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# **POLICY DIRECTION OF PRESIDENT LEE AND ITS IMPACT ON BUSINESSES**

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# CONTENTS

I. TRADE.....	4
II. CORPORATE ENVIRONMENT AND LABOR.....	13
III. FINANCE AND FINANCIAL REGULATIONS .....	26
IV. SEMICONDUCTOR AND AI .....	31
V. DEFENSE INDUSTRY .....	39
VI. ENVIRONMENT AND ENERGY .....	43

# PREFACE

On June 4, 2025, President Lee Jae-myung assumed office without a transition period, following an early presidential election. Backed by a ruling party with a legislative majority and few institutional constraints, the new administration is positioned to advance its agenda swiftly and decisively.

The Lee administration's core vision—"Recovery, Growth, and Happiness"—is expected to translate into immediate policy action, including a supplementary budget aimed at boosting household consumption and renewed focus on external trade strategy.

Crucially, the current political alignment increases the likelihood of reviving key legislative proposals that had previously stalled. These include: amendments to the Korean Commercial Act extending directors' duty of loyalty to shareholders; and revisions to Article 2 of the Trade Union and Labor Relations Adjustment Act, broadening the definition of "employer." Both proposals are poised to have a direct and lasting impact on corporate governance, labor relations, and investment dynamics in Korea.

Against this backdrop, this newsletter highlights policy initiatives with implications for the business and legal environment. We also provide strategic insight into their legislative trajectory and potential consequences for companies and investors navigating the Korean market.

# I. TRADE

## 1. Overview of Key Policy Pledges

### ① Advancing relations with the four neighboring countries through pragmatic, national interest-driven diplomacy

- ✓ Ensuring logistics security by securing Korean-flagged vessels for transporting strategic materials

### ② Strengthening substantive cooperation with the EU and other European countries

- ✓ Promoting collaboration to establish an open and inclusive global trade system
- ✓ Expanding practical cooperation in advanced science and technology, supply chains, defense industries, infrastructure, and people-to-people exchanges

### ③ Introducing a tax system to promote domestic production in strategic industries

- ✓ Establishing a new “Strategic Industry Domestic Production Promotion Tax System” for high-tech products in national strategic technologies and emerging source technologies, separate from the “Integrated Investment Tax Credit”

### ④ Reinforcing the trade security enforcement system

- ✓ Enhancing customs personnel and infrastructure to crack down on illicit detour exports disguised as Korean products that undermine the value of the K-brand and to prevent the leakage of core national technologies
- ✓ Upgrading the supply chain early warning system to proactively detect signs of crisis and prevent recurrence of disruptions like the urea shortage
- ✓ Strengthening investigations into capital market disturbances (e.g., false exports, import-export price manipulation) and financial crimes (e.g. fraud, breach of trust, embezzlement) committed by import-export companies exploiting trade channels

## 2. Policy Descriptions

### ① Advancing relations with the four neighboring countries through pragmatic, national interest-driven diplomacy

- President Lee Jae-myung emphasized pragmatic diplomacy based on national interest during his presidential campaign, underscoring the need to maintain harmonious relations with the United States, Japan, China, and Russia through the Korea-U.S. alliance and trilateral cooperation.

#### (1) Relations with the U.S.

- With high U.S. tariffs emerging as a key concern, Korea-U.S. trade negotiations are expected to be a top priority for the new administration. The outcome of these negotiations could significantly influence the strategic direction of Korean companies, making it essential for businesses to monitor developments closely.
  - A high-level interim review is scheduled early in President Lee's term, with a final agreement anticipated by July 8, 2025. Companies are encouraged to closely monitor progress and prepare proactively across six core agenda items: ▲ balanced trade ▲ non-tariff measures ▲ economic security ▲ digital trade ▲ rules of origin and ▲ commercial considerations.
  - While currency exchange rates and shipbuilding cooperation are not officially listed as agenda items in the Korea-U.S. trade negotiations, it is expected that the U.S. may seek to integrate issues—such as trade, tariffs, and defense cost-sharing—into a broader agreement. As such, decisions shipbuilding cooperation and appreciation of the Korean won could become part of the negotiations, introducing variables for Korea's shipbuilding and export sectors.
  - Separately from the Korea-U.S. trade negotiations, U.S. President Trump has emphasized the revitalization of the U.S. shipbuilding industry as a national priority, raising expectations for increased orders through expanded Korea-U.S. shipbuilding cooperation. In addition, following the U.S. government's request to the Korean government on May 22, 2025 to consider a plan to appreciate the Korean won, it is expected that the pace of U.S. dollar depreciation may accelerate.

< Key Dates for the 2025 Korea-U.S. Trade Negotiations >



- **Regarding the agenda on non-tariff barriers (NTBs) raised by the U.S., how the new Korean administration chooses to address these issues will be of significant concern for U.S.-based companies planning to invest in Korea.**
  - In its most recent annual National Trade Estimate (NTE) Report, released in March 2025, the U.S. identified a range of non-tariff barriers in Korea that it claims hinder the export of American goods and services. These include restrictions on beef imports under 30 months of age, emissions regulations on imported vehicles, limitations on exporting Google's high-precision mapping data, pharmaceutical pricing policies, and offset arrangements requiring technology transfers for arms imports.
  - Furthermore, during the second round of technical consultations in May 2025, the U.S. reiterated the concerns outlined in the NTE Report and urged Korea to address them. In response, the Korean government is expected to emphasize its commitment to improving trade balance through increased U.S. imports and to highlight the strategic importance of U.S.-Korea industrial cooperation, particularly in the shipbuilding sector.

< Non-Tariff Barriers in Korea Identified in the NTE Report >

Area	Key Concerns Raised	Original Except from NTE
Digital Trade	<ul style="list-style-type: none"> <li>▪ Restrictions on cross-border transfers of location-based and personal information</li> <li>▪ Requirements for local servers regarding cloud services, data storage, and encryption act as barriers to entry for foreign companies</li> </ul>	<ul style="list-style-type: none"> <li>▪ “Korea’s restrictions on the export of location-based data have led to a competitive disadvantage for international suppliers... Korea is the only significant market in the world that maintains such restrictions...”</li> <li>▪ “The 2011 Personal Information Protection Act (PIPA) imposes restrictions on the transfer of personal data outside Korea... These restrictions pose barriers to the cross-border provision of based services that depend on data storage and processing.”</li> </ul>
Government Procurement	<ul style="list-style-type: none"> <li>▪ Preferences for domestic products, origin requirements, and encryption regulations limit access for foreign products</li> <li>▪ The exclusive recognition of NIS (National Intelligence Service) certification imposes a burden on U.S. companies to develop separate product lines</li> </ul>	<ul style="list-style-type: none"> <li>▪ “Korea requires network equipment procured by public sector agencies to incorporate encryption functionality certified by the NIS... NIS only certifies encryption modules based on the Korean-developed ARIA and SEED encryption algorithms... This restriction has de facto significantly limited U.S. suppliers’ access to this market...”</li> </ul>
Agricultural Market Access	<ul style="list-style-type: none"> <li>▪ Delays in the approval process for GMOs and excessive requests for documents</li> <li>▪ Continued delays and lack of transparency in approval procedures for imported fruits and vegetables</li> </ul>	<ul style="list-style-type: none"> <li>▪ “Korea’s regulatory system for agricultural biotechnology continues to present challenges... The approval process... is onerous and protracted due to inefficiencies... The Korean Government manages the process across five different agencies, each with its own requirements...”</li> </ul>
Service Industry Regulations	<ul style="list-style-type: none"> <li>▪ Structural barriers exist for foreign companies entering sectors such as legal, accounting, and medical services, including requirements to establish a local office</li> <li>▪ Regulations on digital platform services particularly favor domestic firms</li> </ul>	<ul style="list-style-type: none"> <li>▪ “...discriminatory licensing requirements or regulatory standards, local-presence requirements, and unreasonable restrictions on what services may be offered.”</li> </ul>

Area	Key Concerns Raised	Original Except from NTE
Pharmaceutical Pricing	<ul style="list-style-type: none"> <li>▪ Lack of transparency and procedural fairness in the listing of new drugs under national health insurance and in the pharmaceutical pricing process</li> <li>▪ Unclear application of the government's Innovative Pharmaceutical Company (IPC) certification system, raising concerns of potential disadvantages to foreign companies</li> </ul>	<ul style="list-style-type: none"> <li>▪ "The U.S. pharmaceutical and medical device industries continue to report concerns regarding a lack of transparency in Korea's pricing and reimbursement policies... Industry has raised similar transparency concerns regarding Korea's Innovative Pharmaceutical Company (IPC) Accreditation policy..."</li> </ul>

※ Source: 2025 NTE Report

- **The Korean government is expected to increase policy support for the shipping sector, reflecting growing recognition that strengthening the competitiveness of key industries, such as shipbuilding, is essential to improving Korea's position in trade negotiations.**

- In April 2025, the Korea Shipowners' Association proposed action items, including ▲ developing stronger maritime policies ▲ reinstating tax incentives for ship investment funds to attract private capital ▲ expanding policies prioritizing domestic ships for transporting Korean cargo ▲ building a strategic national fleet and ▲ preventing the sale of Korean-flagged ships to foreign buyers.

