



PM'S PERSPECTIVES
VALUE + ALPHA GROUP

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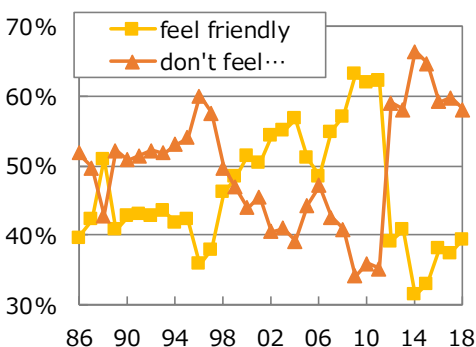
Author: Takuya KAMIISHI
 Portfolio Manager, Value + Alpha

A feel for Japan-South Korea relations through a trip to South Korea

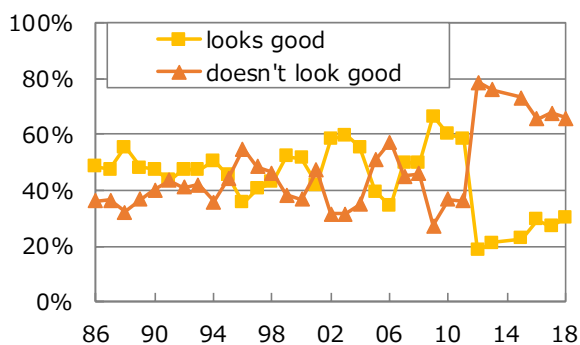
I visited Daegu and Busan in South Korea (Korea) when Japan-Korea relations were deteriorating rapidly, to the extent that my friends and colleagues felt worried about my safety.

The landing on Takeshima (Korean name: Dokdo island) by the Korean ex-president, Lee Myung-bak in 2012 raised tensions between the two countries. However, relations have gradually improved with a confirmation that “The issue of comfort women will be settled ultimately and irreversibly” at the Japan-South Korea ministerial conference in 2015. Relations worsened again when Korea’s Supreme Court issued a ruling in October 2018 that awarded damages against Japanese companies for forced labour during the Second World War. The souring of relations has not been reflected in charts below as this year’s public opinion survey has not yet been conducted. Apart from historical issues, more recently, when Japan decided to remove Korea from its so-called “white list” of trusted trade partners with preferential trade status on the grounds of security reasons in this past August, Korea immediately retaliated by halting the General Security of Military Information Agreement (Gsomia) with Japan, which came into effect 2016.

How Japanese feel about Koreans (Opinion poll)



Japan-Korea relations (Opinion poll)



Created by Sumitomo Mitsui DS Asset Management based on data from Cabinet Office
 Note: The latest opinion poll was conducted in Oct. 2018

The Japanese stock market has become increasingly aware of the political risks between Japan and Korea in this turmoil. Manufacturers of three semiconductor materials whose Korea-bound export controls were tightened, as well as companies that rely on Korea for most of their revenues suffered declines in stock prices amid growing concerns over a decrease in inbound tourists to Japan. I was surprised when I read a tweet by Japan's minister for economy, trade and industry, Hiroshige Seko, via Twitter ahead of my trip which said "We cannot put trust in Koreans when we talk with them". I wonder what will happen to Japan's economy if imports of Korean semiconductors and batteries (an area of expertise) is stopped.

When I visited South Korea as a tourist, I felt that Japan-Korean relations were not that bad with our cultures being similar. I believe that any plunge in Japanese stocks following negative news about Japan-Korea relations would be an excellent buying opportunity for us. Koreans were generally amicable to Japanese, with no anti-Japanese TV programs unlike China where they broadcast anti-Japanese films or dramas through a couple of channels. The number of anti-Korean TV programs in Japan exceeds that of anti-Japanese ones in Korea. I only saw two anti-Japanese broadcastings such as "Boycott Japan" and "1910-1945" in residential areas of Daegu. There are many similarities between Japan and Korea including dietary habits, work ethic and Confucian values. Korea is also one of the few countries where the Japanese people are able to travel and communicate in Japanese.

That said, I have an impression that the historical issues between Japan-Korea cannot be easily settled in the short term after seeing museums in Korea depicting acts of aggression by Japan in a fairly radical manner compared to other regions such as China and Hong Kong. I believe that Japan-Korea tensions will remain in the foreseeable future. Witnessing the disruption to the balance of power in East Asia following the decline in US military involvement in the region and the rising tensions between China and Taiwan, Korea and Japan as geopolitical risks have the greatest impact on Japanese stocks over the long term.

Japan has maintained good relations so far with two major countries, namely the US and China, while the US is planning to reduce its involvement in overseas markets in the medium term and China is increasing its international influence. Can Japan contain a rapid expansion of China in a similar manner to the 3rd Marquess of Salisbury of Great Britain, who performed diplomatic feats with a rapidly expanding Germany? The point in question, is to what extent can Japan overcome its emotional conflict with Korea and maintain its security with the US and Korea.

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Takuya KAMIISHI, CMA, Portfolio Manager, Value + Alpha Group, Equity Management Department

Mr Kamiishi joined Daiwa SB Investments in 2009 and covered US & European equities as a strategist from 2010 to 2013. He moved to Hong Kong in 2013 as an analyst for the auto & industrials sector in Asia Pacific ex-Japan equity. In 2015, he returned to Japan and covered the IT & services sector as a Japan equity analyst. In 2016, he became a portfolio manager in the Value + Alpha group.

Mr Kamiishi obtained a BA degree in Economics from Keio University (2009) in Japan.

Note: Daiwa SB Investments Ltd. (DSBI) merged with Sumitomo Mitsui Asset Management Company, Limited (SMAM) on 1 April 2019.

Contact Details

Arnaud GÉRARD, CFA
Head of Business Development
& Client Relations
Phone: +44 (0) 20 7597 7035
Email: arnaud.gerard@daiwasbi.co.uk

Jennifer SANDS
Business Development Manager
Phone: +44 (0) 20 7597 7024
Email: jennifer.sands@daiwasbi.co.uk

Daiwa SB Investments (UK) Ltd.
5 King William Street
London EC4N 7DA, United Kingdom

www.daiwasbi.co.uk

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