New Opportunities in the Korean Defense Market and Evolving Regulatory Landscape

South Korea's defense industry has rapidly emerged as a major force in the global market, solidifying its position as a vital partner for international defense enterprises. In light of this trend, the South Korean government is implementing institutional reforms aimed at reinforcing technology partnerships and supply chain integration between foreign and domestic firms engaged in offset transactions, while concurrently increasing oversight of foreign investment to safeguard national security and protect critical technologies. These evolving policies present new horizons for foreign defense companies seeking entry into the Korean market, yet also demand attentive navigation of a rapidly changing regulatory environment.

Broader Offset Trade Incentives and Value Banking

Offset trade serves as a regulatory requirement directing foreign defense companies to conduct industrial cooperation activities, including technology cooperation, local production, parts procurement, and export assistance, when supplying military goods worth USD 10 million or more in value. The level of offset obligations is linked to contract value, with the Defense Acquisition Program Administration (DAPA) certifying these cooperative activities as offset credits.

DAPA has significantly broadened offset credit incentives to promote the entry of top-performing domestic defense SMEs into the global supply chain: Foreign defense companies are granted an offset credit valued up to five times the actual transactional amount for collaborating with a domestic company designated as one of the **100 Defense Innovation Companies** (an initiative cultivating promising defense companies in advanced tech fields such as space, semiconductors, artificial intelligence, drones, and robotics) or the **GVC (Global Value Chain) 30** (a project supporting the integration of domestic defense SMEs into the global supply chain) in overseas weapons system development and production, military supply export, or maintenance, repair, and overhaul (MRO) of foreign weapons systems.

The initiative enables the government to credit a value substantially exceeding the transaction amount toward offset obligations. For example, if a foreign firm acquires USD 1 million in parts from a GVC 30 company, the offset credit may count as USD 5 million, enabling the foreign firm to attain offset requirements efficiently, at no extra cost.

Foreign firms will also be able to accumulate offset value in advance via "Value Banking," subject to DAPA review even when undertaking industrial cooperation projects not associated with specific contracts, which provides greater flexibility in meeting offset requirements in case they participate in future South Korean defense project obligations.

Foreign defense firms can both fulfill offset duties efficiently and develop a solid, competitive supply chain presence in Korea through joint ventures, parts procurements, MRO partnerships with Defense Innovation Companies or GVC 30 entities, and value banking.

Rigorous Security Reviews for Foreign Investment

All the while, the Korean government continues to fortify security controls. The Ministry of Trade, Industry and Resources (MOTIR) requires approval for foreign investments in defense firms and conducts thorough security reviews for investments in defense and advanced technology sectors.

Under the Foreign Investment Promotion Act, foreign entities seeking to acquire 10 percent or more of any South Korean defense company's voting shares must obtain prior approval from the Minister of Trade, Industry and Resources. MOTIR consults the Ministry of National Defense before granting approval, and may impose conditions to ensure ongoing defense production and security.

For defense industry suppliers not classified as manufacturers, minority investments lacking management control do not require MOTIR approval; however, if a foreign investor acquires management control, this triggers a security review, with potential national security risks assessed according to the firm’s products and technologies.

Importantly, a 2024 amendment to the Enforcement Decree of the Foreign Investment Promotion Act established a legal basis for the Minister of Trade, Industry and Resources to initiate security reviews ex officio, and a dedicated security review committee was instituted in 2026. This aligns with global trends toward more rigorous screening of foreign investment for the purpose of national security, akin to the U.S. CFIUS system. Foreign firms investing in or seeking strategic partnerships with South Korean defense firms must therefore consider these regulatory requirements.

Implications

In sum, while resolutely determined to advocate industrial cooperation between global and domestic defense companies, South Korea is concurrently developing an increasingly sophisticated regulatory framework for foreign investment in sectors critical to national security and core technologies.

These changes in the policy landscape offer foreign defense firms a window of opportunities to broaden partnerships with top-tier South Korean companies and diversify their global supply chains. Foreign firms seeking to enter the defense market in South Korea should strategically leverage the offset trade system and ensure their business strategies are aligned with investment and national security regulations from the initial phase of the investment.

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