



**JAPAN-SOUTH KOREA ECONOMIC RELATIONS,
FROM THE 1960S ONWARD**

BY

PUNTHITA SEKSARN

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MS. PUNTHITA SEKSARN


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Chairman




(Prof. Jaran Maluleem, Ph.D.)

Member and Advisor



(Assoc. Prof. Sunida Aroonpipat, Ph.D.)

Dean



(Assoc. Prof. Puli Fuwongcharoen, Ph.D.)

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Author	Punthita Seksarn
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ABSTRACT

Based on realist perspectives, if Japan and South Korea are rational actors and strategically think about their national interests, their relations should be undoubtedly cooperative. The two countries share similar political ideologies, embrace Western values, and have a common security threat of North Korea. Regarding their interests, the relations could be developed. In a similar way, liberals would envisage the interdependent form of the economic relationship between Japan and South Korea. As of their institutional arrangements, democratic values, and economic conditions, both countries' cooperation in certain aspects should be inevitably formed.

The constructivists would argue that identity, perception, history, and interaction between the two countries have played essential roles in Japan and South Korea economic relationships. It must be noted that history becomes one of the factors that has an impact on the other three factors which are identity, perception, and interaction in some periods. On the contrary, history would not act as a factor when historical matters are not raised by either or both sides in a certain time.

Recently, Japan and South Korea have had a disagreement over a treaty related to history. As this incident eventually led to economic issues such as the

removal from the 'whitelist' and the bilateral trade war, this topic drew the public's attention.

This independent study is about how Japanese and South Korean national identities, perceptions, and interactions, influenced by history in some periods, impact the two countries' relationships. Hence, the study applied the constructivist international relations theory to explain how these factors determine their economic relationships since the 1960s.

This research was conducted by the qualitative method and the collection of secondary data from various credible sources, including the economic statistics of Japan and South Korea from the 1960s onward. From a constructivist viewpoint, it was found that Japanese and South Korean identities, perceptions, interactions, and histories in some periods are the factors that shape their economic relationships. For Japan, the rise of Japanese nationalists seems to lately play an increasing role in Japanese politics which influences their identity, perception, and action. In addition, South Korea found other alternatives in terms of markets and economic partners. Korea started to reduce its economic dependency on Japan and direct to a globalized economy. More importantly, historical matters have been significantly raised by either or both countries in some periods; this affects the identities, perceptions, and interactions of Japan and South Korea until the 21st century. From the perspective of this study, it argues that the identities, perceptions, and interactions of both nations which have also been impacted by historical elements in some periods support their behaviors and actions and later determine their economic relationship.

Keywords: Japan, South Korea, Economic Relations, Identity, Perception, Interaction, History, Nationalism

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CHAPTER 1

INTRODUCTION

1.1 General statement of the problem

The economic relations between Japan and the Republic of Korea (ROK or South Korea) have both strengthened and weakened from the 1960 century until the present. In June 1965, Japan and South Korea signed the Treaty of Normalization of Diplomatic Relations regarding the settlement of the problem between the two nations. This pact contributed to South Korea's economic development and made Japan able to export its products and services to South Korea (Ko, 1972). Moreover, a country with a labor-intensive economy like South Korea could supply low-wage labor forces that Japan would need for its growing capital investment in South Korea. Further, the governments of Japan and South Korea have attempted to negotiate free trade agreements in order to make closer economic relationships since 2012. This decision implies two things. The first one is certainly the benefits for their economies such as harmonizing existing trade-related regulations and systems. The second one is that, from a political point of view, concluding agreements such as an FTA between Japan and South Korea may increase their bargaining position as one regional actor in the World Trade Organization (WTO). As a regional actor in the global market, this could strengthen the global competitiveness of both Japanese and Korean enterprises. Owing to these reasons and implications, during the period of the early 1960s, trade ties started to improve including both imports and exports from and to each other. Japan's imports from Korea grew more rapidly than its imports from other economies, and its exports to Korea also rapidly increased. In the mid-1970s, on the economic front, Japan started advancing its interest in South Korea; its direct capital investment in Korea had increased during the 1965-1970 period. The Korean government, additionally, created "free export zones" in order for foreign-owned factories in Japan which employ Korean labor to export their products without tax (Bae-ho, 1980). In other words, the 1965 Normalization Treaty has served to open up further economic cooperation for Japan and South Korea since then.

Many researchers, such as a paper by William E. James (2001) and Kim Gyu-Pan (2017), conducted their studies on Japanese and South Korean trade ties by concentrating that their relationship has gradually changed to cooperation and interdependence after they normalized their relations. Some researchers, from a realist perspective, emphasize the cooperative relationship between Japan and South Korea as well but in terms of military and security cooperation in order to maximize power. Liberals do also mention the cooperation between the two countries since the other party is an essential economic partner in terms of investment and export and import. However, it was stressed that despite various political and economic reasons for Japan and South Korea to ally such as their share of common enemies like North Korea and their high dependence on their goods particularly high-tech industrial products, their peoples are still concerned about nationalistic pride (Doi & Tago, 2019).

From a constructivist perspective, identity, perception, interaction, and also history matter. Considering Japan-South Korea economic relations following the normalization of 1965, they had been strengthening such as holding annual bilateral ministerial conferences (Ko, 1972). For instance, in 1967, the two parties agreed to increase mutual cooperation for prosperity by; Japan agreed to provide more commercial loans for Korea's five-year economic development plan; Japan would authorize more exports to Korea about \$30 million in fishery and shipbuilding funds by the end of 1968 (Ko, 1972). In mid-1968, they made other major agreements including the topics on further economic cooperation, trade, agriculture and fishery, and transportation and shipping. South Korea, for instance, agreed to the tax treaty with Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, as an initial progress towards a treaty on industrial property trademarks, designs, patents and others, and agreed to accept another Japanese bid for fulfilling Japanese trademarks. Both nations expanded the scope of agreements, so there are many reported cases of the movement of Japanese and South Korean businesses and investments in the other country.

Despite these steps, once issues related to history reemerge, their economic ties get affected. One paper (Mukoyama, 2012) mentioned that Economic Partnership Agreement (EPA) negotiations between the Japanese and South Korean

governments, which began in late 2003, have been suspended since 2004 until now in part due to the Japanese's refusal to open up agricultural and fisheries markets and partly due to Japanese Prime Minister Koizumi's visit to Yasukuni Shrine, a controversial symbol of Japan's war legacy. Another paper by Korostelina (2019) also claimed that their relations are influenced by unsettled controversies over occupations and wars in history. Other than the Shrine in Tokyo, the author mentioned issues about comfort women and workers serving the Japanese military during the Second World War and about Takeshima/Dokdo islands, at which both Japan and South Korea have claimed as theirs. These issues are still unsettled and have an impact on Japan and South Korea relations in certain periods.

Historical issues of Japan's occupation of Korea emerge in today's era as well. In October 2018, the Supreme Court of Korea handed down a decision that Japanese private firms must compensate Korean workers who were called up to work for those firms during the Pacific War in 1941-1945 (Ju, 2020). For example, Mitsubishi Heavy Industries of Japan was requested to compensate those Korean workers in South Korea. The Korean government supports this Court's decision although this issue has already been settled for Japan in the 1965 Agreement. The problem is that the two sides interpreted the Agreement differently. On the one hand, the Agreement is interpreted that the Korean government has the responsibility to pay alleged Korean victims of Japan's annexation of Korea. On the other hand, the Korean government understands that Japan must take this responsibility and is obliged to pay compensation to the victims. This became a lasting international legal issue between the two countries recently. At a national level, South Koreans who had negative perceptions of Japan agree with their government and want compensation from Japan. As a response to Japan's denial, Koreans started linking this issue with their economic relations with Japan by demanding a boycott of Japanese products, having several demonstrations in front of the Embassy of Japan in Seoul, and signing a petition calling for an end to tourism to Japan. On Japan's side, Japanese people believe that this Court's decision is incompatible with the Agreement and feel that this issue is no longer their responsibility. After surveying in Japan one year since, it has been shown that a majority of Japanese respondents want and support export restrictions on some

required materials to South Korea in response to Korean action. This is one example of the disputes from the past showing that negative perceptions can last long for current generations and can have an effect on economies and could determine the economic relationship between Japan and South Korea in the present time.

1.2 Significance of the research

The researcher found that Japanese and South Korean relations have always transformed from period to period. More importantly, both countries have disagreements relevant to historical matters that could eventually affect their economic relations. Therefore, the researcher would like to apply the constructivist International Relations (IR) theory in order to understand how this economic relationship is influenced. By using this approach, the paper studies the factors including identity, perception, history, and interaction of individuals and groups of both Japan and South Korea. The paper explores how these elements are influenced by historical events in some periods and consequently impact Japan-South Korea economic relations. Furthermore, this study will provide knowledge of how their relations have transformed from one period to another period. Finally, it will include recent events and updated information on their economic ties.

1.3 Research question

To achieve so, I will conduct the research with the following research question:

1. How have Japan-South Korea economic relations been influenced and transformed since the 1960s onward?

1.4 Research objectives

- To study the economic relations between Japan and South Korea since the 1960s
- To consider past events, since late 19th century, that are still relevant in the Japanese-South Korean relationship in the contemporary era

- To study main factors including identity, perception, history, and interaction that affect Japan-South Korea economic relations



CHAPTER 2

REVIEW OF LITERATURE

2.1 Relevant theory and concept

The international relations (IR) theory used to answer this paper's research question is constructivism. Constructivism is a social theory of international politics in which world politics is shaped by ideas. For constructivists, an idea is a very essential element because it constructs and gives meaning to reality. As it is widely used as an example, Alexander Wendt, German-born American political scientist, one of the most influential theorists of the social constructivist approach to the study of international relations, says that "500 British nuclear weapons are less threatening to the United States than 5 North Korean nuclear weapons" (Wendt 1995, 73). This is how social actors have ideas about things, perceive and understand one particular issue through learning, socialization, and a structure of shared knowledge. Nonetheless, these shared or intersubjective understandings vary according to an individual or a group's identity. The identity represents who I am or who we are. Thus, different identities can have different understandings toward one same issue, and this difference influences how they choose their own interests which represent what they want. In other words, interests are not pre-given and can be changeable over time depending on their identity. After that, all these elements will influence the state's actions and interactions, and social practices. Based on constructivists' assumption, if a leader of a state is highly nationalistic, this will become one of the considerable determinants of a state's course of events. Leaders can also be affected by other personal factors such as the need for power, perception of control, and distrust of others. Consequently, when some of these factors change, actions will change accordingly. As for Japan and South Korea, it can be stated that their relationship has been switching between a rising and declining trend since these factors alter from time to time.

2.2 Previous research

In terms of the economic relationship between Japan and South Korea, since the 1960s, it started to improve, in particular after the normalization of diplomatic relations in 1965. The paper by Rhyu and Lee (2006) explained the formulation of and changes in Japan-Korea economic relations. It firstly argued that Korea's imitation of the Japanese political-economic system and the Japanese colonial rule, such as a competent bureaucracy, brought about Korean economic development and success during the 1960s. From an economic viewpoint, South Korea developed its industries by imitating Japan's technology (Kim, 1997) as well as importing core technologies and capital goods from Japan. As a result, this is the period that South Korea could be successful economically by reaching, reproducing, and replicating Japan's economic model, and it has grown increasingly dependent on Japan. Yet, this dependency led to the increasing trade imbalance on the South Korean side. Some researchers believe that this bilateral deficit will create serious disputes, impede FTA negotiations, and hinder enhanced economic cooperation between South Korea and Japan.

As early as the 1970s, however, Korea's economic path started to diverge from that of Japan. It was argued that domestic factors in Korea led to such a shift. South Korea used to rely on imports from Japan for immediate goods and production goods since it commonly produces the same products as the Japanese markets, LDC televisions as an example. Nonetheless, the new policy ideas of South Korea caused a fundamental shift in economic development strategies. South Korea has pursued globalization strategies and promoted its economic presence in the international community. During the 1970s to the 1990s, consequently, South Korean firms began to localize their parts and raw materials and tried to diversify their sources such as those from western countries. Hence, it was argued that these domestic elements led to South Korea's notable economic developments rather than imitating the Japanese economic model as previously claimed.

At an international level of analysis, the arguments go in the same direction that South Korea has been less dependent on Japan but because of the role of other actors in the international arena. By analyzing their economic relationship at an

international level, the rise of China, the significance of the United States, as well as the emergence of other markets are basically brought into the study. It was found that in the early 1980s the United States surpassed Japan as Korea's largest trading partner and had continually maintained its status throughout the 1990s. Furthermore, Korea's trade flow began to divert from Japan to China, whereby the trade ties between Japan and South Korea which had been steady for 30 years and based on trade imbalance began to crumble (Kim, 2017). China did replace Japan as Korea's second-biggest trading partner in 2001; in 2004, China became the biggest one. And as the largest import partner of Korea, Japan lost this position to China again in 2010. This is the shift in external circumstances surrounding Japan and South Korea that allowed Korea to be less reliant on Japan from the 1970s onward because it has been offered the potential for demand growth for its economy by these nations and that could lead to a further deterioration of economic ties with Japan. One researcher also added that the rise of China becomes a barrier to the cooperation and resumption of negotiations between the two countries. Meanwhile, the form of economic dependency has gradually transformed into an interdependence between South Korea and Japan. Japanese companies started to shift to local production in South Korea owing to several advantages such as the availability of human resources and development of transportation in Korea (Mukoyama, 2012). In other words, Japan has become less necessary to South Korea while South Korea is increasingly vital for Japan.

