcomed when allies possess specific capabilities not available domestically; when integration can contribute to resilience and diversification of supply chains by complementing, not displacing, domestic capacity; and when doing so will not result in offshoring mission critical capabilities that, in a crisis scenario, could become unavailable domestically.

And while China's technological rise will partially help align U.S. and Korean interests, the two partners continue to have different strategic objectives in their respective relations with China, which can lead to policy conflicts. The Korean economy remains much more intertwined with China, as a supplier of key inputs, a production base for Korean firms, and an export market. For these reasons, Seoul had traditionally been wary of some U.S. efforts to enlist South Korea in derisking from China, particularly with respect to semiconductor export controls.²⁴ Today, as the Trump administration pursues a trade deal with Beijing, Seoul faces new uncertainties. Such a deal might undercut South Korea's access to Chinese markets or hinder South Korea's ability to source key inputs, such as critical minerals, from Chinese suppliers.²⁵ Moreover, even if a U.S.-China détente may alleviate near-term pressure on Korean companies to unwind their China ties, over the medium term they could be caught offside if Washington's policies snap back to a more restrictive posture.

Semiconductors

While the United States has several critical advantages in the intensifying global semiconductor competition, it remains constrained by a lack of substantial semiconductor manufacturing capacity. American firms account for over 50 percent of revenue in the global semiconductor industry, primarily due to U.S. strength in chip design, electronic design automation, and semiconductor manufacturing equipment.²⁶ The United States enjoys an especially strong position in leading-edge logic chip design, with NVIDIA estimated to account for 70–95 percent of the global AI chip market.²⁷ However, the majority of chips designed by U.S. firms are produced in fabs overseas, largely in Asia.²⁸ The CHIPS and Science Act, a bipartisan law enacted during the Biden administration, identifies addressing this gap as a critical economic and national security priority, with a particular emphasis on developing new domestic capacity for producing leading-edge logic chips and memory chips.²⁹



Samsung Chairman Jong-Yong Yun (3rd R) along with former Texas Governor Rick Perry (3rd L) at the grand opening ceremonies at Samsung Austin Semiconductor for "Fab 2" manufacturing facility, in June 2007. Samsung was awarded \$4.75 billion under the CHIPS and Science Act to support expanding its Austin facility and establishing new leading-edge logic fabs in Taylor, Texas. (Robert Daemmrlich/Corbis/Getty)

South Korea has several strengths in semiconductors that could complement those of the United States. Korean companies SK Hynix and Samsung dominate the global market for memory chips and are leaders in high-bandwidth memory (HBM) chips, which have emerged as a critical constraint for AI compute. Amid the current global shortage for memory chips, Korean capacity is critical for supporting the buildout of AI data centers as well as stabilizing the broader memory market for advanced consumer tech such as laptops and phones. Overall, Korean firms account for the second-largest share of global semiconductor revenues (after the United States) and approximately 20 percent of global manufacturing capacity—the third-largest after China and Taiwan.³⁰ South Korea's production capacity is projected to

increase by 129 percent over the next six years, positioning it to become the world's second-largest chip manufacturer by 2032, after only China.³¹ This production capacity is concentrated in memory chips; South Korea's share of global production of logic chips below 10 nanometers is projected to decline from 31 percent in 2022 to just 9 percent by 2032 as the United States, Europe, Japan, and China invest heavily in onshoring leading-edge logic capacity given its vital AI applications.³²

Deeper supply chain integration with the Korean semiconductor industry could help advance U.S. economic security objectives to onshore chip manufacturing capacity and support the buildout of AI data centers. Samsung and SK Hynix have already announced investments in leading-edge logic chip manufacturing and advanced memory chip packaging facilities in the United States, with the support of CHIPS Act funding.³³ Expanding this investment footprint would not only accelerate U.S. capacity buildout, but also help Korean firms establish a manufacturing base insulated from the geopolitical risks associated with their operations in China and mitigate the exposure of the American and South Korean semiconductor industries to a conflict in Taiwan. South Korea can also supply memory chips and advanced logic chips vital to U.S. AI infrastructure while U.S. capacity to produce these chips domestically comes online.

