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The Effects of Geopolitical Risk on Korea's Financial Market: Evidence from North Korea, the United States, and Japan

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Abstract. This research examines South Korean financial market reactions to geopolitical risks through KOSPI index data and KRW/USD exchange rate movements during three significant events: North Korean nuclear tests and U.S.–China trade conflicts and Korea–Japan diplomatic tensions. The Event Study method revealed immediate market responses to North Korean military provocations which lost their effectiveness yet the U.S.–China trade conflict produced abnormal market volatility and Japan's export restrictions caused market responses that exceeded political tensions alone. The research presents different methods which organizations can use to build their resistance. The country of Singapore protected itself from risks through its diversified trade network and financial protection systems while Taiwan built stronger supply chain security and developed new international alliances and Israel used innovation to drive economic expansion while dealing with ongoing security challenges. The research findings provide essential knowledge for Korea to build stronger financial stability. The research demonstrates how geopolitical risks impact financial markets while showing that short-term stabilizing actions need to combine with enduring institutional changes to build market stability and global trust.

Keywords. Geopolitical Risk, Event Study, KOSPI Index, KRW/USD Exchange Rate, U.S.–China Trade Conflict, Korea–Japan Relations, Market Volatility

1. Introduction

The global financial system experiences rapid market fluctuations in response to geopolitical events such as military conflicts, trade disputes and diplomatic tensions (Caldara & Iacoviello, 2018; Park et al., 2019). South Korea operates under multiple complex security threats because North Korea conducts military provocations while the United States and China engage in strategic competition and Japan maintains ongoing diplomatic tensions (Kwon, 2017; Heo et al., 2022). The events trigger immediate stock price and exchange rate fluctuations which attract foreign capital while creating additional economic challenges for Korea. The Korean financial market experiences continuous testing because of geopolitical risks (Kim, 2017; Yoon, 2022).

Previous research has concentrated on brief market responses to North Korean nuclear testing activities. The 2006 nuclear test triggered major financial instability but subsequent tests produced diminishing market reactions (Kwon, 2017; Kim, 2017). The market now faces extended economic challenges because of fresh geopolitical occurrences which have appeared

during the last few years. The U.S.-China trade war established new worldwide trade patterns which resulted in extended market effects (Heo et al., 2022; World Bank, 2021). The Japanese semiconductor material export restrictions triggered immediate negative impacts on the market (Goo et al., 2023; Kim & Song, 2021). Financial markets tend to produce stronger reactions when events impact business operations and real economic activities instead of military developments (Park et al., 2019).

The study investigates how financial market responses in Korea differ based on the nature of occurring events. The research applies event study analysis to study stock price and exchange rate changes during three significant events which include North Korean nuclear tests and U.S.-China trade war and Korean-Japanese diplomatic tensions. The research design enables analysts to determine both the magnitude of market disturbances and the speed at which markets return to normal. The research investigates whether market resilience improves through repeated events or if ongoing uncertainty produces enduring market effects (Park et al., 2024).

The analysis also incorporates international comparisons to identify strategic policy lessons. Singapore mitigated external risks by diversifying its trade networks (Korea Trade-Investment Promotion Agency [KOTRA], 2022). Taiwan maintained its position in global semiconductor supply chains through stronger cooperation with the U.S., Europe, and Southeast Asia, even amid Chinese diplomatic pressure (Tsai, 2020; Korea Institute for International Economic Policy, 2021). Israel fostered an innovation-driven economy that transformed security challenges into opportunities for sustainable growth (Senor & Singer, 2009). These cases provide valuable guidance for Korea's financial market stabilization efforts.

This research contributes to the literature in three key ways. First, it examines military, economic, and diplomatic events together, rather than focusing on a single category. Second, it employs quantitative methods to measure both immediate market reactions and subsequent recovery patterns (Park et al., 2024). Third, it conducts a comparative policy analysis of Korea, Singapore, Taiwan, and Israel to develop practical strategies for managing geopolitical risk.

The paper is structured as follows. Section II defines geopolitical risk and its relationship with financial markets. Section III reviews key geopolitical events affecting the Korean financial market. Section IV presents the event study results. Section V discusses policy implications by drawing on international case studies. Section VI concludes with key findings and recommendations for future research.

2. Theoretical Background of Geopolitical Risk

2.1. Definition and Measurement of Geopolitical Risk

The economic stability of financial markets faces potential damage from political conflicts which include military battles and border disputes and economic penalties and diplomatic disagreements (Caldara & Iacoviello, 2018; Yoon, 2022). Dario Caldara and Matteo Iacoviello explain geopolitical risk as economic instability that results from wars and terrorism and diplomatic disputes (Caldara & Iacoviello, 2018). The actual occurrence of an event does not fully explain geopolitical risk because it also depends on how investors and market participants react to the event through their expectations and confidence levels and anxiety levels (Park et al., 2019; Park et al., 2024).

The measurement of geopolitical risk occurs through two distinct methods.

The event-based method studies market responses to particular events which include wars and nuclear tests and trade disputes.

The index-based method employs numerical data to monitor risk levels. The Geopolitical Risk Index (GPR Index) serves as a representative example because it tracks the

occurrence of geopolitical terms in major newspapers. The index serves as a popular tool for analyzing how investors respond to risk and the level of financial market uncertainty.

Additional indicators such as changes in sovereign credit ratings, CBOE Volatility Index (VIX), and emerging market bond spreads (EMBI) provide indirect warning signals of geopolitical instability (Korean Financial Research Institute, 2020). A comprehensive analysis of geopolitical risk therefore requires both historical records of events and close monitoring of how market expectations evolve over time (Yoon, 2022).

2.2. Relationship with Financial Markets

Financial markets experience changes because of geopolitical risk through multiple essential pathways.

