The U.S. Must Limit Damage from the Japan–South Korea Trade Dispute

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Key Takeaways

The U.S. government has an important role to play in mediating the relationship between Tokyo and Seoul and protecting vital trilateral security coordination.

The current situation puts U.S. strategic goals at risk. Japan and South Korea are important economic partners and the foundation of U.S. foreign policy in Asia.

To safeguard those objectives, the U.S. must get directly involved as a behind-the-scenes facilitator, helping the two allies reach a compromise.

Japan and South Korea have recently imposed rulings that impact each other’s financial interests—and risk triggering a strategic trade war. Strained bilateral economic relations undermine U.S. diplomatic and security coordination that is necessary for dealing with the North Korean threat.

Japanese–South Korean relations suffer from centuries of built-up animosity from sensitive historical issues and sovereignty disputes. Cyclical spikes in tensions are triggered by incidents that unleash nationalist furor in both countries. Yet during these outbreaks, bilateral economic and security sectors were never involved at any official level and, instead, served as moderating influences. That changed for the worse last year.

The U.S. government has an important role to play in mediating the relationship between its two allies. Tokyo and Seoul must not allow historical
and economic issues to negatively affect the important trilateral security coordination. While Japanese–South Korean tensions are unlikely to be resolved at the highest diplomatic level anytime soon, both must resume working-level export-control dialogues in order to assure that national security interests are aligned.

Catalysts for Crisis

While the true root of the present dispute can be traced back decades or centuries, mutual trust between Tokyo and Seoul deteriorated markedly when the Moon Jae-in government unilaterally rescinded a 2015 “comfort women” agreement. Under that accord, Tokyo had provided an apology and agreed to pay $8 million to Korean comfort women in return for Seoul declaring the matter “finally and irreversibly” resolved. President Moon disbanded the foundation that was to provide money to the victims of Japan’s 1910–1945 occupation of the Korean Peninsula.

In November 2018, the South Korean Supreme Court ordered Japanese companies Nippon Steel Corporation and Mitsubishi Heavy Industries to pay individual compensation to victims of forced labor. South Korea’s courts had previously issued similar rulings during times of diplomatic turbulence between South Korea and Japan—once in 2013, and again in 2015. The court recently authorized seizure of the Japanese firms’ assets to fulfill the settlement.

Tokyo responded that the ruling was a violation of the 1965 treaty that restored Japanese–South Korean diplomatic relations that provided $800 million in Japanese aid and loans to resolve all outstanding issues of compensation. And, Japan’s Ministry of Foreign Affairs indicated that there are at least a dozen additional pending cases that could impact more than 70 companies.

Tokyo demanded third-party arbitration, per a clause in the 1965 treaty, but Seoul rejected the request on the grounds that it would undermine the independence of the country’s judiciary. A senior Japanese Foreign Ministry official commented that Korea’s refusal would be construed as a “violation of international law” and could prompt Japan to take “responsive measures.”

Further exacerbating tensions, in December 2018, Tokyo accused a South Korean destroyer of locking its targeting fire-control radar onto a Japanese military patrol aircraft. The incident expanded the bilateral historic dispute into the military sector, straining what had been a cooperative security relationship.
Trade Restrictions

Bilateral tensions further deteriorated on July 1, when Japan’s Ministry of Economy, Trade and Industry announced export restrictions to South Korea of three chemicals—fluorinated polyimides, photoresists, and hydrogen fluoride—which are critical for producing semiconductors and smartphones, yet which can also be used to produce weapons and therefore require a special export license.

Japan respectively controls 94 percent of global fluorinated polyimide supply, 92 percent of the global photoresist supply, and 70 percent of global hydrogen fluoride (or etching gas) supply. South Korean imports of these three chemicals from Japan are respectively 85 percent, 83 percent, and 42 percent.

Japanese officials initially appeared to justify the restrictions as a response to South Korean violations of U.N. export controls against exporting certain materials to North Korea. Tokyo has yet to produce supporting evidence for its claim.