To consider economic factors, new trends in Japan's relationship with South Korea have appeared since 2010. Due to shortages in Japan following the Great East Japan Earthquake, Japanese enterprises boosted procurement from Korea. South Korea has to export more parts, machinery, and raw materials for Japan. South Korean products could also penetrate Japan's markets, and there is an increase in demand by Japanese consumers such as more purchasing of South Korean smartphones. The reasons behind these trends are low prices and good quality of the products provided by Korea, enhanced ease of operation, advancement of distribution networks, effective advertising, and the Japanese preferences themselves. In contrast, the formation of increasingly strong links at the economic level during the 2000s was mainly and negatively affected by two events: Japan's refusal to open up agricultural

and fisheries markets and Prime Minister Koizumi's visit to Yasukuni Shrine (Mukoyama, 2012). First, South Korea has prompted the Japanese government to open up Japan's agricultural and fisheries markets in order to achieve a balance of interests. Yet, the Japanese government rejected the signing of the Economic Partnership Agreement (EPA) with South Korea in 2004. The second reason for the suspension of EPA talks is a visit to Yasukuni Shrine. Nevertheless, this article did not develop a further explanation for their strained relations resulting from this event, yet it shows that the improvement of their economic relationship has been delayed because of historical recognition problems.

The relations between Japan and South Korea can also be analyzed by the International Relations (IR) theories. According to the realist approach, if Japan and South Korea are rational actors and strategically think about their national interests, the relations should be doubtlessly cooperative. Regarding their interests, both nations share similar political ideologies, embrace Western values, and have a common security threat. Apart from these similarities, from the perspective of optimists in the realist school, they mention the presence of the United States in Northeast Asia. The optimist realists explain that owing to Japan and South Korea's indirect security connection through the United States, their cooperation is possible and a clash is highly unlikely as the United States could act to guarantee the security in the region (Cha, 2002). As termed by Seo (2021), the United States could also make their bilateral relations "quasi-allied". Besides, the United States can intervene through quiet diplomacy in order to push Japan and South Korea to overcome the obstacles to resume normal relations (Sneider, 2021). Different from the rational expectations of realist optimism, escalation concerning Dokdo/Takeshima is still highlighted in the study. Although they see the likelihood of cooperation between Japan and South Korea provided by the United States, they cannot neglect the possibility of tension when studying this relationship (Park, 2009). In other words, this approach could not explain why problems in the past between Japan and South Korea are still unresolved and, perhaps, even escalated. For pessimists in the realist camp, they look at the role of the United States as well but in a different way. For them, the US is not a determinant of Japan and South Korea's relationship; the US cannot force both

countries to cooperate; the US cannot solve conflicts between them stemming from the legacy of the past. They instead asserted that conflicts between Japan and South Korea may intensify if the US pulls out from the region (Cha, 2000). For realism, the theory focuses on the role of other states such as the United States which would affect their relations. The explanation also directs at relations in terms of politics, security, strategic aims, and military power only. Hence, the theory is not directly used to explain economic relationships.

Another mainstream IR theory is liberalism. The first assumption is that economic interdependence between Japan and South Korea facilitates their bilateral cooperation (Copeland, 1996). It is clear that since the 2000s the Korean government has made remarkable progress towards economic globalization and the Korean enterprises have also accelerated their global business expansion. Many Japanese firms, after experiencing an economic bubble burst in the early 1990s, have sought to supply those Korean businesses such as Samsung Electronics, Hyundai Motors, and LG Electronics with components and parts, advanced materials, and production facilities. Consequently, the form of the economic relationship between Japan and Korea during this period becomes more cooperative and interdependent in the sense that the Japanese companies shift their focus to Korea and the Korean government decided to completely abolish the restriction on importing from Japan in 1999 to facilitate their economic activities. Furthermore, since 2000, both Japanese and Korean companies have increased their cooperation in third countries such as constructing the Tihama Co-generation plant in Saudi Arabia in 2003. Hence, for liberals, this kind of economic interdependence between nations will facilitate their cooperation. Secondly, liberals do look at the effects of democratization. According to the democratic peace theory, democracies do not fight each other (Russett et al., 1995). With mutual recognition of their democratic systems, Japan and South Korea therefore should not have militarized conflicts and would perceive one another as less threatening compared to other nondemocratic regimes, based on the liberal's logic (Midford, 2008; Cooney & Scarbrough, 2008). The last assumption of liberals emphasizes the role of international institutions that promote cooperation between Japan and South Korea. It was claimed that since both countries join various

international institutions together including the United Nations (UN), International Monetary Fund (IMF), and Asia-Pacific Economic Cooperation (APEC), their cooperative spirit should be developed. In spite of these facts, all three assumptions are not used to analyze why both countries engage in cycles of friction (Park, 2009).

Constructivists' standpoint emphasizes the role of individual factors such as identity, perception, interaction, and also history in international relations. It is important to note that history in the study refers to history that plays as a factor in influencing other factors including identity, perception, and interaction and, therefore, impacting international relations. History in the topic of Japan and South Korea relations is highlighted as the ravages of war and occupation during the annexation era (1910-1945) which becomes an influential factor in some periods. When historical matters are raised, they would affect both Japanese and South Korean identities, perceptions, and interactions which will eventually impact their relations.

The constructivist viewpoints diverge in two paths. First, some constructivist theorists view that people of both nations have gradually developed positive perceptions and images about each other. In addition, J. J. Suh (2007) suggested that both nations are in the process of learning about each other. That is why the countries engage in a regional dialogue and are trying to address conflicts from past history. By looking at the incidents, biases and prejudices are gradually dismantled and perceptions toward the other are continually enhanced.

In contrast, it was argued by the other path of constructivism that these improving perceptions have not yet firmly consolidated. When issues regarding their history arise, negative perceptions become again prominent. Besides, their revised textbook, which is used to educate new generations about history and promotes the sense of nationalism, could generate negative perceptions about the other as well. The gap in the perceptions of history between Japanese and Koreans thereby widens (Park, 2009).

At this individual level of analysis, most studies applied constructivist theory to explain Japanese and South Korean relations by focusing on ideational elements such as the impact of the collective historical narratives on national identity formation in South Korea. The paper by Korostelina (2019) analyzed South Korean

perceptions of twentieth-century history with the sample group aged 28 to 72. It was found that many Korean respondents thought that sensitive historical issues like the conflict concerning the Dokdo islands, which has been presented since 1945 and is seen as a direct legacy of Japanese colonization, would not be resolved in the near future. All of them also agreed that the history of occupation defines current conflicts between them, and history also impacts how such conflicts are perceived by the peoples. In fact, the central part in historical narratives for Koreans is the injustices committed by Japan. Such narratives are constructed and connected to specific interpretations of chosen events and also to the national identity of the people. As a consequence, this will influence the Korean actions toward Japan.

The other paper claimed that national identities and national interests which are interpreted by political elites have become challenges in Japan-South Korea relations. To explain, the political elites interpret their national identity and national interest in terms of nationalistic pride and national honor; they think of themselves as superior to the other side. This interpretation has existed in all major ongoing conflicts between Japan and South Korea. Moreover, the conflicts will be further intensified since they were interpreted by the peoples as 'personal issues' which directly impact themselves. Due to these reasons, the general public who are swayed by political elites have the perception that they should not betray the nation and should find ways to settle those 'personal problems.' The article therefore concluded that the political elites would interpret their identity and interest in terms of nationalistic pride and national honor which will be vital in reinforcing the publics and their perceptions of the problems that occurred between nations. However, this paper added that the national identities were also influenced by narratives in the past. This implies that the interpretation by political elites of their national identity and national interest would be affected by historical narratives as well. Therefore, it can be summarized that the national identity and interest can be shaped and reshaped through the interpretation of political elites who stress the importance of nationalism and historical matters (Phung, 2021).

Table 2.1*Constructivist Theory*

Paper	Main Focus	Explanation	Examples
Park, 2009	Image and Perceptions	<ol style="list-style-type: none"> 1. Optimists in constructivism view that people of both nations have developed positive images and perceptions about each other. 2. Pessimists argue that the improving perceptions have not yet firmly consolidated. When issues related to history arise, negative perceptions reconstruct. 	<ol style="list-style-type: none"> 1. Regarding Koreans' perception, after the mid-1990s, many Korean presidents have promoted initiatives for future-oriented ties between Korea and Japan. 2. New generations are educated with revised textbooks on history and promoted by nationalistic sentiments.
Korostelina, 2019	Collective historical narratives on national identity formation in South Korea	The narratives are constructed to connect specific interpretations of chosen events to certain connotations of national identity.	Many Koreans agreed that the history of occupation defines current conflicts between them and impacts how the conflicts are perceived.
Phung, 2021	National identities and national interests	National identities and national interests can be shaped and reshaped through individuals—political elites—who are influenced by their own national identity or put emphasis on historical matters by themselves.	The South Korean political elites frame the issues as something that directly impacts South Koreans. As a consequence, the general public interprets those historical issues as 'personal issues' and constructs the perception that they should not betray the nation.

In summary, as early as the 1960s, South Korea needed a huge economic support from Japan. Therefore, the economic relations at the beginning were still gradually improving. Nevertheless, South Korea found other alternatives domestically. For example, South Korea has pursued globalization strategies and raised its presence in the international arena. Other than that, the Korean business sectors attempted to find ways to localize their own materials rather than relying heavily on imports from Japan. Furthermore, the presence of other international actors such as the rise of China and the United States allowed Korea to divert their trade flow from Japan to other economies. As a result, the importance of Japan for South

Korea seemed to decrease during the 1970s to the 1990s. In Japan, due to the shortages after the Great East Japan Earthquake, Japan had viewed South Korea as a vital economic partner because of Korea's low prices and good quality of the products, and other advantages such as ease of operation, advancement of distribution networks, and effective advertisements during the 2000s.

From the International Relations (IR) perspectives, Japan and South Korea relationships can also be analyzed by the mainstream theories. First of all, realists place importance on studying the role of other major powers such as the United States in the region. Cooperation between the two countries could be possible since Japan and South Korea share an indirect security connection through the United States. On the contrary, realists still highlight the possibility of tension and conflict between Japan and South Korea because they have engaged in some disagreements such as the issue of Dokdo/Takeshima islands. Nonetheless, the theory looked at the cause of the disagreement in terms of politics, security, and military and rarely explained the economic facet. Secondly, liberal theory explains the relations between Japan and South Korea particularly in terms of cooperation and economy. The two countries became more interdependent because South Korea wanted to accelerate its business expansion globally and Japan can supply materials and components to those Korean businesses. Moreover, both Japan and South Korea put an effort to facilitate their economic activities and decided to expand their bilateral cooperation in third countries such as the economic project that they made in Saudi Arabia in 2003. Based on the democratic peace theory of liberalism, they should not have conflicts as well since they are both democratic states. The last liberal assumption claims that they have joined various international institutions such as the Asia-Pacific Economic Cooperation (APEC). Thus, liberals would claim that the cooperation between Japan and South Korea should be developed, especially economically. In contrast, the disagreements between the two nations have not been much studied.

The other IR theory used to explain economic relations between Japan and South Korea is constructivism. This theory's core assumption is about identities, images, perceptions, and interests. A paper by Park (2009) studied both constructivist optimism and pessimism. Optimists claimed that the relationship between Japan and

South Korea should be improved since their images and perceptions of each other have developed positively. On the other hand, pessimists in constructivism see that the developing images and perceptions have not yet consolidated. Hence, they are sensitively affected by surrounding circumstances such as the historical issues that might arise and then cause their negative perceptions and images to reconstruct. Another paper by Korostelina (2019) studied the collective historical narratives on national identity formation in South Korea. The author cited that the people would have specific interpretations toward a chosen event and such interpretations impact how they construct their national identity. In other words, for example, many Koreans have common interpretations of the history of occupation and the event impacts how those people construct their identity. Last but not least, Phung (2021) studied the national identities and national interests of individuals. These identities and interests are shaped and reshaped through individuals, referring to political elites. These individuals have such interests because of their own identity or as a result of their priority. For instance, the South Korean political elites see that the historical issues are something that directly impact South Koreans. As a result, they could construct their identity and interest surrounding the historical matters.

After studying the Japan-South Korea relationship by looking from the constructivist viewpoint, the researcher is interested in exploring the factors such as identity, perception, history, as well as interaction between states. As history is one of the factors that are frequently mentioned in these academic papers, the researcher would like to study more on how history has an impact on the identities, perceptions, and interactions of states in a certain period. Finally, the researcher would like to study the impact of these factors on the economic relationship between Japan and South Korea from the 1960s until the present.

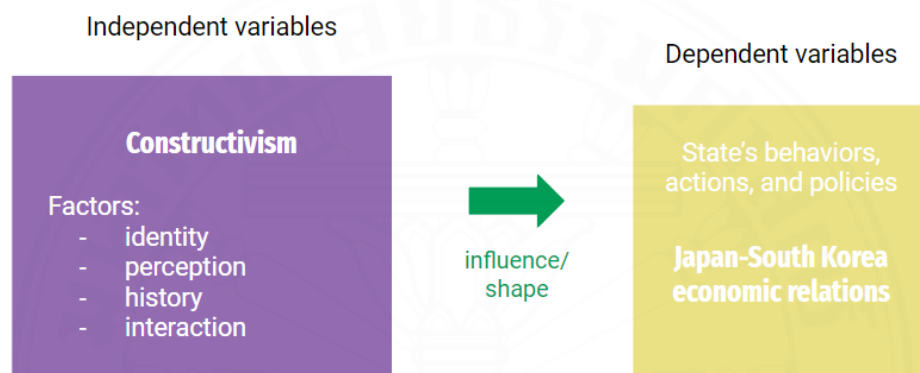
CHAPTER 3

RESEARCH METHODOLOGY

3.1 Theoretical framework

Figure 3.1

Explaining Japan-South Korea Economic Relations by Constructivism



The paper applies the constructivist theory to analyze international relations, emphasizing four elements including identity, perception, history, and interaction. Based on this perspective, the nature of international relations is changeable over time because it is shaped and reshaped by these factors. It is necessary to note that history would act as a factor when historical matters are raised by either or both sides and become concerns in a certain time. In this study, history would play its increasing or decreasing roles in some periods starting from the 1960s until the 21st century. Once historical issues become a major concern, it impacts identity, perception, and interaction. Nonetheless, when history plays a decreasing part, it will be less highlighted in the study of Japan-South Korea relations in some periods. The other three factors, therefore, will become more influential in terms of Japan-South Korea economic relations in some other periods.

