

## **JAPANESE GOVERNMENT REASONS BEHIND THE REMOVAL OF SOUTH KOREA FROM PREFERENTIAL WHITELIST: A MERCANTILISM PERSPECTIVE**

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### **ABSTRAK**

Setelah serangkaian pengecualian whitelist antara Jepang dan Korea Selatan sejak paruh kedua tahun 2019, terjadinya sengketa dagang diantara kedua negara tidak dapat dihindari. Penelitian ini bertujuan untuk menemukan alasan di balik keputusan pemerintah Jepang untuk menghapus Korea Selatan dari preferential whitelist Jepang melalui perspektif merkantilisme. Dengan menggunakan metode kualitatif, penelitian ini dititik beratkan pada perspektif merkantilisme yang dipadukan dengan perspektif sejarah Jepang dan Korea Selatan dari masa terjalannya keterikatan kedua negara pada kurun waktu Perang Dunia hingga saat ini, khususnya dalam konteks ekonomi sebagai kerangka teoritik. Oleh karena itu, penelitian ini menegaskan bahwa Jepang, sebagai negara yang mengklaim menerapkan liberalisasi perdagangan, juga memiliki proyeksi gagasan merkantilisme pada kebijakan luar negerinya dengan mengintervensi kegiatan ekonomi negara, dimana ekonomi merupakan faktor penting untuk menjadikan Jepang sebagai negara yang kuat dan aktor penting dalam panggung politik internasional, karena adanya persaingan dengan Korea Selatan dalam pasar teknologi global dan persekutuan strategis dengan Amerika Serikat yang mana menjadi prioritas bagi Jepang untuk melindungi kepentingan nasionalnya setelah pertumbuhan ekonomi yang masif dari Korea Selatan dan tingkat saling ketergantungan yang tinggi dengan Korea Selatan terutama di era 2000-an. Hipotesis tersebut dapat dibuktikan melalui melemahnya ekspor Korea Selatan dalam bidang teknologi dan *electronic integrated circuit* setelah dikeluarkan dari *preferential whitelist* Jepang dan tumbuhnya favoritisme dari Amerika Serikat, yang membuat pemerintah Jepang berhasil mencapai kepentingan nasional mereka.

*Kata kunci: Jepang, Korea Selatan, preferential whitelist, merkantilisme*

### **ABSTRACT**

*After a series of mutual whitelist exemption between the East Asian countries, Japan and South Korea since the second half of 2019, the happening of trade dispute cannot be avoided. This study aims to find the reasons behind the Japanese government decision to remove South Korea from Japan's preferential whitelist from mercantilism perspective. Through qualitative*

*method, this study uses the mercantilism perspective of International Political Economy (IPE) combined with historical perspective of Japan and South Korea since their first encounter during the timeline of World War until the present day, especially through economic context as the theoretical framework. Therefore, this study asserts that Japan, as a country which claimed that it applied trade liberalization, also have the mercantilism ideas projection on their foreign policy by intervening the economic activities of the state, in which economy – as a form of soft power – is a crucial factor to make Japan as a strong state and crucial actor in international political stage, as the rivalry in global technology market with South Korea and strategic alliance with the U.S needs to be prioritized by the Japanese government in order to protect its national interest as a state with a strong economy power after the massive economic growth of its fellow East Asian country, South Korea, and the high interdependency with South Korea especially in the 2000s era. The hypothesis can be proven through the weakening of South Korea technology and electronic integrated circuit export after their removal from Japan's preferential whitelist and the growing favoritism by the U.S, which made the Japanese government successfully achieve their national interest.*

*Keywords: Japan, South Korea, preferential whitelist, mercantilism*

## **INTRODUCTION**

Ranged from peaceful until agitated conditions, Japan and South Korea relations have always been complicated since their first encounter within the timeframe of World War, as Japan begin its expansion to Manchuria, Taiwan, and Korea from 1910 to 1945 (Booth & Deng, 2017). Connected in such a long history, the ups and downs on Japan-South Korea relations surely cannot be avoided. Despite the diplomatic normalization, Japan and South Korea are often involved in disagreements: forced labor issue, comfort women issue, until territorial dispute of Dokdo/Takeshima (Deacon, 2021). Several attempts have already been made by both countries to end the tensions that occur; including the attempts did through the accord that happened in December 2015 during the leadership of Prime Minister Shinzō Abe and President Park Geun-hye. This accord actually could resolve the conflict of these two countries as Park Geun-hye stated that she saw “the urgency to fix the relations between South Korea and Japan” (BBC News, 2015). Unfortunately, in 2017, Park Geun-hye was officially impeached due to corruption and abuse of power. This ‘love-and-hate relations’ between Japan and South Korea worsen after in 2018 the Supreme Court of South Korea demanding compensation for forced labor during wartime toward two Japanese corporations made the Japanese government finally decided to retaliate by removing South Korea from their preferential ‘whitelist’ trade partners on chemical products (Shin, 2021). As a counterattack, the South

Korean government files confinement exports on Japan to World Trade Organization (WTO) (Yang, 2019).