Realizing this potential will require Washington and Seoul to carefully navigate several challenges. Competition between U.S. and South Korean memory producers will complicate bilateral cooperation, with Washington seeking to bolster domestic memory chip producers such as Micron to avoid exacerbating dependencies on Samsung and SK Hynix. Uncertainty about U.S. semiconductor policies may also inhibit supply chain integration. Korean semiconductor firms were alarmed when Commerce Secretary Howard Lutnick suggested the United States may seek to renegotiate CHIPS Act grants to acquire equity stakes in participating companies, as Intel agreed to do.³⁴ Similarly, the lingering prospect of additional semiconductor tariffs, which the administration has repeatedly floated but not followed through on, creates additional uncertainty and risks for Korean investors and exporters.³⁵

Batteries

Lithium-based batteries are likely to become increasingly important to the national and economic security of the United States. This dual-use technology is pervasive in many commercial goods (including consumer electronics, medical equipment, and electric transit) as well as various defense applications including drones, satellites, unmanned surface and underwater vehicles, and communications and weapons systems.³⁶ Lithium batteries will also play a key role in powering AI data centers.³⁷ For all of these reasons, even as the Trump administration has downplayed "green tech" as a policy priority, there is a growing recognition in Washington of the risks of China's control of the global battery market.³⁸

China currently dominates the lithium-ion battery supply chain, accounting for 70–90 percent of the total value chain.³⁹ U.S. industrial policies such as the IRA facilitated a dramatic expansion in domestic production capacity, which doubled between 2022 and 2024 to reach over 200 gigawatt hours (GWh) and an additional 700 GWh under construction.⁴⁰ U.S. capacity lies largely downstream in battery pack and module assembly; it remains negligible for components farther upstream.⁴¹

South Korea is well positioned to support U.S. battery supply chain objectives. It is the world's second-largest lithium-ion battery manufacturer, and three Korean companies—LG Energy Solutions, SK On, and Samsung SDI—accounted for roughly 16 percent of the global market for EV and energy storage system (ESS) batteries in 2024.⁴² South Korea is a leading producer of battery components such as anodes and cathodes outside of China.⁴³ South Korean companies possess substantial expertise in advanced battery production and recycling technologies and are partnering with U.S. universities and research institutions on next-generation battery technology.⁴⁴

Growing competition from China has also given Korean battery makers strong incentives to search for alternative markets, including the United States. South Korea accounted for an estimated 41 percent of total investment in U.S. battery manufacturing between 2018 and 2023, including several partnerships between Korean battery makers and U.S. automakers incentivized by EV subsidies in the IRA.⁴⁵ While much of this capital has focused on EV battery production, Korean companies have also invested in expanding U.S. upstream capacity, including in critical mineral refining, and reached supply agreements to provide anode or cathode materials to U.S. automakers and Korean battery makers manufacturing in the United States.⁴⁶



LG Energy Solutions' Head of Advanced Automotive Battery Division Dong Myung Kim speaks at an event in Lansing, Michigan, in January 2022, announcing a new partnership with GM to build EV batteries. GM would later sell its stake in the project, and in 2026, LG announced the plant would instead partner with Tesla to produce energy storage batteries. (Bill Pugliano/Getty Images)

The elimination of EV subsidies contained in the IRA through the One, Big, Beautiful Bill Act and subsequent drop in U.S. demand for EVs, however, has forced South Korean firms to end some EV-focused partnerships and rethink their U.S. strategy. Several Korean battery makers have pivoted to the U.S. energy storage market, repurposing EV battery production lines to produce grid batteries amid surging energy demand from AI data centers.⁴⁷ As a result, the United States has gone from having virtually no capacity to produce batteries for ESS in 2024 to being projected to be able to meet demand domestically by the end of 2026, enabling the United States to end its reliance on Chinese imports in this sector.⁴⁸ Defense battery supply chains represent another emerging area for cooperation, with the Korea Battery Industry Association and U.S. embassy in Seoul holding the first-ever Korea-US Defense Battery Cooperation Seminar on March 13, 2026.⁴⁹ With restrictions that will prohibit the Pentagon from purchasing China's Contemporary Amperex Technology Co. Limited batteries set to take effect in 2027, U.S. defense contractors are shifting some supply chains away from China toward South Korea.⁵⁰