3.2 Hypothesis

Based on this theoretical framework, the research hypothesis is “the economic relations between Japan and South Korea would be affected by their identities, perceptions, histories, and interactions,” noted that this paper will be supported by constructivist IR theory.

3.3 Methodology and procedures

In order to test the hypothesis, this research plans to use the qualitative method and collect the data by secondary data analysis. It will begin with historical and archival sources that study Japan-South Korea relations from the 1960s onward, as this paper argues that past events can influence their current economic relations. The policy announcements of both governments will be considered such as from Japan’s and South Korea’s Ministry of Foreign Affairs. Besides, credible media sources on the internet and related books from libraries will be utilized for more credible data. Finally, this study will take a look at reports and textual or visual analyses such as statistical data and figures illustrating the export-import ratio, investment, and travel between Japan and South Korea to see whether their ties are affected around the presenting conflicts.

The researcher plans to study Japan-South Korea economic relations from the 1960s until the 21st century. In the 1960s, it was the period that the two countries encountered a transformation in their relations after they agreed to the 1965 Normalization Treaty. The paper will study four periods including the 1960s, 1970s to 1980s, 1997, and the 21st century. These periods were divided according to the change in their relationships. During each period, there will be a factor which plays a more significant role than some others and such factors would have an impact on the two countries’ economic relationship in a certain period.

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Japan-South Korea economic relations from the 1960s to the 21st century

Japan-South Korea relations have been an interesting issue of study regarding international relations in Northeast Asia. Both countries share similarities in terms of politics, economy, and security. To elaborate, both Japan and South Korea share democratic ideologies and adopt Western values, have the same potential economic challenger – the People’s Republic of China – and share a common security threat of the Democratic People’s Republic of Korea (North Korea). Apart from economic and security benefits, Japan and South Korea have culturally interacted through cultural exchanges and popular culture. In spite of these benefits, the two countries have encountered both political and economic challenges which affect their relationships in some periods.

This chapter employs a constructivist approach to study the economic relations between Japan and South Korea by exploring factors which influence Japan-South Korea economic relations. The factors include identity, perception, history, and interaction between Japan and South Korea since the 1960s. This paper made an argument that these four factors between the two countries have played a significant role in shaping their economic relations. Yet, history would play a decreasing role in impacting their relations during some periods when it is not raised by either country. First, this chapter of the paper will explore the arguments made by the constructivist theory on Japan-South Korea relations and state the main assumptions of the theory in analyzing their relationship. Secondly, the paper will review the histories of Japan and South Korea from the late 19th century to the end of the Second World War. This part will examine how the national identities of Japan and Korea (before the division of Korea) were constructed. Then, South Korea’s struggle for the construction of national identity and nation-building after the Korean War will be explored. Thirdly, the paper will study Japan-South Korea economic relations in the 1960s. The decade was characterized by the progress for

normalization and economic cooperation between the two countries. Next, Japan-South Korea's economic relations between the 1970s and the 1980s will be studied. The period marked the divergence of South Korea from its dependency on Japan regarding its economy. Then, the effect of the 1997 Asian Financial Crisis on South Korea's structural reform that led to a shift in the economic relationship will be discussed. The reform has rearranged South Korea's position in Japan-South Korea economic relations. The final part of this chapter deals with Japan-South Korea economic relations in the 21st century, with a more focus on their histories.

4.1.1 Constructivist theory on Japan-South Korea relations

Constructivism would argue that identity, perception, interaction, and history play crucial roles and are rooted in Japan-South Korea relations.

This study adopts a constructivist approach to analyze and explain Japan-South Korea economic relationship in an attempt to test the hypothesis followed: The economic relations between Japan and South Korea would be affected by their identities, perceptions, histories, and interactions.

By testing the hypothesis, this study raises this question:

How have Japan-South Korea economic relations been influenced and transformed since the 1960s onward?

The constructivist approach raises a crucial factor that particularly determines the recent escalating tense relations between Japan and South Korea. From a constructivist perspective, history is one of the factors rooted at the center of the antagonism between the two nations. By looking back at history, one could comprehend significant factors that are not among the main assumptions of the mainstream IR theories. There is more than “unhealthy nationalism” (Seo, 2021) remarked by the mainstream IR theories. Constructivists look at histories, identities, perceptions, and interactions that are intertwined in states' relations. By using a constructivist approach, this paper aims to explore these four factors that have influenced the economic relations between Japan and South Korea since the 1960s.

4.1.2 Histories of Japan and South Korea: Construction of national identities

This part will study the histories of Japan and South Korea. The part also includes the importance of the role of Japan on the construction of national identities of Japan and South Korea from the late 19th century to the end of the Second World War. Then, the paper will emphasize Korean national identity and its nation-building between 1945 and 1953.

Over two centuries, Japan was in its period of isolation between 1603 and 1868. The country was governed by the Tokugawa regime – a military government – with the insignificant power of the Emperor. During this era, foreign contacts were strictly monopolized by a few elites. However, in 1854, Japan was forced to sign a treaty called the Convention of Kanagawa with the United States. It was the official end of the two-century isolation. Japan had to open some ports for the Americans and the US consul was founded in Japan. The treaty forced the country to rearm, which weakened the shogun's position. Thus, it marked the end of the Tokugawa regime and started the period of the Meiji Restoration in 1868, which restored the authority of the imperial system. During the Meiji Restoration era, Japan rapidly industrialized as a consequence of its adoption of Western values (History.com Editors, 2022). This resulted in an outstanding increase in foreign trade, economic and technological progress, and the rise of imperial military power. However, because the treaty was signed under threat of force, it is not exaggerating to say that Westernization was adopted by Japan for a defensive purpose.

The encroachment of the United States and other Western powers in the late 19th century marked the beginning of the Japanese construction of modern national identity. Japan sought to establish the balance between Western modernism and regional orientalism of Northeast Asia, with Japan as a center of modernity and civilization in the region. By doing this, Imperial Japan adopted the Western idea of colonialism and began to exert its military power throughout the region. In 1875, Japan presented its warship in the Korean coastal waters on Korea's Ganghwa Island. This led to the fight between Japanese and Korean troops. The Japanese act was to prevent European encroachment to the region by trying to survey its potential colony

and present its military power. Nonetheless, Japan and Korea concluded the Treaty of Ganghwa in 1876 which affirmed Korea as an independent and equal state with Japan. Notwithstanding the treaty, Japan expressed its ambition for colonialism. In 1910, Japan officially annexed Korea. This was when the national identity of Korea began to be constructed. Japan conducted similar colonial policies to that of the West in terms of ethnic hierarchy as well as political, economic and military hierarchies in order for Japan to be recognized as an advanced and civilized nation. Yet, the construction of the Japanese national identity was rather unique. Japan did not construct the identities by seeing oneself as a unit – the ‘us’ – and saw Korea (and China) as the other. Korea (and China) was seen as a dishonorable past of Japan itself when it was governed by the powerless and uncivilized regime of Tokugawa. Therefore, Japanese colonialism was more than a military occupation. It was the process of subject-making in order to construct its national identity with Korea (and China) at the core of the construction of Japanese national identity. It was the way for Imperial Japan to express itself to the world that what Japan is – as a center of modernity in Northeast Asia – and what is not (backward and powerless nations that needed Japan’s guidance). Hence, the national identities of Japan and Korea are relational, and the hostility between the two nations is thus the nucleus of their national identities.

Throughout the annexation period, the Korean identity and confidence were destroyed, and its process of nation-building was disrupted by the imposition of Japanese colonial policies (Shin & Robinson, 2001). Koreans, therefore, associated its construction of national identity with the ‘spirit’ of the nation rather than the nation as a state which was already stolen. Koreans believed that their national identity had already existed for centuries. Therefore, the construction of the identity was not to ‘build’ an identity but to ‘awake’ it. Still, the Korean national identity, which was constructed in the late Joseon Dynasty, did not only include the sense of victimization and humiliation and shameful memories of the colonial era but it also included the Korean assimilation into the Japanese colonial policies such as Japan’s religions, language, food, law, and bureaucratic system.

The end of the colonial era came with the defeat of Japan in 1945. Although Korea became independent, it was struggling with the national building process. This issue was coupled with the tension during the Cold War in which the Soviets occupied the northern part of Korea while the US took the southern part. The country was facing national identity issues. As a result, these led to the Korean War between 1950 and 1953. The War resulted in the separation of Korea on the 38th parallel into two different sovereign countries – North Korea and South Korea.

After the end of the Korean War in 1953, South Korea had been struggling with the post-War recovery process. The country was characterized by a weak industrial base and economy. Reliance on a huge amount of foreign aid was more than inevitable. The entire political system was characterized by corruption, political turmoil, and authoritarian government. In summary, South Korea was struggling with internal issues from the end of the Korean War until the early 1960s (Seth, 2013).

4.1.3 Japan-South Korea economic relations in the 1960s

Identities and Perceptions

It was claimed that the 1965 normalization of diplomatic relations could decrease the seriousness of the past and history between Japan and South Korea which resulted in an increase in interactions between the two nations (Kimura, 2011). Prior to the conclusion of the treaty, Japan was actually hesitant to normalize relations with South Korea. Japan had a concern that cooperation with South Korea, despite the economic dimension, might increase the tension with the communist side which had been expanding from the 1940s until the beginning of the 1990s. In other words, Japan was just worried that cooperation between two democratic states could be seen as a threat against communism.

However, after Japan was defeated in the Second World War and dwelling on the loss, it hoped to be seen as an amiable state in the eyes of other countries. Japan finally decided to normalize relations with South Korea in 1965 and started to construct and represent itself to the world as a democratic state who wanted to have good relations with other nations, including South Korea. Consequently,

Japan's national identity of Japanese colonialism started to be fading from both Japanese themselves and other nations' perspectives.

More importantly, Japan perceived that the country needed to focus on its economy by developing economic relationships with other countries. South Korea, a neighboring state, was seen as an economic opportunity for Japan's economic development and restoration since Korea was a new market and also the main importer of Japan's industrial parts during that period. Furthermore, Japan decided to offer economic assistance to South Korea as a way for enhancement of relations between Japan and South Korea in the 1960s.

For South Korea, on the other hand, the legacy from the past did not easily disappear. At the beginning, its identity was rather formulated politically and militarily. The Koreans felt that their confidence was broken down by Japan and were afraid that Japan would return to imperial power. They kept suspicious and seemed unwilling to trust Japan. Indeed, Japanese were seen by Korea as offenders while Koreans were the victims who were left with the memories of the colonial era and with the feeling of humiliation. Over centuries, the Koreans had been governed by Japanese colonial policies such as being assimilated into Japan's language, religion, law, and bureaucratic system (Hahn et al., 2022). For example, various schools in Korea were forced to close since they did not meet Japanese standards. Additionally, the freedom of the Koreans such as freedom of speech and of association was deprived by Japan. Thus, the Koreans had built their identity as losses and victims and kept perceiving Japan as an offender (Seo, 2021). Nevertheless, talking about the economic aspect, South Korea was well aware that Japan was vital for its economy. The country really needed Japanese capital for its economic development and success during the 1960s.

Interactions

Because both countries needed each other's help for their own economies and progress, they tried to improve their economic relations and think about future mutual interests and benefits. For instance, in 1967, Japanese Prime Minister Eisaku Satō visited the inauguration of South Korean President, Park Chung-hee. He used this chance to express his aim to lighten South Koreans' negative

sentiments towards Japan in order to alleviate the seriousness of the old days. Besides, South Korea made a big decision to open up its economy to Japan, and the two countries held several ministerial conferences in 1967, 1968, and 1969. Following these events, Japan and South Korea bilaterally agreed to found the Japanese-Korean Economic Co-operation Committee to help boost economic interactions and enhance economic relations between the two economies (Kim, 1987). In addition, during the 1960s, both nations had tried to expand the scope of cooperation in all fields; one of them is the plans for cultural collaboration as well (Ko, 1972). In 1965, Japan and South Korea finally normalized their relations; this marked the progress in the relationship between Japan and South Korea. However, due to the identity and perception of South Korea, these factors still affected the economic relations between Japan and South Korea in the 1960s. For example, Japan had an effort to establish economic ties with North Korea. Yet, South Korea was uncertain whether this act was military intentions and felt suspicious and distrustful of Japan's behaviors. As a result, it was found that South Korea eventually banned Japanese visits and products as a response to this Japanese move.

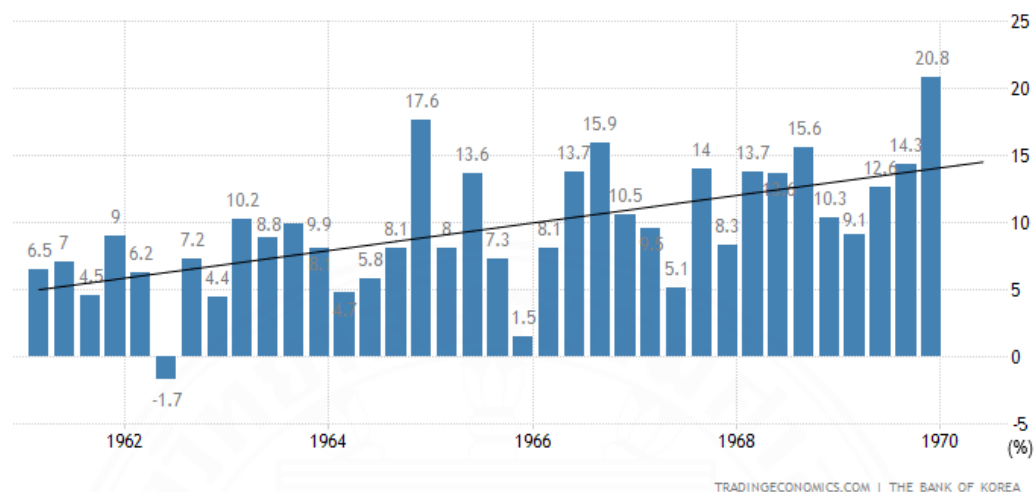
To sum up, during this period, Japan was trying to build its national identity as amiable and no longer as Japanese colonialism whereas South Korea was not convinced and still unsure whether they can trust Japan or not. Therefore, their relations in an economic aspect had some pauses in improvement. However, they could not neglect the fact that the other economy was necessary for their own economic advancement. This was why both Japan and South Korea began to adjust how they represented themselves and how they perceived the other actor during the 1960s and particularly after the normalization in 1965.