The way investors feel about markets gets influenced by geopolitical risk. The occurrence of wars together with trade conflicts creates market uncertainty which pushes investors to choose safer investment options including the U.S. dollar and Japanese yen and gold (Park et al., 2019; Caldara & Iacoviello, 2018).

The real economy experiences negative effects from geopolitical risk. Trade restrictions together with supply chain disruptions and rising commodity prices result in decreased corporate earnings and economic expansion. The fundamental value of financial markets deteriorates because of this which produces negative effects on stock prices and capital flight (Heo et al., 2022; World Bank, 2021).

The increased level of financial instability emerges as a direct result of geopolitical risk. The increased market uncertainty creates bigger swings between foreign exchange rates and bond market values. The rapid exit of capital from a country leads to fast currency value drops and major stock market value reductions (Yee, 2012; Park et al., 2019). The economic stability of South Korea remains at risk because the country depends heavily on export sales and foreign investment.

2.3. Summary

Geopolitical risk has effects that extend beyond short-term market reactions, generating sustained instability that can affect long-term financial security (Yoon, 2022). Analyzing market responses through structured event channels supports both academic research and practical economic policymaking.

Comparative cases provide valuable insights. Singapore reduced external vulnerabilities by diversifying its trade networks (Korea Trade-Investment Promotion Agency [KOTRA], 2022). Taiwan protected its economy by enhancing supply chain management and expanding semiconductor export partnerships with the U.S., Europe, and Southeast Asia (Tsai, 2020; Korea Institute for International Economic Policy, 2021). Israel leveraged innovation industries to maintain market resilience amid constant security threats (Senor & Singer, 2009). These cases offer a benchmark for Korea to understand how financial markets respond to geopolitical shocks and which strategies enhance economic stability.

3. Geopolitical Events and the Korean Financial Market

The following section investigates how actual geopolitical occurrences have influenced South Korean financial market operations based on previous theoretical discussions. The geographical position of South Korea places it within a territory where political tensions persist throughout the year (Heo et al., 2022; Kwon, 2017). The Korean market experiences market volatility because North Korea performs military attacks and the United States and China engage in strategic competition and Japan faces economic and diplomatic challenges (Kim, 2017; Yoon, 2022).

These political occurrences produce specific changes which directly impact stock market indices and currency exchange rates (Park et al., 2019; Park et al., 2024). The market experiences brief intense disruptions from certain events but other situations lead to extended periods of market instability (Caldara & Iacoviello, 2018; Goo et al., 2023). The financial market shows different reactions to various events so researchers need to understand these distinct patterns.

The analysis in this section uses the KOSPI Index and KRW/USD exchange rate as its main performance indicators. The research examines three significant events which include North Korean nuclear tests and U.S.-China trade conflicts and South Korean-Japanese diplomatic disputes to study their effects on market performance and identify recurring patterns. The research helps us understand the special characteristics and weak points of the Korean financial system.

3.1. North Korea's Nuclear Tests

The Korean financial market faces its most significant geopolitical threat through North Korea's nuclear testing activities. The 2006 nuclear test caused worldwide market instability which affected the Korean financial sector. The KOSPI index experienced a rapid decline during this time while the KRW/USD exchange rate showed significant increases because of market instability.

The market reactions to North Korean nuclear tests became less intense with each subsequent test. The market experienced volatility during all four nuclear tests yet stock prices and exchange rates showed reduced decline compared to previous tests. The market returned to stability at a faster rate following each successive nuclear test.

The market developed a pattern of treating North Korean military actions as foreseeable events instead of unexpected events. The market developed a ability to handle recurring geopolitical threats through a process of risk absorption. Financial markets develop ability to resist recurring geopolitical threats through a process of market adaptation.

