

A NEW INTERNATIONAL ENGAGEMENT FRAMEWORK FOR NORTH KOREA?

Contending Perspectives

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Contents

Preface and Acknowledgments	vii
Note on Names	x
1 Introduction and Overview	3
Ahn Choong-yong, Nicholas Eberstadt, and Lee Young-sun	
The Political Economy of North Korea	
2 The Political Economy of North Korea: Historical Background and Present Situation	17
Marcus Noland	
3 The Structure of North Korea's Political Economy: Changes and Effects	45
Lee Young-sun and Yoon Deok-ryong	
4 North Korea's Survival Game: Understanding the Recent Past, Thinking about the Future	63
Nicholas Eberstadt	
Preconditions and Rationale for International Economic Support for North Korea	
5 Managing Collateral Catastrophe: Rationale and Preconditions for International Economic Support for North Korea	117
Moon Chung-in	
6 Strategic Dimensions of Economic Assistance for North Korea	147
Paul Bracken	
7 Foreign Aid and International Norms: The Case of North Korea	159
Carol Lancaster	

- 8 Prospects and Preconditions for Market Economic Transformation in North Korea 175
Anders Åslund

Possible Forms of International Cooperation and Assistance to North Korea

- 9 Unlikely Partners: Humanitarian Aid Agencies and North Korea 199
Edward P. Reed
- 10 Designing Public Sector Capital Mobilization Strategies for the DPRK 231
Bradley O. Babson
- 11 Coping with North Korea's Energy Future: KEDO and Beyond 257
Kent E. Calder
- 12 Mobilizing Private Capital for North Korea: Requirements for Attracting Private Investment 275
Malcolm Binks and Carl Adams

Possible Role of South Korea and Other Major Stakeholders

- 13 A Proactive Approach to Engaging North Korea: Boldness, Flexibility, and Inclusiveness 295
Choo Yong-shik and Wang Yun-jong
- 14 Payback Time: Japan—North Korea Economic Relations 317
Richard J. Samuels
- 15 China's Role in the Course of North Korea's Transition 335
Liu Ming
- 16 Russian-North Korean Relations and the Prospects for Multilateral Conflict Resolution on the Korean Peninsula 351
Alexandre Y. Mansourov
- 17 Expected Role of South Korea and Major Stakeholders: NGO Contributions to and Roles in North Korea's Rehabilitation 367
Scott Snyder

Payback Time: Japan–North Korea Economic Relations

Richard J. Samuels

For historical and ideological reasons, relations between Japan and North Korea (the Democratic People's Republic of Korea, or DPRK) are among the most contentious and mutually distrustful of any in the world today.¹ From Pyongyang's perspective, Japan's military alliance with the United States and its history of harsh colonial rule are impediments to normal diplomatic and economic relations. From Tokyo's perspective, North Korea's brazen abduction of Japanese nationals during the late 1970s and early 1980s and its flagrant militarism make the DPRK a particularly repellent neighbor. In December 2001, the Japanese coast guard actually fired upon and sank a North Korean spy ship in what was the first incident of Japanese hostile fire since World War II. The two countries do not have formal diplomatic relations, a situation that significantly impedes normal intercourse.

Still, after a protracted negotiation conducted in secret by officials in the Ministry of Foreign Affairs (MoFA), Prime Minister Koizumi Junichiro visited Pyongyang in September 2002.² Whether this was designed to establish independence from the United States or to distract public opinion from stalled economic reforms, the visit followed a warming of Republic of Korea (ROK)-DPRK relations and was an important effort to get Japan-DPRK relations on track. Koizumi's initiative was nearly derailed by U.S. government revelations that Pyongyang had begun a secret program to generate highly enriched uranium, violating the 1994 Agreed Framework. The North Koreans