Analysis of this trade dispute through mercantilism/neoclassical realism was already conducted previously by Kim (2019), yet the study is highlighting more on the role of the U.S as the third-party patron for Japan and South Korea through the concept of quasi-alliance. Another study analyzing the protectionist side through the framework of mercantilism also done by Bimantara (2018), yet the study focuses on the protectionism implemented in the U.S. under Trump's administration. Therefore, this study aims to disclose the reasons behind South Korea removal from Japan's preferential whitelist, highlighting on the manner of Japanese government itself through mercantilism perspective. The hypothesis to answer the research question on why the Japanese government removes South Korea from its preferential whitelist is formed as follows: the Japanese government removes South Korea from its preferential whitelist because: (1) the rivalry in global technology market with South Korea and (2) the strategic alliance with the U.S need to be the Japanese government ultimate concern to protect their national interest as a state with a strong economy power by intervening the economic activities of the state.

Mercantilism is one of the dominant perspectives in International Political Economy (IPE) along with liberalism and structuralism/Marxism. Mercantilism argue that state's power is the central discussion in international stage, which made mercantilism often associated with realism in political science. As state become the central discussion while also being the highest entity, in which there is no greater power that can control and impose rules upon states. Therefore, the view of anarchical international system proposed by mercantilism is reflected through this assumption. The happening of conflicts and wars is an inevitability, in which it came as a form of self-defense in the premise of anarchical world. Although relatively similar with realism, mercantilism focusing on economics as the tool of the government to achieve their national interest. In this case, it can be said that market or economic activities in general, including the enforcement of policy and the securitization of the domestic market is the creation of the state (Cohn, 2017).

The discussion about mercantilism is significantly weighed upon the concept of power. Power, described by Morgenthau as quoted in Drezner (2020), is always become the goal in international politics. While the term of 'power' itself has not been defined in a

consensus of the scholars, an American political scientist, Nye (2017) described 'power' as "the ability to pursue certain outcomes through affecting others by payment, coercion, attraction, and/or persuasion". Power, as cited in Rosyidin (2014), should be maximized by states to minimize the loss and maximize the benefit that they will gain from their interaction in international stage. Hence, he argues that power is the central discussion of diplomacy. During the development on the definition of power, Nye makes several categorizations about power, including the power that called as soft power. Soft power defined as the ability to pursue certain outcomes through affecting other with attraction, and not payment or coercion (Nye, 2017). Thus, soft power is totally different with what many states during World War era practicing as the power itself (at that time) refers to hard power. Soft power is practiced through intangible power, where the strategies are located on how the states attract the other states to pursue certain result without the needs to perform tangible power such as invasion, annexation, and so on. For this reason, gaining power to pursue national interest through the practice of economy can be classify as soft power.

## **METHOD**

This study used qualitative approach with descriptive method to prove the reason behind the Japanese government decision to remove South Korea from its preferential whitelist. Qualitative approach in research refers to an approach that uses the interpretation of data collection and analysis, and does not rely on quantification method (Anggito & Setiawan, 2018). On the other hand, descriptive method explained by Kim, Sefcik, & Bradway as quoted in Yuliani (2018), focusing on the researches that require answers to the question of who, what, where, and how. This qualitative descriptive method is mainly used in researches which focus on the understanding about problems revolve in social context and require constructions of theoretical framework and hypothesis to reveal the fact in reality (Anggito & Setiawan, 2018). This can be confirmed through the perspective of mercantilism of International Political Economy combined with historical aspect of Japan-South Korea encounter long before the happening of the trade war itself in 2019. The data were collected through secondary sources including scientific journal, reports by both Japanese and South Korean government officials, and other eligible data sources.

The framework of mercantilism will be used to explain the discussion of this paper in several ways. First, it will find out and explain the reason behind the Japanese's government decision in removing South Korea from their preferential whitelist of trusted partners. This part will include the literature review of the bilateral relations between Japan and South Korea before the happening of the trade dispute itself in 2019 through historical context. It will also include Japan-South Korea economic and trade cooperation, as well as the statistics related to the trend of their market relations. Second, it will also use to find out the mercantilism side of the Japanese government foreign policy towards South Korea in this trade dispute. Statistics about the impact of the Japanese government decision to remove South Korea from their preferential whitelist towards the global technology supply chain will also be provided.