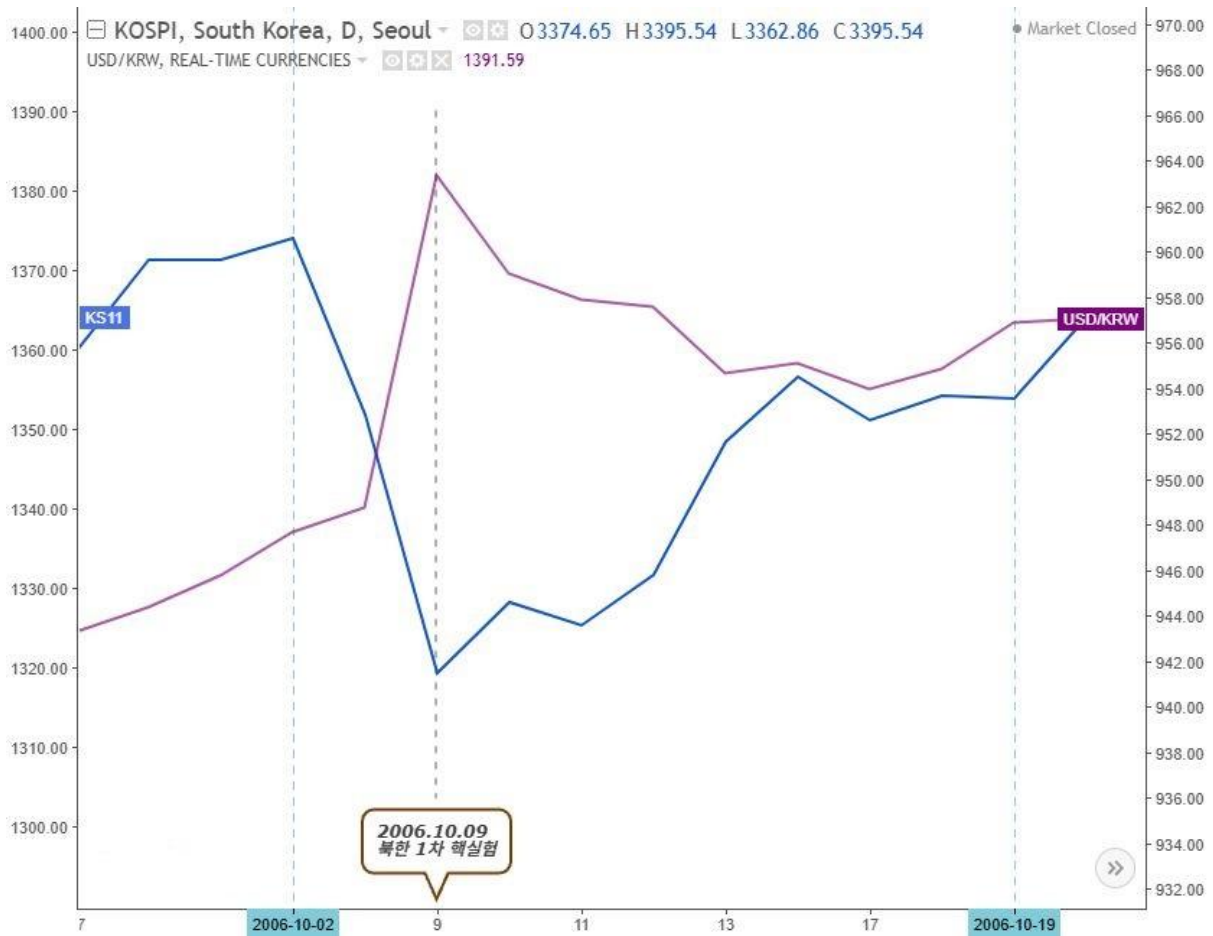


Fig. 1. KOSPI and KRW/USD Exchange Rate Before and After North Korea’s First Nuclear Test (October 9, 2006)

The KOSPI Index appears as a blue line in the graph while the purple line shows the KRW/USD exchange rate. The nuclear test of North Korea led to a major loss of investor trust which resulted in stock market value decreases. The KOSPI index dropped 2.41% when the test announcement was made to finish at 1,319.40. The KRW/USD exchange rate experienced its biggest daily increase since 22 months when it rose by 14.8 won to reach 948.20 won. The financial market of Korea experienced a direct and forceful impact from this geopolitical event which occurred within a single day.

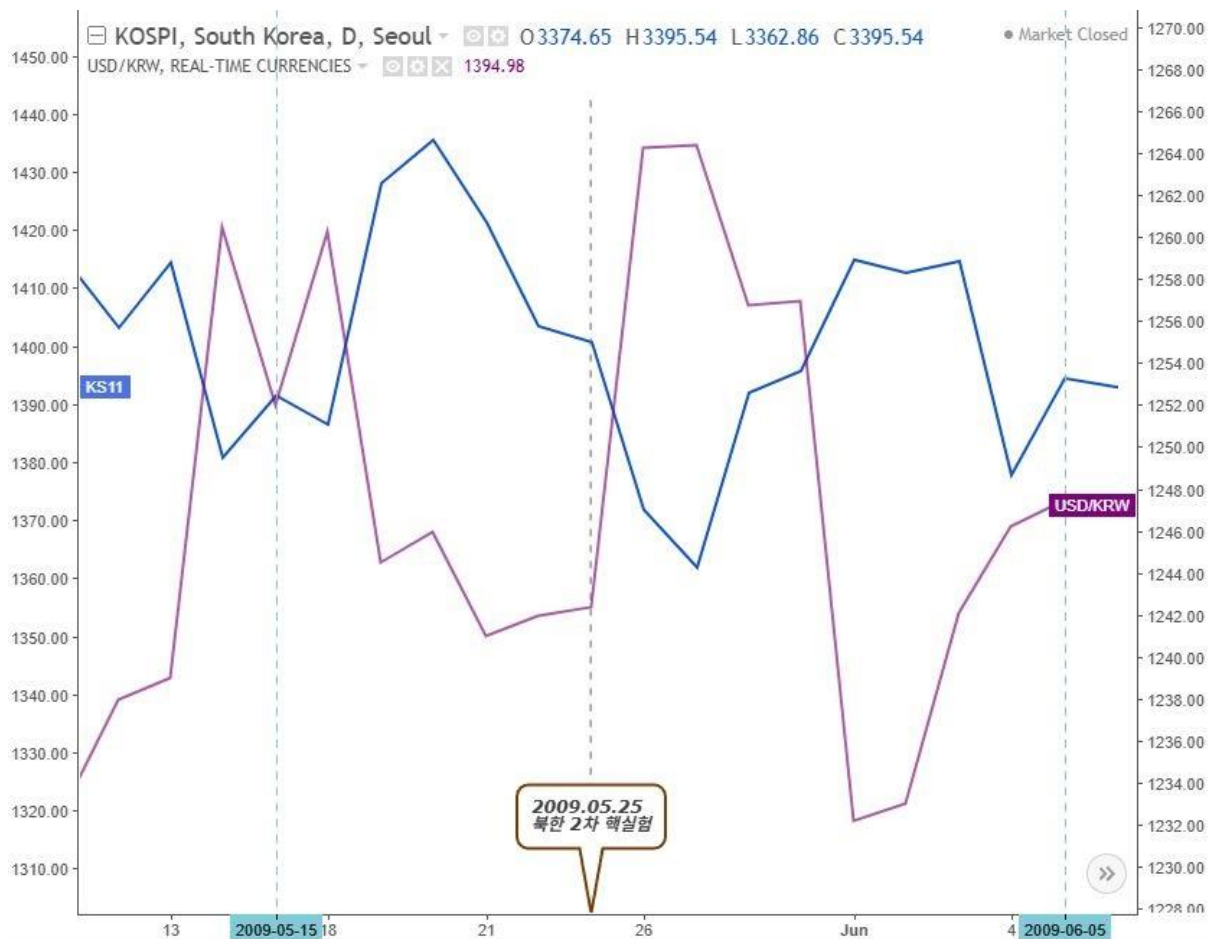


Fig. 2. KOSPI and KRW/USD Exchange Rate Before and After North Korea's Second Nuclear Test (May 25, 2009)

The Korean financial market experienced a major intraday disturbance when North Korea conducted its second nuclear test. The KOSPI Index reached its lowest point at 1,315.21 after dropping 6.31% during trading hours before it recovered to close at 1,400.90 which represented a 0.20% decrease from the previous weekend's value. The market entered a brief adjustment period after the initial shock but it started an upward movement when it stayed flat for more than a month.