## (2) Relations with Japan

- **In response to President Trump's pressure to increase tariffs and defense cost-sharing, the need for trilateral cooperation among South Korea, the U.S., and Japan—as well as coordinated responses between South Korea and Japan—has become increasingly apparent. The new administration is therefore expected to pursue the development of future-oriented relations with Japan.**

- To address China's growing naval capabilities, the U.S. is considering joint shipbuilding orders from South Korea and Japan, potentially expanding collaboration between the two countries' shipbuilding industries.

※ For example, Hanwha Ocean and Japan's MOL have previously partnered to develop LNG carriers incorporating advanced technologies.

- In addition, as the U.S. continues to encourage allies such as South Korea and Japan to increase purchases of U.S.-origin liquefied natural gas (LNG), the two countries are reportedly considering the option of joint LNG procurement to enhance their leverage in price negotiations.



## ② Strengthening substantive cooperation with the EU and other European countries

- **President Lee has articulated a vision of developing the K-defense industry as a strategic sector. As part of this initiative, the administration is expected to enhance defense cooperation with both the European Union (EU) and individual European nations, potentially generating business development (BD) opportunities for Korea's defense industry.**
- **Korean companies in both the defense and clean technology sectors (e.g., wind, solar, battery, and hydrogen) are expected to benefit from growing demand driven EU Commission policies.**
  - Since December 2024, the second EU Executive Commission, led by President Ursula von der Leyen, has prioritized strengthening the defense industry, advancing clean technology development and production capacity, and accelerating digital transformation. Given that South Korea is actively pursuing partnerships with the EU in areas on ▲ digital trade principles green partnership and ▲ security and defense cooperation, there is strong potential for expanded participation in related projects.
- **Poland, adjacent to Russian territory, has significantly increased its defense budget and has emerged as a key market for Korea's defense exports. Meanwhile, during recent Korea-Poland arms deals, constraints in Korea's export financing capacity led to the passage of an amendment to the Export-Import Bank Act to expand support.**
  - Holding the EU Council presidency in early 2025 and emerging as a key player in European defense, Poland has expressed its intention to strengthen defense cooperation with both the U.S. and South Korea and to extend eligibility for its defense programs to companies from allied nations.

### ③ Reinforcing the trade security enforcement system

- **President Lee is expected to continue policies aimed at protecting Korea's export industries, focusing on cracking down on Chinese-origin bypass exports, preventing the leakage of national core technologies, and upgrading the supply chain early warning system.**
  - Amid escalating U.S.-China tensions, instances of Chinese goods being illegally rerouted through Korea, falsely labeled as Korean origin, and exported to the U.S. to evade high tariffs have increased. Between February and April 2025, the volume of such bypass exports detected totaled nearly KRW 30 billion.
  - Bypass exports, technology leaks, and supply chain risks have been persistent concerns, previously addressed under the Yoon administration through policy measures and the early warning system.<sup>1</sup> Enforcement under President Lee is expected to build on these foundations.
- **In particular, the "2025 Supply Chain Stabilization Implementation Plan," announced by the Supply Chain Stabilization Committee, and the policy directions established in response to President Trump's mutual tariff measures provide a detailed trade response framework upon which the current administration is likely to base its new policies.**

<sup>1</sup> Supply Chain Rapid Response System is always in operation...Early Warning System is operated (Electronic Newspaper, February 26, 2024)

### 3. Analysis and Implications

#### ① Advancing relations with the four neighboring countries through pragmatic, national interest-driven diplomacy

- ✓ With the inauguration of the new administration, Korea-U.S. trade negotiations are likely to face delays due to inherent limitations in the negotiation pace, approach, and agenda scope.
- ✓ Whereas the previous administration adopted a pro-business stance focused on national wealth creation—tending to accommodate U.S. demands including those related to non-tariff barriers—the new administration is expected to separate issues such as non-tariff barriers and defense cost-sharing from the broader trade negotiations, presenting structural limitations.
- ✓ The current administration views certain domestic policies—particularly those related to agriculture, fisheries, the self-employed, and small and medium enterprises—as organically shaped by Korea’s unique socio-economic conditions. These policies are likely to be approached separately from trade negotiations, which may lead to more fragmented discussions and extended timelines.
- ✓ Ultimately, while the administration is expected to largely accommodate demands from major global tech platform companies such as Meta and Google, it is also likely to maintain its position on defense cost-sharing and the removal of non-tariff barriers. As a result, trade negotiations could unfold under relatively less favorable terms for Korea in economic and trade matters.
- ✓ If the Korea Shipowners’ Association’s proposals are adopted and implemented during President Lee’s term, the domestic shipping industry may be well positioned to benefit from the following business opportunities:

#### < Shipping Industry: Business Opportunities by Policy Priority >

Policy Priority	Domestic Shipping Industry Business Opportunities
① Developing Maritime Industry Policies	<ul style="list-style-type: none"> <li>▪ Expand national fleet &amp; stabilize cargo volumes → Scaling opportunities for Korean carriers</li> <li>▪ Container base construction and North America terminal investment → Expansion of global shipping network</li> </ul>
② Reviving Tax Incentives for Ship Funds	<ul style="list-style-type: none"> <li>▪ Tax reductions → Revitalization of ship funds → Greater private financing for small/mid-sized carriers</li> <li>▪ Increased incentives for eco-friendly and high-efficiency ship investments</li> </ul>
③ Promoting Use of Domestic Ships for Domestic Cargo	<ul style="list-style-type: none"> <li>▪ Preferential tax or operating cost treatment → Profitability improvements</li> <li>▪ Increase in share of national carriers → Strengthening domestic base and order volume</li> </ul>
④ Establishing Strategic Security Fleet	<ul style="list-style-type: none"> <li>▪ Government procurement &amp; military logistics shipping → Higher demand for certain ship types</li> <li>▪ Stable contract opportunities if designated as strategic fleet operator</li> </ul>

⑤ Preventing Overseas Sale of National Fleet

- Prevent foreign acquisition → Stabilize portfolio centered on Korean-owned vessels
- Enable broader use of government purchases or support in maritime M&A strategy

② Strengthening substantive cooperation with the EU and other European countries

- ✓ With the inauguration of the new administration, defense cooperation between South Korea and the EU, including its member states, is expected to deepen, creating business development opportunities for Korean companies. Firms in the defense, green technology, and digital sectors may benefit from increased demand driven by the EU Commission's strategic industry policies.
- ✓ Poland is emerging as a key partner, and the February 2024 amendment to the Export-Import Bank Act is expected to further facilitate bilateral collaboration in the defense sector.

③ Reinforcing the trade security enforcement system

- ✓ With most trade policies expected to remain in place under President Lee, domestic companies may consider the following strategies to leverage existing frameworks:

< How Domestic Companies Can Utilize Export Industry Protection Policies >

Area	Utilization Strategy
① Expansion of Supply Chain Base	<ul style="list-style-type: none"> <li>▪ Leverage economic-security item designations to promote localization and internalization</li> <li>▪ Participate in public stockpile programs to secure stable demand</li> <li>▪ Use supply chain early warning (EWS) data to develop risk mitigation strategies</li> </ul>
② Preemptive Response to Trade Risks	<ul style="list-style-type: none"> <li>▪ Use anti-dumping/retaliatory tariff response funds to reduce export-related costs</li> <li>▪ Utilize trade dispute consulting and customs vouchers</li> <li>▪ Apply for trade adjustment subsidies based on strategic industry designation</li> </ul>
③ Financial and Guarantee Programs	<ul style="list-style-type: none"> <li>▪ Secure low-interest capital through policy finance, special guarantees, and trade insurance</li> <li>▪ Strengthen financial resilience through crisis-response measures (e.g., interest rate benefits, increased guarantees)</li> </ul>
④ Export Diversification and FTA Utilization	<ul style="list-style-type: none"> <li>▪ Expand into new markets through FTAs and participation in K-Trade shows</li> <li>▪ Utilize country-of-origin certification and pre-review origin standards to reduce tariffs;</li> </ul>
⑤ Promotion of Strategic Tech R&D and Capital Investment	<ul style="list-style-type: none"> <li>▪ Apply for facility investment subsidies and fast track R&amp;D funds when designated as high-tech and strategic industries</li> <li>▪ Utilize of Public-Private Joint Financing and Policy Financing for Related Facility Investment</li> </ul>

## II. CORPORATE ENVIRONMENT AND LABOR

### 1. Overview of Key Policy Pledges

Corporate Environment Sector	
①	Achieving a Fair Economic Structure (Amendment to the Commercial Act) <ul style="list-style-type: none"> <li>✓ Protecting the rights and interests of minority shareholders through improved corporate governance</li> <li>✓ Eliminating the misuse of capital and profit-and-loss transactions by controlling shareholders for personal gain</li> <li>✓ Promoting a fair market order by preventing asset-stripping and stock price manipulation</li> </ul>
②	Revitalizing the stock market through improved supply-demand conditions and increased market liquidity
③	Establishing a transparent and fair online platform market (Online Platform Act)
Labor Sector	
④	Creating employment conditions where the “real employer” is held accountable to guarantee bargaining rights and prevent exploitative intermediary labor practices (Yellow Envelope Act)
⑤	Codifying key provisions in the Labor Standards Act including the ban on the comprehensive wage system
⑥	Creating a fair labor environment (wage distribution system)
⑦	Introducing the 4.5-day week system to reduce working hours and prevent deaths from overwork
⑧	Gradually raising the statutory retirement age to 65, with legislation enacted by 2025 and government-wide support measures