## **RESULT AND DISCUSSION**

### **The History of Japan-South Korea Economic Relations**

The trade dispute happens between Japan and South Korea since 2019 is not the first encounter of both countries. Complicated bilateral relations in many aspects related to state relations between Japan and South Korea are the result of their deeply interlinked history long before the 21st century, especially those happened during the timeline of World War. The annexation by the Japanese Empire in Korean Peninsula started from 1910 until 1945 when Japan finally surrendered to the Allies. As the encounter of both countries marked by the use of hard power through territorial annexation, the presence of horrendous impression about the Japanese itself by the Korean cannot be avoided. Therefore, since Japan withdrew their troops from Korean Peninsula in 1945, neither any 'friendly' relation nor cooperation exist between Japan and Korean Peninsula.

Twenty years later, specifically on June 22, 1965, Japan under the leadership of Prime Minister Eisaku Satō and South Korea under President Park Chung-hee administration signed "the Treaty on Basic Relations between Japan and the Republic of Korea". This treaty of the basic relations between Japan and South Korea came into realization as Prime Minister Satō fully aware about the importance of changing the image of Japan as a 'villain' – that still imprinted due to the Japanese colonialism during the World War period – to a 'hero', especially for countries that had been colonized by Japan. Satō himself stated that Japan will ensure the free and peaceful situation of the world as Japan will "contribute to the improvement of global

welfare”, which fully change the direction of the Japanese foreign policy during his reign compare with his predecessors. This treaty can be considered as a good start for both countries' relations as it discusses the normalization of their diplomatic ties after it was damaged by the happening of the Japanese military colonization. This treaty work effectively to settle both countries view on the issues circulated during the wartime (Wi & Chang, 2016; Hattori & Leonard, 2021). Therefore, the normalization of the diplomatic ties in 1965 marked the beginning of Japan-South Korea's close bilateral relations, moreover in economic relations as the focus of Satō's leadership weigh heavily upon the certainty of economic growth of Japan.

The promising economic ties between Japan and South Korea that seems to bring good impacts for Japan, especially in realizing their national interest, somehow brought these two countries into a deeper and bigger picture of their bilateral relations. Considering the warm relations with South Korea after the signing of Basic Treaty and the huge potential of South Korea's market made the Japanese government agree to not normalize its bilateral ties with North Korea without the concern of South Korea (Hook et al., 2012). This economic normalization once again has successfully brought Japan into another accomplishment toward its national interest: maintaining its political position in international stage through the realization of 'ensuring the free and peaceful situation of the world' by making its bilateral relations with North Korea remain cold. This decision also made the Japanese government secure its national security through closer relations with South Korea and the US under the notion of security alliance.

As mentioned by Zhang (2018), despite some rifts happen between Japan and South Korea due to the dreary history of wartime, both countries always interlinked, moreover in bilateralism. During the 1997 Asia Financial Crisis, for example. South Korea receives financial aid from Japan. Not only that, later, Japan and South Korea are involved in numerous trade cooperation with the signing of bilateral Free Trade Agreement (FTA) and Trans-Pacific Partnership negotiations (TPP). The significant adjacency of both, moreover the dependency of South Korea to Japan after the normalization was shown through the existence of the Japanese market as South Korea's strategic partner. The number of imports to South Korea reached US\$ 166 million, or equal to 35 percent from the whole imports of South Korea. Not

to mention the massive share outward FDI from Japan that reached 84 percent in 1985, with manufacturing as Japan's top focus on their expansion of FDI to South Korea (G. Kim, 2017)

The framework of mercantilism is surely reflected on the decision of Prime Minister Satō to normalize the diplomatic relations with South Korea in 1965, and these are several reasons on the hypothesis. First, the involvement of the Japanese government represented by Prime Minister Eisaku Satō to establish economic cooperation with South Korea within the framework of the normalization. Right after the normalization, South Korea received US\$ 300 million of grant aid, US\$ 200 million of loan aid, and US\$ 300 million of commercial loans from the Japanese government. Japan also conducted cooperation under the Japanese steel makers firm, Yawata Steel, with South Korea's Pohang Steelworks after the signing of the Treaty on Basic Relations (G. Kim, 2017). The intervention of the Japanese government in the era of 1960s to shift the Japanese foreign policy direction toward economic growth can be categorized as a great success because scholars refer 1960s as the renaissance of Japan's economic, given that Japanese products heavily dominate the world (Honda, Toyota, Panasonic, Sharp, Sony) (Hook et al., 2012).

This massive economic growth of Japan brought Japan to deepen its contribution in international stage, moreover in financial sectors. In line with the normalization of the diplomatic relations between Japan and South Korea and the immense economic growth, during the Asian financial crisis in 1997, Japan provided US\$19 billion of financial aid as a part of its Official Development Assistance (ODA) program to the three countries that are considered to be the most affected by the Asian financial crisis – South Korea, Thailand, and Indonesia (Ministry of Foreign Affairs of Japan, 2021). The financial aid after the normalization and the 1997 ODA which technically is to help the three countries to raise from the financial crisis, was not merely a form of financial aid. It is largely discussed among scholars that the financial aid and the ODA itself carries the national interest of Japan which reflected on the awareness of Japan to start contributing to international stage (Kuong, 2018). The ODA that Japan's provide is only a tiny bit of the Japanese government efforts to achieve and maintain its important position in international political stage. Financial aid in the form of Japan Special Fund for Asian Development Bank plays another significant role in realizing the Japanese government national interest to become a state with a strong economic power and one of the most important actors in international stage. Japan in Asian Development Bank contributes

around 50 percent of the funding. Even in 2020, the Japan Special Fund for Asian Development Bank reached US\$112 million (Asian Development Bank, 2020; Hook et al., 2012).