1 For concise histories of the North Korea-Japan relationship, see Green (2001) and Manyin (2003).

2 The details of the diplomacy that led to the meeting are hazy, and the degree of interaction between Japan and other regional partners prior to the meeting remains open to conjecture. Newspaper reports suggest that Tanaka Hitoshi, the director general of the Asia and Oceania Bureau of the MoFA, who played a pivotal role in setting up the visit, was approached by North Korean officials. Tanaka was criticized for keeping the information hidden from the foreign minister and for directly advising the prime minister and the chief cabinet secretary.

subsequently withdrew from the International Atomic Energy Agency and reactivated their Yongbyon nuclear reactor, adding to Japan's security concerns. Now Pyongyang had programs to build a stockpile of enriched uranium and plutonium. As a result, the Pyongyang Declaration, signed by Prime Minister Koizumi and Chairman Kim Jong-il, was clouded by greater diplomatic uncertainty than ever.³

A large portion of this uncertainty was also tied up in the abduction issue. After a decade of lobbying by aggrieved Japanese families, the Japanese government prevailed upon Pyongyang in January 1998 to search for abductees—then formally referred to as “missing persons.” But these early talks soon broke down, and Pyongyang abandoned the effort, insisting there had been no abductions. Before the September 2002 summit, the Japanese government suspected that North Korea had abducted 11 Japanese citizens from coastal towns across the archipelago and in Europe.⁴ During the meeting, however, Prime Minister Koizumi was surprised by Chairman Kim's admission that North Korea had abducted thirteen Japanese citizens, of whom only five were still alive. During the meeting, Kim also stated that North Korean spy ships entering Japanese waters were somehow beyond his control. He promised to investigate further and to ensure that no more ships were sent.

Following the meeting, a North Korean spokesperson stated that North Korea would allow the families and relatives, as well as Japanese government officials, to meet with the five abductees still living and to let them and their families return to Japan if they so wished. The Japanese government responded by sending a delegation to meet with the abductees, visit the graves of those who had died, and obtain information about the cases. Following negotiations, in mid-October, the five living abductees returned to Japan, where they currently reside. Their families remained in North Korea and did not obtain permission to leave until after Koizumi returned to Pyongyang in late May 2004.

Confirmation of these abductions, the subsequent hostage taking of their families, and the blatant flexing of Pyongyang's military capabilities hardened the attitude of the Japanese public toward North Korea. After some initial euphoria, Prime Minister Koizumi was harshly criticized for the “secret diplomacy” of his Foreign Ministry. After information about North Korea's nuclear program became known and the public focused on the scale of the abduction issue, bilateral talks became deadlocked.

The breakdown of these talks and the clouding of the prospects for the Pyongyang Declaration had a particular impact on Korean residents in Japan. The group that represents them is Chongryun (the General Association

3 See MoFA (2002a) for the English text of this declaration.

4 For the MoFA account of the abduction issue prior to the Koizumi visit, see MoFA (2002b), Manyin (2003), and Hiramatsu (2003).

of Korean Residents in Japan; also known as Chosen Soren in Japanese). Its eight executives are members of North Korea's parliament, the Supreme People's Assembly. Established in 1955, it is estimated to have approximately 200,000 members out of the 660,000 ethnic Koreans living in Japan and has been instrumental in the limited economic interactions between the DPRK and Japan. In 1972, Chongryun was recognized by Tokyo's leftist governor, Minobe Ryokichi, as North Korea's de facto representative in Japan, and it was granted tax-free status.

There have been occasional acts of violence against Chongryun officials, as in the case of the murder of a branch vice chairman in Chiba whose office was torched soon after Pyongyang tested a missile over Japanese airspace in 1998. In July 2003 a bullet was fired into a Chongryun office in Niigata, and a bomb was found in a credit union used by North Korean residents. The following month, a phalanx of 42 right-wing sound trucks accosted buses carrying Korean residents of Japan to a Niigata port to greet a North Korean ship. According to a press account in the *Guardian* on 3 October 2003, in just two weeks in the autumn of 2003, Chongryun received nearly 300 threatening phone calls and experienced nearly 30 cases of violence or attempted violence.