## 2. Policy Descriptions

### ① Achieving a fair economic structure (amendment to the Commercial Act)

Policy	Key Content
Protecting the rights and interests of minority shareholders through improved corporate governance	<ul style="list-style-type: none"> <li>▪ Codifying directors' fiduciary duty to shareholders to ensure the interests of the entire shareholder base are considered</li> <li>▪ Mandating a minimum ratio of independent directors in large companies to ensure an effective check on management</li> <li>▪ Gradually expanding the separate election of audit committee members in large, listed corporations</li> <li>▪ Amending regulations to prohibit companies from excluding cumulative voting through their articles of incorporation, thereby promoting wider adoption in large firms</li> <li>▪ Addressing concerns of economic concentration arising from excessive control through minimal shareholding</li> </ul>
Eliminating the misuse of capital and profit-and-loss transactions by controlling shareholders for personal gain	<ul style="list-style-type: none"> <li>▪ Applying a fair value standard that considers stock price, asset value, and earnings value when listed corporations make merger or acquisition decisions</li> <li>▪ Institutionalizing pro rata allotment of new shares to general shareholders of parent companies when a physically divided subsidiary goes public</li> <li>▪ Introducing a mandatory tender offer system to ensure minority shareholders have a chance to exit and to share control premiums in corporate acquisitions</li> <li>▪ Establishing a merger inspector system that allows general shareholders to petition the court for an inspector when a listed company merges with an affiliate</li> <li>▪ Reviewing Principal Retirement Institutionalization for Treasury Shares of Listed Companies</li> <li>▪ Strengthening monitoring and sanctions on unfair intra-group transactions</li> </ul>
Forming a fair market order by eliminating asset-stripping and stock price manipulation	<ul style="list-style-type: none"> <li>▪ Adopting a "one-strike-out" system for unfair practices, such as stock price manipulation, in the Capital Markets</li> <li>▪ Mandating the corporation to claim the return of the trading profit when executives, employees, and major shareholders of a listed corporation acquire the trading profits</li> <li>▪ Expanding mandatory disclosure of executives' criminal records for fraud, embezzlement, and breach of trust</li> <li>▪ Strengthening sanctions against financial company employees' abuse of undisclosed insider information</li> <li>▪ Reviewing to strengthen the qualification screening for Private Equity Funds (PEF) and Limited Liability Company (LP)</li> <li>▪ Adopting a domestic version of the Fair Compensation Fund to strengthen the investor damage compensation</li> </ul>

- **The amendment to the Commercial Act is central to President Lee’s agenda for achieving a fair economy and is expected to become his first major economic legislative initiative.**
  - President Lee and the Democratic Party of Korea are expected to push for a more stringent revision of the Commercial Act amendment legislation, which was vetoed by the Acting President Han Duck-soo in March. The revised bill is expected to include mandatory cumulative voting, expansion of the separate election of audit committee members, and enhanced measures to improve shareholder returns.
  - As the pledge targets over 14 million minority shareholders and reflects President Lee’s fair economy pledge, the bill carries significant social impact and is expected to become the first major economic initiative of the President and the ruling party.
  - The business community continues to raise concerns that the amendment would apply to approximately 1 million corporations—including not only listed but also unlisted companies—potentially exposing them to excessive management pressure.
  - However, President reaffirmed his strong commitment to pursuing this amendment during a meeting with economic organizations, emphasizing its importance in achieving his broader pledge to usher in the “KOSPI 5,000 era.” Thus, the likelihood of the revised bill undergoing further major changes appears low.
- **Once the amendment to the Commercial Act is enacted, companies are expected to face increased legal risks, greater pressure to reform their governance structure, and higher M&A costs. Thus, they are advised to prepare appropriate countermeasures.**
  - The amendment serves as a legal foundation for President Lee’s fair economy agenda. In the short term, however, it is expected to impose greater legal risks and increase management burdens, including pressure to restructure governance, revise financial strategies such as capital structure, and a potential decline in innovation capacity such as in R&D investment.
  - Companies are advised to proactively adapt to the new business environment by improving their governance structure, expanding investment in technological innovation aligned with government-supported policies, and strengthening the legal risk management systems.

**< How Companies Respond to Changes in the Commercial Act >**

Section	Key Responses
Preemptive improvement of the governance	<ul style="list-style-type: none"> <li>▪ Preemptively diversifying the composition of the board of directors in preparation for the entry of minority shareholder directors</li> </ul>
Active communication with the shareholders	<ul style="list-style-type: none"> <li>▪ Develop communication strategy for minority shareholders, e.g., regular IR and disclosure of dividend policies</li> <li>▪ Strengthening ESG Management to Establish Long-Term Shareholder Trust</li> </ul>

Section	Key Responses
Systematization of the Legal Risk Management	<ul style="list-style-type: none"> <li>▪ Introducing a compliance program to predict violations of the director's duty of loyalty</li> <li>▪ Forming of a dedicated legal team or active use of law firms to respond to lawsuits for breach of trust</li> </ul>
Transition of the Financial Operations Strategy	<ul style="list-style-type: none"> <li>▪ Reviewing of paid-in capital reduction and dividend policy in preparation for mandatory retirement of treasury stocks</li> <li>▪ Preventing potential disputes by standardizing corporate valuation models in the event of merger or division;</li> </ul>
Investments in Technology and Innovation	<ul style="list-style-type: none"> <li>▪ Increasing R&amp;D investment linked to government incentive policies to offset shareholder return pressure</li> </ul>

- In addition, policies aimed at ▲ eliminating the misuse of capital and profit-and-loss transactions by controlling shareholders for personal gain and ▲ promoting a fair market order by preventing asset-stripping and stock price manipulation share the same policy objective as the amendment to the Commercial Act and collectively advance the goal of a fair economy.



## ② Revitalizing the stock market through improved supply-demand conditions and increased market liquidity

- **President Lee aims to reach KOSPI 5000 by facilitating Korea's transition to the "Developed Markets" within the MSCI World Index, thereby increasing market liquidity.**
  - The MSCI World Index is the largest benchmark index followed by global funds, classifying global stock markets into three categories: Developed Markets (DM), Emerging Markets (EM) and Frontier Markets (FM).
  - Currently, Korea is included in the MSCI Emerging Markets Index, with approximately USD 2 trillion (about KRW 2,400 trillion) in assets tracking this index. However, upon inclusion in the MSCI Developed Markets Index, it is estimated that an additional KRW 18 to 62 trillion of foreign investment funds from the roughly USD 12 trillion (about KRW 1,430 quadrillion) in assets tracking the Developed Markets Index will flow into the domestic capital market.
  - In addition, stock valuations are expected to increase (reflected in rising PER), and stock price volatility will stabilize, enabling stable profit generation despite internal and external shocks.
- **While this transition can secure foreign capital inflows and market stability, there may be short-term risks such as increased exchange rate and stock price volatility and temporary outflow of foreign funds.**

## ③ Establishing a transparent and fair online platform market (Online Platform Act)

- **The Democratic Party of Korea has continuously reviewed legislation for the Online Platform Act as part of its effort to promote co-prosperity between corporations and small business owners by preventing the abuse of dominant positions by platform operators.**
  - In line with the EU's Digital Markets Act (DMA), the party's principle of online platform regulation involves preemptively designating "specific online platform intermediaries"<sup>2</sup> that may impact market order. This regulatory approach was proposed in the 21st National Assembly and continues to be pursued in the 22nd National Assembly.

<sup>2</sup> similar to the "Gatekeeper" designated under the EU Digital Markets Act (DMA)

- The proposed legislation also aims to regulate unfair practices by large platform intermediaries—such as self-favoring, tying, demands for most-favored-nation (MFN) treatment, and restrictions on multi-homing—thereby protecting sellers (most of whom are small business owners) and consumers from exploitative power imbalances.

**< Key Contents of the Online Platform Act (tentative name)>**

Classification	Key Content
Screening of Market-dominant Operators	The Korea Fair Trade Commission can designate market-dominant platform operators in advance based on sales, transaction amount, market share, and average monthly user
Strengthening the Regulation for Unfair Practices (Regulation of Unequal Power Dynamics)	Pre-designated dominant platform operators will be subject to corrective orders for engaging in unfair practices such as: ▲ self-favoring (priority exposure to their product and service in search results), tying (building their services with others), ▲ demanding Best Treatment (better conditions for store companies than other platforms) and ▲ issuing corrective orders against unfair practices such as restricting multi-homing (i.e., preventing sellers from listing on multiple platforms) and placing the burden of proof for violations on platform company
Strengthening Rights and Interests of Shop Occupants and Guaranteeing Group Membership	Businesses operating on platforms will be allowed to form collectives and request negotiations over transaction terms, with a level of collective bargaining rights similar to labor unions

※ Source: Comprehensive Media Coverage

- **In addition to the proposed Online Platform Act, further regulations targeting global tech and content companies may be introduced, including legislation mandating domestic network usage fees and amendments to the ban on mandatory in-app payments.**
  - The bill mandating network usage fees—currently on hold due to the settlement between SK Broadband and Netflix—could be reintroduced. The U.S. Trump administration’s repeal of net neutrality may serve as legislative momentum for this initiative.
  - If a fair network usage agreement system is institutionalized, it could become a new barrier for foreign content providers seeking to enter the Korean market.
  - Global big tech firms such as Google and Apple have reportedly taken advantage of legal loopholes to circumvent the ban on mandatory in-app payments. As a result, supplementary legislation may be pursued to close these gaps.