As reported by International Monetary Fund (2021), Japan still ranked as the second largest financial contributors with the amount of capacity development contribution reached US\$685.1 million. Not only in IMF, the enormous financial contribution of Japan also recorded in World Bank, where Japan also placed as the second largest country in terms of voting power by 7.39 percent. It is worth to note that this voting power can only be possessed through the amount of contribution that certain country gives to World Bank for the world's economic development (World Bank, 2017). Thus, assessing from the agenda behind Japan's financial contribution and aid, especially the 1997 ODA and other financial aid provided by the Japanese government, it can be concluded that the use of the Japanese government power under the reign of Prime Minister Satō has successfully help the government itself to achieve their national interest: to shift their image from a 'rude-colonialist' during World War II to a 'reliable peace-democracy keeper', especially after the era of Cold War.

### **The Economic and Trade Rifts between Japan and South Korea**

It is worth to note that such complicated history between Japan and South Korea is prone toward rifts, especially in their economic and trade relations. This is scientifically proven through numerous disputes happen between both countries which most of it exists due to the prolonged resentment of the wartime history, moreover for South Korean.

The early economic rift was happened in 1986, right a year after the massive share outward FDI from Japan reached its peak and South Korea gained its very first surplus in its national economy since the war period. As claimed by G. Kim (2017), due to the "nationalistic emotion" arose in South Korea in 1986, the South Korean government tighten their trade relations with Japan by making the so-called '1<sup>st</sup> Five-Year Plan for Correction of Trade Imbalance with Japan'. This 1<sup>st</sup> Five-Year Plan required the South Korean government to localize the imported goods from Japan and promote export to Japan to correct the 'trade imbalance', as the dependency of South Korea to Japan was undeniably huge. This five-year plan somehow had significant indirect impact towards the export activities of Japan as reported by Ministry of Finance of Japan (2021) that the export in 1986 has decreased by JP¥ 6,6 billion compared to 1985.

**Table 1. Yearly Total Value of Japan Exports and Imports (Unit: 1000Yen)**

Year	Export	Import
1985	41,955,659,471	31,084,935,207
1986	35,289,713,887	21,550,717,070
1987	33,315,191,383	21,736,912,673

Source: Ministry of Finance of Japan. (2021). *Total Value of Exports and Imports (1950 – )*.

Retrieved November 10, 2021, from Ministry of Finance of Japan – Trade Statistics:

[https://www.customs.go.jp/toukei/suii/html/nenbet\\_e.htm](https://www.customs.go.jp/toukei/suii/html/nenbet_e.htm)

The different views in conducting a larger scale economic cooperation between Japan and South Korea can also be blamed for the strained economic relations of both countries. It is based on what happened during the year of 2013 to the end of 2016, where the scholars see the opportunities for Japan and South Korea to move into a much closer bilateralism under the framework of Trans-Pacific Partnership (TPP). Unfortunately, this prospect cannot be realized as Japan strongly agree and even joined the TPP to strengthen its alliance with the U.S, while South Korea prefer to conduct intimate economic relations with China, the biggest economic rival for the U.S (Choi & Oh, 2021).

Previously in 2015, the economic relations between both countries – especially trade – remained peaceful as the ruling prime minister and president of Japan and South Korea at that time, Prime Minister Abe and President Park Geun-hye, conduct an accord to resolve the historical conflicts between the two countries. At that time, the Japanese government apologized and compensated the victims of comfort women happened during wartime with JP¥ 1 billion. This accord even stated by the Prime Minister of Japan himself, Abe, as the “new era for Japan-South Korea bilateral relations” (BBC News, 2015). However, two years after the accord, President Park Geun-hye impeached by the South Korean due to corruption and abuse of power, which since then, made the relations returned to the scratch, and even made the bilateral economic ties worsen. The comfort women issue began to raise the agenda to boycott Japanese product in which it is initiated by the citizens of South Korea, especially the comfort women activists. This boycott includes the exclamation to not buy any Japanese products (especially clothing, transportation, and food products), nor to travel to Japan (Kalinova, 2020; T. Kim, 2019). This surely affects the trade and economy of Japan, as the export value of Japan to South Korea decreased, although there was no restriction applied by the South Korean

government itself. This condition even worsens after the trade restriction imposed by the Japanese government to South Korea that caused the trade war, in which the commodities that previously already affected by the comfort women issue began to drop severely in 2019.