South Korean Minister of Trade Sung Yun-mo declared that Seoul “found no evidence” that banned technology or materials had been shared with North Korea, and accused Japan of “making groundless allegations.” A South Korean lawmaker, in turn, accused Japan of allowing exports of sensitive items to North Korea. Japanese Trade Minister Hiroshige Seko subsequently responded that “we have never said” that North Korea was one of the nations receiving smuggled materials.

These new restrictions are not an export ban, but require Japanese exporters to obtain a separate license, potentially taking as long as a 90-day government approval process, for each chemical export to South Korea. Tokyo cited “certain sensitive items [that] have been exported to [South Korea] with inadequate management by companies [necessitating] more stringent procedures over certain controlled items and their relevant technologies”—implying that the decision to revoke the existing export license to South Korea may be based on mismanagement by Japanese exporters as well as general skepticism of South Korea’s export-control management.

Japanese officials have explained that the “relationship of trust” in South Korea’s export-control and regulation procedures had been “significantly undermined” due to Seoul’s refusal to participate in working-level export-control talks for three years. Therefore, Japan’s ministry also announced that it would remove South Korea from its “white list” of countries deemed not to pose a security risk and which receive preferential treatment for export-control procedures. Japan’s removal of South
Korea from its white list could limit the export of hundreds of dual-use and defense-related exports to South Korea.

The Korea Economic Research Institute estimated that South Korea’s gross domestic product (GDP) would decline by 2.2 percent if South Korean firms lose 30 percent of the supplies needed to manufacture semiconductors. Exports account for 44 percent of South Korea’s GDP, of which semiconductors and other integrated circuits are its largest export. Removing South Korea from the white list, which could occur by the end of August, could potentially lead to a loss of $27 billion in South Korean exports according to the Federation of Korean Industries.

South Korea alleges that Japan’s export restrictions violate Article 11, “General Elimination of Quantitative Restrictions,” of the World Trade Organization’s (WTO’s) General Agreement on Tariffs and Trade. Tokyo responded that Article 21 allows security exemptions “necessary for the protection of its essential security interests.” Seoul has filed a complaint with the WTO, but remediation typically takes more than a year. If South Korea decides to retaliate against Japan’s export-control reform with its own trade restrictions, this too could be in violation of WTO commitments.

**Escalating Rhetoric**

South Korean President Moon warned of an “unprecedented emergency” in his country’s relations with Japan, but initially vowed to pursue a diplomatic solution to prevent a “vicious cycle of action and reprisal.” However, after bilateral meetings failed to make progress, President Moon toughened his criticism of Tokyo.

Moon described Japan’s restrictions as “an attempt to halt our economic growth at a crucial moment, when Korea seeks to make a leap to the next level.” He asserted that Tokyo’s linking of historic issues with economic relations was “extremely foolish.” Moon characterized Japanese allegations of South Korean exports to North Korea as “a grave affront to our government.”

Tokyo threatened to retaliate if Japanese corporate assets were seized. A Japanese Foreign Ministry official was quoted as stating that Tokyo would “seek compensation from the Korean government if harm is done to Japanese businesses.”

**Few Incentives to De-escalate**

Neither Tokyo nor Seoul is inclined to back down from its maximalist position. Politicians in both countries will be reluctant to buck nationalism
in seeking a solution. Public opinion polls in both countries show record-high levels of distrust of the other country.

A Japanese poll showed 58 percent approval of Prime Minister Shinzo Abe’s policy, while only 24 percent of respondents disapproved.20 In a South Korean poll, 73 percent of respondents said that the government’s response to Japan’s export curbs was appropriate or should be stronger.21 Another South Korean poll showed that 66 percent would participate in a boycott campaign of Japanese goods.22

Japanese and South Korean officials often cite “Korea/Japan fatigue” in their capitals from endlessly dealing with the same intractable issues. There is little trust in either government that future agreements would be upheld, which hinders any inclination to offer concessions. There are frequent accusations of politicizing historic issues or “moving the goal posts.”