The exchange rate showed an immediate strong reaction to the news. The KRW/USD exchange rate reached 1,269.40 won during trading hours before it decreased in the afternoon to finish at 1,249.0 won which represented a 1.6 won increase from the previous weekend. Some market participants viewed the substantial stock price drop as an opportunity to purchase assets. The market anxiety disappeared rapidly because the nuclear situation stayed within initial expectations thus the financial market experienced minimal disruption.



Fig.3. KOSPI and KRW/USD Exchange Rate Before and After North Korea’s Third Nuclear Test (February 12, 2013)

The KOSPI Index reached 1,945.79 at market close on North Korea's nuclear test day while showing a 0.26% decrease from the previous trading session. The market showed no significant reaction to the event. The market reaction remained subdued because investors had been expecting North Korean concerns since the end of the year thus reducing the impact of the event. The Korean stock market showed excellent ability to withstand geopolitical market threats.

The KRW/USD exchange rate ended at 1,090.8 won which represented a 4.9 won decrease from the previous trading day. The exchange rate reached 1,098.10 won at one point during trading but it returned to its previous level after the nuclear test announcement before starting a downward movement. The market reaction to this event was characterized as an anticipated occurrence. The financial market returned to stability quickly because investors assessed the test would not affect the real economy or national creditworthiness.



Fig.4. KOSPI and KRW/USD Exchange Rate Before and After North Korea's Fourth Nuclear Test (January 6, 2016)

The KOSPI Index finished at 1,925 when North Korea conducted its fourth nuclear test while showing a 0.26% decrease from the previous trading day. The stock market index reached 1,910 at one point but then regained its value to produce a minimal market effect.

The KRW/USD exchange rate demonstrated greater market sensitivity than the stock market did. The exchange rate increased by 9.9 won to reach 1,197.9 won which represented a significant market movement. Market participants shared the same opinion at that time because the KOSPI Index usually dropped briefly after North Korean nuclear tests but then returned to its previous level. Market participants analyzed previous patterns to determine the test would create only short-term effects so they maintained a calm investment approach.

3.2. The U.S.–China Trade War

The U.S.–China trade war operated through different mechanisms than North Korea's military actions. The economic event targeted Korea's trade operations and industrial base instead of creating a military standoff. The KOSPI Index experienced a 2% decline after each round of tariff imposition between the two countries while the KRW/USD exchange rate increased by 10 to 20 won.

The economic effects from these events continued to build up instead of disappearing as brief market disturbances. The stock market showed ongoing weakness while the exchange rate experienced prolonged volatility. The market shows this pattern because Korea depends heavily on export sales while operating within a worldwide production network.

The market response to economic conflicts such as the trade war produced increasing and enduring market uncertainty instead of diminishing it through repeated events. The Korean financial market shows greater sensitivity to long-term structural threats than to brief geopolitical incidents.



Fig. 5. KOSPI and KRW/USD Exchange Rate Before and After the Start of the U.S.–China Trade Conflict (Mutual Tariff Imposition on July 6, 2018)

The KOSPI Index reached 2,260 before starting a downward movement which ended in a rebound. The market index reached 2,272.87 at closing time while showing a 0.7% increase from the previous trading day. The market index experienced a short-term increase because investors chose to buy stocks despite ongoing long-term market uncertainties.

The exchange rate between KRW and USD remained stable because market participants had already factored in the upcoming event. The exchange rate experienced a small increase before returning to its declining pattern which ended at 1,115.55 won while decreasing by 3.18 won from the previous day. The market treated North Korean risk as an expected occurrence because it did not trigger any unexpected market reactions.

