

Japanese-Korean trade tensions worsen

Japan has formally removed South Korea from a list of countries exempted from security export controls. This implies more restrictions and delays on chemicals vital to the Korean semiconductor and electronics industry. Korea has responded with a similar announcement on exports to Japan



Japan today (Friday) formally removed South Korea from its whitelist for security export controls. There had already recently been some controls imposed on three chemicals vital for etching semiconductors requiring a case by case approval. This has now been expanded and the measures approved by Japan's cabinet.

The new export controls require exporters to apply for a permit to export goods that could be utilised for military use by sanctioned countries or for banned weaponry. Japan has (excluding South Korea) exempted 26 countries that have similarly tight or stricter export security controls.

Japan claims it's made the move because some shipments of chemicals have been ending up in North Korea. But most observers put the dispute down to a long-running spat about historical issues relating to Japan's wartime occupation of Korea.

The Korean government says it will announce details of its plan to remove Japan from its own

“White List” early next week, though there are hopes that some resolution might be found in three-way talks between the two Asian nations brokered by the US in the sidelines of an ASEAN meeting taking place in Bangkok today.

This trade dispute is a highly unwelcome addition

While the economies of both Japan and Korea are currently weak, this is hardly going to help as some argue the measures are motivated by domestic political pressures, rather than any firm convictions about security concerns. Indeed, with the Bank of Korea recently dropping its hawkish tone and easing policy rates 25bp, such developments only increase the chances that they will have to act again, and perhaps sooner than markets were expecting. The Bank of Japan has, of course, virtually no room for further offsetting policy measures in the event of further weakness. And with a consumption tax hike for Japan looming in October, this trade dispute is a highly unwelcome addition to what is likely to be a very difficult time for the economy.

It is perhaps fortunate that the semiconductor industry is currently not facing particularly strong demand in the face of a global slump in mobile handset sales and their components, so the impact on production could certainly have been worse. Moreover, alternative suppliers, especially for Sodium Fluoride and the other chemicals for which Japan has been the main supplier, are likely to be forthcoming, though the switchover will obviously result in delays and further damage to Korea's struggling economy.

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