Similarly, the U.S. has been frustrated by both countries’ intransigence on historic issues. Washington sees little incentive to getting drawn back into issues that it repeatedly thought were settled. There is no benefit to the U.S. being seen as picking sides by either of its critical allies.

A potential mitigating factor could be input from both countries’ business communities. The Federation of Korean Industry sought to counsel the Moon government against further escalation of the trade dispute.23 The organization warned that Korean retaliation and boycotts against Japanese goods could trigger Tokyo to impose additional restrictions and further reduce South Korean GDP. Similarly, the Japan Business Federation announced that it was “extremely concerned” about the rapid deterioration in relations.24

**Strategic Repercussions**

The deteriorating situation puts U.S. strategic objectives at risk. Japan and South Korea are important economic partners, fellow democracies, and critically important allies against common security threats. Both countries are the foundation of U.S. foreign policy in Asia.

South Korea’s vow to diversify economic supply sources away from Japan could lead South Korea to turn to China or Russia. Moon offered government help and financial assistance for Korean companies to find alternative suppliers or develop domestic producers. South Korea’s ruling party announced that $250 million will be included in a supplementary budget to cope with the impact of Japan’s export restrictions.25

While South Korea’s imports of fluorinated polyimides and photoresist are almost entirely provided by Japan, the import of hydrogen fluoride is
roughly split between China (46 percent), Japan (44 percent), and Taiwan (10 percent). Restricting Japan’s exports to South Korea could lead South Korean companies to rely more on imports from China. China is already South Korea’s largest import and export market, representing roughly 24 percent of South Korea’s total trade. Meanwhile, Russia has also offered to fill any shortage of hydrogen fluoride needs South Korea may face.

Increasing its trade reliance on strategic competitors of the U.S. (such as China and Russia) could become a problem for South Korea in the future. Not only would it irk officials in Washington, who are currently looking to revise the U.S.’s own export-control laws; South Korea itself is no stranger to the economic levers that China can pull when Beijing feels its regional interests are not being met. In 2016 and 2017, South Korea was the target of China’s economic sanctions when the South Korean government began the process of deploying a Terminal High Altitude Area Defense system.

The worsening bilateral economic and diplomatic dispute could threaten security cooperation among Washington, Seoul, and Tokyo. Either South Korea or Japan could choose to annul the bilateral General Security of Military Information Agreement (GSOMIA), which enables sharing of classified intelligence and military information on the North Korean nuclear and missile threat. The 2016 agreement is automatically renewed every year in late August unless either side withdraws.

South Korean National Security Advisor Chung Eui-yong said that Seoul is inclined to maintain the accord, but that it “can be reconsidered in accordance with (relevant) situations.” Ending the agreement would end intelligence sharing on the North Korean security threat and could hinder integrated military responses to a North Korean attack.

**U.S. Reluctance to Intervene**

South Korea and Japan have both sought U.S. intercession but, to date, the Trump Administration has resisted becoming deeply involved. During the previous diplomatic flareup between Seoul and Tokyo over historic issues, the Obama Administration played an active and sustained interventionist role. At that time, U.S. officials issued stern private messages to both sides, eventually enabling the 2015 “comfort woman” agreement.

In the current dispute, U.S. Ambassador to South Korea Harry Harris noted that “now is not the time” for Washington to arbitrate, and that moves would only be made when various other options had been exhausted. During a visit to the region, Assistant Secretary of State David Stilwell emphasized to Japanese officials: “I don’t plan to mediate or engage, other
than again to encourage both sides to focus on the key issues in the region, especially with North Korea.” Similarly, Stilwell told South Korean officials that the United States “could not take one side or the other because taking one side means losing the other.” Stilwell underscored an appropriate hands-off approach: “Fundamentally, [South Korea] and Japan must resolve these sensitive matters, and we hope that resolution happens soon. The United States, as a close friend and an ally to both, will do what it can to support their efforts to resolve [such issues].”