Table 2. Japan Exports to South Korea 2017-2019 (Clothing, Transportation, and Food Products) (US\$ Thousand)

Year \ Products	Clothing	Transportation	Food Products	Total
<b>2017</b>	349,844.99	1,675,614.01	310,805.86	2,336,264.86
<b>2018</b>	351,515.30	1,549,631.94	357,537.84	2,258,685.08
<b>2019</b>	344,672.52	1,414,795.23	265,229.21	2,024,696.96

Source: World Integrated Trade Solution. (2021). *Japan Exports by Country and Region (2017–2019)*. Retrieved November 30, 2021, from World Integrated Trade Solution – World Bank: [https://wits.worldbank.org/CountryProfile/en/Country/JPN/Year/2017/TradeFlow/Export/Partner/all/Product/50-63\\_TextCloth](https://wits.worldbank.org/CountryProfile/en/Country/JPN/Year/2017/TradeFlow/Export/Partner/all/Product/50-63_TextCloth)

Although so, Japan and South Korea still interlink closely despite experiencing some 'hot-and-cold' situations. There are also several disputes filed by Japan to World Trade Organization with South Korea as the respondent to reach the settlement. First, the case of fishery goods import ban from certain areas of Japan imposed by South Korea which the panel report established in February 22, 2018, that Japan claimed the measures are inconsistent with several Articles of the SPS Agreement and Article XXIII:1 of the GATT 1994, in which this dispute already settled in June 2019 after South Korea implement the recommendations from the World Trade Organization (World Trade Organization, 2019). Second, the complaints from the Japanese government towards South Korean government regarding the issue of continuing the imposition of anti-dumping policy for stainless steel bars from Japan. The Japanese government found inconsistency of the measure of price and volume effects of Japan exports towards South Korea with several articles included in Annex II of the Anti-Dumping Agreement of World Trade Organization and Article VI of the GATT 1994. The Japanese government was requesting a consultation regarding this issue to the Dispute Settlement Understanding of World Trade Organization in June 2018. In regard of this issue, in November 2018, the Panel of this dispute chose to commit Judicial Economy from the complaints filed by Japan, as Japan, on the other hand, remained its position on the findings of inconsistency related to this case

of anti-dumping duties for stainless steel bars from Japan. Two years later in 2020, the Panel from the World Trade Organization accepts the complaint from Japan and obliges the government of South Korea to extend its imposition of anti-dumping on stainless steel from Japan (METI of Japan, 2020; Ministry of Foreign Affairs of Japan, 2020). Third, the complaint filed by Japan related to South Korea's commercial vessels in November 2018 and January 2020. This complaint claimed that South Korea already violating the rule imposed by the World Trade Organizations in regard to the South Korean government providing subsidies for their domestic shipbuilding industries (Hyundai Heavy Industries and Daewoo Shipbuilding & Marine Engineering Co.), in which the Japanese government claimed that the subsidies contradicting with several Articles of the Subsidies and Countervailing Measures (SCM) Agreement and Article III:4 and VI of the GATT 1994. The two countries already held a bilateral meeting in December 2018, however, this bilateral talk between Japan and South Korea did not resolve anything yet as the two East Asian countries have not reached the mutual understanding on the issue, resulting the Japanese government filed another complaint as the continuation of the first complaint towards this issue in February 2020 (K. Kim, 2020; World Trade Organization, 2018, 2020).

Meanwhile, the latest economic rift between both escalated into a trade dispute – some articles even explicitly regarded this rift as 'trade war'. From the perspective of Japan, the trade dispute happened as a result of the accusation toward Mitsubishi Heavy Industries of Japan, Japan's Nippon Steel and Sumitomo Metal at the end of 2018 by the Supreme Court of South Korea. The Supreme Court demanding compensation for the victim of forced labor during the colonialism of Japan worth US\$382,700 in total (BBC News, 2015). This step taken by the South Korean government regarded as 'inappropriate'. As the result, in July 2019, the Ministry of Economy, Trade and Industry of Japan announcing that they decided to remove South Korea from their preferential whitelist (Hosoe, 2021). Since then, even after the resignation of Abe and Yoshihide Suga took the reign, the relations between Japan and South Korea remained cold (Sugiyama, 2020).