#### ④ Creating employment conditions where the “real employer” is held accountable to guarantee bargaining rights and prevent exploitative intermediary labor practices (Yellow Envelope Act)

- **The Yellow Envelope Act is a key labor-related pledge of President Lee, and the ruling party is expected to reintroduce the legislation in consideration of corporate sentiment.**
  - The Yellow Envelope Act, an amendment to Articles 2 and 3 of the Labor Union Act, is one of President Lee's core policy pledge. He has repeatedly emphasized the need for its enactment, as it is among the legislative proposals that could have the most significant impact on businesses.
  - The bill is designed to protect workers' rights and to limit excessive damage claims resulting from industrial actions. Its main provisions include the expansion of the definition of "employer," broadening the scope of permissible labor disputes, and limiting liability for damages resulting from industrial action. However, previous attempts to pass the bill during the 21st and 22nd National Assembly were defeated through presidential reconsideration requests, with opponents citing concerns over the encouragement of illegal strikes, restrictions on business operations, and violations of property rights.

##### < Key Provisions of the Yellow Envelope Act >

Area	Key Content
Expansion of Employer Scope	▪ Recognizing a person as an employer if they hold substantial and specific control or decision-making power over an employee's working conditions, even if not a direct party to the labor contract
Expansion of Labor Dispute Scope	▪ Allowing strikes not only over wages and working conditions but also over unfair labor practices or non-compliance with collective agreements
Limitation of Liability for Damages	▪ Determining the scope of liability individually based on each party's degree of fault and contribution; exempting fidelity guarantors from responsibility for damages arising from industrial actions

※ Source: National Assembly Bill Information System

- Given the current economic downturn and weak domestic demand, the timing of the bill's reintroduction may be slightly adjusted. However, it is highly likely to be legislated eventually. Companies are advised to take proactive measures, including ▲ legal preparedness regarding de facto control and employment responsibilities ▲ internal system reviews and improvements and ▲ cultivating a cooperative and sustainable labor-management culture.

## ⑤ Codifying key provisions in the Labor Standards Act including the ban on the comprehensive wage system

- **The comprehensive wage system is a scheme in which allowances for extended work—such as overtime, night, and holiday work—are not calculated separately when a labor contract is signed but are instead collectively included in a predetermined wage.**
  - This system is not explicitly specified in the law, but it has been widely accepted in practice, as its validity has been recognized through Supreme Court precedents and customary use. It has been primarily applied to job types where working hours are difficult to measure, including monitoring or on-call positions, business roles involving frequent travel, and R&D or creative positions.
  - The comprehensive wage system is directly linked to Articles 17 and 56 of the Labor Standards Act—which concerns the specification of working conditions and additional compensation for overtime, night, and holiday work, respectively. The Supreme Court has also emphasized the need to limit the abuse of the system and has ruled that wages must be paid in accordance with actual working hours (2018Da231812, etc.).
  - While the system offers advantages such as efficiency in labor cost management and flexibility in work arrangements, its lack of a clear legal basis has made it a frequent source of conflict between labor and management—particularly due to concerns over opaque wage structures and the promotion of long working hours, which may infringe on workers' rights and interests.
- **There are also concerns that abolishing the comprehensive wage system could result in greater rigidity in business operations and a reduction in workers' actual income. Therefore, a gradual application rather than a blanket ban across all industries is more likely.**
  - From the employer's perspective, the comprehensive wage system brings benefits such as efficient salary management, reduced administrative burden for wage calculations, predictability of labor costs, and facilitation of flexible working hours. For employees, it can help prevent disputes over unpaid overtime, as the wage system is pre-agreed and inclusive.
  - However, it remains a double-edged policy, with pros and cons varying based on each party's perspective. Labor-management disputes often arise due to mismatches between actual working hours and wages, or delayed overtime payments, underscoring the need for clearer regulation and mutual understanding.

## ⑥ Creating a fair working environment (wage distribution system)

- **President Lee's pledge to create a fair working environment is based on the introduction of a wage distribution system, with the goal of establishing a structure of equal pay for work of equal value.**
  - The proposed wage distribution system aims to lay the institutional foundation for supporting the principle of equal-value labor and equal wages. It serves as a preliminary step to address unjustified wage disparities—not only by gender, but also by rank, job type, and years of service—by exposing existing wage gaps and working toward the elimination of unfair discrimination.
  - This initiative is also interpreted as being aligned with President Lee's commitment to a fair economy, as it seeks to rectify labor imbalances between subcontractors and primary contractors. By guaranteeing the basic working conditions of subcontracted workers and ensuring that subcontractors receive equal pay for equal-value work performed alongside primary contractors, the policy underscores the administration's broader economic equity agenda.
- **In the past, similar efforts—such as the Gender Equality Disclosure System—were adopted as national policy tasks but failed to take root as meaningful systems. As such, the immediate and full-scale implementation of the wage distribution system is not expected to be easy.**
  - President Lee's pledge is significant in that it lays the groundwork to reduce wage disparities between large and small and medium enterprises, across regions, and to address discrimination against non-regular workers and women. However, there are a few notable challenges. The disclosure burden on companies may be substantial, and the system may distort wage structures if company-specific wage payment capabilities are not properly considered. In addition, labor cost increases for certain firms and higher subcontracting costs for primary contractors may adversely affect efforts toward win-win partnerships between large corporations and small and medium enterprises.

## ⑦ Introducing a 4.5-day week system to reduce working hours and prevent death from overwork

- **The 4.5-day week system aims to reduce actual working hours, improve work-life balance, and prevent death from overwork, with key components including phased implementation, government support, and wage preservation.**
  - The pledge seeks to reduce working hours in Korean society through a system of “reduced working hours without wage loss”, and President Lee has announced a goal of lowering Korea’s annual average working hours (currently 1,872 hours) to below the OECD average (1,742 hours) by 2030.
- **While the emergence of the 4.5-day week system as a core social agenda is meaningful, it is anticipated that broad social consensus will be achievable only if improvements in labor productivity precede working hour reductions.**
  - Originally perceived as an unrealistic campaign slogan, the 4.5-day (or 4-day) week system —proposed to address issues such as death from overwork due to long working hours—has now gained traction as a mainstream social issue, bolstered by strong public support and its inclusion in policy platforms of even conservative parties.<sup>3</sup>
  - In response, the labor sector has embraced the 4.5-day (or 4-day) week system as a core policy demand, while the business sector has expressed concerns over potential declines in global competitiveness of Korean companies due to reduced productivity, lower work engagement, and workforce shortages in small and medium enterprises. Businesses are therefore calling for labor-management flexibility in determining working hour arrangements.
  - South Korea’s labor productivity<sup>4</sup> stands at \$51.0 per hour, which is significantly lower than that of advanced economies such as the United States (\$83.6 per hour) and Germany (\$83.3 per hour). As such, to successfully implement reduced working hours without wage loss, it is expected that enhancing productivity must take precedence for the 4.5-day week system to be sustainably adopted across society.

<sup>3</sup> Regarding the necessity of introducing a 4.5-day week system, 58.1% responded that it is 'necessary.' Proposals to reduce the weekly working hours to 36 and to lower the upper limit of extended working hours from 52 to 48 hours also received high approval ratings of 66.8% and 68.9%, respectively (Global Research, February 10–17, 2025).

<sup>4</sup> Labor Productivity = GDP per capita divided by working hours

## ⑧ Gradually raising the statutory retirement age to 65 with legislation enacted by 2025 and government-wide support measures

- **President Lee has announced plans to pursue legislation to gradually raise the statutory retirement age to 65, in response to the country's rapidly aging population and the rising eligibility age for National Pension benefits.**
  - While concerns persist that extending the retirement age could negatively affect youth employment, President Lee dismissed such concerns, stating that “jobs held by older workers do not necessarily overlap with those sought by the younger generation.” He also emphasized that the policy will not be implemented unilaterally but will proceed through sufficient consensus among labor, management, and across generations.
- **Retirement age extension is already emerging as a key agenda in OECD countries as life expectancy and the number of 'working elderly' increase.**
  - OECD countries such as Japan, France, U.S., and the United Kingdom are already pursuing a phased extension of the retirement age due to aging and an increase in the working age population, and some have abolished the retirement age entirely.
  - These efforts aim to offset the economic and demographic pressures of a shrinking workforce, which would otherwise result in higher fiscal burdens and reduced productivity due to early labor market exits.
- **Although extending the retirement age appears inevitable in light of mounting social costs, the policy is expected to follow a phased approach based on long-term social consensus, considering the financial burden on companies and the employment anxiety it may create for younger generations.**
  - South Korea is currently undergoing the fastest population aging in the world. As of December, last year, the proportion of the population aged 65 and over exceeded 20%, marking its entry into a super-aged society.
  - The number of elderly individuals supported by every 100 working-age people (aged 15 to 64) is projected to rise from 21.8 in 2020 to 38.6 in 2030 and reach 60.5 by 2040—nearly double the current level. This demographic shift is expected to increase fiscal pressure on younger generations due to rising elderly-related welfare costs, while also weakening national competitiveness due to a shrinking labor force.
  - While labor groups have proposed a phased extension of the retirement age to 65 in line with the pension eligibility age, business groups expressed preference in maintaining the current retirement age and implementing a “post-retirement re-employment” system, which involves rehiring retirees under a modified wage structure to mitigate the increased labor cost burden<sup>5</sup> caused by extending the retirement.

