

Japan: Toxic trade trouble

You would think that with all the trouble in Asia spilling over from the US-China trade war, other countries in the region would be doing their very best to avoid making matters worse, or forging offsetting trade agreements



Source: Shutterstock

➔ This is bad timing for another trade spat

You would think that with all the trouble in Asia spilling over from the US-China trade war, other countries in the region would be doing their very best to avoid making matters worse, or forging offsetting trade agreements.

Not Japan and South Korea. These two regional big-hitters have started a trade war of their own, sparked off by anger from Korea that Japan has refused to acknowledge its claim for greater compensation for some of its war-time activities relating in particular to the forced labour of Korean “comfort women”.

➔ Japan’s removal of South Korea from its “Whitelist” is difficult to justify on grounds of security

Japan, for its part, has been quick to retaliate, taking South Korea off its “Whitelist “ of export partners for certain chemicals vital to Korea’s technology industries. The excuse given for this is the contentious claim that such exports are at heightened risk of ending up in the hands of North

Korea.

The three chemicals which Japanese producers may now have to wait up to around 90 days for approval for export licences to be granted are:

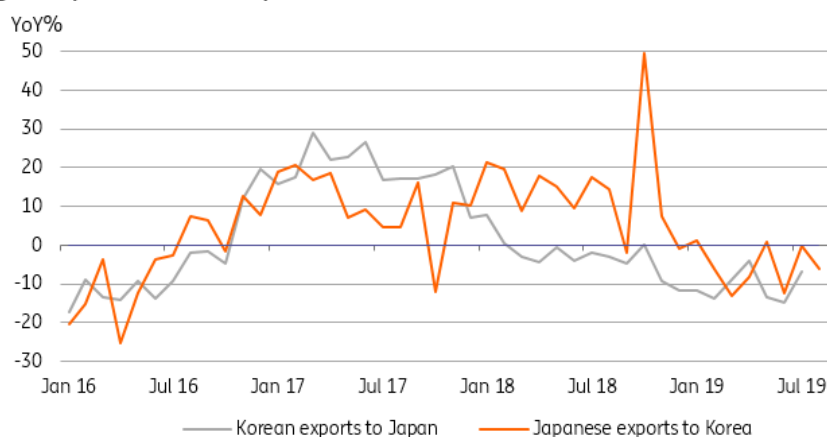
1. Fluorinated polyamide (used in the manufacture of displays);
2. Photosensitising agent resist (for use in chip manufacture); and
3. Hydrogen fluoride, used for cleaning chips.

➔ Japanese goods are vital for Korea's production of high-tech goods

Data from Massachusetts Institute of Technology shows not only export destinations by country, but also by product show that although Korea is a big market for disc chemicals for electronics – sopping up 17% of all such Japanese exports in 2017, chemicals as a whole made up only about 2% of Japan’s exports to Korea, and a far smaller percentage of its total exports (Korea accounts for about 20% of all Japanese exports).

But the move has sparked anger in Korea, where consumer boycotts of Japanese goods is now underway.

Fig 8 Japan and Korea reciprocal trade



Source: CEIC

➔ Neither Japan nor Korea is in great shape and both could do without this additional headache

The greater worry for South Korea, which has been struggling with the effects of the global tech slump, the tech war and the US-China trade war, is that this latest spat comes on top of all of these other problems. The size of these imports is not the main consideration, it is their importance for the much larger technology export segment.

Likewise, Japan’s industrial production and exports are hardly in great shape and could do without any additional impediments.

Although the catalyst for this trade dispute has its origins in Japan’s colonial rule of the Korean

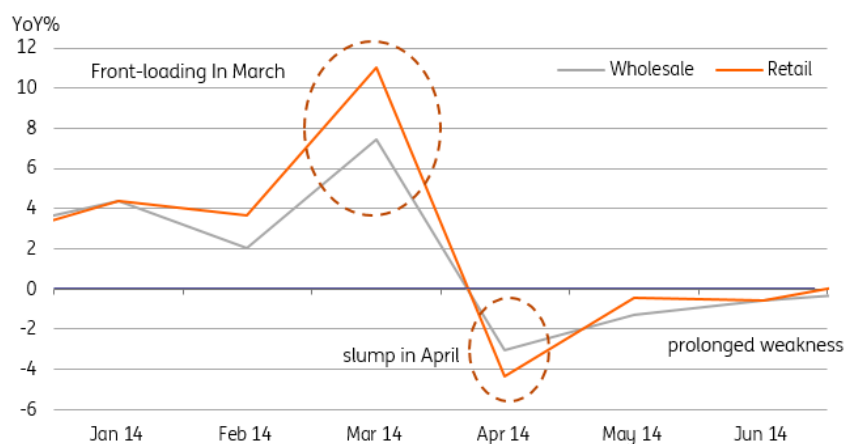
peninsula from 1910 to 1945, it looks as if it has received a boost on both sides from the globally rising tide of nationalism. It's not at all clear how this dispute is going to be resolved, given that the one country that could probably bang heads together – the US – is currently in the vanguard of similar trade restrictions justified by its own veneer of national security concerns.

Neither Japan nor Korea have excessive growth to spare for a political squabble like this, though one can understand how each side in this conflict has become embittered by the actions of the other.

➔ Finding an intermediary to resolve this conflict could be tricky

In Japan's case, with the consumption tax hike looming next month, it is particularly bad timing. These tax hikes have led to substantial disruption to activity in the past, and a spell of better "economic weather" would have been a more helpful backdrop to this difficult period. Right now, for example, the evidence for a front-loaded boost to consumption and investment is looking very hard locate, though that doesn't necessarily rule out a post-tax slump.

Fig 9 How retail and wholesale sales reacted to consumption tax hike in 2014



Source: CEIC

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