

DJIA 27088.08 0.85% ▲ S&P 500 2999.91 0.23% ▲ Nasdaq 8196.04 -0.08% ▼ U.S. 10 Yr 1/32 Yield 2.129% ▲ Crude Oil 60.55 0.58% ▲ Euro 1.1274 0.17% ▲

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Japan Curbs Exports to South Korea, Hitting Global Chip Makers

Japanese exporters will need to apply for permission to ship some materials used in semiconductors and smartphones



South Korean President Moon Jae-in, right, walking away after a photo session with Japanese Prime Minister Shinzo Abe on Friday. From Thursday, Japanese exporters will need to apply for permission each time they want to export selected materials to South Korea. PHOTO: KIM KYUNG-HOON/ASSOCIATED PRESS

By [Mayumi Negishi](#) in Tokyo and [Eun-Young Jeong](#) in Seoul

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Japan tightened controls on exports to South Korea in an unexpected blow to the global technology supply chain that also marks a new low point in relations between the two U.S. allies.

By restricting access to Japanese materials, Tokyo's crackdown could make it harder for South Korean companies like Samsung Electronics Co. to make semiconductors and other components that get packed into electronics such as smartphones used around the world. The move follows frequent clashes between the governments of Prime Minister Shinzo Abe and President Moon Jae-in over World War II history.

Mr. Abe took a page from President Trump's playbook by hitting a perceived rival nation not just with political or diplomatic actions but also with economic punishment against the rival's core

industry. The U.S., seeking to counter what it sees as national-security risks from China, has restricted the export of U.S. technology to China's Huawei Technologies Co., although Mr. Trump said over the weekend he would roll back the restrictions as part of a broader U.S.-China trade cease-fire.

"We have no choice but to say that the relationship of trust between Japan and South Korea has been strikingly damaged," said Japan's Ministry of Economy, Trade and Industry.

South Korea quickly denounced the move as a violation of global trade rules.

"This is economic retaliation based on the South Korean Supreme Court's ruling," said Sung Yun-mo, South Korea's Minister of Trade, Industry and Energy.

Mr. Sung said the export restrictions go against the principles of the World Trade Organization and the South Korean government will respond under domestic and international law, which can include filing a suit to the WTO.

In October, South Korea's Supreme Court ruled Japan's Nippon Steel Corp. must compensate South Koreans for forced labor during the war. Japan says any claims arising from the forced labor were resolved in 1965 when the two countries restored diplomatic ties.

"Japan's action is banned in principle by the World Trade Organization," said Park Tae-sung, Seoul's deputy minister for trade and investment. "We're closely cooperating with the industry and looking to respond under domestic and international law."

Some analysts said Japan might be shooting itself in the foot because its companies would lose business in South Korea. Also, any disruption in the supply chain could boomerang back on Japanese companies that use Korean semiconductors or displays in their products.

"The sanction does no good for Japanese companies because the Japanese and South Korean manufacturing sectors are so tied to each other. The only winner from this would be China," said Atsushi Osanai, a professor at Waseda Business School in Tokyo.

Though they are both U.S. military allies and both threatened by North Korea's development of missiles and nuclear weapons, Japan and South Korea have often had a testy relationship because of tensions over Japan's colonization of the Korean Peninsula from 1910 to 1945.

Their ties have gone from bad to worse in the past year. The two countries in December 2015 had reached an accord over so-called comfort women from Korea who were made to serve Japanese troops sexually during World War II. But Mr. Moon's government effectively nullified the agreement last year by dissolving a foundation that was supposed to provide about \$9 million in compensation to the women.

Mr. Moon was in Osaka, Japan, over the weekend for the summit of the Group of 20 economic powers, but unlike most of the leaders there, he had no discussions with Mr. Abe.

A Japanese trade ministry official said the export restrictions to South Korea weren't direct retaliation for the court ruling, but he said the breakdown in dialogue had made it impossible for Japan to resolve security concerns about exports of the materials, including whether they might be re-exported to a third country.

Japan is restricting exports of fluorinated polyimide, used in flexible smartphone displays, and photoresist as well as high-purity hydrogen fluoride, which are used to etch circuits onto slivers of silicon wafers to form semiconductors, the trade ministry said.

Starting Thursday, Japanese exporters will need to apply for export permission each time they want to ship these materials and related technologies to South Korea, a process that takes about 90 days. South Korea now has preferential status, which speeds up exports of technologies and chemicals that could be used in weapons.

The ministry said Japan was also looking to halt preferential treatment for a wider range of exports to South Korea.

Samsung Electronics, SK Hynix Inc. and LG Display Co. are among the South Korean companies that could be affected by the tightened controls.

A spokeswoman for Samsung, the world's largest maker of memory chips, said it was looking into the matter and declined to comment further. LG Display said the company doesn't use fluorinated polyimide for mass production of its displays, found in smartphones and televisions, and doesn't foresee any direct impact from the export control measures. SK Hynix declined to comment.

Production yields for chips and displays are easily affected by changes in the materials, said Kwon Sung-ryul, an analyst at DB Financial Investment Co. "Materials like these can't be easily switched," he said. Mr. Kwon estimated that Japanese firms make up 90% of the photoresist materials market, and 70% each of the fluorinated polyimide and high-purity hydrogen fluoride materials markets.

South Korea's trade ministry held an emergency meeting Monday afternoon with local companies and trade groups in the semiconductor and display industries, including Samsung Electronics, SK Hynix and LG Display, to discuss countermeasures.

Market reaction in Tokyo was muted. Shares in several suppliers of semiconductor materials rose in response to the U.S.-China trade truce, while a few with heavy exposure to South Korea fell around 2%.

— *Takashi Mochizuki in Tokyo contributed to this article.*

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