In July 2003, Tokyo's governor, Ishihara Shintaro, who previously had publicly condoned a right-wing bomb scare at the home of the MoFA official who had negotiated the Pyongyang meeting for Prime Minister Koizumi, took official action against Chongryun. Ishihara ordered the Tokyo metropolitan government to rescind Chongryun's tax-exempt status and to levy a 60 million *yen* tax on their Tokyo properties. When Chongryun did not comply, Ishihara ordered attachment of three Chongryun properties and planned to auction them off. The auction has been frozen while Chongryun has appealed the decision. Other local governments have begun to follow suit, demanding taxes from Chongryun. The accelerating pace of "out-marriage" (nearly 90 percent of Korean residents now marry Japanese citizens) and the increasing numbers of Korean residents who choose South Korean over North Korean citizenship have reduced Chongryun's membership dramatically.⁵

The Japan-DPRK Economic Relationship

Postwar economic ties between Tokyo and Pyongyang first were stimulated after Hatoyama Ichiro became the Japanese prime minister in 1955. Hatoyama had pledged improved economic relations with North Korea as well as the restoration of diplomatic relations with the Soviet Union and the People's

5 For a remarkably frank analysis of its deepening problems, see Chongryun (2004). Two demographic nuggets from this report: Last year there were 7,000 births to parents in "international marriages" (i.e., North Korean residents and Japanese) and only 3,000 to parents who were "compatriots"; the number of students attending Korean schools in Japan has dropped by 6,000, and 30 of these schools have been closed. (No time period was specified.)

Republic of China (PRC). But as soon as three small firms (Toko Bussan, Toho Shokai, Wako Koeki) signed direct contracts with North Korean trading houses in October, the Japanese government banned all exchange with the DPRK. Instead, Japanese firms turned to the Chinese as formal intermediaries to triangulate Japan-DPRK trade. Japanese manufactured goods, including tires and chemicals, were shipped first to China and then on to North Korea in exchange for corn. After the Mitsui and Sumitomo Banks established correspondent relations with the Foreign Trade Bank of North Korea in the early 1960s, smaller Japanese financial institutions followed suit (Hughes 1999, 135). Large Japanese trading companies used dummy corporations (Murakami 1996).⁶

In November 1962, Japan and North Korea began direct cargo shipments on a very small scale. Two years later, in July 1964, trade agreements were signed. The first direct Japanese sales/trade show was held in Pyongyang in May 1965, with the participation of some 20 Japanese trading firms displaying nearly 400 products, including machine tools. While their North Korean hosts purchased all the products on display and ordered more, payments were not forthcoming. This continued through the first North Korean trade exhibition in Japan in 1970. But it was only after North Korea defaulted in 1972 on payments to the Kyowa Bussan Trading Company—comprising 20 large Japanese firms (including Nippon Steel and Toshiba)—that Japan's Ministry of International Trade and Industry (MITI) finally suspended all export credits in 1974. At that time it was reported that half the debt owed to Japanese firms was held by Shinwa Bussan, a Mitsui Trading Company subsidiary (Hughes 1999, 135, 141). By 1975, Japanese creditors claimed nearly 80 billion *yen* in unpaid notes, and in October 1986 MITI provided 300 billion *yen* in compensation for losses incurred by Japanese firms that had traded with North Korea (Hughes 1999, 136).