The partnership, however, faces several potential challenges. While ESS and defense battery needs are important, they may not fully offset the reduced demand for EV batteries, clouding the commercial outlook for Korean battery makers investing in the United States. Uncertainty on the direction of U.S.

industrial policy—following the repeal of the IRA and amid heated debate on whether the United States should allow Chinese battery companies to invest in the United States—may also dampen Korean firms' appetite for further investment in the United States. Additionally, there is a risk that U.S. and Korean firms end up competing over scarce critical mineral supplies, a crucial input for the battery sector, as both rush to decrease their dependence on Chinese supply chains.

Artificial Intelligence

AI has become a defining arena of great power competition, critical to U.S. military, economic, and diplomatic primacy. Washington enjoys considerable structural advantages: The United States is home to the leading labs at the frontier of AI development and dominates the AI chip market.⁵¹ The United States accounts for an estimated 74 percent of global high-end AI compute—a lead it has maintained through export controls restricting China's access to advanced semiconductors.⁵²

American leadership in AI, however, remains contested. Chinese companies such as DeepSeek and Alibaba have been able to produce models that are at or near the cutting edge for a much lower price than the United States.⁵³ This may be a compelling commercial strategy to gain significant market share around the world, which could then provide China with substantial economic leverage, potentially recreating some of the strategic pitfalls of the global 5G expansion, where Huawei was able to establish a dominant global market position. To counter this trend, the Trump administration is launching an ambitious new AI Exports Program to facilitate U.S. AI companies gaining market access in foreign markets and encourage foreign customers to build on U.S., rather than Chinese, technologies.

South Korea could be a pivotal test case for the U.S. AI strategy. The country has prioritized developing its AI sector and ranked fourth globally in terms of compute power and number of data center clusters in 2025.⁵⁴ Notably, however, the country places a strong importance on sovereign AI capabilities and is cautious about avoiding dependencies on foreign tech companies.⁵⁵ Such an approach could push U.S. companies out of the Korean market, and the history of Korean protectionism in the digital economy creates reason for concern.⁵⁶ Yet, there are alternative approaches to AI sovereignty that allow for supply chain integration while still preserving some national control and safeguards against technology disruptions. As Michael Kratsios, director of the Office of Science and Technology Policy at the White House, has noted, "The hope of the United States is that the pursuit of real AI sovereignty—the adoption and deployment of sovereign infrastructure, sovereign data, sovereign models, and sovereign policies within your borders, under your control—will become an occasion for bilateral diplomacy, international development, and global economic dynamism."⁵⁷

There are some promising signs that South Korea's sovereign plans will not preclude mutually beneficial cooperation with U.S. firms. For instance, Reflection AI, a U.S. startup building open weight models, is partnering with South Korea's Shinsegae Group on a major project that will create a massive new AI data center and see Reflection develop AI models customized for the Korean language and culture.⁵⁸ The project is being supported by the U.S. Commerce Department's AI Exports program. If this effort can be replicated in similar deals, South Korea's sovereign AI drive need not be a wedge between Washington and Seoul.

To outcompete China in the race to gain global AI market share, U.S. companies and the U.S. government will need to show they can work with, not against, foreign governments' sovereign AI ambitions. Demonstrating U.S. technology offerings can help South Korea advance its AI objectives, and solidifying South Korea within a broader U.S.-led tech ecosystem (and out of a Chinese-led alternative) would be a powerful example—and could become a model for how the United States exports AI around the world.

Shipbuilding

China has the largest naval fleet in the world, and projections show the gap between it and the United States is set to grow: By 2030, China's navy is expected to increase to 435 vessels, compared to just 290 for the United States by that date—slightly fewer than are in service today.⁵⁹ Underlying this discrepancy in fleet size is a stark gap in industrial capacity: The Office of Naval Intelligence estimates China's capacity to produce warships and submarines is over 200 times greater than that of the United States.⁶⁰ This gap could fundamentally undermine U.S. ability to contest Chinese aggression in the Indo-Pacific, particularly in the case of a protracted conflict.