After demilitarization as a result of the defeat in the Second World War, Japan focused on its recovery from war and economic issues. Although Japan was committed to the West, it wanted to build relationships with countries in Northeast Asia, especially to establish economic ties. In the 1960s, Japan had provided massive aid to South Korea as a source of economic development. Park Chung-hee, South Korean President in the 1960s, was very eager in attempting to normalize relations with Japan for the country's economic purpose and to gain

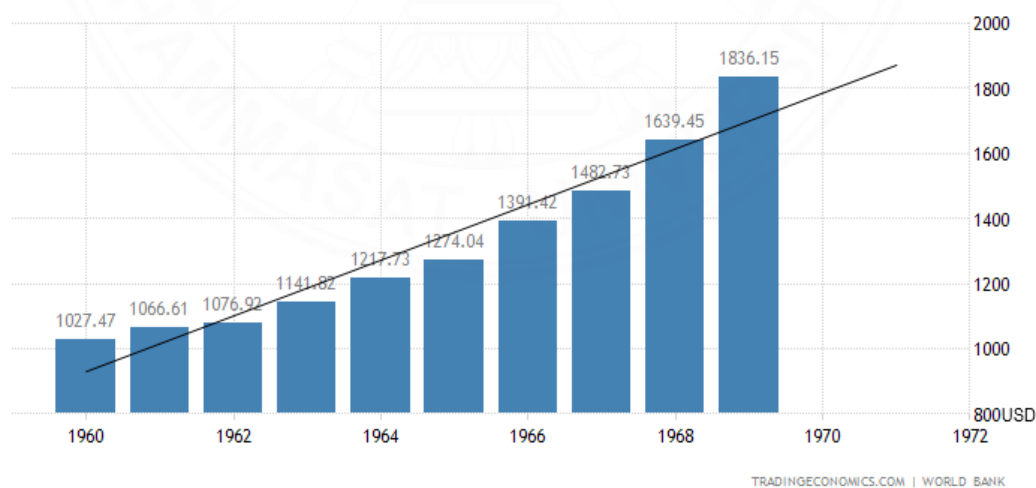
political status in the region. For this reason, Park began to open up the South Korean economy and establish *de facto* economic relations with Japan. For Tokyo, this was an opportunity for the nation with a heavy industrial base to export industrial parts to South Korea.

Politically, the progress between the two countries hardly moved forward. There were reasons behind the stagnant political relations. The major reason is rooted in Japan's internal politics and the nature of foreign policymaking. At the beginning, the Japanese left wing opposed the normalization; the socialists also believed that the normalization would increase tension with the communist nations in Northeast Asia as the two democratic states would cooperate and could be seen as another rising power in the region (Hellmann, 1962).

However, the 1965 Korea-Japan Normalization Treaty was finally concluded and marked as the tangible progress in Japan-South Korea relations. This was the first step in laying the foundation for future mutual cooperation. The Treaty formally re-established the relations on an equal basis. Japan and South Korea's leaders at that time were trying to put an emphasis on the future of the relations for mutual benefit. Seoul's decision for normalization was inevitable to South Korea's economic progress from the 1960s until the 1970s. As shown, the trend of South Korea GDP annual growth rate was increasing. In 1962-1963, its GDP growth rate reached the lowest point at -1.7%. Yet, after the event of normalization in 1965, the country's GDP growth rate was rising up to 17.6% and continued with the steadily rising trend to 20.8% in 1970 (Figure 4.1). For South Korea's GDP per capita, it had also steadily increased from the year 1960 to 1970 and significantly increased up to around \$1800 in 1969 (Figure 4.2).

Figure 4.1*South Korea GDP Annual Growth Rate*

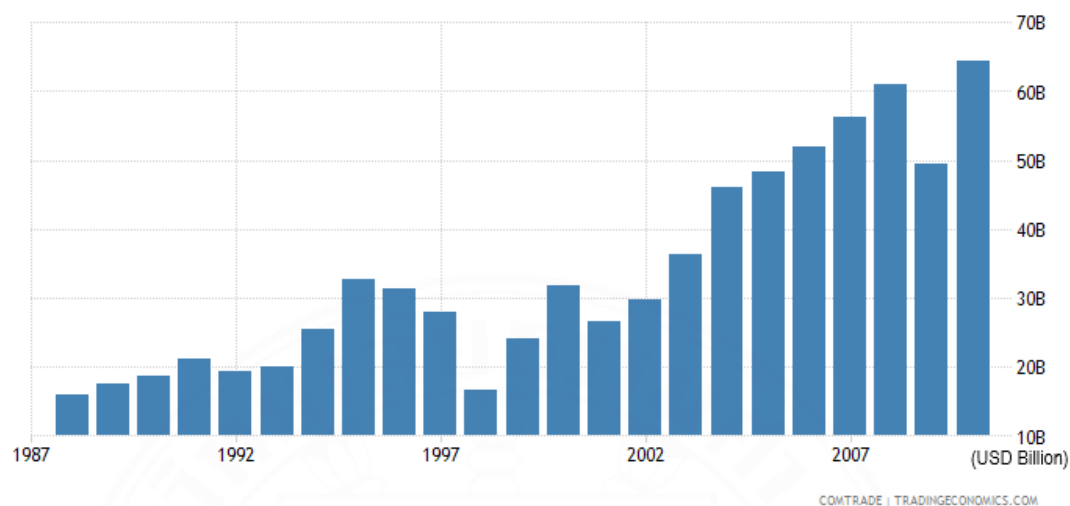
Note. Reprint from *GDP annual growth rate*, by Trading Economics, 2022, (<https://tradingeconomics.com/south-korea/gdp-growth-annual>). Copyright 2023 by Trading Economics.

Figure 4.2*South Korea GDP per Capita*

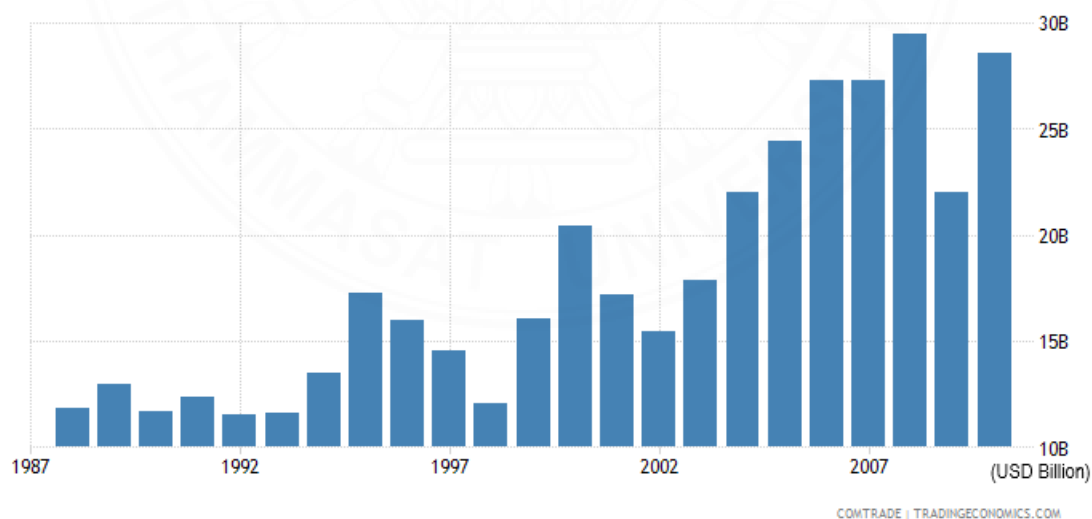
Note. Reprint from *GDP per Capita*, by Trading Economics, 2021, (<https://tradingeconomics.com/south-korea/gdp-per-capita>). Copyright 2023 by Trading Economics.

Mutually benefited, South Korea needed the Japanese capital for economic development while Japan needed South Korea as a new market for export. For security concerns, both nations needed cooperation as there was a rising communist challenge in the region. The cooperation between Japan and South Korea in the 1960s seems to fit in the logic of mainstream IR theories on mutual benefits and interests.

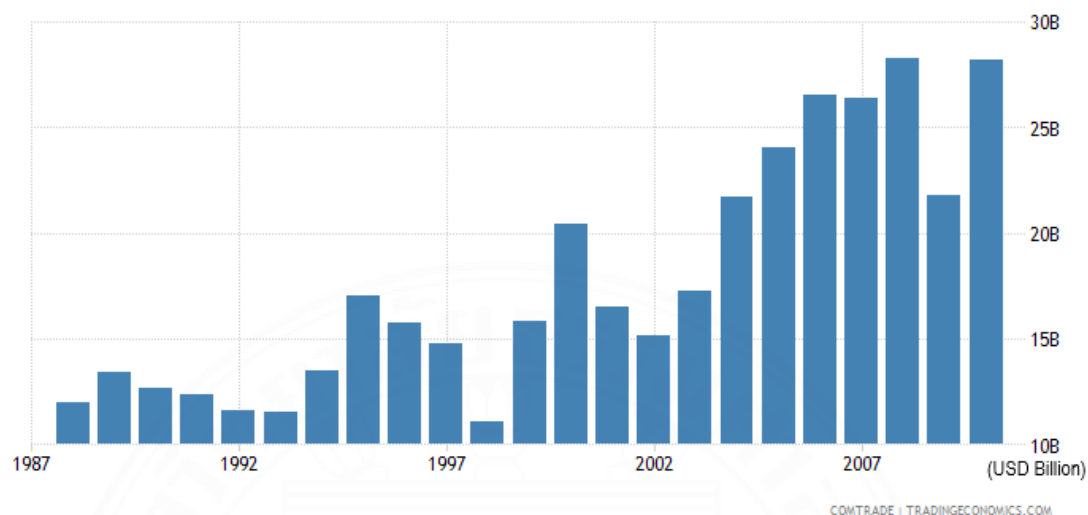
Japan provided a massive amount of capital and relaxed trade restrictions, which were essential for South Korea's success. Japan also worked with South Korea in terms of joint ventures and technical cooperation. Despite the progress, there were also concerns. Apart from the fact that the Treaty provided an opportunity for South Korea to develop its economy, it created a structural trade imbalance between Japan and South Korea as illustrated in Figure 3-6. During the late 19th century to the beginning of the 21st century, the figures show that South Korea imports from Japan (Figure 4.3) were almost double to Japan imports from South Korea (Figure 4.4). At the same time, South Korea exports to Japan were around \$11 billion to \$28 billion (Figure 4.5) while Japan exports to South Korea were \$15 billion and up to \$62 billion (Figure 4.6). Figure 4.7 also illustrates that South Korea's reliance on imports of intermediate goods and components from Japan has been one of the causes that lead to a trade deficit on the South Korean side (Kim, 2017).

Figure 4.3*South Korea Imports from Japan*

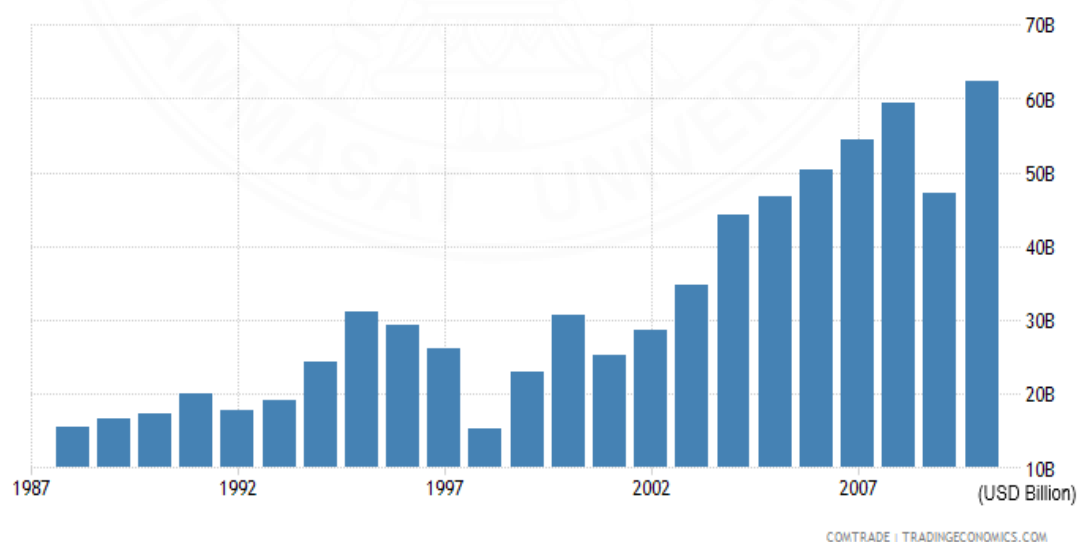
Note. Reprint from *Imports*, by Trading Economics, 2022, (<https://tradingeconomics.com/south-korea/imports-from-japan>). Copyright 2023 by Trading Economics.