<sup>5</sup> Korea Employers Federation (KEF) estimates that if the retirement age is extended to 65, the additional annual labor costs for domestic companies would amount to approximately KRW 30.2 trillion—enough to hire over 900,000 young job seekers.

### 3. Analysis and Implications

#### ① Achieving a fair economic structure (amendment to the Commercial Act)

- ✓ The amendment to the Commercial Act provides the legal foundation for President Lee's fair economy initiative. While the administration's first legislative priority is expected to be a special investigation bill addressing alleged abuses of power by the previous administration (e.g., cases related to insurrection, Kim Keon-hee, and Myung Tae Kyun), the Commercial Act amendment is likely to be its first major economic bill.
- ✓ The Democratic Party of Korea plans to reintroduce a strengthened version of the amendment previously vetoed by former President Yoon. With the presidential veto power now effectively neutralized, the revised bill is expected to pass without major obstacles.
- ✓ Following the amendment's passage, further measures—such as expanded appraisal rights for minority shareholders, revisions to the independent director system, and broader requirements for separate election of audit committee members—are expected to be discussed in consultation with the business community. Companies are advised to prepare accordingly.

#### ② Revitalizing the stock market through improved supply-demand conditions and increased market liquidity

- ✓ To qualify for inclusion in the MSCI Developed Markets Index, South Korea must establish an offshore foreign exchange market, further liberalize its capital markets, and ease restrictions on short selling and foreign investor account setup. These measures are anticipated to incentivize foreign investment.

#### ③ Establishing a transparent and fair online platform market (Online Platform Act)

- ✓ In line with the administration's emphasis on fair competition and small business protection, the government is expected to intensify efforts to regulate dominant online platform operators. However, strong opposition from the U.S. government and Congress could create major Korea-U.S. trade tensions and pose a significant obstacle to the passage of the legislation.

#### ④ Creating employment conditions where the “real employer” is held accountable to guarantee bargaining rights and prevent exploitative intermediary labor practices (Yellow Envelope Act)

- ✓ Despite anticipated tensions among business, academic, and labor sectors during the legislative process, the Yellow Envelope Act is likely to pass. The current administration is expected to maintain its pro-labor stance and its cooperative ties with the Korean Confederation of Trade Unions.

#### ⑤ Codifying key provisions in the Labor Standards Act including the ban on the comprehensive wage system

- ✓ While not explicitly defined by statute, the comprehensive wage system has been conditionally recognized through Supreme Court precedents. For employees, it can offer predictable wages based on terms specified in contracts or company rules.



- ✓ The Supreme Court has notably applied strict validity standards on the comprehensive wage system, limiting its applications to exceptional cases where calculating actual working hours is difficult and seldom acknowledging implied agreements. This judicial stance, which emphasizes the protection of workers, has contributed to the system's balanced implementation.

#### ⑥ Creating a fair labor environment (wage distribution system)

- ✓ The proposed wage distribution system aims to collect comprehensive employment data (e.g., rank, tenure, and job responsibilities) to support a fairer wage structure. However, successful implementation may prove difficult without active corporate participation and adequate fiscal support.

#### ⑦ Introducing the 4.5-day week system to reduce working hours and prevent deaths from overwork

- ✓ President Lee stated during a meeting with major business leaders that the 4.5-day workweek would not be implemented “as if under martial law,” signaling a phased, voluntary rollout. This remark reflects an acknowledgment of concerns that the policy could affect the global competitiveness of Korean companies and the administration's intent to provide businesses time to adapt.
- ✓ A step-by-step approach is anticipated: government budget allocation → applications from participating firms → pilot programs → analysis → gradual implementation by sector and job type.
- ✓ Companies may need to restructure workflows or invest in automation and AI to maintain productivity under reduced working hours.

#### ⑧ Gradually raising the statutory retirement age to 65, with legislation enacted by 2025 and government-wide support measures

- ✓ Raising the retirement age has become a pressing policy issue in light of South Korea's transition to a super-aged society, a shrinking working-age population, increased financial burdens on elderly support systems, and elderly poverty resulting from the gap between mandatory retirement and pension eligibility.
- ✓ However, because of differing interests across generations and between employers and employees, a sudden adjustment is unlikely to gain broad support. For instance, France raised the retirement age by two years over eight years, increasing it by three months annually. Germany used a similar approach, spreading a two-year increase across 20 years. Japan is raising the retirement age incrementally by one year every two years from 2023 to 2031, totaling five years over eight years. These phased approaches are designed to mitigate social disruption.
- ✓ Similarly, the Lee administration is expected to pursue a gradual, consensus-based reform rather than unilaterally raising the statutory retirement age. Policy development is likely to take into account the employment patterns of workers over 60, intergenerational job differentiation, and consistency with the pension eligibility age.

# III. FINANCE AND FINANCIAL REGULATIONS

## 1. Overview of Key Policy Pledges

### Digital Assets Sector

- ① Establishing digital asset hubs
- ✓ Establishing a foundation for industry growth through enhancement of the digital asset ecosystem
- ✓ Institutionalizing virtual assets and related products, ensuring secure investment opportunities
- ✓ Creating diverse business opportunities through prompt legalization of tokenized securities

### Household or Small Business Sector

- ② Strengthening financial consumer protection through institutional reforms (reorganization of related governmental bodies)

## 2. Policy Descriptions

### ① Establishing digital asset hubs

- **As investment in digital assets expands and U.S. policies under the Trump administration gain attention, President Lee has pledged to: ▲ launch a Digital Assets Committee ▲ introduce Exchange Traded Funds (ETFs) for digital assets and ▲ promote a Korean-won-based stablecoin.**
  - The Democratic Party of Korea has launched a Digital Assets Committee under its election campaign headquarters and is discussing the direction of related policies, including legislation of a “Framework Act on Digital Assets,” and regulatory systems for stablecoins and Security Token Offerings (STOs).<sup>6</sup>

#### < Key Provisions of the Draft Framework Act on Digital Assets >

Category	Key Content
Definition of Digital Assets	Blockchain-based electronic records with economic value
Business Classification	Categorization by business type: issuer, exchange, custodian, etc.
ICO Authorization	Permitted upon meeting conditions (e.g., submission of issuance report)
Stablecoin Regulation	(1) Authorization by the Financial Services Commission (FSC) (2) A minimum reserve requirement of KRW 5 billion
Listing Review Body	Establishment of a review organization under the Digital Asset Industry Association
Digital Assets Committee	A public-private deliberation and decision-making body under the FSC

※ Source: Office of Assemblyman Min Byung-duk

<sup>6</sup> Digital Assets Committee is composed of four subcommittees: the Digital Basic Law Subcommittee, the User Protection Subcommittee, the Digital Asset Growth Subcommittee, and the External Cooperation Subcommittee

- **President Lee, as part of his initiative to support asset building for young generation, has proposed allowing spot ETFs for digital assets to support youth asset formation and pledged to: ▲ reduce digital asset transaction fees ▲ permit direct investment by institutional investors and the National Pension Service.**
  - Financial authorities maintain a cautious stance on spot digital asset ETFs, citing concerns that volatility in digital assets may affect financial market stability and the soundness of financial institutions.
  - In 2017, the government banned institutional financial institutions from holding, purchasing, using collateral, or investing in virtual currencies. However, as of March 2025, the government is considering allowing spot ETFs for digital assets to stimulate the market. Given that major presidential candidates have pledged support, related policies are expected to advance more rapidly.

## ② Strengthening financial consumer protection through institutional reforms (reorganization of related governmental bodies)

- **President Lee has been proactively reviewing reorganization of the Ministry of Economy and Finance and the financial supervisory structure since the early stages of his campaign. This includes consideration of restructuring the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS).**
  - On April 27, the day he was confirmed as the presidential candidate, he remarked: “There is considerable criticism that one ministry is acting as the ‘king’ of government by controlling both economic planning and budgetary authority.”
  - A proposed amendment to the Government Organization Act<sup>7</sup> calls for the separation of the Ministry of Economy and Finance’s budget function. Under this plan ▲ a new Planning and Budget Office would be placed directly under the Presidential Office or the Prime Minister’s Office, and ▲ a Ministry of Finance and Economy would be established, integrating industrial policy functions from the FSC.
  - The FSC’s financial industry policy functions would likely be integrated with the Ministry of Finance and Economy’s international finance functions. In terms of financial supervision, a new Financial Supervisory Commission would be created, with multiple organizational options under consideration: ▲ (first option):

<sup>7</sup> [2209646] *Partial Amendment to the Government Organization Act* (proposed by Assemblyman Heo Sung-moo and 9 others), proposes establishing the **Ministry of Planning and Budget** as a separate administrative body., [2209669] *Partial Amendment to the Government Organization Act* (proposed by Assemblyman Oh Ki-hyung and 10 others), primarily seeks to establish a **Planning and Budget Office** under the **Prime Minister’s Office**, focusing specifically on budget functions.

split the FSS into a Financial Supervisory Service and a Financial Consumer Protection Agency ▲ (second option): separate Market Soundness Management and establish a Market Supervisory Authority ▲ (third option): the Chair of the Financial Supervisory Commission would also serve as head of the FSS, while separating the FSS from the Financial Consumer Protection Agency.

