KOREA RISK

South Korea: A Month in Review

An analytical look at the main developments from September 1 to 28, 2026, and key outlook for October 2026

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MONTH IN REVIEW

South Korea in September 2026: A month in review and what's ahead

An analytical look at the main developments from September 1 to 28, 2026, and key outlook for October 2026

John Lee | Joon Ha Park | KOREA PRO September 30, 2026

ROK President Lee Jae Myung and First Lady Kim Hea Kyung mark the Chuseok holidays, Sept. 25, 2026 | Image: Blue House

ABOUT MONTH IN REVIEW

Every month, *Korea Pro* delivers an authoritative analytical review of developments in South Korea, offering comprehensive coverage of political, economic and strategic shifts that shape the peninsula. *Korea Pro*'s Month in Review serves as an essential resource for policymakers, business leaders and analysts seeking to navigate South Korea's quickly-changing dynamics and stay ahead of the curve.

This detailed report examines key events from the previous month, providing actionable intelligence and expert analysis across six critical domains: politics and governance, economy and finance, trade and business, foreign relations, defense and security and society and culture.

Our team of specialists combines deep local knowledge with strategic insight to deliver nuanced analysis of both immediate developments and long-term trends. Each section features thorough examination of primary indicators, risk assessments and forward-looking analysis, complemented by data and other primary source information. The report concludes with a succinct outlook for the month ahead, identifying crucial events and emerging trends that will influence South Korea's trajectory.

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ROK President Lee Jae Myung, First Lady Kim Hea Kyung, French President Emmanuel Macron and First Lady Brigitte Macron before the ROK-France State Dinner at the Elysee Palace in Paris, Sept. 8, 2026 | Image: Blue House

EXECUTIVE SUMMARY

Korea Pro

President Lee Jae Myung's approval rating deteriorated through the first half of September before partially recovering, as housing dissatisfaction and failed Cabinet nominations weighed on his standing even while foreign policy remained one of his strongest-rated areas. The withdrawals of Gender Equality Minister nominee Yong Hye-in and Justice Minister nominee Kim Seung-won, followed by Presidential Chief of Staff Kang Hoon-sik's resignation offer, forced the administration to reassess its vetting process just as prosecution reform and a confrontation with Supreme Court Chief Justice Cho Hee-dae moved toward consequential October deadlines.

The economy generated exceptional income and external surpluses without producing an equally broad domestic expansion. Real gross national income rose 3.1% quarter on quarter and 15.6% year on year in the second quarter, while corporate operating surpluses grew much faster than employee compensation and the gross saving rate reached a record 45.6%. Export volumes and terms of trade strengthened further, prompting the Asian Development Bank (ADB) and the Organization for Economic Co-operation and Development (OECD) to raise their 2026 growth forecasts. But retail sales, services activity, youth employment and household confidence continued to lag behind the headline boom. At the same time, oil above $100 per barrel, higher global yields and the Bank of Korea's (BOK) earlier rate increases shifted more pressure toward households, small- and medium-sized enterprises (SMEs) and other leveraged

borrowers.

Seoul moved from negotiating headline U.S. investment commitments toward choosing individual projects, with a Texas gas-fired power plant selected first while nuclear and Alaska liquefied natural gas (LNG) proposals remained under discussion. Korean companies also faced stronger North American localization pressure through Mexico and the review of the U.S.-Mexico Canada Agreement (USMCA), while renewed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) consideration highlighted a different distributional problem at home as projected manufacturing gains were set against losses in agriculture, forestry and fisheries.

Lee ruled out sending South Korean forces to participate in the Iran war while leaving open a narrower contribution to maritime security around the Strait of Hormuz, even as Washington pressed Seoul for a “substantive contribution” and Tehran warned against military involvement. Lee also gave his North Korea strategy greater definition at the U.N. by proposing a phased approach beginning with a halt to further nuclear development, while South Korea expanded its economic-security ties with France, Central Asia, Australia and Mexico. But diversification did not eliminate dependence on Washington. U.S. investment negotiations remained intertwined with Korean priorities involving nuclear-powered submarines, enrichment and reprocessing, shipbuilding and wartime operational control (OPCON) transfer.

October will test whether September’s policies can survive implementation. The new criminal-justice structure takes effect on Oct. 2, the National Assembly audit will bring the Supreme Court dispute, personnel failures, defense policy and industrial strategy under sustained scrutiny, and the BOK’s rate decision and third-quarter GDP release will show whether semiconductor income is finally broadening into domestic demand. Seoul must also decide how far to move on Hormuz, preserve commercial discipline as U.S. investment projects advance and begin addressing the domestic adjustment costs of possible CPTPP accession.

Edited by Alannah Hill

Democratic Party leader Kim Min-seok (seated third from left) and the party's Supreme Council watch President Lee Jae Myung's press conference, Sept. 18, 2026 | Image: Democratic Party of Korea

POLITICS AND GOVERNANCE

John Lee

KEY DEVELOPMENTS

- **Lee's political standing deteriorated sharply before partially recovering late in the month:** All three major polling services showed Lee losing support during September, although methodological differences produced substantially different absolute readings. Gallup Korea put Lee at 37% positive and 56% negative in its Sept. 15-17 survey, his lowest approval and highest disapproval since taking office, while National Barometer Survey (NBS) had him at 43% positive and 48% negative from Sept. 7-9. Realmeter recorded a deeper mid-month trough of 33.8% approval before it recovered to 37.9% between Sept. 21-23, after Lee's press conference, personnel changes and overseas diplomacy.
- **Personnel vetting became the administration's most immediate governance crisis:** Yong Hye-in withdrew her nomination for Gender Equality Minister on Sept. 13 after Gallup found 61% considered her unsuitable and only 13% suitable, while NBS separately found 63% regarded her nomination as a bad choice. Justice Minister nominee Kim Seung-won then withdrew on Sept. 19 after Gallup found 43% considered him unsuitable versus 22% suitable and NBS found 47% viewed his nomination negatively versus 24% positively. The following day, Presidential

Chief of Staff Kang Hoon-sik offered to resign after the back-to-back withdrawals, bringing the controversy into the Blue House itself.

- **The administration entered the October prosecution overhaul amid a simultaneous confrontation with the judiciary:** The revised Criminal Procedure Act will take effect on Oct. 2, eliminating prosecutors' independent and supplementary investigative powers while transferring major crime investigations to a new Serious Crimes Investigation Agency and ordinary investigations primarily to police. Meanwhile, Chief Justice Cho Hee-dae rejected the presidential office's demand for a new Supreme Court justice recommendation, arguing that he could find no constitutional grounds for doing so, leaving the appointment dispute unresolved as the National Assembly prepared to begin its annual audit on Oct. 6.

PUBLIC SENTIMENT

Presidential approval rate: The three polling series agreed on the direction of travel during the first half of September but differed considerably over Lee's absolute level of support, reflecting differences in methodology and sampling.

- **Gallup Korea:** Approval fell from 40% on Sept. 4 to 38% on Sept. 11 and 37% on Sept. 18, while disapproval remained at 51% for the first week and increased to 56%. In the final September survey, housing policy accounted for 20% of negative assessments and personnel appointments 16%, while foreign policy accounted for 26% of positive assessments, making it Lee's strongest cited positive factor.
- **Realmeter:** Lee's approval moved from 37.4% in the first September survey to 33.8%, before recovering to 34.8% and then 37.9%. Disapproval peaked at 63.4% before easing to 60.1%, while Realmeter associated the late-month recovery with Lee's Sept. 18 press conference, personnel changes and overseas diplomacy.
- **NBS:** The Sept. 10 survey, conducted Sept. 7-9, put Lee at 43% positive and 48% negative, his lowest positive assessment in that survey since taking office. NBS separately found the public was evenly divided over trust in Lee's governing performance at 48% trust and 48% distrust, while moderates were at 48% trust and 49% distrust.

Party approval rate: September did not produce a consistent cross-pollster shift from the governing party to the opposition, even as Lee's personal ratings deteriorated.

- The DP stood at 38% versus 30% for the PPP on Sept. 4, 38% to 29% on Sept. 11 and 40% to 27% on Sept. 18, meaning the governing party did not experience the same sustained decline as the president.
- **Realmeter:** The DP moved from 41.8% to 36.1%, 40.2% and finally 38.7%, while the PPP

moved from 37.6% to 42.1%, 38.5% and 39.4%. Every September Realmeter DP-PPP gap was within that party survey's stated margin of error.