Still, limited trade continued between Japan and North Korea. After North Korea announced its Law on Joint Ventures in 1984, a Mitsui Trading Company subsidiary backed a gold-mine venture with North Korean residents of Japan, and an Osaka-based firm established a cement factory in North Korea in 1990 (Hughes 1999, 132). Although Japan became North Korea's second largest trading partner after China in 1993 and soon thereafter became its largest partner (at least temporarily), overall trade volume soon began to decline. By the end of the first half of 2003, bilateral trade was at its lowest level in a decade.⁷ Japanese firms that had been commissioning manufacture—textiles and electrical machinery—from North Korean plants found the DPRK too risky and Chinese alternatives too attractive. The DPRK has

6 Mitsui Bussan created Daiichi Tsusho for this purpose.

7 Note, however, a report in Jiji Press on 11 September 2003 that bus and truck exports from Japan to North Korea “soared” 46 percent in that period. For Japan-DPRK trade statistics, see www.customs.go.jp/toukei/info/index.htm.

exported pine nuts, mushrooms, fishery products (for example, shellfish), and other primary products. Japanese importers have also had limited experience with subcontracting apparel (suits, sweaters, underwear) from North Korean needleworks, a business that has now been largely diverted to China. Japanese firms can provide every variety of manufactured product, from motor vehicles to key infrastructure such as railways, ports, and communications.

There have been periodic, largely feeble attempts to enhance DPRK economic relations with the outside world, including Japan. In the mid-1990s Pyongyang scrapped its special currency for foreigners, allowing them use of the North Korean *won*, and in April 2001 the DPRK promulgated a law to encourage manufacturing for exports. In 1997 Pyongyang hosted a series of visits by International Monetary Fund (IMF) and World Bank officials (Hughes 1999, 138). In 2001 Pyongyang applied for membership in the Asian Development Bank (ADB), a potential new source of loan capital for economic reconstruction. Its application has been supported by the ROK but opposed by both the United States and Japan, the two largest shareholders in the ADB (Takeuchi 2001). Meanwhile, bilateral Japan-DPRK trade declined, and Japanese firms have made no direct investment in North Korea since 1997.

The largest part of Japan-DPRK trade by far has involved either businesses established by North Korean citizens living in Japan or illegal narcotics traffic (or both). More than 100 Chongryun joint ventures were created in the wake of the 1984 North Korean Joint Ventures Law, but failures of Chongryun “patriotic plants” in North Korea and Japanese government investigation of their finances have dampened this *cho-cho* economic relationship. Meanwhile, a Japanese government crackdown on drug smuggling has caused much of the North Korean narcotics traffic to be rerouted through China, which has more than doubled its arrests of Japan-bound shipping from North Korea, reported the *Tokyo Shimbun* on 25 November 2003. Periodically there also have been highly visible crackdowns on illegal exports from Japan; on 6 November 2003, just before the election, the *Nihon Keizai Shimbun* reported that a Korean resident of Japan was arrested in Tokyo for falsifying the end user of electrical equipment currently banned for sale to the DPRK.

Japanese trading company officials occasionally speak about the attractiveness of investing in DPRK infrastructure development (railroads, ports, electric power), but neither the Keidanren nor the Keizai Doyukai has committees that deal with North Korean issues, and neither business association has issued a North Korean trade and investment white paper.⁸ The same Japanese firms that would be the most active in such investments—such as Hitachi and Toshiba, which had won a turbine contract under the now-suspended KEDO program—also are the ones that stand to gain the most from increased procurement of weapons systems by the government of Japan

8 One official states, “Keidanren intentionally avoids the issue” of trade and investment with North Korea.

in response to the DPRK threat.⁹ Mitsubishi Heavy makes the H-II rocket and Aegis destroyers and is seeking a license to produce the PAC-3 missile; Mitsubishi Electric is the prime contractor for the spy satellite that was authorized immediately after the DPRK tested its Taepo-dong missile over Japanese airspace in August 1998.¹⁰

While the *South China Morning Post* on 18 September 2002 optimistically predicted that “a surge of Japanese investment in North Korea” would result from Prime Minister Koizumi’s September 2002 visit and a subsequent normalization, the Japanese press reported widespread skepticism in the Japanese business community.¹¹ Meanwhile, although Japan remains one of North Korea’s more important economic partners—about one-quarter of DPRK exports went to Japan in 2002—there was a dramatic drop-off in bilateral trade after Japan tightened port controls in 2003 (Manyin 2003).