When asked if he would mediate, President Trump was initially dismissive, “How many things do I have to get involved in?” I’m involved with North Korea…. I’m involved in so many different things….it’s like a full-time job getting involved between Japan and South Korea.” However, he subsequently indicated a potential willingness to become involved.

What Washington Should Do

Tensions between Seoul and Tokyo are dangerously tense—and could continue to escalate. The dispute will not be resolved if left to Seoul and Tokyo. To further its own strategic interests, the U.S. must become directly involved as a behind-the-scenes facilitator, helping its two allies reach a compromise. The U.S. can and should do so without direct involvement as an arbiter on contentious historical issues.

To avoid any deterioration of the security alliance:

- **President Trump should personally urge both President Moon and Prime Minister Abe to refrain from further escalatory actions.** U.S. officials should underscore the importance of a common policy toward the two real threats to peace and prosperity in Asia. Japanese–South Korea disputes only serve China and North Korea’s long-standing “divide and conquer” objectives to drive wedges amongst the U.S. and its critical Asian allies.

- **The Trump Administration should underscore the importance of maintaining the bilateral GSOMIA.** This agreement is a means to facilitate integrated allied exchange of intelligence on North Korea’s wide-ranging military threat to the region: A withdrawal by any member would be to the detriment of every member. Trilateral security coordination should be expanded from the current emphasis on ballistic missile defense to broader coordination in countering North Korean air and maritime incursions.
The U.S. should also encourage South Korea to work toward integrating its national ballistic missile defense system into the more comprehensive and effective allied system. Seoul’s refusal to do so (because of sensitive issues from the previous millennium) restricts allied defenses against the current North Korean missile and nuclear threat.

To get business back to normal, the following steps are necessary:

- **Tokyo and Seoul should immediately restart working-level export-control dialogues.** Tokyo should identify any concerns it has with South Korea’s export-control system so that any outstanding issues can be resolved. As both sides resume working-level dialogues, Tokyo should commit to keeping South Korea on its “white list” of favored export nations.

- **The U.S. Department of Commerce should hold a working-level meeting with Japanese and South Korean officials on export controls.** Any concern over the export of sensitive material is also in the national security interest of the United States. A trilateral meeting would also allow U.S. officials time to brief Japanese and South Koreans on future changes to U.S. export-control regulations.

- **Seoul should insist on working with Japanese exporters to ensure that export-control licenses remain stable.** Tokyo should also work with Seoul and those Japanese companies on renewing their chemical-exports license to South Korea.

- **Both South Korea and Japan should avoid further escalatory trade measures.** Whether Japan’s export-control revisions violate its WTO commitments or not, unilaterally imposing new trade restrictions as a response could also violate WTO commitments.

**Conclusion**

Strained relations between two critically important allies is of grave concern to Washington because it hinders U.S. security interests in Asia and constrains effective integrated responses to the North Korean military threat. The relationship between the U.S., Japan, and South Korea is a stool that cannot afford to lose a leg. Japan and South Korea have a long
and troubled history, but it is important to maintain a stable working-level dialogue between the two governments for the sake of economic and security interests.

Private industries demand business as usual; they cannot afford the costs of these cyclical disputes. It is in the interest of the U.S. for Japanese–South Korean relations to improve, but ultimately the burden falls on their shoulders. While it has been said that those who cannot remember the past are doomed to repeat it, the same can be said of those unable to resolve the past and extricate themselves from it. The past is important, but so are the present and the future.

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Endnotes

1. “Comfort women” was the euphemism given by Imperial Japanese Army for women forced into sexual slavery before and during the World War II.


4. The Treaty on Basic Relations between Japan and the Republic of Korea and the Agreement Between Japan and the Republic of Korea Concerning the Settlement of Problems in Regard to Property and Claims and Economic Cooperation were both signed on June 22, 1965.