- **NBS:** The Sept. 10 survey put the DP at 39%, the PPP at 25% and undecided or unaffiliated respondents at 30%, although PPP support had risen five percentage points from NBS's late-August survey.

Youth support remained volatile but consistently weak for Lee: Gallup's September aggregate data showed presidential approval among men in their 20s and 30s in the 20% range with negative ratings in the 60% range, while Realmeter put Lee's approval among people in their 20s as low as 18.6% in its second September survey before a partial recovery later in the month. Subgroup samples are smaller and more volatile, but both polling series indicate that younger voters remained among the administration's most difficult constituencies.

POLICY SENTIMENT

- **Housing:** Housing remained the clearest area of public dissatisfaction. The Sept. 10 NBS survey found only 24% positively assessed the government's housing policy, the lowest of the five policy areas tested. Gallup found housing was the leading reason for disapproving of Lee in all three September surveys. The administration responded by announcing on Sept. 21 a plan to supply 1.19 million public-sale and rental homes through 2030, averaging roughly 240,000 annually, with about 77% planned for the Seoul metropolitan area.
- **Cabinet nominations:** Public opposition to the two most controversial nominees crossed polling houses. Gallup Korea found Kim Seung-won 22% suitable to 43% unsuitable and Yong Hye-in 13% suitable to 61% unsuitable, while NBS found their nominations were bad choices by 47%-24% and 63%-17%, respectively.
- **Foreign policy and Hormuz:** Foreign policy was one of Lee's strongest areas even as voters resisted military involvement around Hormuz. NBS gave the government's foreign policy a 49% positive rating, second only to welfare, while Gallup's positive-reason measure rose from 13% citing foreign policy on Sept. 4 to 26% on Sept. 18. At the same time, Gallup found 55% opposed sending South Korean troops or military assets to Hormuz versus 32% in favor, and NBS found opposition leading 45% to 36%.
- **Economic confidence:** The Sept. 18 Gallup survey found 27% expected the national economy to improve over the next year while 42% expected deterioration, the lowest optimism of the Lee administration, despite exceptionally strong export and income data. The same survey found 20% expected their household finances to improve, 26% expected deterioration and 52% expected little change, indicating that aggregate economic gains were not yet translating into comparable household optimism.
- **Government trust remained finely balanced:** The Sept. 10 NBS found an exact 48%-48% split between respondents who trusted and distrusted Lee's administration, while Gallup and Realmeter showed negative job ratings exceeding positive ones throughout the

month. The combination suggests that public dissatisfaction was substantial without producing a uniform shift toward the opposition or rejection of every major policy area.

EXECUTIVE

- **The personnel crisis forced Lee to reset the government's vetting process:** Yong Hye-in's Sept. 13 withdrawal was followed by Kim Seung-won's Sept. 19 withdrawal and Kang Hoon-sik's resignation offer on Sept. 21, after polling from Gallup and NBS showed broad skepticism toward both nominations. Lee has not yet decided whether to accept Kang's resignation.
- **Housing policy shifted further toward supply as political pressure intensified:** Prime Minister Han Seong-sook said on Sept. 1 that she would "stake" her job on executing the government's housing supply program after Lee instructed officials to treat supply as an economic policy priority. The government then announced plans on Sept. 21 for 1.19 million public-sale and rental homes through 2030, mostly in the Seoul metropolitan area, even as the disagreement with the PPP-led Seoul city government over using Yongsan Park for housing remained unresolved.
- **Lee used his Sept. 18 press conference to narrow several politically damaging ambiguities:** Lee explicitly said he had no intention of seeking reelection through constitutional revision and asked the National Assembly to remove provisions that could cancel his own indictments from a proposed special counsel bill. Realmeter subsequently recorded two consecutive weekly increases in presidential approval, from 33.8% to 37.9%.

LEGISLATIVE AND PARTY POLITICS

DP

- **The governing party remained more resilient than the president:** Gallup Korea ended its September polling with the DP at 40% versus 27% for the PPP, while NBS put the parties at 39% and 25%, respectively. Realmeter showed much tighter competition, ending Sept. 22-23 with the PPP at 39.4% versus 38.7% for the DP, a difference within that survey's margin of error.
- **Kim Min-seok entered his second month as leader with weaker ratings than the party itself:** The Sept. 18 Gallup survey found 30% approved of Kim's performance as DP leader and 48% disapproved, while among DP supporters the split was 54% positive to 27% negative. Lee's rating among DP supporters in the same survey was 66%, leaving Kim with less support inside the governing camp than the president despite the party's continued national polling advantage.
- **The regular National Assembly session shifted the DP from reform legislation toward implementation, appointments and budget politics:** The legislature opened its 100-day

regular session on Sept. 1, scheduled to run through Dec. 9, with the $603.9 billion (820.9 trillion won) 2027 budget, six ministerial confirmation hearings, housing legislation and judicial reform among the major areas of conflict.

PPP

- **The opposition gained from government difficulties in some polls but did not establish a consistent national lead:** Realmeter had the PPP overtaking the DP at 42.1% to 36.1% in its second September survey and narrowly ahead again in its final survey, while Gallup and NBS continued to show a clear DP lead.
- **Jang Dong-hyuk's own ratings remained weak:** The Sept. 18 Gallup survey found 21% approved of Jang's performance as PPP leader and 61% disapproved. Even among PPP supporters, Gallup found 39% positive and 49% negative.
- **The PPP concentrated its September offensive on appointments, the judiciary and constitutional questions:** Opposition lawmakers used National Assembly interpellations to challenge Kim Seung-won and Yong Hye-in, Lee's constitutional-reform position and the governing camp's prosecution changes.

JUDICIAL

- **The Oct. 2 investigative overhaul became operational rather than theoretical:** The new Serious Crimes Investigation Agency is scheduled to launch with a headquarters, six regional offices and 2,874 personnel, taking responsibility for seven categories of major crimes while prosecutors lose independent and supplementary investigative authority. The Justice Ministry separately decided that the new prosecution organization will initially operate with only 80-85% of the existing statutory prosecutor quota of 2,292, with further reductions planned through legislation.
- **Police prepared for greater responsibility amid continuing concerns about oversight:** The National Police Agency established a reform task force on Sept. 9 as it prepared to absorb a larger share of ordinary investigations following the Oct. 2 transition. On Sept. 28, National Office of Investigation chief Hong Seok-ki acknowledged that police would have to fill areas previously handled through prosecutorial supplementary investigations while arguing that the creation of the new major crimes agency would limit the overall expansion of police jurisdiction.
- **The administration's choice to nominate a former prosecutor to lead the new investigative body produced a separate credibility test:** Interior Minister Yun Ho-jung selected former senior prosecutor Kim Ji-yong on Sept. 7 as the nominee to become the Serious Crimes Investigation Agency's first chief, subject to parliamentary confirmation and presidential appointment. His selection gave the new institution experienced investigative leadership but also created tension inside a reform project explicitly

designed to reduce the old prosecution service's concentration of authority.

- **The Supreme Court dispute hardened into a constitutional and parliamentary confrontation:** Chief Justice Cho refused to make a new Supreme Court justice recommendation on Sept. 22, saying the presidential office had provided no constitutionally sufficient basis for requiring one, and the following day rejected the Blue House's contention that his original recommendation contained a procedural defect. Cho said on Sept. 28 that he would explain his position during the judiciary's National Assembly audit beginning Oct. 6, ensuring that the disagreement over appointment authority will carry directly into October.

LOOKING AHEAD

October will test whether the late-September stabilization in Lee's approval represents a durable political recovery or only a temporary interruption to the decline seen through most of the summer. The political test will be whether the Sept. 21 supply plan begins changing expectations before actual housing completions can materially affect the market.

The more immediate institutional test arrives on Oct. 2, when the restructured prosecution system and Serious Crimes Investigation Agency begin operating. Prosecutors will lose independent investigative powers, the new prosecution body will start with a reduced quota and police will assume greater responsibility for ordinary cases. Early case transfers, staffing problems or disputes over supplementary investigations will carry political significance beyond individual investigations because they will shape public judgments about whether the government separated investigative and prosecutorial authority without creating gaps in accountability or capability.

The executive-judicial conflict will then move into the National Assembly when the judiciary's annual audit begins on Oct. 6. Cho has said he will use the audit to explain his refusal to submit another Supreme Court justice candidate, while the Blue House maintains that his original recommendation lacked procedural completeness. At the same time, lawmakers will begin deeper scrutiny of the $603.9 billion (820.9 trillion won) 2027 budget during a regular session running through Dec. 9, placing personnel accountability, judicial authority, prosecution reform, housing and fiscal priorities inside the same parliamentary arena.

