Government Doubles Down on AI Support and Price Stabilization, Funded by AI-Boom Windfalls

Irene Choi
+82(2)3788-1722 | irene.choi@gs.com
Goldman Sachs (Asia) L.L.C., Seoul Branch

Goohoon Kwon, CFA
+852-2978-0048 | goohoon.kwon@gs.com
Goldman Sachs (Asia) L.L.C.

Bottom line: Korea's government announced the "3 Mega Projects", a joint-ministerial long-term initiative that outlines massive public-private investment and infrastructure support across three core pillars: Semiconductors, Physical AI, and AI Data Centers. Key commitments include KRW881trn for new semiconductor production and packaging hubs outside the Seoul region, KRW30trn to support emerging chip markets, KRW20trn for the AI transition in manufacturing, and KRW550trn to expand AI data centers. Taken together with Samsung and SK Groups' total investment plans, total AI-related investments could reach roughly 10% of GDP per year over the next decade, with semiconductors accounting for about 6% of GDP. Separately, the government announced updated measures, including KRW 1trn in fiscal spending on agricultural subsides, an extension of the utility-price freeze through December, and an approximately 10% cut in fuel-price caps by KRW150 per liter.

Main points:

- Korea's government announced the "3 Mega Projects", a joint-ministerial long-term initiative outlining massive public-private investment and infrastructure support across three core pillars: Semiconductors, Physical AI, and AI Data Centers (Exhibit 1).
- Under the first pillar focusing on semiconductors, the target is to bring forward the completion of semiconductor hubs in the greater Seoul metropolitan area (Yongin) by 7-12 years, doubling production capacity within the next 5 years. The government also wants to broaden semiconductor manufacturing bases into non-metropolitan regions through a cumulative KRW 800 trillion investment in the Southwestern region. This is to be accompanied by additional investments in the Chungcheong region (KRW81trn) and the Southeastern region (aimed at creating a material, parts, and equipment innovation hub). While the government press release did not specify a detailed timeline, the investment is likely to be spread over 10 or more years based on company disclosures. In addition, KRW30trn will be spent over the next 15 years to gain market share in high-growth, emerging next-generation memory and chips. The government will provide comprehensive support to the industry by establishing a presidential-led "Semiconductor Competitiveness Special Committee".
- Under the second pillar of Physical AI, the government aims to position Korea as a global top 3 power in AI robotics. Key focus areas are: 1/ transitioning to AI in manufacturing, 2/ securing core AI technologies and data, and 3/ establishing regional mass production hubs. In a separate press release, the government

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noted that KRW20trn will be invested on AI manufacturing with an aim of creating KRW100trn in value added.

- Under the third pillar focusing on AI data centers, the government will partner with major conglomerate groups to build a world-class data center infrastructure. Per the announcement, SK Group, GS Group, and Naver will collectively invest KRW550trn to build 8.4GW of AI data center capacity, and the SK Group will further expand its capacity by 10GW to 18.4GW by 2035. The government will foster a domestic ecosystem including NPUs (Neural Processing Units), as well as power and cooling solution providers.
- To ensure the success of these capital-intensive projects, the government will provide infrastructure and regulatory support. These support measures include stable power and water supply, as well as competitive electricity tariffs, and the introduction of high-tech, developer-led cities with minimal zoning regulations.
- Separate from the government's announcement, Samsung and SK Group also unveiled long-term investment plans. Samsung confirmed plans to invest KRW2,450trn domestically by 2040, with around KRW2,100trn allocated to semiconductors. Remaining investment is to be spent on manufacturing AI transition, along with future energy and tech-related logistics. SK Hynix announced plans to invest KRW1,100trn in semiconductors over the long term, including KRW600trn for the ongoing Yongin semiconductor cluster project. SK Telecom plans to lead the phased development of AI data centers with total capacity of 15GW. The project is expected to mobilize around KRW1,000trn of investment, which reportedly includes foreign investment. Taken together, these plans imply total AI-related investment (including AI data center investments by GS Group and Naver above) of roughly KRW380trn per annum over the next decade, or roughly 10% of GDP on average, of which 6% of GDP would be accounted for by semiconductors-related investment.