Party Positions

In the absence of pressure from the business and financial communities, the Liberal Democratic Party (LDP) has been free to define the DPRK issue in purely political terms. The LDP has insisted that settlement of the abduction issue and denuclearization of the peninsula are the sine qua non for normalization of relations. In May 2003, a group of younger LDP Diet members formed a caucus to revise the Foreign Exchange and Foreign Trade Control Law to make it possible for Japan to stop remittances (*sokin*) to North Korea from Japan that have been estimated at upwards of 60 billion *yen* per year (Green 2001, 117).

But the LDP hardly needed to be goaded into action. The party played the North Korea card to great effect in the November 2003 election campaign. By promising sanctions, the LDP isolated the Socialists and made the Democratic Party of Japan (DPJ) look passive on an issue of clear concern to the Japanese electorate. Indeed, the establishment of an Abductee Policy Center in October and the appointment of its chairman, Abe Shinzo, as chief cabinet secretary underscored the political salience of the abduction issue. Abe has called for a halt to all remittances from Japan to North Korea until the abductee issue is resolved. The LDP policy statement on North Korea in its autumn 2003 election manifesto calls for the return of abductee families to Japan, the resolution of unsolved cases, and the provision of financial support to abductees and their families.¹² Within two weeks after the election,

9 KEDO—the Korean Peninsula Energy Development Organization—was created in 1995 under the 1994 Agreed Framework. The DPRK agreed to freeze and ultimately dismantle its existing nuclear program. In return, KEDO would supply heavy fuel oil and a light-water reactor that would reduce the risk of weaponization. See Hughes (1999, 152–4) for analysis of Japan’s participation in KEDO.

10 See Green (2001, 124–8) for more on Japanese and U.S. reactions to the missile test.

11 See reports in *Jiji Press* on 13 September 2002 and *Kyodo News* on 30 August 2002 and 17 September 2002.

12 The LDP manifesto also advocates a normalization of relations that includes the comprehensive

the LDP introduced Diet legislation to allow Japan to impose unilateral economic sanctions on North Korea, and within three months it had become law. The Koizumi government again played a Pyongyang card to position the LDP in the July 2004 upper house elections. The prime minister revisited Chairman Kim in late May and secured the release of the family members of the abductees still in Japan. He also arranged for the reunion of one abductee with her U.S.-born husband, Charles Jenkins, and their daughters in Indonesia two days before the election.

The LDP's coalition partner, the Komeito, took no independent position on North Korea, and the LDP's tough stand trumped all of the opposition parties in the earlier vote. The largest Japanese opposition party, the DPJ, also identified the abduction and nuclear issues as the most important problems to be resolved as part of any normalization talks. But its calls for a written apology, reparations, the return of all abductees and their families, and a commitment to cease abductions in the future seemed derivative of the LDP position to many voters. Likewise, its criticism of the government for signing the Pyongyang Declaration despite knowledge of the DPRK's recommenced nuclear program struck many as grasping at straws. In short, although the DPJ called the abduction issue "important," it found itself following in a strong LDP wake throughout the campaign. It has continued in this pattern by echoing the LDP; on 26 November 2003 the *Yomiuri Shimbun* reported that the DPJ had also established a party committee to manage policy on the abduction issue. It promised to tighten controls on remittances, but only after the LDP had already revealed a stronger line toward the North Koreans and only after Chairman Kan Naoto was criticized effectively by Secretary General Abe of the LDP for having once advocated release by the South Korean government of a North Korean agent jailed for abducting Hara Tadaaki in 1980. Of those in the DPJ who were elected, three-quarters favored tougher sanctions against the DPRK.