Figure 4.4*Japan Imports from South Korea*

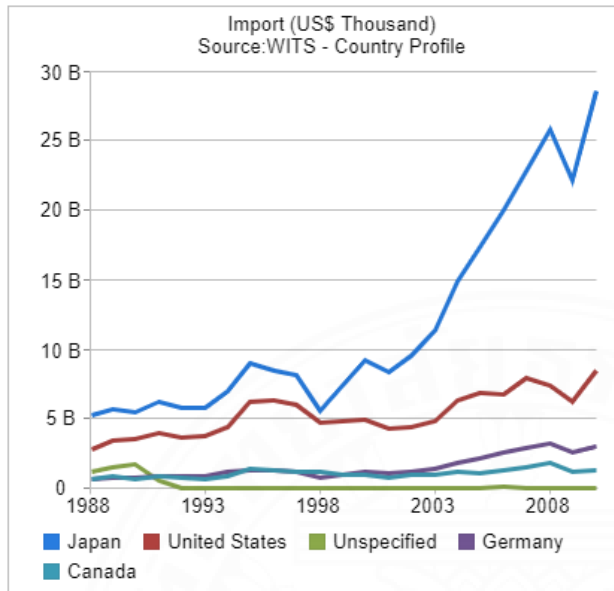
Note. Reprint from *Imports*, by Trading Economics, 2022, (<https://tradingeconomics.com/japan/imports-from-south-korea>). Copyright 2023 by Trading Economics.

Figure 4.5*South Korea Exports to Japan*

Note. Reprint from *Exports*, by Trading Economics, 2022, (<https://tradingeconomics.com/south-korea/exports-to-japan>). Copyright 2023 by Trading Economics.

Figure 4.6*Japan Exports to South Korea*

Note. Reprint from *Exports*, by Trading Economics, 2022, (<https://tradingeconomics.com/japan/exports-to-south-korea>). Copyright 2023 by Trading Economics.

Figure 4.7*South Korea Intermediate Goods Imports*

Note. Reprint from *Korea, Rep. Intermediate goods Imports*, by The World Integrated Trade Solution, 2022,

(<https://wits.worldbank.org/CountryProfile/en/Country/KOR/StartYear/1988/EndYear/2010/TradeFlow/Import/Indicator/MPRT-TRD-VL/Partner/ALL/Product/UNCTAD-SoP2>). Copyright 2023 by World Bank.

Concerning the political-security aspect, South Korea was displeased with the fact that Japan was trying to establish economic cooperation with North Korea. Japanese firms wanted to exchange economic cooperation with Pyongyang by planning to export their products and invite North Korean technicians for the inspection of machines in Japan. Seoul perceived the Japanese move as a violation of the pacts and that the Japanese were assisting Pyongyang for military purposes. While Japan separated its economic relations from political issues, South Korean suspicion of the Japanese is undoubtedly comprehensible since the nation viewed Japan as a perpetual aggressor. Consequently, in 1966, South Korea banned Japanese visits (except for official visits) and boycotted Japanese products. The issue was resolved when Japan canceled its plan to establish economic cooperation with North Korea. This issue reflects different interpretations of the 1965 Treaty and affirmed that South Korean distrust towards Japan was still prevalent regardless of

progress. Moreover, because of the trade deficit, South Korea doubted whether Japan genuinely perceived them as an equal partner, while some Japanese officials were hesitant about whether the country should diplomatically cooperate with South Korea. Nonetheless, it is crucial to take notice that a feeling of uncertainty was clearly prevalent in terms of political relations. In terms of economy, the countries actually perceived the significance of the other as an economic partner since this was the period that both sides exceptionally required economic restoration and development.

4.1.4 Japan-South Korea economic relations in the 1970s-1980s: South Korea's economic divergence

Identities and Perceptions

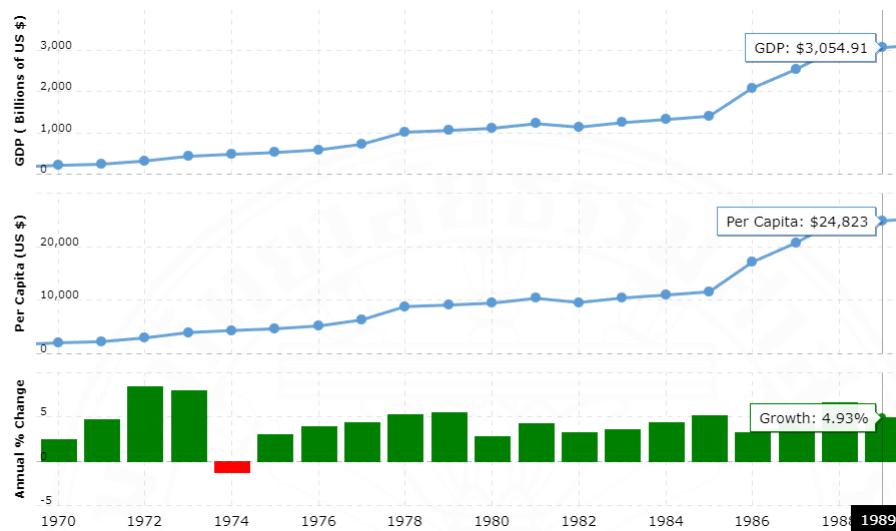
For the economic relationship between Japan and South Korea during the 1970s-1980s, Japanese identity and perception was not amply studied while it was obvious on the South Korean side. First of all, it is crucial to note that no serious historical hostility between Japan and South Korea which harmed their relationship was observed during the period since the economic force obviously played a more essential role. To clarify, the Koreans wanted to construct its identity by being seen by others and particularly by the Japanese that they are no longer a lower-ranking nation compared to Japan. As a consequence, Koreans constructed their national identity with a sense of liberty and equality (Kim, 2004). It was observed that the nation considerably accelerated its national development, aimed to decrease the economic gap with that of Japan, and increased its economic role in the international arena in order to reduce the importance of Japan in its country.

Furthermore, South Korea had the perception that Japan still did not see South Korea as an equal partner. Japan had been more advanced in terms of the economy compared to that of Korea, shown in their GDP and GDP per capita from the start of the 1970s to the late 1980s (Figure 4.8-4.9). As illustrated below, Japan's GDP had gradually risen up to \$3,000 in the late 1980s; its GDP per capita also significantly increased around the year 1985-1989 to almost \$25,000 (Figure 4.8). To compare, South Korea's highest GDP during the 1970s-1980s was only about \$250 while its GDP per capita was about \$5,800 (Figure 4.9). Consequently, South Korea chiefly focused on accelerating and improving its economy through domestic

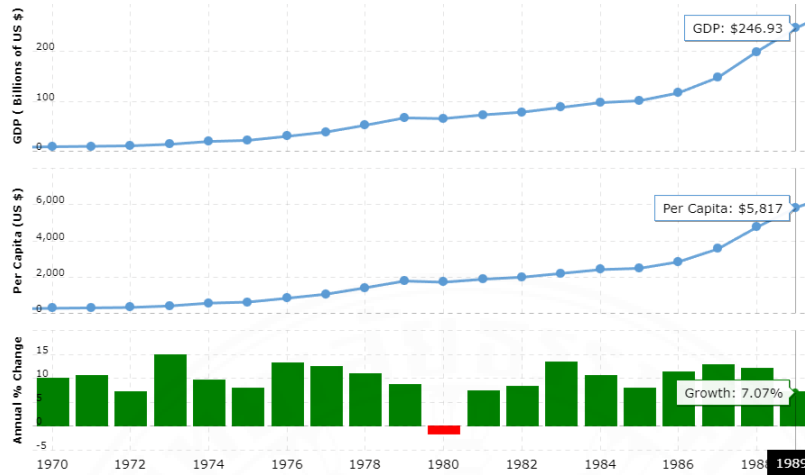
economic reforms such as building its competitive economic structure and localizing its machinery and materials for competing with Japan's market (Rhyu & Lee, 2006).

Figure 4.8

Japan GDP 1970s-1980s



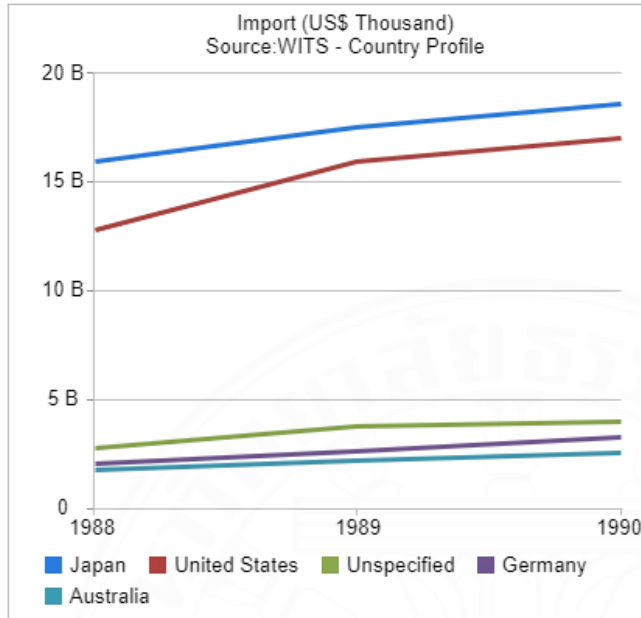
Note. Reprint from *Japan GDP 1970s-1980s*, by World Bank, 2022, (<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=1989&locations=JP&start=1970>). Copyright 2023 by World Bank.

Figure 4.9*South Korea GDP 1970s-1980s*

Note. Reprint from *South Korea GDP 1970s-1980s*, by World Bank, 2022, (<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=1989&locations=KR&start=1970>). Copyright 2023 by World Bank.

Interactions

The Korean attempt to reduce its dependency and diverge its economy from Japan was relational to the construction of Korean national identity (Seo, 2021). Since South Korea aimed for independence from Japan, particularly after the structural trade deficit in the early 1970s, these factors pushed Korea to the localization strategies and the introduction of the domestic economic reforms. Nonetheless, the two countries still had economic interactions because South Korea still needed imports of various materials from Japan and relied on some of Japan's sectors (Figure 4.10). Figure 10 shows that Japan was the largest exporter for the South Korean market in the late 1980s and throughout the 1990s. Although there was the appearance of other economies such as the United States, Germany, and also China that supported South Korea's economic divergence, the outstanding factor during this period was Korea itself with the dedication to advance its economy to be economically competitive enough to that of Japan in particular.

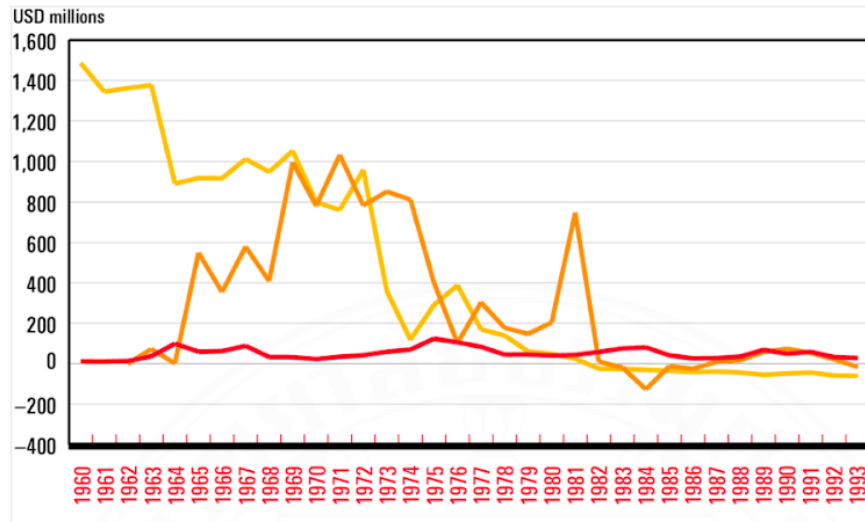
Figure 4.10*South Korea Product Imports*

Note. Reprint from *Product Imports*, by The World Integrated Trade Solution, 2019, (<https://wits.worldbank.org/CountryProfile/en/Country/KOR/StartYear/1988/EndYear/1990/TradeFlow/Import/Indicator/MPRT-TRD-VL/Partner/BY-COUNTRY/Product/Total>). Copyright 2023 by World Bank.

Being aware of the structural trade deficit, South Korea made a decision to reduce its economic dependency on Japan and chiefly aimed for national economic development. Consequently, since the early 1970s, South Korea diverged its economy with the scheme to localize its machinery and materials and to build a competitive economic structure. During this early period, Korea had rapidly developed a competitive advantage in technology-related projects and technology exports and concentrated on import substitution of various items such as heavy machinery, structural components including shipbuilding, and other social overhead facilities to promote its own economy (Kim, 1991). The government also put an emphasis on developing Export-oriented industrialization (EOI) by welcoming foreign investment in export-oriented industries such as the light manufacturing sector products including clothing, footwear, plywood, stuffed toys, textiles, and wigs (Kim, 2017). It was found that this EOI strategy turned out to be a great accomplishment for

South Korea's economic development. These economic activities pushed South Korea to be able to have a similar industrial structure to that of the Japanese and able to compete for end-products manufacturing.

South Korea's economy began to globalize in the mid-1980s when it was transforming into a competitive economic structure. The economic gap between Japan and South Korea was gradually shrinking, especially in the electronics industry. This was because South Korea put large efforts towards the adaptation of foreign technology; its strategy mainly focused on user requirements and marketing. As a result, its products were highly required by international markets such as the United States which accounted for over 65% of Korea's electronics exports (Suarez-Villa & Han, 1990). In the late 1980s, South Korea began to catch up with Japan in the steel industry as well. It was cited that many Japanese enterprises actually lost some of their competitive advantages to Korean steelmakers during this period (Lee, 2003). Although 30 percent of South Korea's total imports were still from Japan (Kim, 2017), the Japanese Official Development Assistance (ODA) to South Korea had significantly reduced during the 1980s (Figure 4.11). It turned out that South Korea rapidly transitioned from the recipient of Japanese ODA to become the Development Assistance Committee (DAC) donor (Marx & Soares, 2013). This might explain that South Korean strategies for national development and to reduce its dependence on Japan were quite a success.

