



South Korea and Japan Have Launched Their Own Trade War. Can the U.S. Step In?

Elliot Waldman | Wednesday, July 17, 2019

As China's trade war with the United States casts a pall over the global economy (<https://www.nytimes.com/2019/07/14/business/china-economy-growth-gdp-trade-war.html>), a separate dispute between two of China's neighbors—and two American allies—is adding to the gloomy outlook. Earlier this month, Japan curbed exports to South Korea of three materials that are necessary for the production of semiconductors and display screens, threatening to upend South Korea's technology industry and throw a wrench into complex global supply chains for smartphones, televisions and other popular consumer devices. The move is only the latest escalation in an ongoing standoff, rooted in deep historical grievances, that has regional observers and officials in Washington increasingly worried.

Under the new restrictions, which took effect on July 4, Japanese exporters must apply for a license from the government each time they want to make a shipment of the affected materials: hydrogen fluoride, photoresists and fluorinated polyimides. The license can take up to 90 days and had previously been waived for South Korea. Japanese officials claim the change was made on national security grounds, alleging that the materials, which have potential military applications, have been improperly managed by South Korean companies in the past. Prime Minister Shinzo Abe has even hinted that the materials may have been illegally transferred to North Korea (<https://apnews.com/c47d4005580543fe962d8c3d7a9fea41>), which South Korea denies. Hydrogen fluoride, also known as etching gas, is a particular concern because it can be used to manufacture chemical weapons like sarin and VX, which North Korea is widely believed to have stockpiles of (<https://www.wsj.com/articles/north-koreas-weapons-program-fuels-tokyos-trade-spat-with-seoul-11562757564>).

Tokyo has not released any evidence to back up its claims, maintaining instead that a breakdown in communication channels with Seoul in recent years has made it difficult to confirm that exports of sensitive substances are being properly handled. But that is little more than a smokescreen to hide other, older grievances over long-simmering tensions tied to Japan's colonial rule of the Korean Peninsula prior to 1945. Since last fall, a number of decisions by South Korea's Supreme Court have found Japanese



South Korean small and medium-sized business owners stage a rally calling for a boycott of Japanese products in front of the Japanese embassy in Seoul, South Korea, July 15, 2019 (AP photo by Ahn Young-joon).

companies liable (<https://www.worldpoliticsreview.com/trend-lines/26755/in-south-korea-a-supreme-court-decision-opens-up-deep-historical-wounds>) for damages to South Koreans who were forced to work without pay during World War II.

The Japanese government has protested those rulings, arguing that the issue of reparations was settled under an agreement signed by the two countries when they normalized relations in 1965. But Seoul has ignored Tokyo's requests for any political consultations on this issue, and South Korean courts have since ordered the seizure of assets held by the companies involved. Plaintiffs in at least one case are now moving to force a sale of those assets (<https://mainichi.jp/english/articles/20190716/p2g/00m/0in/043000c>) so that they can obtain their court-ordered compensation, which would only inflame tensions.

Japan's frustration over South Korea's perceived intransigence is the real reason it announced the new export restrictions, which seem designed to inflict substantial pain on an already flagging South Korean economy (<https://www.worldpoliticsreview.com/trend-lines/27830/as-south-korea-s-economy-sputters-moon-needs-a-breakthrough-with-north-korea>). The materials affected are all vital inputs for chips and smartphones, two key South Korean exports. They are also difficult to find elsewhere. Japan produces 90 percent of the world's fluorinated polyimides and photoresists, and 70 percent of its etching gas, according to Reuters (<https://www.reuters.com/article/us-southkorea-japan-laborers-explainer/the-high-tech-trade-dispute-rooted-in-japans-wartime-history-idUSKCN1U31D1>).

The impact of the trade war is contained for now, as South Korean companies "have about one month of inventories of the materials," CW Chung, an analyst at Nomura, a Japanese brokerage, told the Financial Times this week (<https://www.ft.com/content/f9f6a460-a7a4-11e9-b6ee-3cdf3174eb89>). In fact, there is some evidence that Japan's move has actually backfired in the short term (<https://www.wsj.com/articles/japans-restrictions-on-south-korean-chip-makers-backfire-11562848020>), as it has caused chip prices to rise, benefiting large South Korean chipmakers like Samsung and SK Hynix. The economic picture will undoubtedly worsen over time if this rift deepens (<https://en.yna.co.kr/view/AEN20190710005951320>), however, and Japan is also considering removing South Korea from its "whitelist" of 27 countries that receive preferential trade treatment. That could harm other important sectors of South Korea's economy, like automobiles, with ripple effects on the global economy.

As always with historical issues between Japan and South Korea, there is plenty of blame to go around.