The Japan Communist Party (JCP) has released a number of statements outlining its policies on North Korea.¹³ The party calls for removing the nuclear threat, solving the abductee problem, and accepting North Korea into international society without resorting to war. It also argues for the return of the abductee families, a formal apology, and payment of compensation to the abductees. The JCP reminds the public it had harshly criticized the DPRK for many years, insisting that the greater danger is a confrontation between the United States and North Korea.¹⁴ In part because the JCP platform called for

resolution of the abductee, nuclear, and missile problems. It supports the six-party negotiations framework. It is found (in Japanese) at: http://www.jimin.jp/jimin/jimin/sen_syu43/sengen/07.html.

13 For a list in Japanese, see www.jcp.or.jp/seisaku/index-02-05gaiko.html.

14 The relationship between the JCP and the North Korean Workers' Party worsened in the 1970s, and the JCP severed formal relations following the October 1983 terrorist attack in Rangoon orchestrated by North Korean agents who killed 21 people (including 4 cabinet members) and injured 46. The rupture of JCP-DPRK relations has not prevented the Komeito from publishing a book pillory-

the resumption of talks without conditions attached, the party was decimated in the November election. It is now left with only nine seats in the Lower House.

The Social Democratic Party (SDP), once closely tied to the Korean Workers' Party, has tried to refocus on the nuclear issue, arguing for its resolution through multilateral dialogue. But during the November campaign the Socialists were embarrassed by LDP and media reminders that it once had insisted that the abduction issue was a fake. The SDP, which had long held a conciliatory stance toward the DPRK, had arranged and participated in the 1990 visit to Pyongyang by Kanemaru Shin. Voters remembered, and punished the SDP severely in November 2003 for having turned a blind eye to Japanese abductees and then denying it had done so. Party Chair Doi Takako was defeated in her home district and held onto her seat only in the proportional representation list. She resigned soon after the results were posted. The Socialist Party that once accounted for more than one-third of lower-house seats now has only six representatives in Diet and is in danger of disappearing altogether.

Thus, the most recent lower house elections seem to have closely reflected a strongly anti-North Korean public sentiment, one that was read most clearly and massaged most effectively by the ruling LDP. Stimulated by support groups for the families of Japanese abductees, some two-thirds of those elected to the lower house in November 2003 supported tougher measures against the DPRK, including tightened foreign-exchange controls and restrictions on entry by North Korean ships to Japanese ports.¹⁵ The LDP used the North Korea issue to generate positive media attention once again in the upper house elections, which followed seven months later.

Japanese Interests and Policies toward the DPRK

There is no question that reduction of Pyongyang's military threat is atop the list of Japanese priorities alongside resolution of the abductee issue. But it is not only Pyongyang's military threat that troubles Japanese security planners. They are also concerned that a marked deterioration of political stability in North Korea or a military miscalculation by Pyongyang would invite great-power intervention, markedly affecting Japanese interests on the peninsula (Akaha 2002). Thus, Japan also has an interest in restraining the United States, especially in a post-9/11 world in which the Bush administration has outlined a national security strategy based on preventive war. This is why the

ing the JCP for its relationship with the North Korean leadership and for encouraging North Korean citizens in Japan to return to North Korea from the 1960s to the early 1980s. From 1959 to 1984, the Japanese and North Korean Red Cross associations assisted people of Korean descent to move from Japan to North Korea, with 93,000 returning by 1984, of whom 6,800 were Japanese citizens (many families of North Korean citizens in Japan).

15 See Kyodo News on 10 November 2003 and *Sankei Shimbun* on 11 November 2003.

Koizumi administration warmly welcomed the Bush administration's October 2003 offer of a security guarantee to Pyongyang.

