JAPANESE—SOUTH KOREAN ECONOMIC RELATIONS ON TROUBLED INTERNATIONAL WATERS

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I. Introduction

This paper deals with the state of the economic relationship between Japan and South Korea on the twentieth anniversary of the normalization of their relations. The purpose and methodology of the paper are shaped by two salient developments concerning the two neighbors in Northeast Asia. In the first place, both countries have grown so large that they invite reactions from the rest of the world to their trade actions. In fact, Japan and South Korea have been singled out for international name-calling. Having been called "economic animals" and the like for some time, the Japanese are now called the occupants of "rabbit hutches." Poor South Korea, not quite deserving a label of its own, is merely called "another Japan." These are insidious developments which they must take to heart. Accordingly, their relationship will be reviewed in the context of global issues.

In the second place, the economic relationship between the two countries has been in a stalemate lately, mainly with respect to what South Korea wants from Japan—high technology. South Korea appears to have wasted valuable time in waiting for the stalemate to be broken without realizing the possibility that it may last for some time. South Korea needs to better understand what lies behind the Japanese trade posture. South Korea must also understand that she is not going to be an exception to that posture. An understanding of the forces behind Japanese trade behavior is also important for the rest of the world, especially the United States. How the latter will manage trade problems with Japan will affect the nature of the world trade atmosphere in the period ahead and, in turn, Japanese-South Korean relations.

In comparison to the usual treatment of bilateral economic relations, this paper will carry only a limited amount of analysis pertaining to the specific economic transactions between the two countries. Instead, a number of detours into domestic matters, especially those of Japan, will be featured. This approach of delving into domestic affairs in dealing with international

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matters is justified by the recognition that the foreign policy of a modern nation is "essentially the end product of a system of domestic power relations."¹ In the case of Japan, this approach is further justified by the dominant role that economic means—necessarily anchored in domestic economic parameters and power structure—assume in the ultimate foreign policy goal of national security for a militarily limited nation.² Inasmuch as Japan is the dominant party in the bilateral relationship in question, the focus will naturally be on Japan. Furthermore, lurking behind the scene will be the United States, the country that has special relationships with both.

It is hoped that this paper will contribute to the understanding of the Japanese trade posture by all the parties having a stake in the future course of Japanese action. The hope is that Korean understanding of Japan will be enhanced and will lead to a realistic course of action for South Korea in the period ahead. And it is hoped that the Japanese understanding of their own behavior will be enhanced, awakening a realization of the need for a bold new policy in Japan. Finally, it is hoped that a better understanding by the rest of the world of the close link existing between Japanese foreign economic behavior and domestic socioeconomic realities will contribute to the rebuilding of a liberal world economic order in the period ahead.

II. On The Korean Side

Since the normalization of relations both South Korea and Japan have done exceedingly well for themselves. In 1965, per capita GNP was roughly $600 in South Korea and $4,000 in Japan, expressed in 1980 prices. The respective figures increased to approximately $2,000 and $10,000 in 1983. From 165 to 1983, GNP per capita surged by roughly 2.5 times in Japan and by 3.5 times in South Korea. During the same period, the per capita GNP of the United States edged up from $9,000 to $12,000 in 1980 prices, a gain of only about one-third.³

Even more flourishing was their foreign trade. Table 1 shows changing shares of total world exports for the five largest exporting countries, along with South Korea. The Japanese share of world exports surged from 2.2

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