Korea-Japan Relations Plunge: Japan Strikes Again

The trade war between Japan and South Korea caused by the decision of Seoul to ignore the results of the 1965 Agreement is reaching a new level.

As expected, all attempts to somehow de-escalate the confrontation failed. On July 31, 2019 a group of members of the National Assembly of South Korea paid a two-day visit to Japan in search for a settlement of the disagreements between the two countries. Before departing from Seoul, in a conversation with journalists, the head of the delegation and independent Member of Parliament Son Chong Won expressed his hope that the South Korean-Japanese relations would not culminate in a catastrophe.

On August 1, Bangkok was to host a meeting of the Ministers of Foreign Affairs of South Korea and Japan, Kang Kyung-wha and Taro Kono. Upon her arrival in the capital of Thailand, the head of the South Korean Foreign Ministry told reporters that she would try to convince her Japanese counterpart of the need to preserve the bilateral relations, as excluding South Korea from Japan’s Trusted Trading Partner White List would be a blow to Japanese companies as well. However, the meeting of August 1 failed to produce any result. The parties only reiterated their unchanged stances without coming to any consensus. On the same day, the South Korean President Moon Jae-in held a meeting of the ministers in charge of the economic policy, ordering its participants to consider the possibility of adopting adequate counter-measures in response to the action of the Japanese party.
The parliamentary delegation failed as well. Its meeting with the Secretary General of the Liberal Democratic Party Toshihiro Nikai, which was scheduled for July 31, was to be initially postponed to August 1, and then, 15 minutes before its beginning, it was cancelled with an explanation that there was an urgent meeting on security issues. South Korea commented that the nature of the delegation did not allow a unilateral cancellation of the meeting and that the action of Japan was a serious violation of the diplomatic protocol. As a result, the delegation only managed to meet with a group of the Japanese parliamentarians headed by the Chairman of the Japanese section of the South Korea - Japan Parliamentary Association, Fukushiro Nukaga.

The Japanese newspaper Asahi Shimbun reported that the US had presented a draft for resolving the dispute between South Korea and Japan, but Tokyo had a negative stance on it. Reuters reported that the US Secretary of State Mike Pompeo had expressed the US readiness to interfere in the situation within the tripartite meeting of the Foreign Ministers in Bangkok. The gist of the US draft comes down to suggesting that Tokyo impose no additional restrictive measures and Seoul cancel the sale of the part of the assets of the Japanese companies in the territory of the country. But the Secretary General of the Japanese Cabinet Yoshihide Suga disproved these messages, saying that Tokyo would continue to work according to the procedure.

On August 2, Bangkok hosted a meeting of the head of the Asia Pacific Region Department of the South Korean MFA, Kim Jong Han, and the director of the Asian and Oceanian Affairs Bureau of the Japanese Ministry of Foreign Affairs, Kenji Kanasugi. The meeting lasted for an hour and a half, and “the parties discussed further actions in connection with excluding South Korea from the list of priority trade partners, as well as the ways of maintaining diplomatic dialogue.” No agreement was reached as later this day Tokyo struck another blow.

On August 2, 2019 the Japanese Cabinet made a decision to exclude the Republic of Korea from the Trusted Trading Partner White List. The new measure will come into force on August 28 “after the due procedures.” Thus, Japanese exporters will need to get individual permissions for the delivery of each batch of the products to South Korea.

It was the first time ever that a decision to exclude a state from the aforementioned list was made. The strategic item category includes 1,115 parts and materials which can be used for designing weapons and the list included 27 countries (including Argentina, the United Kingdom, New Zealand and Australia), and South Korea, which was added in 2004, was the only Asian country on this list.

This decision, naturally, caused an outrage in South Korea. The Administration of the President of South Korea expressed its great discontent with the decision of the Japanese authorities on excluding South Korea from the Trusted Trading Partner White List. To ensure a rapid response to the changes in the situation, the Administration will create a task force for designing measures and an ad hoc group which will monitor the situation.