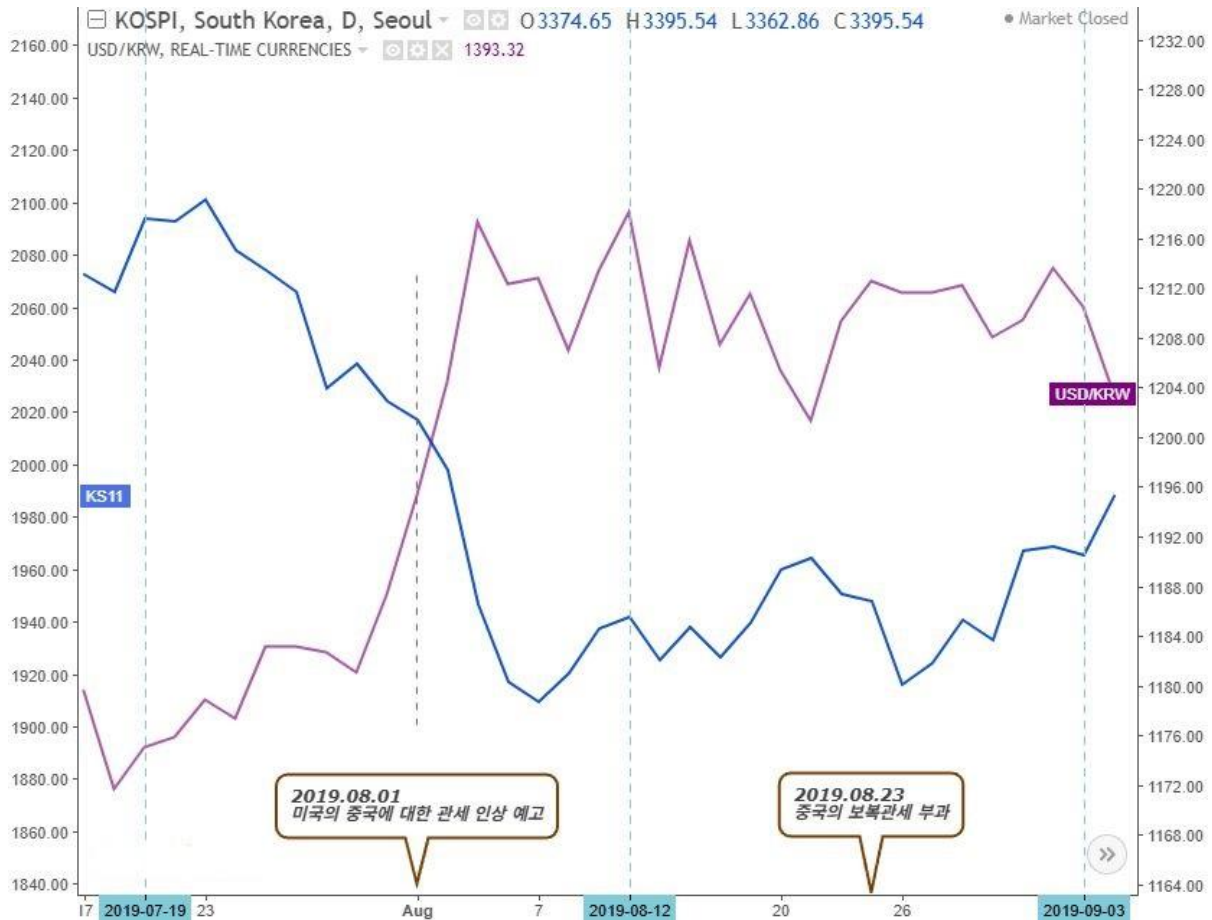


Fig. 6. KOSPI and KRW/USD Exchange Rate Before and After the Escalation of the U.S.–China Trade Conflict (U.S. Announcement of Tariff Increase on August 1, 2019)

The rising U.S.-China conflicts together with worldwide economic slowdown fears led to rising investor worries. The KOSPI Index started its decline after foreign capital outflow concerns emerged during the second half of July. The KOSPI Index reached 2,017.34 at the start of August while showing a 0.37% decrease from the previous trading day.

The KRW/USD exchange rate showed a decline in Korean won value during this time period. The exchange rate maintained its upward movement from late July by increasing 13 won to reach 1,196 won during early August. The combination of rising risk aversion and currency war speculation through media reports led to increased pressure that decreased the value of the won.

The market showed negative reactions when China announced its retaliatory tariffs on August 23rd 2019. The KOSPI index decreased by 0.14% to reach 1,948.30 during that trading session. The market showed its actual reaction to the news became more apparent through its performance during the following days. The KOSPI index reached its lowest point in two years when it dropped 1.64% to 1,916.31 on August 26. The exchange rate increased by 0.27% to 1,212.66 won because investors chose to move their money into safer assets.