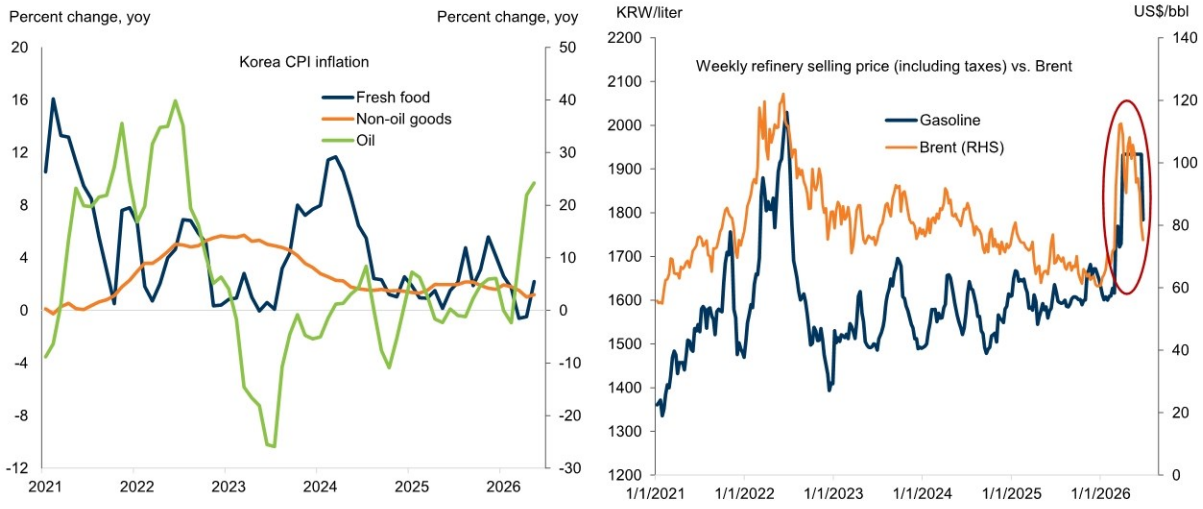
Exhibit 1: Government's 3 Mega Package for long-term AI investment

Pillar	Key objective	Key measures and financial commitments
1. Semiconductors	-Double production capacity within 5 years - Dominate future AI chip markets	-KRW800 trn for new memory fabs in the Southwestern region (timeline not specified) - KRW81trn for advanced packaging hubs in Chungcheong region; investment in material, parts and equipment innovation hub in Southestern region (timeline not specified) - KRW30trn over 15 years for emerging chip markets (next-gen memory, edge AI, defense chips)
2. Physical AI (Robotics)	- Become a global top 3 power in AI robotics. - Achieve global No. 1 status in Physical AI by 2030. - Develop a proprietary Physical AI foundation model within 3 years.	-KRW20trn investment on AI manufacturing until 2030
3. AI Data Centers	- Build world-class computational engines for the AI era. - Foster a domestic NPU and cooling solution ecosystem for export.	- KRW550trn initial private investment to build 8.4 GW of capacity by three major conglomerate groups (timeline not specified) - Expand total capacity to 18.4 GW by 2035 (SKT expanding to 15 GW).
4. Supporting Infrastructure	- Ensure stable power and water supply for all mega projects. - Create attractive, fast-tracked regional hubs for businesses and talent.	- Add 100 GW of renewable energy by 2030. - Utilize nuclear power, SMRs, and alternative water resources. - Cut industrial park development timelines by more than half (from 10+ years to under 5 years) via parallel processing.

Source: Ministry of Trade, Industry and Resources

- Separately, in order to expedite disinflation, the government announced updated measures amounting to KRW1trn of fiscal spending to stabilize prices on June 26, 2026. First, following recent declines in global oil prices, the government lowered price caps on local fuel products by KRW150 per liter (amounting to approximately 10% reduction from previous caps; Exhibit 2). For fresh food products, the government will allocate roughly KRW400bn to large-scale discount events in July and August. The weekly discount limit was raised to KRW10,000-30,000 per person and is applicable for all produce, including eggs (-20%), rice (-6%) and select fishery products (maximum -60% for mackerel, dried seaweed and other products with steep price increases). The government will further extend existing tariff cuts for 13 food items through December while adding 9 new items eligible for tariff discounts. Together the measures cover roughly 12% of the CPI basket (or 30% of the CPI basket for goods). Also, the government will freeze public service costs (including electricity and household LNG prices as well as public transportation costs) for 2H of the year, accounting for roughly 15% of the CPI basket (or 26% of the CPI basket for services). Finally, the government announced various financial support measures for transportation expenses, low-income households (energy vouchers) and financial aid for small businesses. We expect these price stabilization measures to be reflected mostly in July CPI.

Exhibit 2: Government announces measures in response to elevated oil inflation and pick-up in fresh food inflation



Source: Haver Analytics, Goldman Sachs Global Investment Research

Disclosure Appendix

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Contributing Authors: Irene Choi Goldman Sachs (Asia) L.L.C., Seoul Branch, Goohoon Kwon, CFA Goldman Sachs (Asia) L.L.C..

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