Edited by Alannah Hill

Yeouido financial skyline, March 26, 2024 | Image: S h y numis via Wikimedia Commons (CC BY 4.0)

ECONOMY AND FINANCE

John Lee

KEY DEVELOPMENTS

- **Chip boom lifted national income faster than household demand:** South Korea's semiconductor upcycle continued to produce large gains in national purchasing power, with real gross national income rising 3.1% quarter on quarter and 15.6% year on year in the second quarter even as real GDP increased just 0.6% from the previous quarter. Corporate operating surpluses rose 18.5% quarter on quarter while employee compensation increased 1.9%, helping push the gross saving rate to a record 45.6%. That divergence remained visible in the real economy, where July retail sales fell 2.4% month on month and services output declined 1.3% even as facilities investment increased 7.5%.
- **External accounts provided a large buffer:** South Korea recorded a roughly $42 billion account surplus in July, the second-largest monthly surplus on record, including a $40.43 billion goods surplus as exports benefited from the global AI boom. The BOK's August trade indexes subsequently showed export volumes rising 25.9% year on year and income terms of trade increasing 60%, giving Seoul greater capacity to absorb expensive energy imports before the Middle East shock worsened later in the month.

- **Growth forecasts moved sharply higher despite worsening external conditions:** The ADB raised its 2026 South Korea growth forecast to 3.2% from 2.6% in July, while the OECD raised its forecast to 3.7% from 2.6%, with both organizations citing export strength. The stronger outlook came as Brent crude moved back above $100 a barrel and U.S. long-term Treasury yields climbed, creating a widening gap between Korea's growth and the financial conditions confronting households and weaker companies.

POLICY DECISIONS

- **Seoul proposed converting the chip tax windfall into a new fiscal mechanism:** The government's 2027 budget proposal raises expenditure by 12.8% to a record $603.9 billion (820.9 trillion won) while forecasting the managed fiscal deficit to 0.1% of GDP and the national debt ratio to 48.3%. Its centerpiece is a $119.3 billion (162.3 trillion won) Future Response Fund that would spend $33.4 billion (45.4 trillion won) on growth, youth, regional development, education and skills, and $9.2 billion (12.5 trillion won) to reduce planned borrowing and initially leave $76.8 billion (104.4 trillion won) in reserve.
- **Government intervention shifted more of the energy shock away from consumers:** President Lee pledged to keep gasoline and diesel prices stable. Seoul maintained refinery supply ceilings of $1.31 (1,784 won) per liter for gasoline, $1.30 (1,773 won) for diesel and $1.01 (1,380 won) for kerosene, combined with export controls, strategic reserve swaps and support for longer-distance crude purchases. The government also committed to compensate refiners for losses, shifting part of the burden from household fuel bills toward public finances and company balance sheets.
- **Won internationalization moved from roadmap to implementation:** Seoul amended foreign exchange rules to allow registered foreign institutions to provide won services to non-residents, operate omnibus won accounts at Korean FX banks and settle through the BOK's international won payment network. The changes also allow institutions to borrow won without a quantitative ceiling for settlement purposes and exempt most non-resident won capital transactions from reporting requirements, advancing Seoul's effort to make the currency easier to trade and settle offshore.

SENTIMENT AND INDEXES

- **Consumers became more optimistic even as inflation remained high:** The BOK's composite consumer sentiment index rose 2.1 points to 106.6 in September, helped by stabilizing equity markets and stronger economic data. That improvement came after August consumer inflation accelerated to 3.1% year on year from 2.8% in July, with core inflation excluding food and energy reaching 3.4%.
- **Headline employment improved while youth and manufacturing employment**

remained weak: South Korea added 184,000 jobs year on year in August, the largest increase in five months, while the unemployment rate remained at 2%. However, the employment rate among people aged 15-29 fell one percentage point to 44.1%, marking a 28th consecutive monthly decline, while manufacturing employment fell by 38,000 positions.

- **Chip shares supported the KOSPI while bond markets tightened:** The KOSPI closed at 7,080.92 on Sept. 23, gaining 2.7% over the shortened pre-Chuseok week as Samsung Electronics and SK Hynix supported the index. At the same time, higher global rates were feeding into Korean fixed-income markets, with the three-year government bond yield reaching 4.091% and the 10-year yield 4.6% on Sept. 15, increasing refinancing pressure on households and companies.

RISKS AND OPPORTUNITIES

Risks

- **Energy inflation could outlast the government's price controls:** Brent crude settled above $104 per barrel on Sept. 25 after attacks and shipping disruption weakened routes around Hormuz and the Red Sea. Seoul can use fiscal support, reserves and price controls to delay transmission to households, but longer-distance crude procurement, refinery compensation and declining fuel-tax receipts increase the cost of maintaining that protection.
- **Higher rates are shifting the cost of stabilization toward borrowers:** The BOK's September financial stability analysis estimated that a 0.25 percentage-point rate increase raises annual household interest costs by around $2.4 billion (3.3 trillion won) and corporate costs by $2.7 billion (3.7 trillion won). Bank loan delinquencies had already risen to 0.63% in July, including 0.91% among small and medium-sized enterprises, leaving SMEs, self-employed borrowers and highly leveraged households exposed as monetary policy effects accumulate with a lag.
- **Growth remains dependent on the semiconductor cycle:** Corporate profits, tax receipts, national income, investment and export performance have all become increasingly tied to the AI-driven chip boom. The same concentration that strengthens Korea during the current supercycle would expose public finances, financial markets and domestic investment if memory prices, AI infrastructure spending or semiconductor earnings normalize faster than expected.

Opportunities

- **Record external surpluses give Seoul more room to absorb shocks:** The July current account surplus of about $42 billion, stronger terms of trade and rapid export growth have increased Korea's capacity to finance more expensive commodity imports and

preserve foreign exchange liquidity.

- **The semiconductor windfall gives fiscal policy unusual investment capacity:** Seoul expects national tax receipts to reach $429.8 billion (584.4 trillion won) in 2027, with sharply higher semiconductor-linked corporate and income taxes supporting investment in infrastructure, productivity, regional growth and human capital. If those expenditures raise productive capacity before chip receipts normalize, a cyclical windfall could leave a more durable contribution to potential growth.
- **Corporate income could still broaden into household demand:** The BOK has argued that higher corporate profits can gradually reach households through wages, bonuses and dividends, and the government through tax revenue. A stronger transmission mechanism would allow consumption and services to contribute more to growth and reduce the economy's dependence on capital spending and semiconductor exports, although stronger demand could also keep inflationary pressure elevated.

INVESTOR WATCHLIST FOR OCTOBER 2026

- **Inflation and the Oct. 22 BOK decision:** September CPI is scheduled for release on Oct. 2, producer prices are due Oct. 21 and the BOK's next policy-setting meeting is scheduled for Oct. 22. The BOK said in its September Monetary Policy Report that inflation is likely to remain above target for a prolonged period and that it will determine the timing and pace of additional hikes based on inflation, growth and financial-stability conditions.
- **Q3 GDP will test whether the boom is broadening:** September employment is due Oct. 16, the BOK will publish its advance third-quarter GDP estimate on Oct. 27 and September industrial activity is scheduled for Oct. 30. Together, the releases will show whether strong semiconductor income and investment are translating more clearly into employment, consumption and activity outside export-oriented manufacturing.
- **Oil, the won and global yields will determine how much financial pressure reaches Korea:** Korean markets ended September with oil above $100, elevated U.S. Treasury yields and a KOSPI still supported by semiconductor shares. Investors should watch whether a weaker won amplifies import costs, whether Korean bond yields continue rising and whether semiconductor earnings remain strong enough to offset tighter global financing conditions.

LOOKING AHEAD

October is expected to provide a clearer test of whether South Korea's semiconductor-led expansion is becoming a broader domestic recovery. ADB's 3.2% growth forecast and the OECD's 3.7% projection reflect much stronger momentum than forecasters expected earlier in the year, but September data continued to show weaker transmission into youth employment, household income and parts of the service economy. The Oct. 27 advance Q3 GDP release

should provide the clearest evidence of whether consumption and non-chip activity are beginning to close that gap.