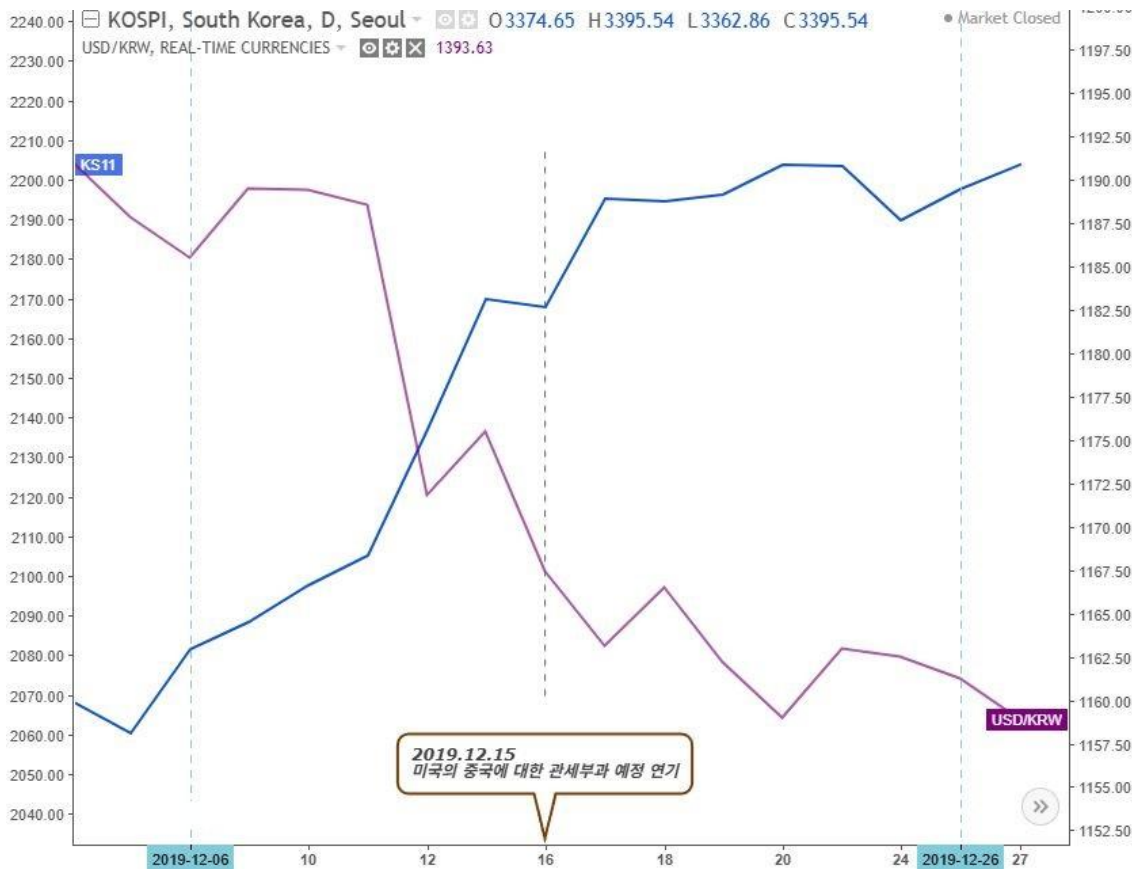


Fig. 7. KOSPI and KRW/USD Exchange Rate Before and After the Easing of the U.S.–China Trade Conflict (U.S. Postponement of Planned Tariffs on December 15, 2019)

The financial market uncertainty reduction led investors to decrease their risk avoidance levels. The market expectations indicated that export-based businesses would experience reduced pressure. The KOSPI Index demonstrated a steady upward movement from 2,018.85 on August 6 until it reached 2,168.15 on August 16. The KRW/USD exchange rate maintained stability throughout this period because it decreased from 1,185.51 won to 1,167.48 won which indicated a rise in Korean won value.

3.3. Korea–Japan Tensions

The 2019 Japan–South Korea trade dispute demonstrates how financial markets respond differently to political and economic events. Financial markets showed no reaction to the diplomatic consequences of the forced labor court ruling which emerged from political disputes. The situation transformed when Japan took South Korea off its "white list" in 2019 and started restricting exports of essential semiconductor materials.

The measure directly attacked the fundamental operations of Korea's industrial sector. The market experienced immediate decline in KOSPI values while KRW/USD exchange rates increased because of rising market concerns. The financial market showed no response to political statements but it strongly reacted when economic actions threatened industrial operations. The case demonstrates that financial markets respond more strongly to specific economic penalties than to political statements without concrete action.



Fig. 8. KOSPI and KRW/USD Exchange Rate Before and After the Korea–Japan Political and Diplomatic Conflict (Forced Labor Compensation Ruling on October 30, 2018)

The Supreme Court of South Korea delivered its ruling on October 30, 2018 to establish compensation for wartime forced labor victims which triggered an escalation of political and diplomatic conflicts between South Korea and Japan. The diplomatic crisis following the ruling failed to produce any substantial effects on financial markets. The KOSPI Index together with the KRW/USD exchange rate showed no changes while investors treated this matter as a diplomatic dispute without economic consequences.

The Japanese government expressed strong opposition following the court decision but financial markets showed no signs of disturbance. The market showed no reaction to the court ruling because it failed to produce any actual economic consequences. The KOSPI Index and exchange rate rates showed no reaction to the court ruling but previous economic restrictions from Japan led to market declines.

The KOSPI index increased by 0.93% to reach 2,014.69 during Japan's first reaction to the ruling while the KRW/USD exchange rate decreased by 0.35% to 1,138.69 won. Financial markets show greater sensitivity to actual economic actions than to diplomatic or political disagreements.