The international community, however, made no comment: only Reuters quoted an anonymous high-ranking official according to whom the US was concerned with the exclusion of South Korea from the White List as it could lead to negative consequences in the form of a downward spiral.

The response measures were taken immediately. Deputy Prime Minister Hong Nam-ki, who is responsible for the economic policy, said that South Korea would exclude Japan from an equivalent list and also toughen the procedure of exports to Japan. Besides, the government intends to submit a complaint to the World Trade Organization (WTO) about Tokyo violating the regulations on free trade in the near future.

Besides, Hong Nam-ki declared that, in order to ensure the uninterrupted supply of raw materials and spare parts, the authorities would launch a system of continuous customs support. The measures taken by Tokyo will affect the delivery of 159 strategic goods. Therefore, they will be included in the special control category, and, in case of their import to the country, it was decided to extend their customs clearance duration and to exempt some goods from the tax.

Also, in the course of considering the draft additional budget, it is planned to deal with the expenses on countering the Japanese restrictive measures in the first place. The government intends to provide additional support in developing 100 strategic materials in the long term in order to reduce the dependence on Japan.

The National Assembly of the Republic of Korea unanimously voted for the resolution calling for the cancellation of the Japanese restrictive measures. It was decided to enter various stimulating measures for the domestic companies in order to reduce the estimated damage. For example, 40% discounts for the customs duties will be provided to the companies importing the goods or raw materials equivalent to the Japanese ones from other countries. Other measures will be aimed at strengthening the competitiveness of the domestic manufacturers and stimulating
technological R&D within the country.

Today, Japan has a 9.6% share in the total South Korean imports. In turn, South Korea accounts for 4.1% of the Japanese imports. The government is quite likely to take measures restricting the access of Japanese goods and services to the South Korean market. Besides, options with increasing the customs duties and toughening the procedures for obtaining licenses and technical regulations arrangement are considered.

On August 5, 2019 the Government, the Presidential Administration and the ruling Democratic party Toburo made a decision to allocate additional funds from the 2020 financial year budget for overcoming the consequences of the Japanese export restrictions to the tune of 1 trillion won, or 830 million US dollars. It is also aimed at securing the stability of goods delivery in order to change the structure of the industry, which is in many respects dependent on imports of the Japanese raw materials and other components. This and other initiatives were included in the package of measures for strengthening the competitiveness of the domestic industries of spare parts, raw materials and equipment which was presented on August 5 by the Ministry of the Industry, Trade and Energy. To prevent damage in connection with the Japanese restrictive measures, it was decided to ensure the stable delivery of 20 strategic goods items for 1 year and of the other 80 items for 5 years. The authorities are planning to diversify the channels of import of strategic raw materials, soften the customs control and simplify the rules for production launch in order to ensure the fastest solution of the problem related to the delivery of resistors, fluorinated polyimide and fluoric hydrogen. Investment in the production capacities and research and new designs will be included in the list of tax benefit areas.

Then, South Korea will toughen the import quota for sea and agricultural products from Fukushima. It is important as Shinzo Abe is planning to promote Fukushima food at the 2020 Olympic Games in Tokyo and use food from this region at the Olympic Village. Nevertheless, the WTO recognized the restrictions introduced earlier by South Korea as lawful. Moreover, a call for boycotting the Tokyo Olympics is underway.

There is information that the South Korean National Pension Fund will stop investing in Japanese companies. In 2018, it invested 7.4 trillion won in 696 companies registered on the Japanese stock market and, as it turned out, 75 of them had been involved in the use of Korean slave labor during the Japanese occupation of Korea in 1910-45. Now, given the political environment, it will most likely end.

The extension of the bilateral General Security of Military Information Agreement (GSOMIA), which was to be renewed on August 24, is under threat as well. However, there is an opinion that abandoning the security agreement would be harmful to South Korea, as Japan has more opportunities for collecting nuclear and rocket information from North Korea, which is why the GSOMIA issue caused varying responses of political parties.