Chinese shipbuilders also dominate commercial shipbuilding, accounting for an estimated 74 percent of global orders for commercial vessels in 2024, compared to just 0.2 percent received by American firms.⁶¹ The lack of a viable U.S. commercial shipbuilding industry compounds U.S. military vulnerabilities in two ways. First, without a robust commercial sector, there are limited economies of scale to develop competitive workforce and supply chains that can support naval shipbuilding.⁶² Second, commercial shipyard capacity would be vital to surging production of naval and support vessels during wartime.⁶³

Against this backdrop, the Trump administration has prioritized revitalizing the U.S. shipbuilding industry. In February 2026 it released the Maritime Action Plan, a strategy to increase U.S. shipbuilding capacity through investing in infrastructure, promoting workforce training, fostering secure maritime supply chains, and ultimately expanding the U.S. commercial fleet.⁶⁴ Yet, there are substantial obstacles to establishing an internationally competitive U.S. shipbuilding industry. Domestic production costs are high relative to international competitors, and the near total absence of demand for U.S.-produced commercial ships makes it hard for investors to justify the expense of investing in U.S. yards.



Former U.S. Transportation Secretary Elaine Chao greets attendees at the christening ceremony for the *State of Maine* at the Hanwha Philly Shipyard in Philadelphia on August 26, 2025. At the event, South Korean President Lee Jae Myung reaffirmed his country's shipbuilding partnership with the United States and Hanwha announced a \$5 billion commitment to modernize the shipyard. (Joe Lambert/Bloomberg/Getty)

South Korea is a natural partner to help rebuild U.S. shipbuilding. The South Korean shipbuilding industry, the second-largest in the world, is renowned for its use of advanced manufacturing techniques that make production substantially faster and more cost effective than in the United States.⁶⁵ Further integration with the U.S. market could also help South Korean shipbuilders respond to growing competition. China has eroded South Korea's share of the global shipbuilding industry from around 30 percent at the beginning of the decade to below 20 percent in 2024, making the search for alternative revenue streams increasingly urgent for Korean companies.⁶⁶ South Korea's three major shipbuilding conglomerates—Hanwha, HD Hyundai, and Samsung—have responded to this pressure by seeking to strengthen their competitive edge in high-value vessels, such as liquefied natural gas carriers, and by investing heavily in next-generation shipbuilding technologies, autonomous navigation systems, and smart shipyards. China is, however, increasingly challenging South Korea's dominance in high-value market segments and similarly investing heavily in next-generation shipbuilding technologies.⁶⁷

Seoul has made shipbuilding a central pillar in its strategy for trade negotiations with Washington. President Lee declared the cooperation would “Make American Shipbuilding Great Again” (MASGA).⁶⁸ There are multiple channels the MASGA initiative can build upon to support U.S. domestic capabilities. First, Korean shipbuilders can directly invest in U.S. shipyards and infrastructure; for instance, Hanwha has announced a \$5 billion investment in the Philly Shipyard, which it had acquired for \$100 million in December 2024. HD Hyundai launched a strategic partnership with the U.S. investment fund Cerberus Capital that focuses on investing in U.S. maritime infrastructure.⁶⁹ Second, Korean shipbuilders are collaborating with U.S. partners to jointly design and construct naval and commercial vessels, with many

announced projects involving construction in both countries.⁷⁰ Third, Korean shipbuilders can provide maintenance, repair, and overhaul (MRO) services. Hanwha and HD Hyundai have signed Master Ship Repair Agreements with the U.S. Navy and already secured MRO contracts.⁷¹ Samsung and mid-sized Korean shipbuilders are also seeking to enter the MRO market, which estimates suggest will reach \$8–\$12 billion annually by 2030.⁷² The U.S. Navy is estimated to be some 20 years behind in its MRO work, and thus increasing capacity for MRO services at allied shipyards is a critical national security need.⁷³

How deeply the United States should integrate its shipbuilding supply chains with its allies remains a contested question.⁷⁴ On the one hand, the United States wants to build domestic, cost-competitive shipbuilding capacity and minimize its reliance on foreign suppliers.⁷⁵ However, given the dire state of U.S. domestic shipbuilding competitiveness today, meeting urgent needs for naval and commercial vessels will likely require some degree of outsourcing and procurement from allies such as South Korea. Navigating this tension between U.S. onshoring objectives and the practical reality that there is no plausible path to a competitive domestic U.S. shipbuilding industry without some assistance from U.S. allies will require U.S. officials to carefully calibrate where such integration advances U.S. resilience and capabilities and where it may contribute to vulnerabilities.