- The first option is considered the most feasible, while the second is seen as ideal in principle but may face organizational resistance and functional complexity, delaying implementation. The third option is unlikely, as it would concentrate excessive power on one individual and could lead to an imbalance between public oversight and private authority.
- Although a campaign official stated on May 22 that “the current pledge does not include reorganization,” President Lee has consistently expressed strong intent for major government restructuring. Therefore, such reform is likely to become a core agenda item for the Democratic Party of Korea going forward.

### 3. Analysis and Implications

#### ① Reorganizing the digital asset ecosystem

- ✓ The Lee administration has set a goal to enact the Framework Act on Digital Assets by the end of this year. With this law, discussions on launching a Digital Asset Committee and institutionalizing the broader digital asset ecosystem are expected to begin in earnest, laying the groundwork for digital assets to be incorporated into mainstream finance.
- ✓ Regarding the introduction of spot exchange-traded funds (ETFs) for digital assets, there is growing anticipation that investor accessibility will improve and that the scope of institutional participation—potentially including the National Pension Service—could expand. Financial authorities, however, maintain a cautious stance, prioritizing the stability and soundness of financial markets. Accordingly, they are expected to first pursue amendments to relevant laws and revisions to accompanying regulations.

#### ② Strengthening financial consumer protection through institutional reforms (reorganization of related governmental bodies)

- ✓ The Ministry of Economy and Finance is expected to transfer its budgetary authority and focus exclusively on macro-level financial policy areas such as exchange rates, government bond issuance, and short-term borrowing. Meanwhile, the Financial Services Commission and the Financial Supervisory Service are expected to be merged into a single entity with a focus on supervisory functions, which would significantly enhance and consolidate financial oversight functions.
- ✓ This move appears to be driven by a prevailing view that the financial sector has fallen short in protecting small business owners and retail consumers. In past financial incidents, the Democratic Party of Korea has typically held the view that investors, as a rule, deserve protection, whereas the People Power Party has tended to emphasize individual responsibility for investment risks, highlighting a more limited approach to investor protection.
- ✓ However, it is unlikely that the Lee administration will pursue an immediate reorganization of government agencies. Because of the early nature of the presidential election, President Lee will assume office without a transition committee, making it difficult to implement structural reforms to key ministries at the outset. In particular, the absence of a Deputy Prime Minister for Economic Affairs and the necessity of confirmation hearings suggest that the blueprint for any reorganization is unlikely to be concretized until at least two months after the Lee administration takes office.

# IV. SEMICONDUCTORS AND AI

## 1. Overview of Key Policy Pledges

Semiconductors
① Early enactment of the Special Act on Semiconductors
② Introduction of tax credits for domestic semiconductor production
✓ Implementing a “Strategic Industry Domestic Production Promotion Tax Scheme” to enhance the competitiveness of key manufacturing sectors
AI
③ Formation of a national AI joint investment fund
✓ Expanding funding for national high-tech strategic industries to strengthen global technological competitiveness
④ Development of a national AI data hub cluster
✓ Positioning Korea among the global top 3 AI powers through “AI transformation” (AX)
✓ Strengthening investment in the next-generation AI technology
✓ Building the world's most advanced AI infrastructure
⑤ Implementation of the “AI for All” initiative and regulatory exceptions
✓ Creating an inclusive AI environment where all citizens can easily and conveniently use AI
✓ Fostering a startup ecosystem by improving regulations and resolving conflicts
✓ Establishing legal and institutional frameworks for safe and efficient data utilization

⑥ **Promotion of cloud service adoption**

- ✓ Transitioning public cloud services to domestic private cloud infrastructure
- ✓ Supporting small and medium enterprises and startups in safe and cost-efficient adoption of cloud technology



## 2. Policy Descriptions

### ① Early enactment of the Special Act on Semiconductors

- **The early enactment of the Special Act on Semiconductors aims to strengthen the competitiveness of the semiconductor industry and build a foundation for sustainable growth, thereby contributing to national and economic security, as well as the overall advancement of the Korean economy.**
  - On April 17, the Democratic Party of Korea designated the bill as a fast-track item<sup>8</sup> during an extraordinary plenary session. Key provisions include:
    - ▲ establishment of National Semiconductor Committee
    - ▲ government responsibility for infrastructure such as electricity, water, and transportation
    - ▲ support for infrastructure aligned with RE100 (100% renewable energy initiatives) and
    - ▲ creation of a Semiconductor Industry Support Fund and promotion of regional cooperation initiatives.
  - However, the exclusion of a provision exempting white-collar workers from the 52-hour workweek limit (the so-called “white-collar exemption”) is likely to trigger policy conflict with the opposing People Power Party.
- **The early enactment of the Act is a key pledge that ties together several semiconductor-related policy commitments, including ▲ introduction of tax credits for domestic semiconductor production ▲ accelerated development of the Yongin Semiconductor Cluster and ▲ support for semiconductor R&D and workforce development.**
  - President Lee plans to establish a Presidential Commission on Semiconductor Industry Competitiveness, which will be tasked with setting policies to enhance competitiveness in the sector and overseeing the designation and evaluation of the Semiconductor Industry Development Clusters.
  - The initiative will also prioritize support for non-capital regions as part of a broader strategy for balanced regional development. Central and local governments will provide preferential budget support for the operation and development of these clusters.
  - In addition, the Act will establish and manage Special Accounts for the Semiconductor Industry, aimed at supporting sustained competitiveness. The Act will also offer tax relief of up to 10% for semiconductor companies impacted by recent U.S. tariff measures.

<sup>8</sup> "National Assembly, Designation of Agenda for Fast Track of the Special Act on Semiconductors and the Banking Act" (Yonhap Infomax, Apr. 17, 2025)

## ② Introduction of production tax credits for domestic semiconductor production

### ○ President Lee announced a plan to overcome the impact of U.S. tariffs on domestic manufacturing by introducing a “Semiconductor Production Tax Credit” (up to 10%) as his first campaign pledge on April 28 during the latest presidential election.

- Previously, tax benefits for national strategic technologies were based solely on the amount of investment. However, led by the Korean Democratic Party, an amendment to the Restriction of Special Taxation Act has been proposed to allow corporate tax reductions based on the domestic production and sale of products in national strategic sectors, such as semiconductors.

#### < Comparison of Semiconductor Tax Credit Methods >

Category	Revised Tax Law (Feb. 2025)	Pledges During the Presidential Campaign
Credit Method	▪ Tax Credit based on investment amount	▪ Tax credit based on production amount
Eligible Target	▪ Semiconductor facility investments	▪ Domestically produced and sold semiconductors
Credit Rate	▪ 20% for large/mid-sized companies, 30% for SMEs	▪ Up to 10%
Features	▪ Enhanced investment tax credit (5 percentage point increase from 2024 revision)	▪ First attempt at implementation in Korea

※ Source: Ministry of Economy and Finance and the 21st Presidential Candidate Policy Booklet

- The proposed tax credit for domestic semiconductor production is designed to support local manufacturing by granting credits based on the value of semiconductors produced and sold within Korea. This direct support structure is similar to the model introduced under the U.S. Inflation Reduction Act (IRA). The combined tax benefits for Samsung Electronics and SK Hynix are estimated to total approximately KRW 9 trillion.
- This tax credit is expected to strengthen Korea’s semiconductor industry ecosystem by promoting production and R&D among domestic parts, materials, and equipment companies. The government’s direct tax support initiative is anticipated to enhance price competitiveness and foster a virtuous cycle, where increased corporate profits are reinvested into R&D, thereby advancing technological capabilities.

### ③ Formation of a national AI joint investment fund

- **The government plans to establish a sovereign AI fund, jointly funded by the public and private sectors, to serve as a catalyst for the AI industry—a core national strategic sector—and to help usher in an era of KRW 100 trillion in AI investment.**
  - President Lee's AI fund initiative includes key project such as ▲ securing 50,000 GPUs ▲ supporting the development of NPUs ▲ launching a Korea-specific ChatGPT project and ▲ fostering AI talent.
  - Drawing on successful global models—such as Taiwan's TSMC strategy and U.S. sovereign wealth funds aimed at promoting strategic industries—Korea's AI sovereign fund is designed to transition Korea from a manufacturing-based export economy to a global AI powerhouse, with joint investment from the public and private sectors.

### ④ Development of a national AI data hub cluster

- **President Lee prioritizes positioning Korea among the world's top three AI leaders. To that end, the government will take the lead in securing key resources, including data, talent, and infrastructure, while addressing challenges that cannot be solved by the private sector alone.**
  - President Lee's AI-related pledges include: ▲ creating a global AI joint investment fund ▲ securing more than 50,000 high-performance GPUs ▲ developing AI talent ▲ strengthening STEM (Science, Technology, Engineering, Mathematics) education ▲ streamlining AI-related regulations and ▲ deploying a "Korean-style ChatGPT" nationwide.
- **As part of the national AI cluster initiative, the government plans to secure more than 50,000 high-performance GPUs and develop specialized NPUs. These technologies will be deployed in newly constructed large-scale AI data centers.**
  - The AI data integration cluster aims to consolidate and share national-level computing and data resources, enabling domestic AI companies, research institutions, and startups to enhance their global competitiveness.
  - By building a concentrated AI infrastructure—or an "AI superhighway"—the initiative will foster innovation in AI services and technologies. The government will implement complementary policies to: ▲ train specialized AI professionals ▲ promote widespread data utilization ▲ accelerate AI convergence across industries and ▲ apply regulatory sandboxes. These efforts are designed to activate and expand Korea's broader AI ecosystem.