The happening of economic rift, before and during the existence of the 2019 Japan-South Korea trade dispute undeniably marked as the powerful effect that soft power has on the relationship between two neighboring countries in East Asia. Soft power can be described as the involvement of intangible power in achieving the national interest. Within this

framework, the attempts that Japan and South Korea has been made during the timeline after the normalization of their diplomatic ties can be counted as soft power, in which no tangible power involved, moreover for the case of the Japanese government decision in removing South Korea from their preferential whitelist. Although Nye, as mentioned in Yani & Lusiana, (2018) believes that soft power constructed from culture, value and benevolence, the economic rifts between Japan and South Korea cannot be counted as the result of the execution of hard power. It is because the initial relation between both countries was conducted through attraction by the diplomatic normalization and the funding from Japan to South Korea to develop their economy after the happening of several global economic turmoil. Therefore, the point of view of mercantilism which assume the world is anarchic as there is no higher entity that will impose rules and sanctions toward states makes the rifts happened on the case study provided before in the nature of both countries' relation. State needs to protect themselves while also trying their best to achieve their national interest in state-to-state relations. The absence of tangible power through the happening of economic rifts between Japan and South Korea also worth mentioning that soft power took part on this relation.

### **The Reasons Behind South Korea Removal from Japan's Preferential Whitelist**

The preferential whitelist on the export market is not only implemented by the Japanese government. In fact, political economy unions such European Union and other state's government like Australia also put their best efforts to minimize the disadvantages that might follow within the liberalization of trade by making preferential whitelist. In the case of Japan, the preferential whitelist or Group A that has been implemented since 1949 by the Ministry of Economy, Trade and Industry (METI) is a list of trade partners which can obtain export license without establishing its own Internal Compliance Program, abbreviated as ICP (METI of Japan, 2021b). ICP is the policy to control the export measures under the relevant export control legislation. This policy includes the standard operating procedures to manage all the risks that related to export activities and controls (METI of Japan, 2021a). This means that the Group A countries listed by the METI of Japan are not subjected to any limitation or control in their trade with Japan. This preferential whitelist included 27 countries inside (before the exemption of South Korea from the list), including the U.S, the United Kingdom, Canada, Germany, etc. South Korea started to be in Japan's preferential

whitelist in 2004 (Endo, 2019; METI of Japan, 2021b; Sugihara, 2019; Yamazaki et al., 2019). There are several reasons on why Japan inserted South Korea in its preferential whitelist and vice versa. Beside the fact that both countries are located in the same region and also the strategic allies of the U.S, the interdependency of both can be taken into consideration of the preferential whitelist's implementation can increase their efficiency in trade relations. It can be seen from the table below that there is a significant growth of trade activities between Japan and South Korea before and after the inclusion of South Korea to Japan preferential whitelist.

Table 3. Japan Exports and Imports Value to South Korea Before and After Preferential Whitelist

<b>Year</b>	<b>Exports</b>	<b>Imports</b>
2003	\$34,806,425,996	\$17,903,293,102
2004	\$44,257,402,368	\$22,046,496,861
2005	\$46,629,901,958	\$24,414,808,131

Source: UN Comtrade Database. (2021). *Japan-South Korea Trade Flows (2002–2006)*. Retrieved December 22, 2021, from UN Comtrade Database: <https://comtrade.un.org/data/>

As Japan announced the removal of South Korea from its preferential whitelist, the concept of preferred trade partner or Group A member has not attached to South Korea anymore. This removal means that the export from Japan to South Korea will no longer have "all-free access" or on the other word, some examinations towards the export might be implemented. The chemical materials which tightened by the exports control in preferential whitelist are classified as raw material for semiconductor manufacturing, including fluorinated polyamide (raw material for cell phone and television screen), photosensitizing agent resist (material for chip producing), and high purity hydrogen fluoride (substantive material in semiconductor) (Asih & Suksmonohadi, 2019).

This 'bold step' taken by the Japanese government was already measured carefully as there are two crucial factors that become the reasons why the Japanese government removes South Korea from its preferential whitelist:

1. Rivalry in Global Technology Market

As mentioned earlier, the dependency rate of South Korea to Japan's chemical products is obviously high. To be concise, according to Yang & Park (2019) as cited in (Hosoe,

2021), the dependency of South Korea's import to Japan on fluorinated polyamide is 94 percent, photosensitizing agent resist is 92 percent, and high purity hydrogen fluoride is 44 percent. With the high dependency of South Korea toward Japan's export commodities, this also influence the dependency rate of Japan toward South Korea on its export. Japan External Trade Organisation (JETRO) as cited in Endo (2019) points out that the dependency of Japan toward South Korea import for the three chemical products are 22.5 percent, 11.6 percent, and 85.9 percent, respectively. The removal of South Korea from Japan's preferential whitelist and tighter control of chemical products export also results in the possibility of increased tariffs on trade between the two countries and visa restrictions for South Korean citizens (Asih & Suksmonohadi, 2019).