Policymakers will also need to consider some specific geographic tradeoffs. Outsourcing MRO work and the construction of support and auxiliary vessels to Korean yards might enable the U.S. to deploy naval forces much more rapidly in the event of a conflict with China in the Indo-Pacific—freeing up capacity at U.S. yards and potentially enhancing deterrence in the process.

However, outsourcing to Korean yards could make U.S. naval supply chains vulnerable to being targeted by China. Critically, if a key component in a joint production is only sourced from South Korea, a potential naval conflict in the Pacific could disrupt shipbuilding supply chains at the very moment when shipbuilding capability is most needed.

A Policy Agenda for Supply Chain Integration

One overarching takeaway from the above analysis is that the private sector has the greatest potential to deliver tangible bilateral cooperation on economic security. Recent tensions and a lack of trust may impede deeper institutional alignment at the government level. But in reality, even when the U.S. and Korean administrations were more inclined toward cooperation and pursuing a number of government-to-government efforts on economic security, the lasting impact of these efforts was unclear. A private sector-focused approach, which enables selective U.S.-Korean supply chain integration in key strategic sectors, can help the United States achieve its economic security objectives.

Realizing this supply chain integration will ultimately depend on the trade and investment decisions of American and South Korean companies. Government policy, however, will play an important role in influencing these decisions and mobilizing private capital. The United States should pursue the following concrete steps to shape the trade and investment climate to facilitate selective supply chain integration with South Korea in the semiconductor, battery, AI, and shipbuilding industries.

1. Provide certainty on tariff policy. While tariffs can be an important leverage point for attracting foreign investment and encouraging the Korean government (and others) to reduce trade barriers facing U.S. exports, tariff uncertainty can paralyze investment decisions. To provide greater certainty, U.S. trade officials need to ensure they are on the same page with their Korean counterparts on implementation of the bilateral trade and investment deal with a shared understanding of what the United States expects of South Korea and what tariffs may be imposed if implementation falls short. On semiconductors, where rumors of new tariffs have swirled during the past year but not yet been implemented, the Trump administration should clarify what role it sees for tariffs as part of its onshoring agenda, which will influence firms' long-term trade and investment strategies.

2. Fast-track investment screening and export control licensing decisions for priority projects. Supply chain integration in strategic sectors will necessarily run into national security-related trade and investment reviews. To prevent such processes from unintentionally impeding U.S.-Korean supply chain integration, U.S. policymakers should provide a fast-track review process for investment projects carried out under the \$350 billion fund or under the auspices of other strategic economic security initiatives, such as Pax Silica and the U.S. AI Exports Plan.⁷⁶ The administration should also provide public guidance to the Committee on Foreign Investment in the United States that allied investment in key strategic sectors will be welcomed where it contributes to building U.S. capabilities, which will be an important signal to the private sector that national security reviews are not intended to be insurmountable obstacles to supply chain integration.

3. Ensure Korean firms can get travel visas for their employees when needed. Korean investments should create jobs for U.S. workers, but Korean firms investing in the United States will still need to bring employees to the United States to train local workers and provide management. In the aftermath of the ICE raid on the Georgia Hyundai-LG plant, the United States created the new Korea Investment Travel (KIT) desk at U.S. Embassy Seoul, tasked with addressing business travel challenges and providing guidance on visas.⁷⁷ Experts consulted for this project suggested this was a welcome development but that it was too soon to tell if the initiative was having an impact and that rebuilding trust with Korean workers will take time. U.S. policymakers should properly resource KIT and ensure it is running effectively to assuage remaining doubts that the United States welcomes Korean workers.