## ⑤ Advancement of the “AI for All” initiative and regulatory exceptions

- **The “AI for All” project aims to enable all citizens to freely access and utilize advanced AI services<sup>9</sup>, such as ChatGPT, while the regulatory exceptions initiative is intended to promote the growth of AI-convergent industries.**
  - The project emphasizes widespread diffusion of AI technology and improved accessibility, with the government directly providing AI infrastructure and services. “AI for All” goes beyond simply offering tools—it aims to establish an environment where individuals can integrate AI into their daily lives.
  - To support the rapid development of emerging technologies and industries, the government plans to relax or temporarily suspend existing regulations that hinder the growth of AI and data-driven industries. Key measures include: ▲ expansion of AI regulatory sandboxes ▲ designation of special AI zones and ▲ relaxation of data usage regulations.
- **By directly offering AI services and infrastructure, the initiative aims to bridge the digital divide, improve quality of life, and create a society where anyone can easily and safely use AI in everyday activities.**
  - “AI for All” is also expected to accelerate data accumulation as more citizens use AI services, contributing to strengthened national competitiveness through industrial convergence, new industry creation, and productivity gains. Ultimately, it envisions the realization of an “AI Basic Society” that leverages AI to analyze and prevent everyday risks in areas such as finance, healthcare, food security, and disaster response.
  - However, the success of this initiative will depend on clear implementation strategies, including sustained service quality, data privacy protections, and well-defined legal and ethical safeguards.
  - To foster AI-driven industrial growth, the plan includes introducing regulatory exemptions, such as expanding regulatory sandboxes and designated AI zones, updating relevant laws that affect the AI ecosystem, and applying exceptions to laws such as the Patent Act and Immigration Control Act, along with easing restrictions on data usage.
  - While regulatory easing is expected to accelerate technological innovation and drive the emergence of new industries, it also raises potential legal, ethical, and social risks—including privacy concerns and algorithmic accountability. As such, close attention must be paid to the implementation of regulatory exceptions and to the role of the National Artificial Intelligence Committee, a presidential advisory body overseeing AI governance and legal frameworks.

<sup>9</sup> "10 Pledges by Lee Jae-myung...Free Use of AI for the Whole Country" (Hankyoreh, 2025.05.12)

## ⑥ Promotion of cloud service adoptions

- **President Lee's pledge on cloud services marks a meaningful commitment to advancing cloud infrastructure, which is considered a core enabler in the era of AI.**
  - In particular, the plan to proactively transition public sector data storage and processing to private cloud services is expected to positively impact the growth of Korea's cloud industry. We note that the policy places an emphasis on the use of domestic private cloud providers in order to protect domestic industries.

### 3. Analysis and Implications

#### ① Early enactment of the Special Act on Semiconductors

- ✓ If various support measures—such as government subsidies, tax benefits, cluster designations, and permitting exemptions—are implemented under the Special Act, companies will require a legal review of the eligibility criteria, application procedures, and post-compliance/management obligations.

#### ② Introduction of tax credits for domestic semiconductor production

- ✓ In the event of an early enactment of the Special Act on Semiconductors, a range of policy measures are expected to be introduced simultaneously, including direct subsidies, tax incentives, permitting exemptions, and flexible labor regulations for the semiconductor industry.
- ✓ As large-scale government support becomes available, legal risks may increase in connection with subsidy applications, disbursements, post-compliance, clawbacks, and misuse or fraudulent claims.

#### ③ Formation of a national AI joint investment fund

- ✓ The proposed KRW 100 trillion sovereign fund—jointly financed by the government, private sector, and pension funds—will likely be structured as a complex investment vehicle. Legal analysis will be required under the Capital Markets Act, Financial Investment Services and Capital Markets Act, Monopoly Regulation and Fair Trade Act, and pension fund governance regulations. Regulatory issues such as investor protection, internal controls, and supervisory frameworks are also likely to emerge during the fund's formation and operation.

#### ④ Promotion of cloud service adoption

- ✓ While the policy platform specifies the use of domestic private cloud infrastructure, the relaxation of data localization requirements may open the door for global providers such as Microsoft (MS) and Amazon Web Services (AWS) to actively pursue entry into Korea's public sector market.

# V. DEFENSE INDUSTRY

## 1. Overview of Key Policy Pledges

### ① Establishing an advanced AI technology-based defense industry through increased investment in R&D

- ✓ Strengthening the capabilities of the Defense AI Center within the Agency for Defense Development (ADD)
- ✓ Deploying intelligent weapon systems by establishing a defense AI infrastructure
- ✓ Strengthening self-reliant national defense capabilities by independently developing next-generation fighter jets and advanced aircraft engines
- ✓ Advancing an integrated manned and unmanned combat system

### ② Strengthening the capabilities of the Defense Acquisition Program Administration (“DAPA”) to respond to changes in the defense industry ecosystem

- ✓ Streamlining complex acquisition procedures, including requirements definition and testing/evaluation
- ✓ Expanding the transfer of core technologies from the Agency for Defense Development (ADD) to the private sector
- ✓ Introducing a program coordination system to reduce excess domestic competition among firms and enhance export competitiveness
- ✓ Launching an ‘Innovation Mining’ program to collect new weapon system ideas or acquisition strategies directly from defense companies
- ✓ Diversifying procurement methods to develop export-oriented products and enhance global competitiveness
- ✓ Restructuring DAPA’s force support system to prevent corruption in defense procurement

### ③ Expanding support for defense export companies

- ✓ Strengthening corporate competitiveness through expanded R&D tax credits and policy-based financial support
- ✓ Fostering start-ups with advanced technologies and expanding defense-related military service exemption programs

## 2. Policy Descriptions

### Establishing an advanced AI technology-based defense industry through increased investment in R&D

- President Lee visited a defense industry site during the primary race—his second on-site visit following one focused on AI—and announced policy commitments to support the defense sector. The Democratic Party of Korea has also underscored the importance of the defense industry by designating it as one of its five strategic sectors.

#### < Vision for Advancing “K-Defense” as One of the World’s Top Four Defense Powers >

##### Key Contents

- Establishment of a centralized control tower for defense exports
- Institutionalization of presidential-led strategic meetings for defense export promotion
- Reform of policy-based financial support systems for the defense industry
- Provision of R&D tax credits for defense companies
- Expansion of defense partnerships built on mutual trust through technology transfers and training programs, targeting regions such as Europe, the Middle East, Southeast Asia, India, the U.S., and Latin America
- Development of K-defense startups and expansion of military service exemption programs to cultivate defense talent
- Expansion of defense industrial clusters through the integration of regional flagship industries and local R&D capacity with defense technology
- Introduction of a selective conscription system

※ Source: Various press articles

- However, some critics note that the pledge to elevate Korea into the global top four defense exporters may face challenges. Although Korea has exported approximately KRW 72 trillion worth of defense products since 2020 and currently ranks around 10th globally,<sup>10</sup> achieving the “top four” rank would require contracts exceeding the current KRW 100 trillion order backlog held by the seven major domestic defense firms.

<sup>10</sup> Stockholm International Peace Research Institute (SIPRI), Defense Acquisition Program Administration (DAPA)



- **President Lee identified defense as a top policy priority in his list of ten major campaign pledges. While the focus lies in boosting exports through expanded R&D support for K-defense, there have been calls for more detailed implementation plans—particularly in relation to defense AI.**
  - Among his top ten pledges, the highest-ranked economic initiative includes positioning the domestic defense industry as a national flagship sector. During a campaign speech in the South Gyeongsang Province, President Lee presented a “Space, Aviation, and Defense Industry Policy Statement,” outlining a government-led model.
  - Key components include: ▲ establishing a centralized control tower for K-defense exports and strengthening the capabilities of DAPA; ▲ increasing national investment in R&D for defense AI and ▲ expanding tax incentives for defense export companies. These initiatives are intended to promote greater export competitiveness and overall growth in Korea’s defense export volume.
  - Currently, the defense sector qualifies for R&D tax credits as a designated field of core and emerging technologies. If designated a national strategic high-tech industry, tax credit rates could rise from 20–25% to 30% for large and mid-sized firms, and from 30% to 40% for small businesses—effectively expanding credit ceilings by 10 percentage points.
  - If these policy pledges are implemented and current export momentum is sustained, industry analysts project that the order backlog—currently at approximately KRW 80 trillion—could surpass KRW 100 trillion. These developments are widely seen as facilitating the transition of Korea’s traditionally domestic-focused defense sector into a globally export-driven sector.<sup>11</sup>
  - However, the “Defense AI” pledge is expected to require further elaboration during implementation, particularly regarding measures to secure training data and improve access to relevant technologies.
  - Additional plans are also anticipated to support the creation of a robust defense ecosystem, accelerate acquisition procedures, and ease regulatory burdens on the private sector.<sup>12</sup>

<sup>11</sup> Lee Jae-Myung, Kim: “Focusing on the Intensive Development of K-Defense” ... Korea’s Big 4 Defense Firms Near ₩100 Trillion in Orders – Insight Korea”

<sup>12</sup> (Presidential Election Industrial Pledge Review) ③ K-Defense Pledge: “Government-Led” vs. “National Security-Oriented”

### 3. Analysis and Implications

#### Establishing an advanced AI technology-based defense industry through increased investment in R&D

- ✓ As Korea's defense industry experiences sustained export growth, there is a pressing need to designate the sector as a national strategic industry. This will require the enactment or amendment of relevant legislation and the implementation of comprehensive support policies to facilitate its development.
- ✓ President Lee expressed his commitment to supporting defense exports as early as the primary campaign stage. The promotion of the K-defense industry was subsequently included among the ten core campaign pledges, positioned as a key component of his broader economic revitalization agenda.
- ✓ The prioritization of policies traditionally regarded as pro-business—such as support for national defense and R&D—marks a notable shift for the Democratic Party of Korea. This emphasis may be interpreted as part of President Lee's broader strategy to appeal to centrist voters during the presidential election.