Monetary policy will remain constrained by the interaction between stronger growth, above-target inflation, housing and borrower stress. The BOK entered October after raising its policy rate from 2.5% to 3% through consecutive increases, while its own analysis shows that tighter rates are progressively raising debt-service burdens for households and companies.

The wider outlook will depend heavily on conditions outside Korea. High oil prices and U.S. yields can erode the purchasing power and financing benefits created by the chip boom, while record external surpluses, stronger tax receipts and the government's new fiscal architecture provide Seoul with large buffers. October should begin to show whether those buffers are large enough to preserve a controlled slowdown in inflation and financial imbalances without interrupting the broader transmission of semiconductor income into the domestic economy.

Edited by David Choi

ROK President Lee Jae Myung and other participants attend the Korea Investment Summit 2026, Sept. 23, 2026 | Image: Blue House

BUSINESS AND TRADE

John Lee

KEY DEVELOPMENTS

- **U.S. investment talks moved from headline commitments to project-level bargaining:** South Korea's $200 billion strategic investment commitment entered a more consequential phase in September, with Seoul approving a gas-fired power project in Encinal, Texas, while continuing negotiations over an eight-reactor nuclear proposal involving Westinghouse Electric and the Alaska LNG project. The government reiterated that investment would stop once it reached the agreed $200 billion total or $20 billion annual ceiling and continued to apply commercial viability tests, while ownership, governance and downside protection remained unresolved.
- **Mexico's value as a U.S. production gateway became more conditional:** President Lee Jae Myung's Sept. 24 summit with Mexican President Claudia Sheinbaum strengthened bilateral investment protections and commercial cooperation, but Mexico's Plan Mexico and Washington's USMCA negotiating position are both pushing foreign manufacturers toward greater Mexican and North American content.
- **CPTPP reconsideration moved into the politically harder distributional**

> **stage:** The government's Sept. 28 preliminary assessment estimated that CPTPP accession would leave real GDP 0.38 percentage points higher after 10 years and raise manufacturing-related production by an annual average of $4.6 billion (6.3 trillion won) to $4.9 billion (6.7 trillion won) over 15 years. The same modeling projected annual losses of about $522.5 million (710 billion won) in agriculture, $44.6 million (60.6 billion won) in forestry and $60.1 million (81.7 billion won) in fisheries, shifting the debate from aggregate gains toward compensation, safeguards and adjustment costs. With CPTPP members simultaneously advancing additional accession processes, continuing to delay joining the expanding rules-based trade bloc could increase the cost to Korean firms.

BUSINESS SENTIMENT

- **Exporters remained optimistic about the fourth quarter but increasingly focused on costs:** The Korea International Trade Association's Sept. 22 survey put the fourth-quarter Export Business Survey Index at 111.3, marking a fifth consecutive quarter above the neutral level of 100. Semiconductor sentiment reached 140.7, shipbuilding 138.0 and wireless communications equipment and parts 134.3, while exporters identified rising raw material prices and greater won volatility as their two largest difficulties at 20.4% and 16.5%, respectively.
- **Manufacturing sentiment broadened beyond exports in September:** The Korea Institute for Industrial Economics and Trade's expert survey put the September manufacturing business conditions index at 107, with domestic demand rising to 106 and moving above 100 for the first time in three months. Respondents expected October conditions to improve further, with the overall outlook at 113, domestic demand at 111 and exports at 118, although the strength remained uneven across ICT, machinery and materials industries.

POLICY DECISIONS

- **Seoul tightened controls on advanced dual-use exports:** Amendments to the Strategic Items Trade Notice took effect on Sept. 1, incorporating roughly 80 changes agreed through the Wassenaar Arrangement, Australia Group, Nuclear Suppliers Group and Missile Technology Control Regime. Newly controlled items include high-performance integrated circuits used for AI and semiconductor manufacturing equipment, which now require export licenses, while Seoul simultaneously simplified some documentation requirements for exporters.
- **AI data center policy prioritized regional investment before fully settling grid-cost allocation:** The AI Data Center Industry Promotion Special Act, promulgated June 9 and effective March 10, 2027, allows qualifying non-capital AI data centers to bypass the

power system impact assessment below a capacity threshold that will be determined by presidential decree. The exemption could accelerate projects outside the Seoul region, where grid screening has been substantially easier. But it also raises the question of whether developers, KEPCO, taxpayers or electricity users should pay for network upgrades triggered by strategically favored projects.

CORPORATE DEALS AND ANNOUNCEMENTS

- **Hanwha pursued U.S. shipyard ownership as the MASGA model took shape:** Hanwha Defense USA made an indicative $1.05 billion to $1.2 billion offer for Austal USA, subject to due diligence and U.S. regulatory approvals, as Washington's "Finland Model" increasingly pointed foreign shipbuilders toward ownership or majority stakes in American yards. Such investments could give Korean companies access to protected U.S. naval procurement while requiring long-term commitments of capital, workforce training, local supply-chain development and technology licensing.
- **France partnerships widened Korea's technology and nuclear supply options:** Lee's September visit produced eight agreements and memoranda covering AI, semiconductors, quantum technology, aviation and industrial cooperation. Samsung announced a major equity investment in Mistral AI, Naver proposed European AI-factory cooperation, and Korea Hydro and Nuclear Power pursued a long-term uranium-enrichment arrangement with Orano, giving Korean firms additional partners outside U.S.- and China-centered technology and supply chains.
- **Battery makers accelerated their pivot from U.S. EV capacity toward stationary storage:** Nvidia's Sept. 21 decision to qualify LG Energy Solution (LGES) for its DSX Ready AI-factory program gave LGES another outlet for North American capacity as demand for stationary storage outpaced U.S. EV growth. LGES plans more than 50 GWh of North American LFP cell capacity by year-end, while Samsung SDI and SK On are also expanding U.S. LFP storage production and supply contracts.

LEGAL DEVELOPMENTS

- **Hyundai Steel provided the first major test of expanded principal-company labor obligations:** Hyundai Steel and unions representing four subsidiaries reached the first principal-subcontractor collective agreement under the amended Trade Union and Labor Relations Adjustment Act, which took effect on March 10. The agreement focused on industrial safety after labor authorities determined that Hyundai Steel exercised sufficiently substantial control over those issues, suggesting that employer obligations may expand issue by issue rather than automatically making principal companies the employer for every aspect of subcontractor employment.
- **Tving breach findings raised the stakes for consistent cybersecurity enforcement:** The government found that information connected to as many as 39.54 million Tving

accounts, along with source code from 361 development projects, had been exposed after credentials and production keys were inadequately protected. The case gives regulators a domestic comparison point after U.S. criticism surrounding the Coupang dispute and increases scrutiny over whether enforcement standards are applied consistently regardless of company nationality.

RISKS AND OPPORTUNITIES

Risks

- **Localization could protect Korean companies while hollowing out some domestic supplier benefits:** Tougher USMCA rules, Mexico's industrial policy and Washington's broader localization demands create incentives for Korean conglomerates to move purchasing, suppliers and production stages into North America. Large firms can preserve access to the U.S. market by adapting, but smaller Korean suppliers may lose export orders or face higher costs for following customers overseas.
- **Power infrastructure could become a binding constraint on chips and AI investment:** Samsung Electronics and SK Hynix rejected KEPCO's $18.4 billion (25 trillion won) proposal for roughly five years of prepaid electricity, leaving unresolved how Korea will finance grid capacity for semiconductor clusters expected to require more than 10 GW of power.
- **Overseas market access increasingly comes with technology and capital-transfer costs:** Washington's shipbuilding strategy asks Korean companies to place capital, manufacturing expertise, workers and potentially proprietary production methods inside the U.S., while Korean battery makers expanding LFP production remain exposed to Chinese material and technology advantages. These strategies can secure market access and capacity utilization, but they also risk shifting industrial capabilities abroad or creating expensive assets that depend on foreign policy and procurement decisions.

Opportunities

- **U.S. shipbuilding constraints could open a protected defense market to Korean firms:** Korean-owned U.S. yards could satisfy congressional demands for domestic construction while importing Korean capital and production expertise, creating opportunities in auxiliaries and potentially future surface-combatant programs. The commercial payoff will depend on whether Washington provides enough predictable work to justify acquisitions, yard modernization and technology transfer.
- **AI-driven storage demand offers battery makers a second North American growth market:** Global storage deployment reached 108 GW in 2025, while U.S. utility-scale battery capacity approached 52 GW by June, giving LGES, Samsung SDI and SK On an expanding outlet for plants underused by slower U.S. EV demand. Korean firms with

flexible production lines and increasingly non-Chinese LFP supply chains could preserve more value from existing U.S. investments than companies locked into EV-only capacity.