4. Leverage the Investment Accelerator program to speed permitting and remove regulatory obstacles. When the Trump administration announced the launch of a new "Investment Accelerator" program within the Department of Commerce in March 2025, it described its purpose as assisting major investors navigate regulatory hurdles.⁷⁸ Since then, the mandate of the program appears to have expanded; it is now tasked with managing and administering investments under both the \$350 billion

South Korea fund and the similar \$550 billion Japan fund, and it also oversees the ongoing implementation of CHIPS Act funding.⁷⁹ Amid this busy agenda, U.S. policymakers should ensure the Investment Accelerator is adequately staffed and resourced to also carry out its original objective of accelerating permitting processes and reducing regulatory burdens, including helping streamline complex and overlapping federal, state, and local regulatory regimes. This will help attract Korean firms investing in strategic sectors, including firms investing independent from the \$350 billion fund.

5. Use the AI Exports Program to help U.S. companies establish roles in South Korea's sovereign AI strategy. U.S. policymakers should assist U.S. AI companies with entering the South Korean market. This will require accommodating South Korean preferences for sovereign capabilities where reasonable and pushing back when such approaches tip into protectionism. U.S. officials should also point out to their Korean counterparts the risks associated with dependencies on Chinese AI companies and ideally work together on joint strategies to exclude Chinese AI companies from operating in domestic markets where this presents risks to national security.⁸⁰

6. Provide guidance on how allies can contribute to the Maritime Action Plan. The Maritime Action Plan includes a section on leveraging international partnerships, including a proposal for a “bridge strategy” under which the United States would initially procure ships from allied shipyards while allies simultaneously invest in U.S. shipyards, so that over time the United States has more domestic capacity.⁸¹ But details are scarce, and there are significant questions on how this might be implemented. The United States needs a more detailed plan explaining what specific elements of the shipbuilding process it intends to open up to allied supply chain integration, which may require revising laws and regulations that restrict foreign participation in U.S. shipbuilding. As the MASGA initiative takes shape, it will be vital for the United States to provide clear, coherent, and consistent guidance to Korean shipbuilders on which vessels and ship components it intends to procure from allied shipyards and define how allies can contribute to MRO work.

7. Continue existing minilateral government forums which provide useful, if limited, scope for coordinating policies and projects among a broader group of like-minded partners. South Korea is a founding member of Pax Silica and FORGE. U.S. and Korean policymakers should use these venues to coordinate with other like-minded countries—particularly Japan, which remains the most important trilateral partner—on sectoral strategies to foster resilience and innovation across the AI stack and critical mineral supply chains. Notably, both Pax Silica and FORGE include project-level coordination designed to spur new private sector investments; policymakers should leverage these opportunities while also ensuring such investment programs are aligned with their bilateral investment agenda.

8. Work toward binding plurilateral sectoral trade agreements in strategic sectors. While these non-binding minilateral forums can be helpful in launching some strategic projects, ultimately the private sector is more likely to respond to binding plurilateral sectoral trade agreements that clarify market access rules and production standards over the lifetime of an investment project. The United States has already announced its intention to pursue such a deal for critical minerals, including incorporating innovative policy tools such as price floors and common standards on investment screening.⁸² U.S. policymakers should pursue a similar approach for semiconductors.⁸³ Given South Korea's critical role as a demand market for critical minerals and a producer of semiconductors, it should be a priority partner for both efforts.

Conclusion

There are several challenges to deepening U.S.-Korean cooperation on economic security. The Trump administration's tariffs have contributed to volatility in the bilateral trade relationship. South Korea continues to carefully hedge between the United States and China, seeking to avoid any sharp disruption with either superpower. There is also a risk that, across a complex and busy bilateral agenda, various irritants in the diplomatic relationship—such as recent digital trade tensions—could spill over into broader constraints to economic security cooperation.

Yet, the underlying logic in favor of cooperation remains strong. As Washington navigates a world of deepening instability and technological competition, it is seeking to strengthen domestic capabilities and self-sufficiency. But the United States cannot achieve economic security alone. Deeper supply chain integration with South Korea could help fill some of the gaps in U.S. capabilities and bridge timelines as new U.S. domestic capacity in key sectors comes online. To realize this potential, U.S. policymakers should signal to the private sector in both economies support for careful supply chain integration to advance economic security.

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