# VI. ENVIRONMENT AND ENERGY

## 1. Overview of Key Policy Pledges

### ① Advancing carbon neutrality and energy transition

- ✓ Ongoing structural industry transformation to achieve carbon neutrality by 2050

### ② Amending the National Framework Act on Carbon Neutrality and strengthening the Emissions Trading System (“ETS”)

- ✓ Revising the National Framework Act on Carbon Neutrality to include accountable interim targets, in response to the Constitutional Court’s unconformity ruling
- ✓ Significantly expanding the Climate Response Fund, (e.g., by increasing the proportion of paid allowances under the Emission Trading System)

### ③ Building the West Coast Energy Highway and decentralized energy system

- ✓ Supporting offshore wind power generation at the national level to enhance energy security and achieve carbon neutrality
- ✓ Constructing the West Coast Energy Highway by 2030 and U-shaped Korean Peninsula Energy Highway by 2040
- ✓ Promoting sustainable energy transition through the development of a U-shaped renewable energy belt
- ✓ Activating local energy ecosystems by decentralizing electricity demand
- ✓ Enhancing flexibility in power supply to accommodate the growing share of renewable energy

### ④ Expanding “Sunlight and Wind Pensions”

- ✓ Increasing household income and public acceptance by developing profit-sharing renewable energy projects
- ✓ Granting additional Renewable Energy Certificate (REC) weightings based on the level of resident participation

## 2. Policy Descriptions

### ① Advancing carbon neutrality and energy transition

- **The 5th Basic Energy Technology Draft Development Plan ("5<sup>th</sup> Draft Plan") prioritizes stable energy supply through expanded use of nuclear power, particularly small modular reactors (SMRs), and envisions a carbon-free energy ecosystem to achieve long-term goals of carbon neutrality and energy security.**
  - Key initiatives include: ▲ strengthening technological competitiveness to expand carbon-free energy (including increased nuclear utilization) ▲ establishing a stable energy grid ▲ promoting energy efficiency, clean use and ▲ creating an innovation-driven R&D ecosystem.
  - Unlike the previous Moon administration, which pursued a nuclear phase-out policy due to concerns over spent nuclear fuel management and safety, the current plan emphasizes increased use of nuclear power via SMRs, marking a notable policy shift.
- **Overall, President Lee's energy platforms align with the 5th Draft Plan in emphasizing renewable energy but differs in execution by placing greater emphasis on renewables over nuclear energy.**
  - While the Korean Democratic Party had advocated for a "reduction in nuclear reliance" during the 2022 presidential campaign, recent policy agreements with the Nuclear Industry Labor Union Coalition reflect a position that recognizes the role of nuclear power amid a renewables-centered strategy.
  - President Lee, however, has maintained a cautious stance toward nuclear power. His pledge includes a coal phase-out by 2040 and expansion of the renewable energy industry, without express mention of new nuclear development.
  - The Lee administration halt construction of ongoing nuclear projects or prematurely decommission operating plants. However, it is likely to adopt a medium- to long-term strategy to gradually reduce nuclear dependence, with a clear policy focus on renewable energy.
  - Given some divergence between President Lee's position and that of the Korean Democratic Party, future energy policies will require internal coordination.
  - Given the critical need for stable electricity supply to support national initiatives including AI, and data centers, the Lee administration is also expected to promote the growth of the SMR industry.

## ② Amending the National Framework Act on Carbon Neutrality and strengthening the Emissions Trading System (“ETS”)

- **In August 2023, the Korean Constitutional Court rendered a decision of nonconformity to the Constitution with respect to the Framework Act on Carbon Neutrality due to the absence of interim greenhouse gas reduction targets, mandating legislative amendments to the Framework Act.**
  - Enacted in 2021 to replace the 2010 Framework Act on Low Carbon, Green Growth, the current law mandates a 40% greenhouse gas reduction by 2050 (compared to emission levels in 2018), newly creates the 2050 Carbon Neutrality and Green Growth Commission and a climate response fund.
  - In August of last year, the Korean Constitutional Court found that the National Framework Act on Carbon Neutrality, which stipulated the 'greenhouse gas reduction target ratio' only until 2030, was in violation of the Constitution. The Court’s decision recognized, for the first time, that insufficient government action on the climate crisis could result in a violation of fundamental rights, and ordered the Framework Act to be amended in line with this decision by February 28, 2026.
  - The Korean Constitutional Court cited three key rationales for its ruling: ▲ lack of quantitative reduction targets from 2031–2049 ▲ disproportionate burden shifted to future generations and ▲ inadequate protective measures for addressing the climate crisis.
- **Revisions to the Framework Act that incorporate constitutionally mandated interim targets are expected to take precedence, with broader reforms to the ETS to follow.**
  - The MOEF is expected to lead the amendment process in the latter half of the year. Discussions are ongoing regarding the climate response fund, ETS, and green bonds, with the inclusion of 2031-2049 interim targets expected to be a legislative priority.
  - South Korea’s carbon credit prices are currently among the lowest in countries operating an ETS. With the EU’s Carbon Border Adjustment Mechanism (CBAM) taking full effect in 2026, normalizing domestic carbon pricing will be essential to maintaining industrial competitiveness.<sup>13</sup>
  - The government is expected to significantly increase the proportion of paid allowance allocations in the ETS, a key funding mechanism for the Climate Response Fund. These changes are likely to be reflected in the 4th ETS Allocation Plan, scheduled for the first half of the year.

<sup>13</sup> A certificate is purchased in proportion to the difference in carbon emissions between products produced in Europe and imports, as well as the price of European emission permits, and any carbon costs already paid by the exporting country, such as in the Korean emissions trading system, are deducted.

### ③ Building the West Coast Energy Highway and decentralized energy system

- **As part of the RE100, the establishment of the Energy Highway was proposed as a pledge as responsive solutions to the shortage of power grid and renewable energy but was faced with criticism regarding its lack of effectiveness and practicality.**
  - The Energy Highway refers to a submarine ultra-high voltage direct current transmission (HVDC) project that would supply electricity generated from nuclear and renewable sources in the Honam region to the metropolitan area. President Lee proposed constructing a west coast corridor by 2030 and a U-shaped nationwide energy expressway by 2040.
  - The plan includes transmitting up to 20 GW of offshore wind power from the southwest coast to key industrial regions via an offshore grid. Given current grid limitations and the anticipated growth in energy-intensive industries such as AI and semiconductors, expanding transmission infrastructure is seen as an urgent national priority.
  - However, the industry predicts that it will be necessary to raise more than 40 trillion won for the construction of the West Coast Energy Highway and more than 100 trillion won for its expansion to the entire Korean Peninsula. To this end, investment from KEPCO and others will be necessary, but KEPCO currently faces high fiscal instability with its cumulative debt totaling more than KRW 200 trillion, raising questions about its feasibility.<sup>14</sup>
  - In addition, the HVDC construction plan (total length of 430km) to send idle renewable energy generated in the Honam region to the metropolitan area was already reflected in the 2023 10th long-term transmission and substation facility plan, but it appears difficult to expect short-term effectiveness considering the target completion date (2023), long after President Lee's term.

<sup>14</sup> KEPCO nervous about the feasibility of Lee Jae-myung's "Energy Highway" pledge (Electric Times)

### 3. Analysis and Implications

#### ① Establishing greenhouse gas reduction targets and utilizing nuclear energy

- ✓ The proportion of nuclear power generation is governed by the Ministry of Trade, Industry and Energy's Basic Energy Plan, a policy area that the new administration can implement swiftly without legislative amendment.
- ✓ While President Lee has made several statements indicating a stronger emphasis on renewable energy over nuclear power, this appears to diverge from the stance of the Democratic Party that signed a policy agreement with the nuclear power labor union. Accordingly, the future direction of energy transition policy should be closely monitored.

#### ② Amending the Framework Act on Carbon Neutrality and strengthening ETS

- ✓ Following the Korean Constitutional Court's unconformity decision last year, the Framework Act on Carbon Neutrality must be amended by February 28, 2026. Revisions to the Framework Act will likely prioritize incorporating accountable interim targets.
- ✓ Furthermore, reforms such as increasing the proportion of paid allocations under the ETS are expected to be reflected in the upcoming 4th ETS Allocation Plan, scheduled for release in the first half of the year.

#### ③ Building the West Coast Energy Highway and decentralized energy system

- ✓ President Lee's key environmental and energy pledges—such as the construction of an energy highway to support RE100 industrial complexes and the expansion of "Sunlight and Wind Pensions"—have raised concerns over feasibility and will likely require policy adjustments during their implementation.

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