Figure 4.11*Net ODA to South Korea*

Note. Reprint from “South Korea’s Transition from Recipient to DAC Donor: Assessing Korea’s Development Cooperation Policy, by A. Marx and J. Soares, 2019, *International Development Policy*, 4.2 (<https://doi.org/10.4000/poldev.1535>).

Other than Japan’s role, the United States became South Korea’s number one trading partner in the early 1980s and as the largest investor in the early 1990s. The Americans had shared technological transfers with South Koreans as well. In the same way, China kept playing an increasing role in the South Korean economy throughout the period. It appeared that at first China was 4th in South Korea's export partner share in 1993 (Table 4.1), but it was speeding up to be 3rd in 1996 (Table 4.2). The country continued to play its role regarding economic activities until it did replace Japan as South Korea’s second-largest trading partner in 2001 (Table 4.3).

Table 4.1

South Korea Export Partner Share (%) in 1993

Market	^① Trade (US\$ Mil)	^① Partner share(%)
^① United States	18,219 	22.16
^① Japan	11,564 	14.06
^① Hong Kong, China	6,431 	7.82
^① China	5,151 	6.26
^① Germany	3,593 	4.37

Note. Reprint from *Export Partner Share*, by The World Integrated Trade Solution, 2022, (<https://wits.worldbank.org/CountryProfile/en/Country/KOR/StartYear/1993/EndYear/1993/TradeFlow/Export/Partner/BY-COUNTRY/Indicator/XPRT-PRTNR-SHR>). Copyright 2023 by World Bank.

Table 4.2

South Korea Export Partner Share (%) in 1996

Market	^① Trade (US\$ Mil)	^① Partner share(%)
^① United States	21,926 	16.90
^① Japan	15,767 	12.16
^① China	11,377 	8.77
^① Hong Kong, China	11,131 	8.58
^① Singapore	6,439 	4.96

Note. Reprint from *Export Partner Share*, by The World Integrated Trade Solution, 2022, (<https://wits.worldbank.org/CountryProfile/en/Country/KOR/StartYear/1996/EndYear/1996/TradeFlow/Export/Partner/BY-COUNTRY/Indicator/XPRT-PRTNR-SHR>). Copyright 2023 by World Bank.

Table 4.3*South Korea Export Partner Share (%) in 2001*

Market	① Trade (US\$ Mil)	① Partner share(%)
① United States	31,357	20.84
① China	18,187	12.09
① Japan	16,502	10.97
① Hong Kong, China	9,451	6.28
① Other Asia, nes	5,835	3.88

Note. Reprint from *Export Partner Share*, by The World Integrated Trade Solution, 2022, (<https://wits.worldbank.org/CountryProfile/en/Country/KOR/StartYear/2001/EndYear/2001/TradeFlow/Export/Partner/BY-COUNTRY/Indicator/XPRT-PRTNR-SHR>). Copyright 2023 by World Bank.

4.1.5 The 1997 Asian financial crisis and South Korea's structural reform

Identities and Perceptions

It was found that the 1997 Asian financial crisis marked the departure of South Korea's dependency on Japan. Yet, the identities and perceptions of both countries have scarcely been brought to study as the crisis became a very significant factor for the Japan-South Korea economic relationship.

Interactions

The 1997 Asian financial crisis allowed South Korea to collaborate with other actors, regionally and internationally (Kim, 2017). It was shown that global companies steadily entered into Korea for economic purposes, including China which has increasingly appeared in the Korean market. In addition, the other vital factor during this crisis was the strategies of the South Korean government. South Korea promptly used this opportunity to adopt and implement drastic structural reforms. One of them is the implementation of the IMF neoliberal reform with the aim to meet international standards. Moreover, South Korea accelerated the development of the Information Technology (IT) industry, in which this time they did not rely on the Japanese technology and model of development. These strategies excellently

promoted South Korea to be a fully globalized country and extensively into the international economy. All of these resulted in the reduction of South Korean dependence on Japan, and the pattern of their economic relations has transformed from imbalanced dependence (clearly evident in the deficit illustrated above) to well-balanced interdependence between the two economies.

One claimed that this crisis allowed South Korea to have the perception that they were on an equal footing to that of the Japanese market. By looking at their interactions, Korea seemed to be pleased with the change in the form of their relationships. In addition, the historical issues were not pointed up to be a concern between the countries and their peoples. Shortly afterwards, one could see the diplomatic progress between Japan and South Korea after a long period of historical hostility during the Japanese occupation. In 1998, it seemed surprised by the public after South Korean President Kim Dae-jung invited the Japanese Emperor to visit South Korea for the first time in history. During the visit, Kim made a speech that he now sees the need for the two countries to build a close partnership and to have a close cooperation later on. On Japan's side, the Japanese Prime Minister, Keizō Obuchi, also sought to forge a new relationship with Koreans by expressing a frank apology for the 1910-1945 Japanese colonization and accepting the historical fact that Japan heavily damaged Korean people through its colonial rule ("World in Brief, 1998). This diplomatic progress even led to some enhancement in trade and tourism between the two nations, affirmed by the 14 percent surge in Japanese visits to South Korea from January to August 1998 (Reitman, 1998). This might be seen as a positive sign in Japan and South Korea economic relations.

4.1.6 Japan-South Korea economic relations in the 21st century

Identities and Perceptions

Owing to the opportunities and many strategies of South Korea, the Koreans began to reconstruct their modern national identity. South Korea can strengthen and localize its production. Besides, there are the appearance of many other economic partners for the country. Therefore, during this period, South Korea started considering developing economic activities with other economies. Korea

began to construct itself as an economic actor with its competitiveness in the international arena. This changing Korean identity affects how Japan builds its identity as well. Relationally, the Japanese national identity has altered since Japan can acknowledge the South Korean diminished reliance on itself. Japan might not be considered much important or as a center of modernity and civilization in the region as during the colonial era. In addition, since the Lost Decades of 1991, the Japanese national identity has remarkably changed. In late 1991, Japan had been struggling with economic stagnation as a result of the asset price bubble's collapse. Japan had to turn itself to be more dependent on other economies, including the South Korean market (Kim, 2017). As a consequence, South Korea seems to have built itself as a more competitive economic actor especially in the region during the 21st century.

As Japan seemed to need Korea, the Koreans started to perceive that Japan was willing to accept them as a peer. With this perception, it could be one of the reasons why Japan was still ranked as one of the main economic partners of South Korea despite the existence of other markets for the country. At the local level, the Korean people have also enhanced attitudes toward Japanese. They are more willing to have economic interactions with Japan. This resulted in an increase in travel between Japan and South Korea by over two million private visits per year, at the beginning of the 21st century. The business sectors also started building trust through business and trade, bilaterally. On the other hand, diplomatically and politically, the enhancement in their perceptions were delayed since 2001.

History

Since 2001, history has unexpectedly become the key issue between Japan and South Korea. The issues, including the Japanese textbooks, the Japanese Prime Minister's visits, the Dokdo/ Takeshima dispute, and comfort women, had hindered the progress in Japan-South Korea relations in the first decade of the 21st century (Yang, 2008).

The reasons that some events related to history can still arouse their nationalistic sentiments, especially among Koreans, could be their identities that have not fundamentally altered as they just started to change during the twentieth century and their perceptions that are in the process of gradual transformation. Indeed,

Koreans are highly sensitive to events and expressions which are relevant to historical memory, often termed “collective memory.” The collective memory is generally an emotional part of an individual’s identity (Collins, 2016). In the case of Korea society and nation, they would interpret those experienced historical events as invasion and defeat and connect the past to the national identity of a population (Schwartz & Kim, 2001; Collins, 2016).

On Japan’s side, it was found that the Japanese officials tended to use the linguistics – blunders (Yang, 2008) – towards South Korea. This linguistics is the expressions of the Japanese representative regarding their colonial occupation of South Korea. In fact, during the first decade of this century, there was the rise of right-wing nationalism in Japan and the nationalist Japanese tended to use more “blunders” toward South Korea. By using blunders, Japanese will perceive fewer threats from other nations, including South Korea. To mention the incident, the Japanese use of blunders in 2001 is an act in response to the government of South Korea’s demand to revise Japanese historical textbooks (Yang, p. 67).

However, the rise of Japanese nationalism and their linguistic use has delayed the enhancing relations between Japan and South Korea in the 21st century. As explained earlier that the Korean people seemed to be sensitive to the historical issues and events, the blunders conveyed by Japanese can be one of the significant factors that negatively affect South Korean identity and perception as a whole. Korea which has long attempted to construct its national identity as liberty and equality was attacked by the reemergence of the past during the occupation; the doubt that Japan perceives them as a peer was again raised.

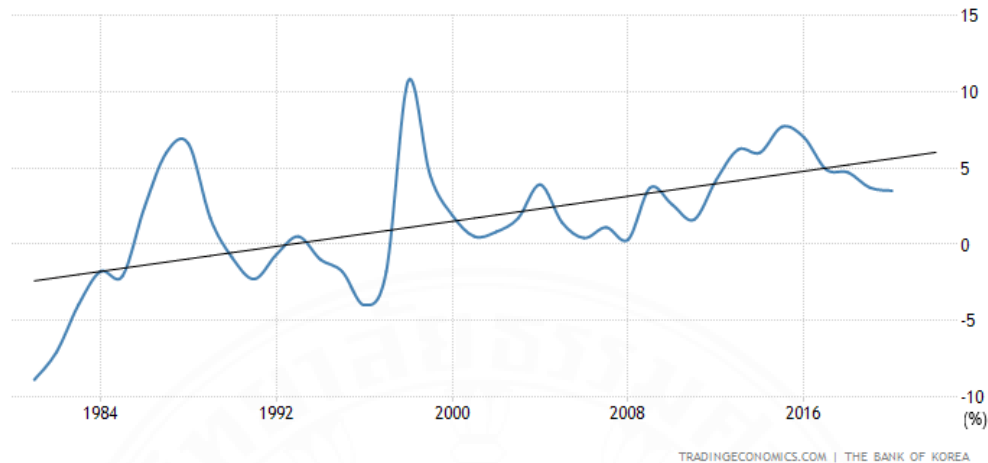
The nationalistic sentiments of the Japanese can incite the nationalistic sentiments of the Koreans. With the Japanese sentiments, Japanese themselves do not want to be portrayed as an aggressor. Hence, the historical-related issues such as the textbooks and the visits are still salient for Japan as well. For example, Japanese Prime Minister Koizumi decided to visit the Shrine and made statements that are perceived by the Koreans as unrepentant in its militarism during the annexation period. The nationalistic rhetoric in South Korea has also been evoked due to the Dokdo/ Takeshima dispute. For instance, the announcement of Takeshima

Day in 2005 by Japan brings back the South Korean memory of Japanese expansionism in the past.

This might be concluded that when historical matters are evoked, Koreans connect them to the current problems. In fact, Judt (1992) and Verovšek (2016) claimed that the past can become salient once more in the present if the issue is still unresolved. In South Korea, it is evident from several incidents that once historical issues emerge, their national identity can be reproduced through reflecting on the past (Deacon, 2021). This is why they keep demanding the problems to be readdressed and perceive Japan's actions as reluctance to build and enhance relations with them (Pieroni, 2022). For instance, South Korea believes that its trade deficit with Japan, which is an economic problem during the current time, is the result of the Japanese unwillingness to consider South Korea as an equal partner, which was the Japanese perception in the past.

Interactions

While Japan has been facing the Lost Decades since 1991, South Korea has gained a competitive advantage and has less relied on Japanese production goods and capital goods owing to three main factors (Mukoyama, 2014). Firstly, since South Korea has entered into a globalized economy, the country has concluded FTAs with many countries, shifted its import sources, and expanded its exports to other emerging economies, including China. As shown in Figure 4.12, with this globalization strategy, the trend of South Korea's current account to GDP (an indication on the level of international competitiveness of a country) has steadily risen from -10 percent at the beginning of the 1980s up to almost 8 percent in 2016. Besides, it is anticipated that South Korea's current account to GDP should not reach the lowest point as in the 2000s.

Figure 4.12*South Korea Current Account to GDP*

Note. Reprint from *Current Account to GDP*, by Trading Economics, 2020, (<https://tradingeconomics.com/south-korea/current-account-to-gdp>). Copyright 2023 by Trading Economics.

Regional actors particularly the People's Republic of China have played an increasing role regionally and internationally. The increasing importance of China as a new economic power and China's accession to the World Trade Organization (WTO) in 2001 served as an opportunity for South Korea to cultivate a new economic tie. South Korea's total imports from Japan were reduced to 20 percent in 2001 and to 10 percent in 2014 respectively. In 2010, China supplanted Japan's position as South Korea's number one import partner. Secondly, it is owing to the South Korean government's effort with initiatives from the business sector in creating strategies to strengthen its raw material and parts industries through research and development (R&D) and localization of production. However, it is essential to note that South Korea is still dependent on Japanese high-performance raw materials and precision equipment. Finally, South Korea has shifted its foreign policy goals by putting more emphasis on China. Apart from the economic reason, South Korea wants to establish a good relationship with China for security purposes – stabilizing the Korean Peninsula. The decrease in South Korea's dependence on Japan has changed the Japanese position from South Korea's perspective.

At the same time, Japan has increasingly relied on South Korea as a market for exports of production facilities, materials, and parts and components. Furthermore, Japanese businesses are trying to shift their production bases to South Korea owing to Korea's facilities such as the telecommunications infrastructure and the transportation as well as the abundant availability of human resources. As a consequence, a form of the economic relationship between Japan and South Korea became interdependent rather than unilateral dependent as in the 20th century. This was an outcome of Korea's globalization strategy at the beginning of the 2000s and its government's efforts to be less reliant on Japan and, instead, focus on other economies.