The window for diplomacy is still open, even if efforts have so far failed miserably. A working-level meeting in Tokyo last Friday between Japanese and South Korean trade officials was doomed from the outset, based on the optics alone (<https://www.reuters.com/article/us-southkorea-japan-laborers/japan-south-korea-fail-to->

mend-dispute-with-frosty-meeting-idUSKCN1U70P2). The two sides entered the venue—a drab room that looked like a hastily cleared storage area—without even exchanging greetings. Photos and video footage showed the Japanese participants, tieless and in short-sleeve shirts (https://news.tbs.co.jp/newseye/tbs_newseye3724344.htm), staring icily at their South Korean counterparts, who showed up in full business attire. Afterward, the two sides continued to feud over what was said, leading Japan to reportedly turn down South Korea's request for a follow-up meeting (<https://english.kyodonews.net/news/2019/07/67c075e40663-japan-to-stress-legitimacy-of-export-curbs-on-s-korea-at-wto.html>). South Korea has also appealed to the World Trade Organization, which is set to deliberate on the matter next week (http://www.arirang.co.kr/News/News_View.asp?nseq=240737).

The trade tensions tap into a prolonged chill in ties. The court cases brought by forced laborers are a major irritant, as is the ongoing issue of South Korean “comfort women,” a euphemism for those who were forced into sexual slavery by the Japanese military during World War II. That issue was thought to have been resolved “finally and irreversibly” in 2015, when Abe reached a landmark agreement (<https://www.bbc.com/news/world-asia-35188135>) with then-President Park Geun-hye of South Korea, in which Japan apologized for its past transgressions and agreed to create a roughly \$9 million fund to compensate surviving victims. But Park's successor, President Moon Jae-in, effectively abrogated the deal when he announced that the Japanese fund would be dissolved last November (<https://www.theguardian.com/world/2018/nov/21/anger-in-japan-as-south-korea-dissolves-comfort-women-foundation>).

Moon's actions have led many officials and analysts, in both Tokyo and Washington, to point the finger squarely at him for the recent breakdown. But as always with historical issues between Japan and South Korea, there is plenty of blame to go around. By taking a page from President Donald Trump's playbook and imposing trade restrictions on questionable national security grounds, Abe has undermined his own claims (<https://asia.nikkei.com/Opinion/The-danger-of-Abe-s-Trumpian-turn-against-South-Korea>) to be the standard-bearer of a free, open and rules-based trading system.

Until this week, the Trump administration had stayed on the sidelines, despite a rising chorus of criticism from experts and former officials who argue that it is in U.S. interests to step in and mediate between its two Asian allies. Trilateral defense cooperation between the U.S., Japan and South Korea (https://www.washingtonpost.com/opinions/global-opinions/theres-a-crisis-unfolding-in-asia-the-us-is-the-only-actor-that-can-fix-it/2019/07/15/3a6b48d2-a4e1-11e9-b8c8-75dae2607e60_story.html) is an important deterrent to aggression from China and North Korea, which are now the chief beneficiaries of this split between Japan and South Korea.

The severity of the crisis is now beginning to force Washington's hand. David Stillwell, the top U.S. diplomat for East Asia, said after meetings with officials in Seoul on Wednesday that the U.S. will “do what it can” to help resolve the dispute (<https://apnews.com/c47d4005580543fe962d8c3d7a9fea41>). And Dan Sneider, a lecturer at Stanford University who follows the Japan-South Korea relationship closely, reports this week that the White House will soon dispatch (<https://toyokeizai.net/articles/-/292396>) the top National Security Council official for Asia, Matthew Pottinger, to Japan and South Korea. Pottinger is a widely respected Asia hand

who has worked under all three of Trump's national security advisers and has cultivated close working relationships in East Asian capitals.

His trip will be a good start for U.S. mediation, but eventually, a high-level summit will be necessary to put this deteriorating relationship back on a normal footing—a reality President Barack Obama recognized. In 2014, Trump's predecessor brought Abe and Park together for a trilateral summit

(<https://www.reuters.com/article/us-japan-korea-trilateral/obama-brings-u-s-allies-south-korea-and-japan-together-for-talks-idUSBREA2010T20140325>), which set the two feuding leaders on a gradual path toward reconciliation that culminated in the 2015 comfort women agreement.

But Trump is a different kind of leader, one who sees alliances as insurance policies that the U.S. provides and that foreign governments should pay for in full. Can he be persuaded to set aside this crude, transactional worldview (<https://www.worldpoliticsreview.com/trend-lines/27171/trump-s-transactional-worldview-is-imperiling-the-u-s-south-korea-alliance>) and prioritize the interests of the U.S., as well as those of two of its most important allies? Abe and Moon would still have to do the heavy lifting, but at this point, Trump is probably the only one who can get the two of them into a negotiating room.

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