The export restriction that the Japanese government imposed on South Korea for semiconductor manufacturing after the exemption of South Korea from the whitelist is also considered as one of the ways for the Japanese officials to guard their domestic market in semiconductor manufacturing. As the result, the Japanese government will maximize the output production to their country's manufacturers of electronic products. This intervention from the government in the form of domestic market protection is not a new phenomenon in the case of Japanese economic activity. Similar step was also taken by the Japanese government in the early 2000s, where Japan's market shares constrict as the electronic production operations focused more on the foreign market, making the domestic market shoveling. To overcome this weakening of domestic market, the Japanese government along with the Japanese manufacturing companies did several 'reformations', including the policy to shift their focus of semiconductors production from foreign market to domestic market. This practice has successfully acquired the national interest of the Japanese government to strengthen their economy through the protection of their domestic market. The increasing production of electronic products in Japan (digital camera and LCD TV) victoriously increase their revenue as finished goods have higher value than the raw materials (Japan External Trade Organization, 2004).

The reason behind this removal actually already stated by the Prime Minister of Japan himself, Abe, as a form of "violation of the 1965 Treaty of Basic Relations", yet this reason is way too political rather than economical. We know that this preferential whitelist exemption will heavily affect the continuity of economic activities and relations between both countries

and even the South Korean themselves regard this preferential whitelist exemption as an “economic aggression” (Choi & Oh, 2021). Furthermore, the reason quoted by Abe is only the surface behind the complex variable of what makes Japan removes South Korea from its preferential whitelist. Quoted by Zhang (2018), there is a ferocious rivalry between Japan and South Korea in technology market, especially for the market share in China. This is proven through the action took by the South Korean government on the trilateral FTA negotiations (which includes China also) by favoring China instead of performing a ‘harmonious’ trilateral cooperation along with Japan and China. Furthermore, as mentioned earlier, the global technology market is depending 75 percent towards South Korea for the main component used in electronic devices, memory chip, as Samsung 005930.KS and SK Hynix 000660.KS is the world’s top two memory chipmakers (Yang & Park, 2019). Calculating the rivalry between Japan and South Korea on China’s technology market and the dependency of electronic integrated circuits and technology global supply chain into South Korea, the removal of South Korea from Japan’s preferential whitelist will expose South Korea electronic devices industry to disadvantages as tighter control on chemical materials export is implemented by Japan. It is proven through the significant drops of South Korea’s overall exports up to 13 percent and semiconductor sales up to 30 percent, compared to a year earlier, a month after the removal from Japan’s preferential whitelist (Bermingham & Jeong-ho, 2019).

## 2. Strategic Alliance with the U.S

Another factor beside the rivalry in global technology market is the existence of beneficial and strategic alliance with the U.S. As we know, Japan and South Korea are the two strategic allies of the U.S, especially under the notion of regional security. Both countries are expected to carry and support the national interest of the U.S, while the U.S offers regional security as the response. However, after the massive economic growth of China, Japan and South Korea started to face clash in viewing its direction of national interest. Japan, under the leadership of Abe, choose to stay as the strategic allies of the U.S under the concept of ‘proactive peace promoter of global diplomacy’. The intention behind this direction is to counter the influence of China as the fastest growing economy in the world.

On the other hand, South Korea under the administration of President Moon Jae-in, which his tenure still running until the present day in 2021, tends to develop warmer relations with China, one of the biggest rivals of the U.S. This step taken by South Korean government

under the presidency of Moon underlined the interest of South Korea in dealing with the military threat from its not-so-identical twin, North Korea. This threat seemed to be one of the main focuses of Moon administration, which Moon started to contemplate which alliance would be more beneficial and 'helpful' in embellishing its relations with South Korea, and Moon chose China over the U.S and Japan under the notion of China considered more reliable than the U.S and Japan to preserve North Korea and its military threat (Park, 2019).

While the U.S did not explicitly stated its 'favoritism' toward Japan during the happening of this trade war, the notion of Japan being a 'best friend' for the U.S already become a public secret, moreover after the joint statement made by President Trump during U.S.-Japan Summit in 2017 which remarked that *"the unshakable U.S.-Japan alliance..."*, *"The U.S. commitment to defend Japan..."* and *"The U.S and Japan will further enhance cooperation..."* (Envall, 2017; Ministry of Foreign Affairs of Japan, 2017). It is reflected through several statements made the U.S' officials and the signing of several agreements during the happening of Japan-South Korea trade war which prove warmer relations between Japan and the U.S. First, as stated by Bolton, the U.S national security adviser during Trump's tenure, Japan under the administration of Abe by far is the most successful country in terms of alliance with the U.S as the Japanese government maintain its humble and proactive state under the same interest with the U.S. One of the example is the implementation of the Free and Open Indo-Pacific vision, in which although claimed to be a vision owned by the U.S and their allies 'to strengthening the international order'. This Free and Open Indo-Pacific proven to be firstly initiated by Japan during Prime Minister Abe's reign and gracefully embraced by President Trump as its vision heavily weighed upon the interest of both the U.S and Japan to counter the growing hegemony of China (Bolton, 2020; O'Brien, 2021). Second, the statement made by President Trump during his 30 minutes telephone call with Prime Minister Abe on August 2020 in which Trump said that *"...the U.S.-Japan relationship was stronger than it has ever been under the leadership of the greatest prime minister in Japan's history"*. This conversation implicitly tells the effort made by the Japanese government to proactively cooperating with the U.S to counter the influence of China in international stage during Prime Minister Abe's leadership plays important role in strengthening the bilateral ties between the two countries (Takenaka et al., 2020).