- **Trade diversification can reduce dependence on a smaller number of markets and suppliers:** September cooperation with France and Central Asia expanded Korea's options in AI, nuclear fuel, critical minerals, manufacturing and supply-chain finance, while renewed CPTPP consideration could give Korean manufacturers wider access to an expanding regional trade framework. The gains will depend on whether Seoul converts diplomatic agreements into bankable projects and can manage domestic adjustment costs that have delayed trade liberalization.

LOOKING AHEAD

October will show how quickly South Korea's U.S. investment commitment moves from negotiated safeguards into irreversible financial exposure. Seoul has approved the Texas gas project while Westinghouse governance terms and Alaska LNG's commercial case remain unresolved, and Washington has incentives to seek visible progress before the Nov. 3 U.S. midterm elections. The most important indicator will be whether Seoul continues enforcing its $20 billion annual ceiling and commercial-viability standard or accepts weaker project terms in exchange for faster implementation or broader bilateral benefits.

Trade policy will also move from broad strategy toward sector-level bargaining. The Sept. 29 fisheries consultation begins the next stage of Seoul's CPTPP review, with subsequent discussions likely to reveal whether the government is prepared to offer concrete compensation or safeguards to agriculture, forestry and fishing interests. Korean companies in Mexico will simultaneously watch USMCA negotiations over automotive origin rules, steel and aluminum and third-country inputs, because those decisions will determine how aggressively they must localize North American supply chains.

The domestic industrial test will center on whether infrastructure and regulation can keep pace with investment. Seoul still has to determine the capacity threshold and implementation rules for AI data centers that will be allowed to bypass full power system impact assessments from March 10, 2027, while KEPCO and major industrial users have yet to agree on how future grid costs should be shared.

Edited by David Choi

ROK President Lee Jae Myung speaks to U.S. President Donald Trump on the sidelines of the 81st U.N. General Assembly in New York, Sept. 22, 2026 | Image: Blue House

FOREIGN RELATIONS

John Lee

KEY DEVELOPMENTS

- **Hormuz became September's defining test of alliance management and strategic autonomy:** President Lee ruled out sending South Korean troops or military assets to participate in the Iran war while leaving open stronger measures to protect Korean shipping, energy supplies and citizens. Foreign Minister Cho Hyun simultaneously told U.S. Secretary of State Marco Rubio that Seoul was prepared to make a "substantive contribution" toward restoring freedom of navigation, forcing the government to define a maritime role useful enough for Washington but sufficiently separated from U.S. combat operations.
- **Lee turned peaceful coexistence into a more explicit phased North Korea strategy:** In his Sept. 22 U.N. General Assembly address, Lee proposed three pillars of peaceful coexistence based on mutual respect, institutional mechanisms to prevent and manage crises and a Korean Peninsula capable of contributing to wider international peace. He separately argued that diplomacy should begin by freezing further North Korean nuclear development in return for incentives or sanctions relief, before pursuing reductions and eventual denuclearization. This gives greater detail to the "peace first" approach he introduced earlier in his

presidency.

- **Economic security diplomacy broadened beyond South Korea's traditional partners:** Lee used his state visit to France and the first ROK-Central Asia Summit to deepen cooperation in technology, nuclear energy, critical minerals, defense and supply chains, while his U.N. meeting with Australian Prime Minister Anthony Albanese identified LNG, petroleum products, critical minerals and clean energy as further areas for resilience cooperation.

U.S.

- **Hormuz showed that disagreements outside Northeast Asia can spill across the alliance:** Trump's August decision to reduce Ulchi Freedom Shield (UFS) after criticizing Seoul's position on Iran demonstrated that Washington can connect Middle Eastern burden-sharing to Korean Peninsula security. Lee's September red line became a test of whether Seoul can decline participation in a U.S. war while still satisfying Washington through a narrower maritime contribution.
- **Investment negotiations became intertwined with unresolved Korean security priorities:** Lee and Trump used their 30-minute New York meeting to welcome progress on the U.S. investment package while agreeing to continue consultations on nuclear-powered submarines, uranium enrichment and reprocessing, shipbuilding and wartime OPCON transfer. Seoul has approved the first project under the $200 billion strategic-investment component but continues trying to preserve its $20 billion annual ceiling and commercial-viability safeguards, leaving uncommitted Korean capital as a source of bargaining room while important U.S. security decisions remain outstanding.
- **Trilateral cooperation with Washington and Tokyo expanded further into economic security and advanced technology:** Cho, Rubio and Japanese Foreign Minister Toshimitsu Motegi met in New York on Sept. 21 and agreed to deepen cooperation on semiconductors, AI, quantum technology, digital infrastructure, biotechnology, advanced-technology protection, supply-chain resilience and responses to economic coercion. The three also reaffirmed the denuclearization goal for North Korea while keeping the path to dialogue with Pyongyang open.

CHINA

- **The Gwangju Biennale dispute tested how far Beijing expects Seoul's One China policy to extend beyond the central government:** China formally protested the restoration of the "Taiwan Pavilion" name, Chinese participants withdrew and local exchanges involving Guangzhou and Zhoushan were disrupted. Seoul maintained that the pavilion designation was an independent cultural decision unrelated to the government's Taiwan policy, while reaffirming that its underlying diplomatic position had not changed.

- **Beijing appeared to contain the dispute rather than repeat THAAD-style economic coercion:** China made its political objection explicit but, as of late September, had not escalated into broad Korea-specific trade, tourism or investment retaliation after the pavilion opened under the disputed name. That restraint allowed the wider diplomatic thaw from Wang Yi's August visit to remain intact and gave Seoul room to maintain engagement with Beijing, while continuing security and technology cooperation with Washington and Tokyo.

JAPAN

- **Bilateral management remained deliberately practical:** Senior South Korean and Japanese diplomats used a Sept. 10 director-general-level meeting to assess restored shuttle diplomacy and agree to expand cooperation that produces tangible benefits for both countries while continuing consultations over bilateral issues.
- **Japan remained embedded in Seoul's expanding trilateral security and economic-security architecture:** South Korea, Japan and the U.S. held their September ministerial talks after the Sept. 7-11 Freedom Edge exercises, with the three governments reiterating cooperation on North Korea, maritime security, advanced technology, supply chains and economic coercion. The continued institutionalization of trilateral cooperation gives Seoul a mechanism for regional coordination even as Lee pursues separate engagement with Beijing and Pyongyang.

EUROPE

- **France became Seoul's most prominent European strategic partner during the month:** Lee and Emmanuel Macron used their Sept. 8 summit to operationalize the global strategic partnership established in April, producing agreements across AI, semiconductors, quantum technology, aviation and industrial cooperation while strengthening defense information-sharing and pursuing a mutual logistics support agreement. The leaders also discussed Hormuz and Ukraine, giving Seoul a European channel for addressing security problems where its preferred position differs from direct participation in U.S.-led combat operations.
- **A confidential North Korean POW transfer produced an unusual public rupture with Kyiv:** Ukrainian President Volodymyr Zelensky disclosed at the U.N. that Ukraine had transferred two captured North Korean soldiers to South Korea, after the soldiers had expressed a desire to come to the South. Lee said Kyiv had breached a nondisclosure agreement, while Ukraine subsequently denied that such an agreement existed, prompting the Blue House on Sept. 27 to express "strong regret" over both the disclosure and Kyiv's denial. The foreign ministry summoned Ukrainian charge d'affaires Andrii Vieshkin on Sept. 28 and called for Kyiv's official clarification and apology over its move.

IRAN AND THE GULF

- **Lee established a clearer ceiling on South Korean military participation:** Lee said on Sept. 18 that South Korea would not send troops or military assets to participate in the Iran war, while allowing the government to examine surveillance, mine clearance, shipping protection and other measures directly connected to Korean commercial and citizen security. The distinction preserved room for cooperation without accepting Washington's broader combat objectives.
- **Seoul used European and Iranian diplomacy to build a case for a narrowly defined maritime role:** South Korea continued backing the British-French defensive Hormuz framework and told Iranian Foreign Minister Abbas Araghchi that free and safe passage for all vessels must be guaranteed. That approach allowed Seoul to describe any prospective contribution as protection of international navigation and direct Korean economic interests, even though Tehran warned that it could still treat Korean military involvement as participation on Washington's side.
- **The widening conflict weakened the assumption that securing Hormuz alone could protect Korean energy supplies:** Houthi forces captured Mokha and later Mayun Island near the Bab el-Mandeb Strait while drone attacks forced Saudi Arabia to temporarily shut the East-West Pipeline, putting pressure on both the inland and maritime routes used to bypass Hormuz. The developments strengthened Seoul's economic incentive to improve maritime security while exposing the limits of a mission focused on only one chokepoint.