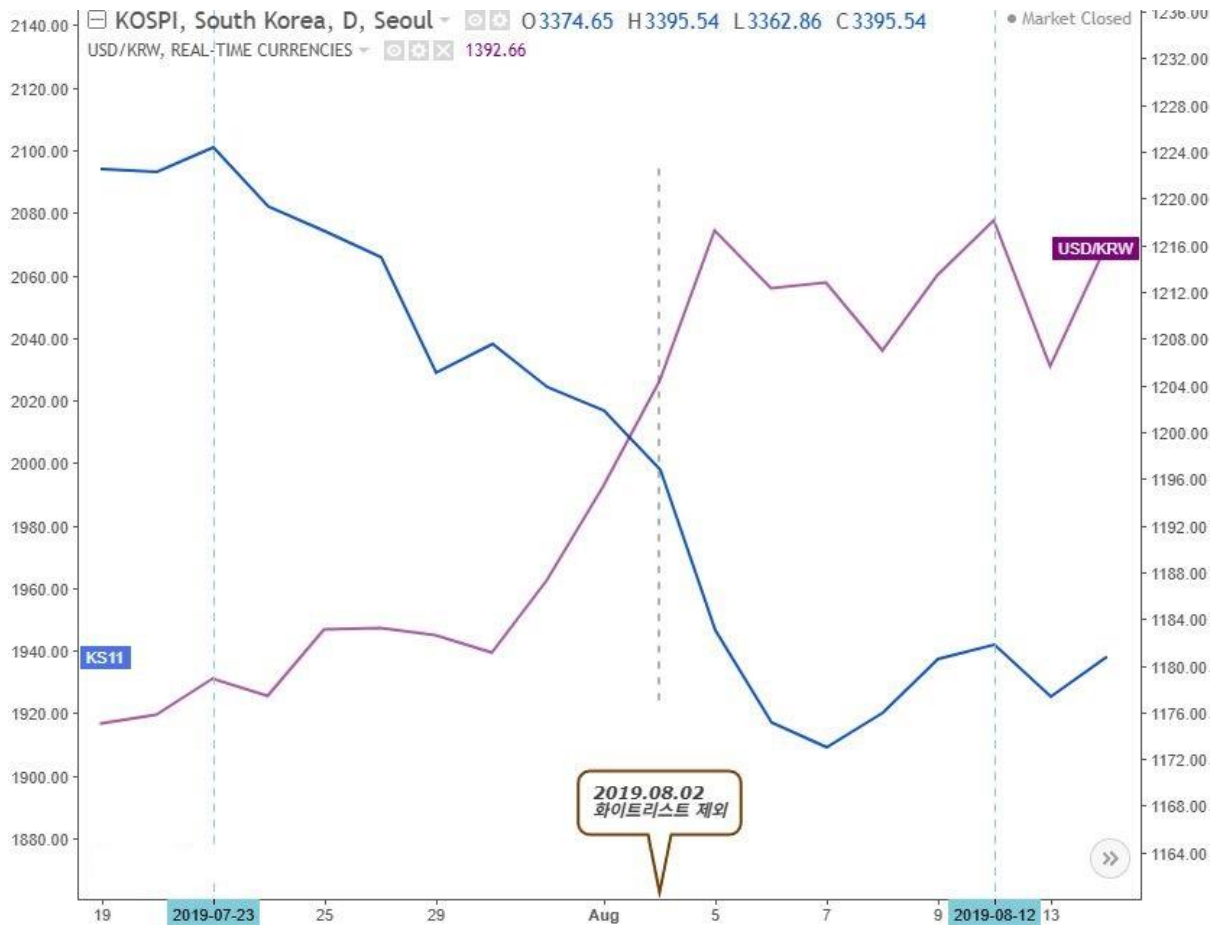


Fig. 9. KOSPI and KRW/USD Exchange Rate Before and After the Korea–Japan Economic and Diplomatic Conflict (Japan’s Decision to Remove Korea from the Trade White List on August 2, 2019)

The ongoing historical conflict between Japan and Korea resulted in Japan establishing export controls for vital resources which damaged Korean economic markets. The export-dependent businesses operating in semiconductors and displays faced the most significant impact from this decision which created market instability for international investors.

The KOSPI Index experienced a 0.95% decline on July 2 to reach 1,998.13 before dropping another 2.56% on July 5 to 1,946.98. The KRW/USD exchange rate increased by 0.76% to reach 1,204.51 won because investors became more cautious.

The Japanese government took official action on August 2, 2019 by removing South Korea from its preferred trading partners list. The economic measure directly attacked the fundamental industrial foundation of Korea. The KOSPI index dropped 0.95% to 1,995 on that day while the KRW/USD exchange rate reached 1,197 won. The market experienced ongoing instability which indicated a declining trend throughout the following weeks.

Financial markets showed intense sensitivity when political disputes evolved into specific economic policies. The actual trade and industry restrictions caused stock prices and exchange rates to become volatile whereas diplomatic disagreements failed to affect asset values.

4. Empirical Analysis: Assessing the Impact of Geopolitical Risk Through Event Study

4.1. Overview of the Event Study Model

The Event study methodology serves as a popular method to study how particular events influence stock market indices and exchange rates during brief time periods (Park et al., 2024; Shin et al., 2006). The method evaluates price changes of assets during a specified time frame which includes the event day and evaluates these changes against typical market performance (Park et al., 2019; Caldara & Iacoviello, 2018). The Abnormal Return (AR) results from subtracting expected normal returns from actual asset price changes. The Cumulative Abnormal Return (CAR) emerges from combining abnormal returns during multiple days before and after the event to show both the duration of market effects and the speed of market recovery (Park et al., 2024; Goo et al., 2023).

This study uses the KOSPI Index together with the KRW/USD exchange rate as its main indicators. The KOSPI Index shows how domestic investors view corporate value while the exchange rate shows how foreign capital moves through the foreign exchange market. The researchers established a 10-day trading window which spanned both before and after the event date to study brief market fluctuations and recovery patterns. The method enables researchers to determine if geopolitical events create brief market disturbances or establish permanent risk factors.

4.2. The Korean Financial Market uses Event Study methods for its analysis

4.2.1 North Korea's Nuclear Tests

The Korean financial market identifies North Korea's nuclear tests as its most dangerous geopolitical threat. The Event study results show that the KOSPI Index dropped 2.41% during the 2006 nuclear test while the KRW/USD exchange rate experienced a 14.8 won increase which indicated a brief market disturbance.

The market experienced decreasing shock intensity during North Korea's nuclear tests which occurred in 2009 and 2013 and 2016. The stock market experienced minimal price drops between -0.2% and -0.3% while the exchange rate stabilized back to normal levels during the following days. The market developed a habit of ignoring military provocations because they became more frequent. The market experienced initial volatility from North Korea's nuclear tests but these events stopped affecting the market structure after multiple occurrences.

4.2.2. U.S.–China Trade War

The July 2018 and August 2019 U.S.-China trade war produced distinct market responses. The KOSPI index experienced an average decline of -2% while the KRW/USD exchange rate increased by 10 to 20 won whenever the United States and China implemented new trade restrictions against each other. The KOSPI index reached its lowest point since 2017 after China implemented retaliatory tariffs in August 2019.

The event study data shows that these tariff-related disturbances extended beyond a few days while the market failed to achieve its pre-event stability. The market instability stems from Korea's heavy export focus and its essential role in worldwide supply networks. The trade war established enduring financial system instability in Korea but North Korea's nuclear tests did not cause lasting market effects because the market learned to handle them.

4.2.3. Korea–Japan Tensions

The 2019 Japan-South Korea trade dispute exposed distinct market responses between political and economic incidents. The 2018 forced labor ruling and other political developments failed to produce any financial market effects.

The KOSPI index dropped 2.56% while the exchange rate increased 0.76% when Japan took South Korea off its white list and started export restrictions which caused substantial market instability. The market shows no reaction to political disputes unless these disputes lead to actual economic penalties.

4.3. Empirical Findings

The financial market displayed different responses to geopolitical events based on their specific characteristics.

The initial nuclear tests by North Korea caused major market disruptions but subsequent tests produced decreasing effects on the market. The market learned to handle these events through time because investors started seeing them as predictable and manageable.

The U.S.-China trade war established enduring market instability because Korea depends heavily on export activities. The stock market experienced continuous declines while the exchange rate rose because of the trade war between the world's two largest economies which led to ongoing market instability.