As stated by Hecksher in Magnusson (2015), the involvement of government on the market is a form of protection to strengthen the market itself. This description of mercantilism is in line with the Japanese foreign policy direction that shifted from military perception (*fukoku kyōhei*: rich country, strong armed forces) toward economy perception (*fukoku kenzai*: rich country, strong economy) – which means that in order to gain bigger power in international stage, Japan is no longer use its military, but it uses their economy power (Hook et al., 2012). This shift of the Japanese foreign policy direction is proven through the reduction of America military base in Japan and the removal of nuclear weapons in Okinawa during the early days of Satō (Hattori & Leonard, 2021). This step taken by the Japanese government is in line with the historical perception on political power that since the sixteenth century, the measurement of political power is heavily related with international trade and commerce income (Magnusson, 2015). Measuring the negative impact of tighter export controls on South Korea, this decision of the Japanese government can be categorized as a step to strengthen Japan's economy by securing its domestic market and weakening South Korea's economy, especially in foreign trade. The export control not only to secure their domestic market, but also to secure their chemical materials market and electronic market in general. This hypothesis is proven through the superiority of the Japanese products in global market, especially in electronic, technology and automobile. The zero tariffs that the Japanese government impose for their automobile imports has become one of the reasons of the successful behind the bigger dominance of Japan in the world than South Korea. Even before the happening of this trade war itself, the South Korean products has been experiencing hardship in penetrating the global market, moreover after the implementation of whitelist exemption by Japan. By securing their electronic and technology market through the removal of South Korea from their preferential whitelist has successfully made Japan as a country for the global technology market 'to fully depend on' (Choi & Oh, 2021). The successful of the Japanese government intervention in their country's economic activity to secure and strengthen Japan economic position in the global market is reinforced through the report conducted by Korea International Trade Association (KITA) as cited in Hosoe (2021) that the export of South Korea electronic integrated circuit has been decreasing gradually since July 2019, the time when the Japanese government officially announced the removal of South Korea from its preferential whitelist. The decreasing demand from the global technology market towards South Korea also

supported by the statement from VAIO spokeswoman that they will “opt for alternative memory chip supplier outside South Korea”, indicating that the trend of decreasing demand of memory chip toward South Korea will remain unbearable if the trade dispute still going on in the near future (Yang & Park, 2019). Reported by the statistic from Trend Economy (2021), the exports of South Korea for electronic integrated circuit during 2019 after the exemption from the preferential whitelist by Japan is decreasing by US\$ 39,229 million compared by 2018 before the exemption of South Korea. The same condition also exposed toward the export of high-technology of South Korea, which as reported by The Global Economy (2021), it experiences a significant decrease from US\$ 109,810 in 2018 to US\$ 79,118 in 2019.

## **CONCLUSION**

This research concludes that the successful of the Japanese government intervening the economic activities of Japan to achieve their national interest to become one of the crucial actors in international stage is proven through the big role plays by Japan in international world through economic activities including the allocation of bilateral and multilateral financial aid and funding, and the massive growth of their FDI, especially on post-Cold War era. After years of high interdependency with South Korea, the Japanese government finally started to protect their national interest by intervening the economic activities of the country. While doing so, the Japanese government removes South Korea from their preferential whitelist of trusted partners as the Japanese government realize that the rivalry in global technology market with South Korea and the strategic alliance with the U.S need to be prioritized in order to strengthen their market, especially the chemical material and electronic market. The fact that Japan and South Korea are competing each other in global technology market made the Japanese government finally took the decision that similar with what the Japanese government did in 2000s, which proven to be successful as both their domestic and international market grow stronger after the removal of South Korea from their preferential whitelist. This decision also surely emerging disadvantages towards South Korea, as South Korea export of technology and electronic integrated circuit towards the global market weakening; leaving the global market of technology and electronic integrated circuit depends more on Japan. The top global technology producer started to look for alternative from South Korea to fulfil their needs for memory chip as the main component of technology and electronic devices production. The

warmer relations and stronger alliance between Japan and the U.S after the removal of South Korea from Japan's preferential whitelist also marked as a successful step taken by the Japanese government to protect Japan's national interest to become an important actor in international political stage through economy. Sanction imposed by the Japanese government towards South Korea in this trade dispute, from the perspective of economic mercantilism, can be viewed as the sign of Japanese government maximizing their use of soft power to defend their technology market. Despite scholars see this trade dispute as 'selfish', the Japanese government has successfully protected their national interest, in which the logic of mercantilism is applied within the decision of the Japanese government itself.

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