Finally, the possibility of carrying out exercise on ensuring the protection of the Liancourt Rocks, which had been postponed earlier in an attempt not to fuel the South Korean-Japanese tension, is being considered. These maneuvers are traditionally carried out twice a year with the assistance of the national Naval Force and Air Force. They took place in the first half of the year in May and June. In the second half of the year, they have not been conducted yet. The spokesperson of the Defense Ministry noted that Seoul did not have a reason to hold back any longer, considering the stance of Tokyo. If the exercise takes place in August when the country is celebrating the Liberation of Korea from the Japanese colonial yoke, it will be an even stronger message.

The people also responded to the Japanese challenge by increasingly boycotting Japanese products. Sales of air tickets to Japan considerably fell as well.

And what are the prospects? As the analytical company DRAMeXchange reports, the impact of the Japanese restrictive measures on the South Korean market will be apparent in the third quarter of this year. The Korean Institute for International Economic Policy reports that Japan’s action will lead to a 0.27 to 0.44% reduction in the South Korean GDP.

South Korean press notes that one of the reasons that the drastic measures became a strong shock for the domestic economy was the weak competitiveness of domestic materials and components and the high level of dependence on the Japanese imports. Thus, in 2018, materials, component parts and equipment accounted for 68% of the total amount of imports from Japan, and, in 2017, the level of self-sufficiency was 60%. In the production of such high tech goods as semiconductors and displays, this indicator is less than 50%.

Then, the national currency to dollar exchange rate reached a maximum of the last three years.

Therefore, the present measures of the government are not only aimed at softening the blow, but also at resolving
the fundamental problems which are at the cornerstone of the current situation and cover a wide range of issues: from ensuring the stable delivery of urgent goods to supporting R&D in the field of production of materials, component parts and equipment.

At the moment, the authorities of South Korea are unwilling to reach a compromise and intend to apply a tit-for-tat approach. The idea of sending Prime Minister Lee Nak-yeon to Japan as the special envoy for resolving the situation was rejected as untimely. Deputy Foreign Minister of South Korea Cho Sei-young in charge of relations with Japan stated that “this scenario looks feasible, but only after the parties in question stop narrowing down their sharp disagreements by negotiating at a practical level.”

One may consider Moon’s statement made on August 5 at the meeting with his senior advisers as a challenge as well. The Japanese measures for restricting the South Korean exports confirmed the need for creating a peace economy via inter-Korean cooperation which might enable to surpass the Japanese economy in a flash. Although the Japanese economy surpasses the South Korean one in terms of scale and internal market, a peace economy which can be created on the basis of cooperation between South Korea and North Korea, might ensure joint prosperity on the basis of denuclearization and peace on the Korean peninsula. According to South Korean President, the government aims at establishing a powerful state where democratic values, principles of fair and free economy are appreciated above all, and, today, it is necessary to be ready not only to overcome the consequences of the Japanese measures of economic retribution, but also to surpass the Japanese economy.

Such unbounded populism and ignoring any calculations connected with the costs for recovering the economy of the North show that the trade war between Japan and South Korea is favorable not so much to South Korea in general, but mostly to the powers that be.

First, now all emerging problems in the national economy can be attributed to the Japanese machinations. The problems as such will not cease, but the public discontent with them will not be directed against the authorities.

Second, the patriotic surge will promote unity of the nation around the president who will give further maxims like “this time we shall not lose,” which will help increase his rating in the situation when the former way of “capitalizing on the development of the inter-Korean relations, positioning Moon as the person without whom Washington and Pyongyang cannot reach an agreement,” it seems, no longer works.

Third, it is possible to press the opposition, accusing it of pro-Japanese sentiment, following the slogan “those not with us are against us,” which is widespread in the country characterized by a strong degree of factionalism.

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