Japan and South Korea are important, not just because of their economic achievements and their strategic location in the Indo-Pacific, but also for the fact that they are both democracies, and with their economic success over the past few decades, have blunted the narrative of democratic systems not being able to achieve success in the economic realm.

The two countries have close economic linkages, with South Korea exporting goods and services worth USD 26.9 billion to and importing goods worth USD 54.4 billion from Japan. Yet, both countries also have a troubled history, with Japan having colonized the latter for over three decades (1910 to 1945).

Currently, there is a downward spiral in their ties. Japan’s new trade protectionism measures seemed to threaten South Korea’s chip making industry and this had evoked strong reactions. Significantly, Japan imposed protectionist measures as a retaliation against South Korean court rulings, which ordered Japanese firms to pay compensation to Koreans over forced wartime labor. The strains in the Tokyo-Seoul relationship became evident in 2018, after the Supreme Court of South Korea ordered Japan’s largest steel maker to pay damages to a surviving forced labourer. This judgement was followed by several others ordering Japanese companies to pay compensations for forced labor. Tokyo vehemently opposed this demand, by stating that the issue had been resolved when the 1965 treaty was agreed upon.
The export curbs apply to three high-tech materials: fluorinated polyimide, photoresists and hydrogen fluoride, which are vital in making chips. The measures taken by Japan did not entirely prohibit sale of these materials to South Korea, but rather imposed a license requirement on the Japanese exporters, which in turn discouraged them, and as a result choked the supply to South Korea.

Japan, on its part, cited national security as a reason for the trade measure, stating that “inadequate management” of exports of sensitive chemicals by South Korea, including hydrogen fluoride, which is used for manufacturing of chemical weapons by countries subject to international sanctions such as North Korea, can cause problems. A Japanese newspaper quoted an unidentified minister from Prime Minister Shinzo Abe’s cabinet who stated that South Korea was passing on some of the chemical to North Korea.

At the World Trade Organisation (WTO) general meeting on July 24, 2019, the hostility between both countries was evident. While Japan cited the reasons, including national security concerns for imposing trade restrictions, South Korea’s Deputy Trade Minister Kim Seung Ho dismissed the Japanese delegation’s reasons for imposing these measures. He said that “…. it’s purely strategically planned to gain the upper hand in the diplomatic rows, I mean the forced labor issues”. If one were to go by the public posturing of both sides, the possibility of an amicable solution within a reasonable span of time seem minute.

The chips made by South Korea are used in semiconductors and in products like smart phones, so a curb is likely to affect the global supply of these products. This trade tussle is now threatening to spread across borders, risking electronic supplies and prices around the world. South Korean tech giants like Samsung Electronics and SK Hynix provide 60 percent of the world’s memory components and are going to be affected by this measure. In retaliation, there is a growing chorus in South Korea for the boycott of Japanese products in Korean stores. There is also a possibility that South Korea may restrict OLED exports to Japan as well. Additionally, the South Korean government is going take up this issue at the WTO as this measure is affecting other countries as well.

While China may seize the opportunity, but the major disruption in South Korea-Japan linkages is likely to have an adverse impact on other countries.

This trade tussle could have a significant impact on the global technology market. South Korea is the second largest producer of semiconductors and this disruption could affect global giants like Apple, Sony and Huawei. But many argue that Chinese companies can capitalize on this and fill the gap and establish themselves as potential alternatives. The Japan-Korea dispute is taking place at an important time when the US is raising the red flag with regard to Chinese tech firms. China on its part has been over time trying to develop its own home-grown micro-chip industry to reduce foreign reliance, and this trade tussle between Japan and South Korea may prove to be a stepping stone for China to achieve its Made in China 2025 plan. Under this plan China aims to increase its semiconductor production, which stands at 10 percent now, to 40 percent by 2020 and 70 percent by 2025. This plan aims to completely reduce China’s dependency on imported technology and replace it with its own.

Even geo-politically, the trade war and the animosity between South Korea and Japan could benefit China greatly. China has always been suspicious of the South Korea-Japan bilateral relationship, believing that both countries represent American interests in the region, and are being used by Washington DC to contain China. With the ongoing trade war with the US, the dynamic has significantly changed, as Beijing’s ties have been improving with both Seoul and Tokyo. The wedge between South Korea and Japan would only benefit China.

The US, which acted keenly to help the two countries iron out their differences during previous spats, seems less inclined under President Donald Trump this time. The US State Department issued a statement displaying US intent to resolve issues between Tokyo and Seoul. The statement said that the US wants to “strengthen our relationships between and among all three countries,” David Stilwell, assistant secretary of state for East Asian and Pacific Affairs, said that Washington did not plan to intervene.
However, there was confusion when Trump offered to cool down tensions, if asked by both sides. Given Trump’s unpredictability, lack of gravitas and flippant approach towards serious issues, no one is likely to take this offer seriously, especially if one were to take in mind Trump’s differences with both Japan and South Korea months after he took office. In fact, even in the current situation, the US is also eyeing a trade deal with Japan where they are willing to reduce tariffs on auto parts, and in return Japan does the same for agricultural products. Trump’s National Security Adviser John Bolton visited South Korea on July 24 and urged Seoul to take steps to reduce tensions with Japan. Significantly, Bolton’s South Korea visit came a day after Seoul claimed that a Russian aircraft had violated South Korean airspace. South Korea stated that during the course of a joint military exercise with China, the aircraft flew twice over a chain of small islands in the Sea of Japan also known as East Sea, which are claimed by both South Korea and Japan.

The trade war between China and the US has resulted in enough tumult. This current tussle between South Korea and Japan is likely to result in further turbulence. While China may seize the opportunity, but the major disruption in South Korea-Japan linkages is likely to have an adverse impact on other countries. Some geopolitical analysts focused on other events are in fact underestimating the impact of tensions between the two East Asian giants. It is imperative for both Tokyo and Seoul to exhibit restraint and pragmatism. The South Korea-Japan feud is also likely to alter the security dynamic in the Indo-Pacific region. With the US not likely to play much of a role, South Korea could move closer to Beijing, at least in the short run.

About The Author

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