The market showed no reaction to political disputes between Korea and Japan until Japan started using economic sanctions through export restrictions which caused stock prices to drop and the exchange rate to weaken.

The market lost its reaction to military events through time but economic incidents continued to create enduring market instability. The Korean financial market faces dual challenges from security threats and economic instability because of its specific market characteristics.

The pattern shown in this study applies to more than Korea because other countries have similar experiences. Singapore achieved external risk reduction through export market expansion while Taiwan protected itself through supply chain optimization and Israel built financial stability through innovation-based economic development despite ongoing security challenges. The following section examines Korean trade war responses against Singaporean and Taiwanese and Israeli approaches to develop financial stability strategies against geopolitical threats.

5. Policy Implications

The research shows that Korean financial markets show distinct responses based on the specific characteristics of geopolitical occurrences. The market learned to handle military incidents better with time because it became more familiar with these events. The stock market and exchange rates showed greater volatility when economic activities faced direct disruptions from trade wars and export restrictions. The government needs to develop separate policies for different types of events that occur.

The main priority for successful policy implementation involves creating trust through effective communication. Financial markets experience their greatest anxiety when they lack clear understanding about what is happening (Park et al., 2019; Caldara & Iacoviello, 2018). The government along with financial authorities need to deliver immediate information about geopolitical incidents together with their immediate actions and future plans. A single official information channel that uses straightforward language helps minimize market speculation. The market becomes less volatile when officials provide basic information about current developments along with their planned update times.

The evaluation process for crisis management systems needs to occur periodically to enhance their operational effectiveness. The government should maintain currency swap agreements as protective measures to stop unexpected exchange rate fluctuations (Bank of

Korea, 2020). The stock market should implement flexible circuit breaker systems to create time for market stabilization (Korea Exchange, 2025). The main purpose of these mechanisms is to stop market panic from causing market instability.

The implementation of economic shock mitigation strategies requires businesses to distribute their operations across different markets and supply networks. Singapore achieved reduced economic exposure through its strategy of establishing multiple trading relationships instead of depending on one nation (Korea Trade-Investment Promotion Agency [KOTRA], 2022). The government needs to create backup supply networks and emergency procurement plans for essential industries which include semiconductors and batteries and biotechnology. Markets will interpret diversified production sites and extended raw material procurement agreements and technological standard partnerships as evidence of proactive risk management (Heo et al., 2022).

The Taiwanese experience provides additional valuable insights for policymakers. Taiwan upholds its position as a leading semiconductor producer in the global supply chain through its growing partnerships with the United States and Europe and Southeast Asia (Tsai, 2020; Korea Institute for International Economic Policy, 2021). The government needs to track industrial dependency ratios continuously while developing strategies to decrease exposure in critical sectors. The market will perceive stability when this approach is implemented.

The Israeli case study demonstrates how to transform security risks into economic growth opportunities. Israel uses its military instability to drive innovation growth through its development of new industries (Senor & Singer, 2009). Korea can enhance its economic stability through research problem-solving ecosystems which unite education with R&D and industry development under continuous innovation capital funding. The development of national innovation capabilities leads investors to believe that the economy will survive through difficult times.

The implementation of successful policies needs tracking systems which provide simple and dependable performance indicators. The monitoring system should track exchange rate fluctuations and foreign investment movements and stock market performance and corporate bond yield differences to detect potential crises (Yoon, 2022; Park et al., 2024). The implementation of artificial intelligence tools which analyze news and social media content for anxiety-related terms will enhance the system's ability to detect early warning signs (Financial Supervisory Service, 2025). The combination of diplomatic and security agencies with economic policy agencies through regular joint meetings and scenario-based exercises will produce unified crisis management responses (Financial Services Commission, 2025a, 2025b).

The main principle states that:

The government should establish clear communication channels to decrease uncertainty during military incidents. The government should enhance economic stability through investments in innovation and supply chain diversification when dealing with economic-related events. Financial markets will achieve better stability and faster recovery when policymakers implement these two strategies effectively for handling recurring geopolitical events (KOTRA, 2025; Park et al., 2019; World Bank, 2021).

6. Conclusion

This study examined Korea's financial market reactions to three significant geopolitical incidents through KOSPI Index and KRW/USD exchange rate analysis during an Event study period. The research shows that military events lost their impact with each successive occurrence yet economic incidents maintained their enduring effects on the market.

The financial market of Korea shows greater sensitivity to trade disruptions and corporate operations than to expected geopolitical events and symbolic threats.

The analysis results support the main finding because Singapore and Taiwan and Israel implemented different strategies to achieve market stability. The three countries implemented a unified economic strategy which involved creating flexible economic systems to handle potential risks. Korea should adopt a similar approach by spreading its trade networks and supply chains to decrease risk exposure and developing innovative sectors to enhance recovery speed and maintaining open communication to minimize market uncertainty.

The research contains specific boundaries which affect its results. The research examines brief market reactions during event periods but fails to show complete long-term effects. The research examines stock market performance and currency exchange rates but omits analysis of bond market behavior and sector-specific financial patterns. Future research needs to study additional financial indicators while examining events that affect energy and food prices and worldwide monetary policy adjustments.

The main finding from this research study demonstrates that Korea's financial market shows distinct reactions to different types of events. The financial market of Korea demonstrates increased resistance to military provocations that occur multiple times yet remains highly reactive to economic disruptions. The government needs to establish two parallel strategies for financial stability which include immediate crisis response through information disclosure and stabilization tools and long-term development of diversified trade networks and innovative sectors. The financial system of Korea can develop enhanced resilience and credibility through lessons learned from Singapore and Taiwan and Israel during times of ongoing uncertainty.

The main challenge lies in determining if Korea has established a financial system which can endure any possible future event. The research provides a small contribution toward developing a strong economic base.

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