CENTRAL ASIA

- **Seoul elevated Central Asian engagement to the leaders' level for the first time:** Lee hosted the first ROK-Central Asia Summit on Sept. 16, bringing together the leaders of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan after nearly two decades of cooperation centered on the Korea-Central Asia Cooperation Forum. The summit sought to institutionalize cooperation across energy, critical minerals, industrial development, infrastructure, AI and digital transformation.
- **The relationship acquired greater strategic value because of the Middle East energy shock:** Kazakhstan had already participated in Seoul's emergency oil diversification, while South Korea used the summit to pursue more durable arrangements involving energy, mineral supply chains, transport infrastructure and Korean investment.
- **Seoul framed the region as part of a wider strategy of reducing concentrated geopolitical dependence:** Lee described the summit as responding to an era in which supply chains, energy, markets, technology, economics and security are increasingly intertwined. The resulting cooperation complements Seoul's parallel efforts with France, Australia and other partners to acquire more options when U.S.-China competition or Middle Eastern disruption constrains existing supply routes.

LATIN AMERICA

- **Lee's Mexico visit broadened a commercially important relationship into a more institutionalized strategic partnership:** Lee and Sheinbaum adopted a 2026-2030 Joint Action Plan during the Sept. 24 state visit, covering regular high-level dialogue and cooperation across trade, finance, science, technology, multilateral diplomacy and other areas. The visit also produced 16 memoranda of understanding and a separate AI cooperation declaration, giving the bilateral relationship a wider institutional base than the trade and investment relationship alone.

PUBLIC SENTIMENT

- **Public opposition constrained Seoul's room for military involvement around Hormuz:** A Gallup Korea survey released in September found that 55% opposed sending South Korean troops or military assets to Hormuz, compared with 32% in favor, while opposition among DP supporters reached 69%. The same survey found that 67% backed neither the U.S.-Israeli side nor Iran, strengthening the political incentive for Lee to justify any contribution in terms of Korean shipping and energy security rather than participation in Washington's war.

LOOKING AHEAD

October will first test whether Seoul can convert its Hormuz diplomacy into a military contribution without crossing the boundary Lee established in September. The government has examined surveillance, mine clearance and other maritime capabilities, while Cho has promised Washington a substantive contribution and Seoul has told Tehran that safe navigation must be restored. Any proposed force package, command arrangement or National Assembly consent motion will show whether the mission remains centered on protecting commercial shipping or begins moving closer to allied combat operations.

Relations with Washington will continue to revolve around whether cooperation in one area creates bargaining value elsewhere. Seoul still has to negotiate individual projects under the $350 billion investment framework while seeking U.S. cooperation on nuclear-powered submarines, enrichment and reprocessing and OPCON transition. Lee's phased North Korea strategy will require continuing coordination with Washington and Tokyo if diplomacy with Pyongyang is to resume. The period before the Nov. 3 U.S. midterm elections will provide an early test of whether Washington values Korean capital and limited Hormuz support as contributions or increasingly treats them as baseline expectations.

Seoul will also have to contain the late-September dispute with Kyiv while preserving momentum in the wider diversification strategy developed with China, Europe, Central Asia, Australia and Mexico. The Blue House's Sept. 27 expression of strong regret toward Ukraine left the POW dispute unresolved as the month ended, while continued senior engagement with

Beijing will indicate whether the Taiwan Pavilion controversy remains compartmentalized. Implementation of the France and Central Asia agreements will begin showing whether Lee's widening diplomatic network can provide practical technology, energy and supply-chain alternatives when relations with Washington or instability in the Middle East narrow South Korea's options.

Edited by David Choi

ROK Defense Minister Kang Shin-chul visits the ROK Army's 25th Division along the western front to encourage troops during his first official field inspection since taking office, Sept. 23, 2026 | Image: ROK Ministry of National Defense

DEFENSE AND SECURITY

Joon Ha Park

KEY DEVELOPMENTS

- **Suspected mine explosion at MDL:** A suspected mine explosion in the western demilitarized zone (DMZ) on Sept. 21, which injured three South Korean officers, occurred dozens of meters from an area believed to contain North Korean mines. Two soldiers were seriously injured but are not in life-threatening condition. On Sept. 28, the ROK Joint Chiefs of Staff said that it is "highly likely" that North Korea caused the explosion.
- **Kang takes office:** New Defense Minister Kang Shin-chul said North Korea should halt efforts to fortify the Military Demarcation Line (MDL), pledging that Seoul would not be deterred by Pyongyang's reaction. Kang, who took office late this month, called for rigorous training and defense reforms centered on a broader "warrior community" encompassing South Korean and U.S. forces, U.N. Command personnel, reservists and civilian defense workers.
- **Record defense budget for 2027:** South Korea has proposed a record $43 billion (73.28 trillion won) defense budget for 2027, up 8.2% from this year and the first to exceed 70 trillion won. Funding for self-reliant defense and

preparations for OPCON transfer would rise 34.9% to 12.17 trillion won. The proposal also boosts spending on the KF-21 fighter, nuclear-powered submarine, drones and counter-drone systems, while AI and manned-unmanned operations funding would rise 55.5% to 772.7 billion won.

- **Seoul's red line on Hormuz deployment:** President Lee Jae Myung said South Korea will not send troops or military assets to participate in the Iran war but is considering stronger measures to protect Korean shipping, crude oil routes and citizens around the Strait of Hormuz. The government has left open expanding the Cheonghae anti-piracy unit and supporting a U.K.-French maritime security framework. Seoul's challenge will be defining a role that protects commercial interests without becoming directly involved in military operations against Iran.

WEAPONS DEPLOYMENTS

- **First KF-21 delivered:** The ROK Air Force has received its first KF-21 Boramae fighter jet, marking the start of deliveries of the country's domestically developed 4.5-generation multirole aircraft. The first aircraft was delivered Sept. 22 by Korea Aerospace Industries (KAI) in Sacheon and flown to its initial operating base in Yecheon. The Air Force plans to declare the aircraft operational in the second half of 2027 and deploy more than 100 by the early 2030s.

DEFENSE INDUSTRY UPDATES

- **Chunmoos to Croatia:** Hanwha Aerospace has signed a $410 million (640 billion won) deal to supply Croatia with 18 Chunmoo multiple rocket launchers, making it the fourth European operator after Poland, Estonia and Norway. The deal marks South Korea's first major defense cooperation agreement with Croatia and could expand into industrial cooperation and follow-on logistics support. Seoul and Zagreb also signed a defense cooperation memorandum covering regular policy consultations and broader military cooperation.
- **Repeated military drone tests:** South Korea is exploring the purchase of Turkey's PD170 turbodiesel engine for medium-altitude, long-endurance drones, seeking to tap Turkey's experience in a sector where Seoul has faced recent test failures. The engine powers Turkish UAVs including the Anka and Aksungur, with Aksungur recording 45 hours of endurance. The inquiry follows crashes involving a KAI jet-powered UAV in September and two medium-sized loitering munitions tested by the Navy and the Agency for Defense Development in August. The move highlights a gap between South Korea's growing defense-export success and its still-developing drone capabilities.
- **Thai frigate deal opening:** Hanwha Ocean has been selected as the preferred bidder for Thailand's next-generation frigate program, proposing one ship and integrated logistics

support for 16.73 billion baht ($410 million). The South Korean shipbuilder beat competitors from Spain, Singapore and Turkey, building on its delivery of Thailand's first frigate in 2018. The overall program could be worth up to 4 trillion won ($2.7 billion) including follow-on orders. The deal would expand Hanwha Ocean's naval exports beyond submarines and deepen defense cooperation with Thailand.