History came to play its increasing role when the historical matters had been significantly raised since 2001. In South Korea, issues related to history can be perceived and interpreted as a "history problem" that has not been utterly resolved. For Korea, such issues are linked to the economic aspect. For example, following Koizumi's visit to the Shrine, the government of South Korea planned to cancel the annual summit with Japan scheduled for the end of 2005. Besides, in the Asia-Pacific Economic Cooperation (APEC) forum in November 2005, the two countries spent most of their time at the meeting discussing historical disputes rather than economic cooperation (Kim, 2014). Due to the proclamation of Takeshima Day, South Korea limited trade with Japan even though this restriction will negatively affect its own economy. These incidents are apparent that the people are quite sensitive when the historical-related issues appear. This could be because they still perceive those issues as relevant to the present and to the nation as a whole (Verovšek, 2016).

The occurrence in 2012 and 2018 apparently shows that the historical concerns between Japan and South Korea have been unsettled; they can become problems between them in the contemporary era. The difference in their interpretation regarding the 1965 Treaty and its issue over the compensation have impacted their relations and their economies, such as their decision to remove the other party from the whitelist in 2019. This escalated into a trade war, and the mass public even demanded the ban and boycott of products and trade between countries though they need each other. This bilateral trade war, resulting from disagreement

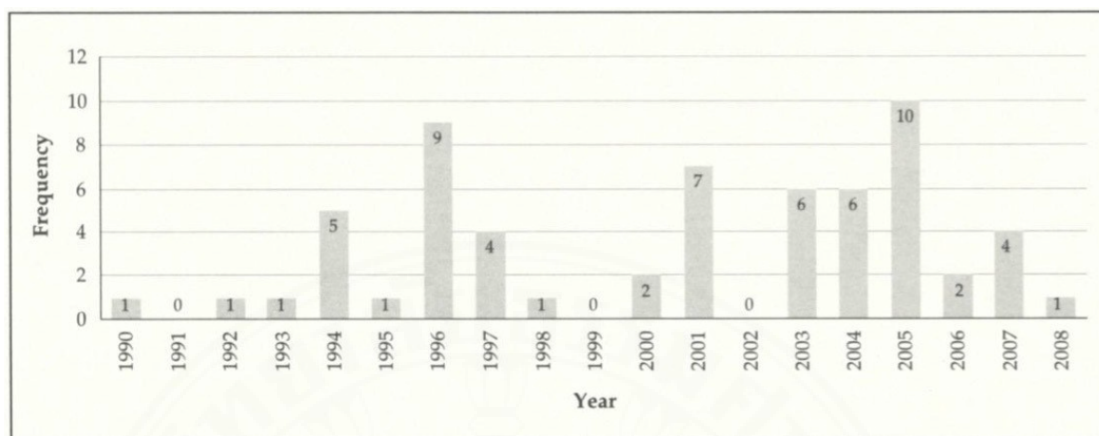
over historical matters, has had an impact on Japan-South Korea economic (and also political) relations.

Japan-South Korea economic relations in the 2000s

Comfort women, distortions of Japanese history textbooks, the territorial dispute over Dokdo/ Takeshima, the Japanese officials' visits to the Yasukuni Shrine, and the issues surrounding the war of aggression and colonial occupation were the main issues that had crumbled several years of progress in Japan-South Korea political and also economic relations in the first decade of the 21st century.

The study by Yang (2008) provided an interesting analysis of Japan-South Korea relations from a perspective of linguistic constructivism. The study argued that historical frictions have impeded both countries from pursuing security benefits and economic cooperation. These frictions, described by Yang (2008) as “blunders” which referred to the linguistics including speech, remark, statement, and expression used by Japanese political officials toward the Koreans, have transformed mutual perceptions between Japan and South Korea.

In fact, since the post-war era, there have been several cases of blunders. For example, a Japanese representative expressed his view at the Japan-South Korea Conference in October 1953 that “Japan’s colonial occupation contributed to Korea’s welfare and Japan does not feel guilty...” (Yang, 2008, p. 61). Remarkably, there were increasing cases of blunders in the first decade of the 21st century. In spite of the fact that different political situations and different phases of Japan-South Korea relations affect the emergence and disappearance of blunders, Japanese politicians perceived fewer political threats when using blunders including not only threats from those Koreans but also from other nations. Blunders have been frequently used during the 21st century (Figure 4.13), mainly owing to the notable rise of right-wing nationalism in Japan. This affects their people’s perceptions toward one another and thus has impeded both countries in pursuing cooperation (Yang, 2008).

Figure 4.13*The Frequency of Blunders from 1990 to 2008*

Note. Reprint from *South Korea and Japan's Frictions over History: A Linguistic Constructivist Reading*, p. 66 by Kiwoong Yang, 2008, The Johns Hopkins University Press. Copyright 2023 by JSTOR.

In 2001, the issues over Japanese historical textbooks, comfort women, and Japanese Prime Minister Junichiro Koizumi's visit to the Yasukuni Shrine surged angry reactions from South Korea. For instance, Shōichi Nakagawa, a Japanese conservative politician in the Liberal Democratic Party (LDP) and a member of the National Diet of Japan, affirmed the version of the history textbooks and expressed his view in April 2001 that those who criticized the Japanese textbooks were ill with Creutzfeldt-Jakob disease (CJD), a fatal neurodegenerative disorder. To elaborate, Japan had tried to prevent the school textbooks that portrayed Japanese affront during wartime as a nation to be hated (Ence, 2013) or as an evil oppressor (Heere et al., 2012).

With regard to Koizumi's visit, he stated that "he thinks about the suicide bomber when times are difficult" (Yang, 2008, p. 80). In the eyes of South Koreans, Koizumi's disregard for the fact that the Shrine was a symbol of Class-A war criminals, defined as crimes against peace, reflected the sense of unrepentant Japanese militarism. The visit, on the other hand, inflamed South Korean sensibilities

and aroused their nationalistic sentiments. In fact, Koreans perceived the events as a “history problem” in their relations that could escalate the tension between the countries. And because of this visit, the government of South Korea decided to cancel the ‘shuttle diplomacy,’ where leaders regularly visit each other’s country, which was supposed to have happened with the government of Japan at the end of 2005 (Kim, 2014).

Japan and South Korea have also fought for sovereignty over a group of small rocks called the Dokdo islands in Korean and the Takeshima islands in Japanese. The disputes over the Dokdo/ Takeshima islands erupted again when the Liberal Democratic Party (LDP) returned to power in Japan and as a result of the conservative shift in Japanese politics in the mid-1990s. These changes aroused nationalistic rhetoric in the South Koreans over the Dokdo/ Takeshima disputes. In more detail, most South Koreans saw the dispute as a big issue while the Japanese tended to be not interested. A poll was conducted, and it indicated that almost 40 percent of the Japanese respondents felt uninterested in the Takeshima issue (Kim, 2014). In contrast, up to 75 percent of South Koreans believed that the Dokdo issue is important and needs to be corrected since it impacts Japanese-South Korean relations.

The relations stayed unimproved in 2005 when the Japanese local officials announced February 22nd as Takeshima Day. The event was as a flashback for South Koreans to Japanese expansionism. Economically, this issue limited South Korea’s trade with Japan even though it would cause South Korea economic hardship. Following the announcement, South Korean President Roh Moo-hyun also demanded once again the Japanese apology for the colonization of Korea in 2006. This demand implies that South Korea was still sensitive when it comes to history, nationalism and Japanese expansionism.

Likewise, Japanese Prime Minister Shinzo Abe publicly made a statement in March 2007 that “there was no evidence that comfort women were forced” (Garcia-Kekert, 2007). This remark was heatedly responded to by both domestic and international levels; for instance, US President Bush showed the discontentment. In fact, the Prime Minister’s remark contradicted the Kono Statement in 1993 which accepted the act of the Japanese military during the Second World War.

In the eyes of the South Korean government and the public, Abe's assertion reflects an unrepentant Japanese. For Korea, this is the historical issue that is absolutely needed to be settled (Kim, 2014).

Japan-South Korea Economic Relations since 2010

Japan-South Korea economic relations since 2010 have been affected by different interpretations of historical matters and the 1965 Korea-Japan Normalization Treaty. There have been a number of lawsuits against Japanese corporations about the compensation for wartime labor since the late 1990s. Even though the South Korean courts have dismissed several cases due to the fact that they contradicted to 1965 Treaty, the lawsuits have shaken the core of normalization.

The South Korean Supreme Court's decision and the return of the Japanese Prime Minister Shinzo Abe have shaken Japan-South Korea relations. Initially, in 2000, 15 Koreans who were former "comfort women" took steps demanding an apology and reparations from the government of Japan for the violation of their human rights during the Second World War. Being responsible for the demand, in 2012, the South Korean Supreme Court took action by ruling that Nippon Steel & Sumitomo Metal – a Japanese firm that Korean people were mobilized to work for during the Second World War (1941-1943) – must compensate these workers for about \$88,700 (Choe & Gladstone, 2018). In 2018, the Court reaffirmed its previous decision, requesting Mitsubishi Heavy Industries which is also a Japanese company to pay compensation to the victims during Japan's colonial rule (1910-1945). The compensation was approximately \$178,000 for each person; however, the enterprises refused to complete reparations (Swift & Park, 2021).

Apart from the rejection of the Court's decision, the Japanese government under Abe's administration claimed that the issue was already settled by the 1965 normalization deal. In 2019, Japan reacted to this prolonged war-time issue by imposing tighter export controls on chemicals for South Korea (Reuters, 2019). In fact, these chemicals are necessary for South Korean semiconductor production. Furthermore, Japan took further steps in removing South Korea from the so-called 'whitelist' in July 2019. This was the beginning of the Japan-South Korea trade war

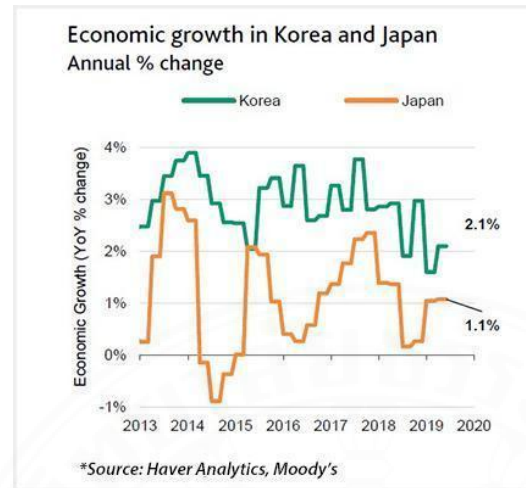
in which Japan-South Korea economic relations hit the lowest since the normalization in 1965.

South Korea's responses to the Japanese actions include removing Japan from its whitelist and submitting the dispute resolution to the World Trade Organization (WTO). Additionally, Korea saw the need to diminish Japan's role in its country; therefore, the government announced a comprehensive research and development (R&D) strategy with the aim to prepare for import substitution. With regard to South Korea's public responses, Japanese products, as well as cultural products, were boycotted. For instance, Uniqlo, a Japanese garment retailer, experienced a sales drop of 40 percent (Kim, 2019).

However, the problem here is that South Korea is immensely dependent on some categories of Japanese products while Japan is also dependent on its exports to South Korea. Consequently, the trade war has not only harmed Japan-South Korea's political and diplomatic relations but has also hurt the economies of both nations. For example, Moody's Investors Service, an international credit rating business, provided a growth outlook for the South Korean economy at 2.1 percent in 2019 and only 2.2 percent in 2020, dropping down from the previous forecast. One of the causes of this negative outlook was the trade tension with Japan ("Moody's Revises," 2019). For Japan, the corporation forecasted its economic growth at 0.7 percent in 2019 and 0.4 percent in 2020 (Figure 4.14).

Figure 4.14

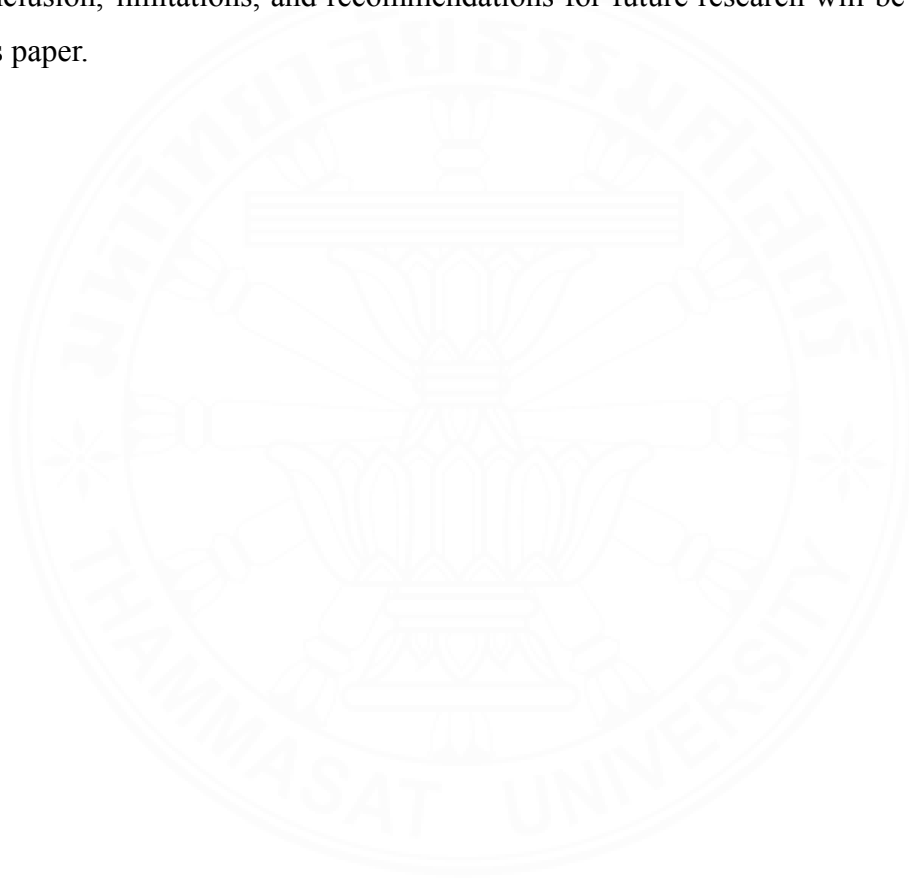
South Korea and Japan Economic Growth (Annual Percentage Change)



Note. Reprint from *Moody's revises down Korea's growth outlook amid trade spat with Japan*, by Chung and Kim, 2019, Pulse (<https://pulsenews.co.kr/view.php?year=2019&no=663691>). Copyright 2019 by Pulse.

