

# *A Conflict Spanning Decades: The Root of the South Korean-Japanese Trade War*

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## **Forcing the Koreans' Hand: *The Japanese Perspective***

Trade. A weapon and tool of massive and ancient proportions. Recently, the weapon of trade has been wielded to obliterate economies and wage war with the casualty of currency and not a pile of bodies. On August 28, 2019, Japan's decision to drop South Korea from their list of favoured economic partners goes into effect. It is a decision which holds the potential to cause a devastating ripple effect, as these two countries harbor some of the largest technology-oriented companies in the world.

Japan's approach to trade mimics President Trump's economic policy toward China. Its reasoning for the removal of South Korea from their "whitelist" was ostensibly for security reasons, claiming South Korea was side-dealing with North Korea.

On the surface, this is simply a trade dispute, one where South Korea no longer has access to the Japanese chemicals necessary for creating semiconductors, memory chips and screen displays. From fridges to cars to smartphones to missiles, South Korean memory chips are found there. However, it is imperative to understand that this trade dispute goes further than the exchange of yen and won. It stems from a history of distrust and unrepaired wounds from World War II. This trade dispute began when the South Korean Supreme Court ruled in 2018 that a Japanese company should compensate for forced South Korean laborer during World War II. Prime Minister Shinzo Abe of Japan opposes the idea of South Korea to continue demanding reparations for the victims of their colonial era. Furthermore, he is angry that Japan was excluded from recent nuclear summits with North Korea and promotes an ideology that previous generations of Japanese did nothing wrong, that the "peace constitution is one which should be scrapped."

Since then both nations have maintained fragile relations, and have been united through their allegiance with the United States, both being the "closest Asian allies" as per President Trump. The repercussions of this escalating trade war and decision to strip South Korea off the whitelist, curbs around 850 "sensitive" materials. This, in turn, compromises the entire smartphone supply chain. Last year, according to Rajiv Biswas, Asia-Pacific chief economist at IHS Markit stated that South Korea exported US \$127 billion in chips to various destinations, of which China and the United States were the largest importers. Placing quotas on memory chips has already increased prices by 23%.

This belligerent approach by Japan significantly impacts consumers throughout the globe. However, it actively minimizes any threat to the Japanese economy. In this dispute, the South Korean economy has been undermined, a nation which is currently struggling to cope from the US-China trade dispute. Oh Tae-heon, an economist who teaches Japan studies at Kyung Hee Cyber University in Seoul remarks that "the importance of South Korean products in Japan's industries is small." Japan's economic reliance on

multiple countries allows it to sustain a trade war, while South Korea, a nation that primarily relies on Japan for trade, suffers greatly.

China has already accepted the role of a mediator in the conflict. The approach from third party nations has been to resolve this through dialogue; however, given the culturally rooted nature of this dispute, it appears that this conflict will drag on. The Japanese end goal is most likely for Korea to retract their court decision, yet considering the need for popularity of the Korean government back home, a solution does not seem imminent.

The impact of this trade war goes beyond the borders of Japan and South Korea; it is one which has the potential to devastate the global technology industry while isolating the people of both nations.

In the past, external crises such as North Korean missiles or financial crises have provided political escape for leaders in both nations to step aside from their hardline stances. Doing so in today's political landscape could be a way to prioritize those external conflicts, in order to restore economic ties. Furthermore, on both sides, concessions in regards to the acts committed during World War II can be a way to crack the foundation of this dispute, and to find closure for both nations.

### **Reparations for Colonialism: *The Korean Perspective***

Last month, Japan tightened its control over fluorinated polyamides, photoresists, and hydrogen fluoride: three Japanese chemical exports essential to the South Korean production of semiconductors. Semiconductors are included in many electronic devices, one of South Korea's top exports, and the new Japanese restrictions stand to pose significant threats to the South Korean economy. Japan claims the restrictions were imposed because it believed South Korea was leaking sensitive information to North Korea. However, the new restrictions may arise from a painful history of Japanese colonialism in South Korea. After South Korea's Supreme Court ruled that Japanese companies must compensate Korean victims of forced labor, Japan voiced its disapproval, mentioning that restitution had already been paid through a 1965 agreement that saw South Korea receive \$500 million in aid.

Just like during Japanese colonial times, South Korean citizens have decided to take matters into their own hands, and ever since, the No Japan boycott has been gaining momentum.

The South Korean government has tried diplomacy. President Moon of Korea stated his wish for "a diplomatic settlement" while Prime Minister Abe of Japan has resorted to trade restrictions that intend to "force Seoul's hand". The two powerful Asian nations have now become open adversaries in an economic dispute that resembles the ongoing U.S.-China trade war.

The No Japan movement has been a retaliation against Japanese economic policy changes that threaten the South Korean economy. The protest banners read, "no buying, no traveling, no losing to Japan." Since the introduction of the boycotts, Uniqlo sales have decreased by 26%, Japanese beer product sales have decreased by as much as 40%, Japanese movies are bombing in theatres, and Korean interests in the Japanese tourism industry are dwindling (According to the Japan Tourism Agency, Korean spending

makes up 13% of the entire expatriate spending in Japan, or ¥584.2 billion). While the No Japan boycotts began with South Korean consumers, larger corporations have added momentum by joining the movement. Nonghyup Hanaro Mart, a massive Korean supermarket chain, has decided to pull Japanese made products from the shelves of select stores.

What is now at stake is a significant portion of the world's trading sector. The tighter Japanese control over fluorinated polyamides, photoresists, and hydrogen fluoride have momentarily limited the South Korean production of semiconductors. In the short-run, the economic restrictions stand to damage what they were intended for. The trade restrictions, however, may be a detriment to the world's DRAM memory chip market. Over 60 percent of the world's DRAM memory chips are supplied by Samsung and SK Hynix. Both Samsung and SK Hynix products are found as major components in many electronics, including those made in Japan. With South Korean companies taking a toll, the damages will inevitably be spread across the electronics sectors. Furthermore, South Korean corporations are already beginning to adjust their supply chains. Tech giants like Samsung, LG, and SK Hynix have stated their intent to move their display supply chains to within South Korea. If the supply chains are successfully relocated, Japanese exports stand to be harmed.

Pascal Lamy, former director-general of the World Trade Organization, voiced his concerns with the Japanese method of using trade to address an essentially "political problem" of colonial reparation. Lamy states, "What is now happening between Japan and Korea, it is like a cancer metastasizing of Trump's weaponization of trade," "People don't even pretend it is about something else [and] use trade for a totally political reason."

With Korea set to file a formal WTO complaint against Japan for its export restrictions, only time can tell how the situation between the two Asian powers will progress.

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