KEY DRILLS

- **Freedom Edge:** The U.S., South Korea and Japan held their fourth annual Freedom Edge exercise this month, involving six warships, including Aegis destroyers, as well as maritime patrol aircraft, fighters and tankers. The Sept. 7-11 drills near Jeju focused on maritime, air and cyber operations, with a particular emphasis on missile defense and cybersecurity cooperation. South Korea said the exercise aims to strengthen deterrence and response capabilities against North Korean nuclear and missile threats. The U.S. aircraft carrier is absent for a second consecutive year.
- **ROK-France aerial drills:** South Korea and France flew together for joint aerial drills Sept. 15-17 at Cheongju Air Base as part of the French Air and Space Force's PEGASE 26 deployment to nine partner countries. South Korea deployed F-35A, F-15K, KF-16 and FA-50 fighters and a KC-330 tanker, while France sent two Rafale fighters and an A330 tanker. The exercise included aerial refueling and combined tactical flights aimed at improving operational capabilities and interoperability between the two air forces.
- **Marine live-fire exercises:** The ROK Marine Corps conducted its third maritime live-fire drill this year near the disputed Northern Limit Line in the Yellow Sea, firing about 200 rounds from K9 self-propelled howitzers and Chunmoo multiple rocket launchers. Units stationed on Baengnyeong and Yeonpyeong islands participated in the Sept. 21 exercise. The drills were described as an annual, defensive exercise conducted south of the NLL. The drills resumed in 2024 after Seoul suspended a 2018 inter-Korean military agreement
- **Navy and marine amphibious landings:** The ROK Navy and Marine Corps held a division-level amphibious landing exercise involving about 5,700 personnel from all four services. The Sept. 10-19 exercise near Pohang featured the ROKS Marado, amphibious assault vehicles, helicopters, P-8A patrol aircraft, FA-50 fighters, drones and unmanned surface vessels. Forces trained against submarine and drone threats, as well as air defense and mine countermeasures. The exercise's main "Decisive Action" phase focused on securing a beachhead before transitioning to ground operations.

LOOKING AHEAD

The Defense Ministry, JCS and the three military services (army, navy and air force) will face National Assembly audits beginning Oct. 7, with lawmakers reviewing 70 agencies and units, including the Defense Acquisition Program Administration and Military Manpower Administration.

The audits will be the first major parliamentary scrutiny of Defense Minister Kang Shin-chul since his confirmation, with questions expected on defense posture towards North Korea, the U.S.-ROK negotiations on OPCON transfer and the government's military reform agenda. The National Assembly's Defense Committee will also conduct field inspections of sites including the Agency for Defense Development, military bases and frontline units.

South Korea will hold its 78th Armed Forces Day ceremony on Oct. 1 at the runway of Gyeryongdae military complex, where President Lee is expected to deliver an address and conduct a military review alongside Defense Minister Kang.

The Sept. 22 MDL explosion will be Kang's most urgent priority as the new minister. Kang said on Sept. 28 that "appropriate, substantial and corresponding" measures would be taken if the recent explosion inside the DMZ is confirmed to have been caused by land mines planted by North Korea.

Kang also called on North Korea to halt its efforts to fortify the border, saying Seoul would take necessary measures based on the investigation's findings. The incident is expected to draw scrutiny during next month's audit over the military's operations, mine detection and protective equipment, initial response and public communication.

Separately, the U.S. and South Korea are discussing integrating Seoul's military command-and-control system with the U.S. Pacific Command Mission Network (PMN), a multinational C4I and information-sharing platform designed to improve interoperability among allies and partners.

The network was first used as the primary command-and-control system during the U.S.-Philippines-led Balikatan exercise and incorporates a "zero trust" cybersecurity model that verifies users and access rights before allowing information sharing. The proposed integration would build on the existing AKJCCS, South Korea's combined command-and-control system, as Seoul and Washington seek deeper interoperability for combined theater operations.

Edited by John Lee

Fireworks go off at Seoul's Ichon Hangang Park during the 2026 Seoul International Fireworks Festival, Sept. 5, 2026 | Image: Republic of Korea via Flickr (CC BY-SA 4.0)

SOCIETY AND CULTURE

Joon Ha Park

KEY DEVELOPMENTS

- **Active illegal pornography sites slashed:** The Ministry of Gender Equality and Family said the number of active illegal pornography sites fell 29% to 4,736 in one month after the government launched a crackdown on sites distributing sexual exploitation material. Police arrested 32 operators from January through August, including nine who were detained, and shut down 66 sites. Authorities also targeted illegal gambling sites that finance such operations, shutting 236 linked sites and arresting 3,663 people. Minister Won Min-kyung said the results showed overseas-hosted sites could be disrupted and vowed to pursue them until they are dismantled. The government plans eight legislative measures to strengthen enforcement, including expanded powers to block illegal content.
- **Labor exemptions debate:** The Lee administration has begun talks with labor and business groups over labor exemptions planned for the proposed Mega Special Zone law, including exceptions to the 52-hour workweek. The talks gained momentum after the Korean Confederation of Trade Unions, the country's second-largest labor federation, agreed to participate for the first time in six years. The government has not set the scope or timeline of the exemptions. Labor groups seek stronger protections, while

businesses argue flexibility is needed for advanced industries and R&D.

- **Illegal Chinese fishing gear at NLL removed:** The Oceans Ministry announced this month that it had removed Chinese fishing gear illegally installed south of the Northern Limit Line (NLL) in the Yellow Sea, dismantling 12 fish traps and 20 gillnets from Sept. 16-21. Authorities said about 3.1 metric tons of live blue crabs found in the gear were released. The ministry plans intensified removals through November and will seek stronger enforcement by China, while expanding information-sharing and other cooperation with Beijing to curb illegal fishing and protect fisheries resources.

INDICATORS THIS MONTH

- **Young workers leave job market:** The number of employed South Koreans in their 20s fell by 193,000 year on year to 3.38 million on average from January to August, the steepest decline since the 1998 Asian financial crisis. Their employment rate fell 1.3 percentage points to 59.1%, below 60% for the first time in five years. By contrast, employment among people in their 30s rose, with their employment rate reaching 80.9%. Analysts said the gap may reflect younger people entering the workforce later.
- **Suicide figures fall:** Suicide figures fell 9.8% year over year to 1,062 in July, marking the 10th consecutive month of decline, according to preliminary government data. The country recorded 1,043 fewer suicide deaths in the first seven months of 2026 than during the same period last year. Ahead of the Chuseok holiday, the Health Ministry said the 109 suicide prevention hotline would operate around the clock, with call volumes during previous holidays similar to normal levels.
- **Foreign worker deaths:** A total of 369 foreign workers died in workplace accidents in South Korea from 2022 through the first quarter of 2026. Construction accounted for 194 deaths and manufacturing for 105, together making up 81% of the total. Falls were the leading cause, with 140 deaths. The government proposed an integrated support road map for foreign workers in April but has yet to finalize it. A ruling party lawmaker urged stronger safety measures, including native language training and interpreters at high-risk workplaces.

SECTORAL DEVELOPMENTS

- **Labor:** A survey found that 72.1% of South Korean workers fear extending the maximum term for fixed-term employees from two to four years under the proposed Mega Special Zone law would reduce permanent jobs while increasing temporary employment. Some 83.5% said the extension could prolong insecure employment. The proposed law is primarily aimed at accelerating large-scale regional industrial projects by streamlining permits, environmental reviews and infrastructure development. Meanwhile, 42.5% said

the zones would significantly create jobs through investment and deregulation, while 37.7% expected limited job growth. The survey polled 1,000 workers nationwide.

- **Abortion:** The country plans to introduce abortion pills for pregnancies of up to nine weeks as early as the first quarter of 2027, following years of legal uncertainty after the Constitutional Court struck down the abortion ban in 2019. Women's rights groups welcomed the move but want broader access, while doctors called for stronger safeguards, including medical oversight and follow-up care. The groups remain divided over whether prescriptions should be limited to medical institutions or made more widely available.
- **Education:** A poll by *Jinhak* found that 82.7% of South Korean students applying for early university admissions said planned changes to the national admissions system affected their application strategies. The reforms, which take effect for students entering university in 2028, will replace the current nine-grade high school record system with five grades and eliminate subject-choice options in the national college entrance exam. Among 3,706 respondents, 58.1% said they prioritized universities where admission was more likely, while 38.6% placed greater importance on early admission.

LOOKING AHEAD

South Korea is sitting third in the medal standings halfway through the 2026 Aichi-Nagoya Asian Games, strengthening its bid for a third consecutive overall third-place finish.

As of Sept. 26, South Korea had won 16 gold, 21 silver and 36 bronze medals, behind China and Japan and ahead of fourth-place Uzbekistan. The country has already won gold in several sports, including basketball, and still has major medal events ahead in traditional strengths such as archery, badminton and taekwondo. The Games are set to finish on Oct. 4.