Ensuing the bleak forecast and negative effects on the economies, South Korea's stance seemed to change. The country was vigorous in repairing the relations. In the first quarter of 2021, South Korean President Moon Jae-in expressed his concerns over the Court's decisions and proclaimed that the country has an effort for rapprochement. The country also showed the demand to create future-oriented relations with Japan (Onuorah, 2021). Moreover, under the new South Korean President Yoon Suk-yeol, the government has similarly made efforts to repair their relationship. In April 2022, South Korea's government delegation made a visit to Tokyo and met Japanese Prime Minister Fumio Kishida with the intention to rebuild bilateral relations; they acknowledged the need to resolve historical issues (Aum et al., 2022). In November 2022, Prime Minister Kishida did mention the resolution of the wartime labor issue and the dispute over the compensation, approving that such conflicts had worsened their bilateral relationship in recent years. Therefore, both countries continue to seek for mutual discussions and to work together with hope to improve their relationship for this century (Park et al., 2022).

In summary, this chapter provides a background of Japan-South Korea economic relations by analyzing the histories of both nations since the late 19th century. The paper examines how the national identities of Japan and South Korea were constructed and how these identities along with historical issues, perceptions, and interactions between both countries have influenced Japan-South Korea economic relations. The next chapter will be the findings from the analysis in which the research question will be answered, and the hypothesis will be affirmed. Finally, the conclusion, limitations, and recommendations for future research will be provided in this paper.



CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 The transformation of Japan and South Korea relations from the 1960s until the 21st century

The encroachment of the United States and other Western countries in the late 19th century signaled the beginning of the Japanese construction of national identity. Japan pursued creating the balance between Western modernism and regional orientalism of Northeast Asia, with Japan as a nucleus of modernity and civilization in the region. By doing this, Imperial Japan embraced the Western idea of colonialism and started to show its military power throughout the region. In 1910, Japan officially annexed Korea. This was when the national identity of Korea began to be constructed. South Korea, under the Japanese colonial policies, was with the sense of being occupied and being the victims while they saw the Japanese as the offender all along the period.

The end of the colonial era came with the defeat of Japan in 1945. Although Korea became independent, the memories of the past were not easily fading at the beginning. The Koreans actually had a concern that Japan would return to imperial power; thus, at first Koreans seemed unwilling to trust Japan. However, the 1960s was the period that both countries needed to instead focus on their economic recovery and development.

After the end of the Korean War, South Korea had suffered from a weak industrial base and economy. The country at that time needed foreign assistance, including financial aid from Japan. For Japan, the country was also being defeated in the Second World War. Japan wanted to build itself as a democratic state and be seen by others as an amiable country. Moreover, Japan perceived that it was urgent to concentrate on economic restoration and development. Therefore, Japan pursued improving economic relationships with other countries, including the South Korean economy.

In 1965, a major progress in Japan and South Korea relations was made. The two countries agreed to the 1965 Treaty of Normalization of Diplomatic Relations. It was claimed that the 1965 treaty could reduce the seriousness of the past and history between Japan and South Korea, resulting in a boost in interactions between the two countries (Kimura, 2011). Apparently, during that time, Japan and South Korea needed the other country for their own economies and progress; consequently, they tried to enhance their bilateral economic relations and focus on the future mutual interests and benefits. For example, in 1967, Japanese Prime Minister Eisaku Sato used his visit to the inauguration of South Korean President Park Chung-gee to express his intention to relieve Korean negative sentiments toward Japan. Japan wanted to alleviate the seriousness of the old days. Even though South Korea was not certain of Japanese actions, Korea was well aware that economic collaboration was required. As a result, in 1967, 1968, and 1969, South Korea agreed to stimulate the economic interactions with Japan by holding ministerial conferences several times in a few years. In short, it might be necessary for both Japan and South Korea to alter how they identified themselves and how they perceived the other country in order for their own national development.

During the 1970s-1980s, the identity and perception were rather obvious on the South Korean side. This was the period that historical hostility seemed to play a decreasing role while the economic factors had an immense effect on how Koreans constructed themselves and built their perceptions. Koreans constructed their national identity with a sense of liberty and equality. As shown, the country was substantially speeding up its national development, intended to reduce the economic gap with Japan, and expanded its economic role in the international stage. All these attempts aimed at the reduction of Japan's importance in its country and its economy. Additionally, since Japan had been much more advanced in terms of economy, South Korea expedited its domestic economic reforms such as building a more competitive economic structure and localizing its machinery and materials with the purpose to compete with Japan's market.

The Asian financial crisis in 1997 became a very significant factor for the Japan-South Korea economic relationship. It has already been mentioned that the

identities and perceptions have slightly been researched during this period, yet it was manifest that the crisis supported the reduction of South Korea's reliance on Japan. Whereas the Japanese move was still unchanged, the crisis gave Korea the opportunity to go partners with other economies both regionally and internationally. Moreover, the nation used this chance to perform domestic structural reforms which supported South Korea to be a fully globalized country. This was clear that South Korea started to build itself as an economic actor with less reliance on Japan. As a result, the form of the economic relations between Japan and South Korea have transformed from dependence to interdependence. More importantly, Korea was satisfied with the transformation of their economic relationship; besides, the historical issues were not pointed up to be a concern between the countries. Consequently, in 1998, diplomatic progress was essentially made between Japan and South Korea. The two countries showed their desires to fix the unresolved historical problems and to instead improve their economic relations.

History, however, has suddenly become the major concern since 2001. For South Korea, the nation and the people perceived the historical events as invasion and defeat and connected that past to the national identity (Schwartz, 2002; Collins, 2016). Unfortunately, the historical matters were raised and thus have affected the economic relations between Japan and South Korea in the 21st century. First of all, Koizumi's visit to the Yasukuni Shrine evoked Korean sensibilities and thereby was perceived by those people as unrepentant Japanese militarism. It was found that the South Korean government made a decision to cancel the 'shuttle summit' with Japan due to this visit (Kim, 2014). The relations stayed unrestored in 2005 when the Japanese officials announced the Takeshima Day. This event recalled Japanese expansionism into Korean thought. After this Japanese proclamation, South Korean President Roh Moo-hyun asked for the Japanese apology for the colonization once again in 2006. Economically, this issue even caused Korea's limit of trade with Japan. In 2007, Japanese Prime Minister Shinzo Abe still did not enhance the relations; he made a statement that was considered by South Korea and the international levels unsatisfactory. South Korea showed the demand that this historical issue needs to be settled.

Their disagreements eventually brought about the bilateral trade war between Japan and South Korea after the South Korea Supreme Court's decisions regarding the compensation. As Japan rejected the demands, followed by the imposition of tighter export controls on chemicals for South Korea and the removal of South Korea from its whitelist, these decisions have further affected their economic relationship. However, the trade war hurts the economies of both nations as illustrated in the negative economic outlook (Chung & Kim, 2019).

As recommendations, some scholars suggested a path for Japan and South Korea to achieve good relations. Seo (2021) recommended that both nations need to revisit and acknowledge the sources of the problems – histories – in order to build sustainable relations. Both countries should give priority to the de-escalation of their disagreements and the reformation of national identities. Yang (2008) provided a similar suggestion stating that the governments of both countries should build a mutual understanding for the future of Japan-South Korea relations. This paper argues that, though Seo's (2021) proposal seems to fit the logic of international relations, it might be difficult for both countries to accept the facts and reform their national identities because history plays a role in domestic politics as well (for example, an election). Another recommendation is from Cooney and Scarbrough (2008), who argued that Japan and South Korea can politically cooperate for security as a starting point because both countries share democratic values. Furthermore, the absence of the United States in the region and the threat of North Korea could be an opportunity for security cooperation. More importantly, Cooney and Scarbrough (2008) also implied that good political relations could complement economic relations for mutual benefits. Finally, Mukoyama (2014) seems to provide a more practical recommendation. The study argues that the two nations should at least make efforts to reduce the gap between different perceptions and understandings even though a mutual understanding of histories might not be possible to achieve. This could be done by restating awareness of mutual benefits in both political and economic terms.

5.2 The effect of identity, perception, history, and interaction of Japan and South Korea on the economic relations

From the perspective of this study, it argues that identity, perception, history, and interaction have their roles in determining Japan and South Korea economic relationships until the 21st century. However, it is found that history would have an effect on the other three factors including identity, perception, and interaction when the historical matters are raised by either or both sides.

In the 1960s, South Korea still remembered the legacy from the past during Japanese colonization such as being assimilated into the Japanese bureaucratic system. Therefore, the Korean identity at the beginning was rather built politically and militarily, with the feeling of humiliation. Koreans viewed Japanese as offenders and untrusted Japanese actions. In contrast, the Japanese were trying to reconstruct their identity as a more amiable and as a democratic state in which others can cooperate, especially for economic cooperation. Moreover, Japanese have developed their perceptions that other economies were necessary for the development of their own country. Japan-South Korea interactions therefore developed, for instance, as shown in the bilateral visits and the expressions of the leaders and officials' views to alleviate the concerns over the past history. The economic relations also went well when Japan and South Korea regularly held the ministerial meetings for discussions with the purpose to boost the economic activities between the countries. Their demands for cooperation did not only limit in economic fields, but they also hoped to cooperate on others such as cultural aspects as well.

In the 1970s-1980s, economic elements played a quite important role for Japan and South Korea economic relations. Koreans began to construct themselves with a sense of liberty and equality. South Korea seemed to perceive that the advancement of their economy could make the Japanese see that South Korea and Japan are an equal partner. As a result, South Korea focused on national development and economic advancement through various economic strategies. For Japan, South Korea was still vital for Japan's economic development. Hence, the economic relationships between them during this period did not worsen. Actually, they had made great economic interactions such as the imports and exports between countries.

Nonetheless, it was noticeable that the South Korean dependence on Japan's economy had diminished.

The 1997 Asian financial crisis made the reduction of South Korean dependency on Japan achievable. The identities, perceptions, as well as history, are less highlighted during this period. In contrast, it was evident that the crisis provided South Korea the opportunities to go globalize and to find other economic actors regionally and internationally. South Korea used this chance to undertake domestic reforms and changed the pattern of economic relations with Japan to become interdependent. As this transformation was seen as an economic progress of South Korea, the country seemed delighted. For example, South Korea surprisingly sent an invitation to the Japanese Emperor to visit South Korea for the first time. Not only that, but the South Korean President Kim Dae-jung also stated that he saw the need for South Korea and Japan to establish a close cooperation and partnership on economies. Likewise, the Japanese Prime Minister Keizō Obuchi expressed his hope to create a new relationship with South Korea; he also expressed an apology for the colonization of South Korea. This was a remarkable diplomatic progress between Japan and South Korea in which it was found that this incident even brought about some enhancement in economic relations such as an increase in trade and tourism between countries.

Japan and South Korea economic relations seemed to develop at the beginning of the 21st century. However, history has essentially and unexpectedly become a key issue between them. In other words, history plays a very crucial role during this century. It was explained that the past can become salient once again in the present if the issue is still unresolved (Judt, 1992; Verovšek, 2016). These historical problems can incite the nationalistic sentiments in the people. Indeed, Koreans were sensitive when historical issues were mentioned because such histories were connected to a part of their identity (Collins, 2016). These historical events were a flashback of the past memory; that might answer why Koreans have the perceptions that these issues are still unsettled and need to be settled such as through the responsibilities of Japanese apologies and compensation. In Japan, the nationalist Japan was rising, resulting in an increase in the use of 'blunders'. Furthermore,

Japanese themselves no longer want to be seen as an offender or aggressor. Yet, Japanese believe that such historical issues have already been resolved since the 1965 treaty.

These disagreements have affected their economic relations in the 21st century. Whereas South Korea kept asking for compensation and apology, the Japanese officials rejected the demands. The political problems have become more intensified and eventually led to a bilateral trade war between Japan and South Korea. The imposition of tighter export controls, the removal of the whitelist, the ban of products and services, and the decrease in tourism are a result of those unresolved conflicts. Their economic relations between Japan and South Korea have indeed been immensely affected.

Due to the negative economic outlooks and their effects from the trade war, both countries seemed more eager to repair their relationship. Moon Jae-in made an announcement that South Korea was looking for Japan-South Korea rapprochement. Yoon Suk-yeol also made efforts to repair their relations. Besides, Prime Minister Kishida started to approve that the historical conflicts have worsened their relations; hence, the country was looking forward to settling the wartime issue and to dealing with the dispute over the compensation. Now there is a hope that the two countries could agree and fix the disagreements they have had since the past for the future of their economic relations.

5.3 Limitations and recommendations for future research

The study aims to answer the question regarding the construction of Japan-South Korea economic relations in the 21st century. The study focuses on the national levels of both countries without analyzing domestic politics and the role of a third party in constructing Japan-South Korea relations. However, the study recommends that future research could focus on the role of a third party such as the United States or the Western powers in shaping the identities of both nations and could also explain the interactions and perceptions between Japan and South Korea. Additionally, other IR theories should be adopted to analyze Japan-South Korea relations in terms of political, diplomatic, economic, and security aspects. One of the

interesting IR theories which could be employed is poststructuralism which studies epistemology and ontology based on discourse, a constructivist perspective of discourse, and power-knowledge interrelations.



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BIOGRAPHY

Name	Punthita Seksarn
Educational Attainment	2019: Bachelor's Degree in Business English Communication