South Korea will abolish its 78-year-old Prosecutors' Office on Oct. 2 under a major overhaul of the criminal justice system that separates investigative and prosecutorial powers.

The new Prosecution Office will retain prosecutors' constitutional functions, including seeking warrants, indicting suspects and maintaining prosecutions, while the newly established Major Crimes Investigation Office will investigate serious crimes including corruption, economic crimes, drugs, defense procurement, national security and cybercrime. Prosecutors transferred to the investigative agency will become investigators rather than prosecutors.

The reform, a key goal of the Lee administration, follows years of efforts to curb the prosecution's broad investigative and prosecutorial authority. However, the new system has drawn concerns about delays, cases being buried and weaker oversight of police investigations because prosecutors will no longer have supplementary investigative powers.

Concerns over access to maternity care have risen, as one in three South Korean municipalities

had no hospital offering delivery services in 2024. Of 226 municipalities nationwide, 71 had no delivery ward. The number of medical institutions with delivery facilities fell 26.8% to 528 from 2018, while facilities at small local clinics nearly halved to 206. A government reimbursement program introduced in late 2023 produced little change, with the number of facilities rising just 1.7% in 2024.

Edited by John Lee

ROK Joint Chiefs of Staff Chairman General Jin Yong-sung and U.S. Forces Korea Commander General Xavier Brunson speak at a base along the eastern front of the Demilitarized Zone, Sept. 9, 2026 | Image: ROK Joint Chiefs of Staff

THE MONTH AHEAD

John Lee

KEY OUTLOOK: OCTOBER 2026

October will shift South Korea from September's accumulation of policy choices toward implementation, parliamentary scrutiny and institutional stress tests. The biggest domestic deadline comes on Oct. 2, when the new criminal-justice structure takes effect, prosecutors lose independent investigative authority and the Serious Crimes Investigation Agency begins operations with 2,874 personnel. The National Assembly's annual audit then begins in early October, placing the prosecution overhaul, the administration's personnel failures, housing policy, defense spending and industrial strategy under parliamentary scrutiny.

The judiciary dispute will provide an immediate political test. Supreme Court Chief Justice Cho Hee-dae said he will explain during the court's Oct. 6 National Assembly audit why he rejected the presidential office's request for a new Supreme Court justice recommendation, while the DP-led Judiciary Committee has voted to summon him as a witness. The confrontation will show whether a disagreement over one appointment remains procedural or broadens into a larger contest over presidential appointment powers, judicial independence and parliamentary oversight.

Economically, October will test whether South Korea's semiconductor-led expansion is finally

spreading beyond exports and corporate income. Customs data showed exports reaching $71.4 billion during Sept. 1-20, up 78.3% year on year, including a record $34.1 billion in semiconductor exports for the period. The Bank of Korea will publish its advance third-quarter GDP estimate on Oct. 27, providing the clearest measure of whether consumption and non-chip activity are broadening alongside the export boom, while its October policy meeting will take place against continued pressure from oil prices, household debt and higher global borrowing costs.

Externally, Seoul will have to manage several unresolved September decisions simultaneously. The government has yet to define what its promised limited contribution to maritime security around Hormuz will entail, while negotiations over the $200 billion strategic component of South Korea's U.S. investment package are moving from broad commitments toward individual projects. Seoul has selected a Texas gas-fired power project as the first investment while discussing an eight-reactor nuclear project and Alaska LNG, with the government maintaining that annual commitments should not exceed $20 billion. At the same time, domestic consultations over possible CPTPP accession are moving toward politically sensitive questions of compensation and safeguards after the government began sectoral consultations with fishing groups at the end of September.

TOP 5 EVENTS TO WATCH NEXT MONTH

1. Prosecution reform takes effect

- **What's happening:** South Korea's redesigned criminal-justice system begins operating on Oct. 2, with prosecutors losing independent and supplementary investigative authority and police taking responsibility for ordinary investigations. The Serious Crimes Investigation Agency will assume seven categories of major crimes with 2,874 personnel, while the new prosecution organization is initially expected to operate with only 80-85% of the existing statutory prosecutor quota of 2,292 staff. President Lee has also nominated former senior prosecutor Kim Ji-yong as the new investigative agency's inaugural chief, subject to a National Assembly confirmation hearing.
- **Why it matters:** October will provide the first practical evidence of whether the government can separate investigation from prosecution without creating delays, jurisdictional gaps or weaker case review. Police have already established an internal reform task force as they prepare to absorb greater responsibility, while recent investigative failures have added to concerns over police capacity and oversight. Early disputes over case transfers, supplementary investigation requests and coordination between the three institutions could therefore shape public perceptions of the reform more quickly than the legislation itself.

2. National Assembly audit and the Supreme Court confrontation

- **What's happening:** The National Assembly's annual audit begins in early October, with the judiciary audit scheduled to start Oct. 6. Chief Justice Cho Hee-dae has said he will use the proceedings to explain why he rejected the Blue House's demand for another Supreme Court justice recommendation, and the Judiciary Committee has approved a motion requiring him to appear as a witness.
- **Why it matters:** The hearing could determine whether the dispute remains focused on appointment procedure or expands into a wider institutional confrontation over the constitutional roles of the president, chief justice and National Assembly. October's audits will also give lawmakers a venue to scrutinize the personnel-vetting failures that contributed to the withdrawals of ministerial nominees in September, alongside the implementation of prosecution reform and the government's broader judicial agenda. The resulting hearings will be an early test of whether Lee's late-September political stabilization survives renewed domestic scrutiny.

3. Fifth Nuri launch

- **What's happening:** South Korea plans to conduct the fifth launch of its domestically developed Nuri rocket on Oct. 7 from the Naro Space Center, with a backup window running through Oct. 14. The mission will carry 15 satellites, including five satellites forming part of South Korea's first domestically launched microsatellite constellation and 10 CubeSats.
- **Why it matters:** A successful launch would advance several objectives simultaneously: building a domestic commercial launch ecosystem, deploying a sovereign satellite constellation and demonstrating that Nuri can move from developmental launches toward more routine missions. The launch also comes as the Korea AeroSpace Administration seeks a sharply larger 2027 budget for satellites, lunar exploration and other space technologies, making October an important test of whether Seoul can translate expanding state support into reliable launch capability.

4. BOK decision and third-quarter GDP

- **What's happening:** The BOK will hold its next monetary-policy meeting in October and publish its advance third-quarter GDP estimate on Oct. 27, followed by September lending-rate data on Oct. 29. The releases come after September's preliminary customs data showed exports up 78.3% year on year during the first 20 days, with semiconductors accounting for $34.1 billion of shipments and the trade surplus reaching nearly $23 billion.
- **Why it matters:** The central question is no longer whether the semiconductor boom is generating growth, but whether that growth is spreading sufficiently into consumption, employment and non-chip activity to make the expansion less dependent on a single industrial cycle. The BOK must weigh that stronger growth backdrop against elevated inflation risks, household and SME debt-service burdens and tighter global financial

conditions. Q3 GDP will therefore provide an important check on whether South Korea's extraordinary income and export gains are becoming a broader domestic recovery.

5. U.S. investment, CPTPP and industrial-policy implementation

- **What's happening:** Seoul and Washington will continue negotiations over projects under South Korea's $200 billion investment commitment, after the government identified a large Texas gas-fired power plant as the first project and an eight-reactor U.S. nuclear program and Alaska LNG as the next two candidates. Seoul says investments should stop if commitments reach either $20 billion annually or $200 billion overall, while discussions over a possible 5-10% Korean stake in Westinghouse remain part of the nuclear proposal. At home, the government is also continuing consultations over potential CPTPP accession after the Fisheries Ministry convened fishing representatives on Sept. 29 to incorporate industry concerns into the review.
- **Why it matters:** October will show whether Seoul can preserve commercial discipline as Washington pushes the investment package toward implementation. Firm ownership, financing and downside-protection terms for the Texas project would establish precedents for much larger commitments, while Alaska LNG will test whether the government is willing to reject a politically important project if the economics are unattractive. CPTPP presents a different distributional challenge. Preliminary modeling points to economy-wide and manufacturing gains but concentrated agricultural, forestry and fisheries losses. This means that progress toward accession will increasingly depend on whether Seoul can design credible adjustment measures for sectors that expect to bear the costs.

Edited by David Choi

ANALYST BRIEFINGS

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