Prime Minister Koizumi's visits to Pyongyang in 2002 and 2004 may have been the last efforts to place unilateral initiatives alongside multilateral ones in Japan's policy quiver. Japan depends more than ever on U.S. and ROK leadership. Moreover, even acknowledging the improvement of bilateral relations between Seoul and Tokyo, it is not at all clear that the prospect of a nuclear-armed North is significantly more threatening to Japan than a nuclear-armed and unified Korean peninsula (Akaha 2002, 81). As a result, the Japanese government has made a sustained effort to coordinate policy not only with the United States but also with Russia and China. In January 2003, Prime Minister Koizumi visited Moscow, where the two countries signed an action plan (MoFA 2003c) that outlined cooperation on a range of issues, including North Korea; and both Koizumi and Foreign Minister Kawaguchi have stayed in regular contact with their counterparts in China as well (MoFA 2003c; MoFA 2004b). This summitry is symbolized by the meetings held by Koizumi in St. Petersburg with President Putin and President Hu Jintao of China on subsequent days in May 2003.¹⁶ Further, Koizumi has used the various regional multilateral bodies as opportunities to meet with his Chinese, Russian, and South Korean counterparts and coordinate on North Korean and other issues; he has met with Hu Jintao and Vladimir Putin at the sidelines of the APEC Economic Leaders' meeting in Bangkok in October 2003 and with Wen Jiabao at the ASEAN+3 meeting in October 2003 in Bali, Indonesia (MoFA 2003b).

Nor is all the activity merely diplomatic. The DPRK is responsible for Japan's coming out of its postwar security shell as well. The initial decision to cooperate with the United States on missile defense research and development was prompted by North Korea's test of a Taepo-dong 1 ballistic missile over Japan in August 1998. Since the eruption of the latest crisis, Japan has moved closer to implementing a missile defense system as well as launching its own intelligence satellites. Tokyo also has reminded Pyongyang of its long-standing claim of a right to use preemptive military force. In the MoFA's *Blue Book 2003*, North Korea is listed ahead of the war on terror and weapons of mass destruction as Japan's greatest diplomatic concern. The MoFA states Japan's basic policy toward North Korea as aimed at achieving normalization through a tripartite cooperation among the United States, the ROK, and Japan that contributes to peace and stability (MoFA 2003a). Meanwhile, the 2003 defense white paper issued by the Japan Defense Agency (JDA) (Boeicho 2003, 44–45) is blunt about the North Korean threat:

16 For information on the Japan–Russia summit meeting, see www.kantei.go.jp/foreign/koizumipphoto/2003/05/30russia_e.html.

North Korea has sought as a basic national policy to transform itself into a “strong and rising great power” and adopted a “military-first policy” to realize this aim. . . . Despite the serious economic difficulties it faces, North Korea continues to give the military preferential allocation of resources, and is dedicating considerable effort into maintaining and improving its military capabilities and readiness. North Korea possesses weapons of mass destruction, ballistic missiles, and large-scale special operations forces, and the country appears to be maintaining and strengthening its asymmetrical military capabilities. North Korea’s suspected development of nuclear weapons impinges on the security of Japan and is also a matter of concern for the entire international community. . . .

Normalization talks have been the main mechanism through which Japan and North Korea have engaged at a government level. These talks have been conducted intermittently since the agreement to begin them was reached during the visit of Kanemaru Shin to Pyongyang in September 1990. Talks were broken off in 1992 after eight meetings, and efforts by LDP leaders Watanabe Michio in 1995 and Mori Yoshiro in 1997 to get them restarted failed. Efforts stalled again after the 1998 missile test, when Japan responded by freezing charter flights, suspending humanitarian aid, and stopping payments to KEDO (Akaha 2002, 83). Normalization talks finally recommenced in April 2000, when MoFA bureaucrats took the lead for the Japanese side. The most recent talks were held in October 2003 in Kuala Lumpur, where Japanese negotiators requested the return of the abductee families to Japan, maintenance of the Pyongyang Declaration, submission to responsibilities under the Nuclear Non-Proliferation Treaty, and the nontargeting of Japan by North Korean No-dong missiles.¹⁷

From the beginning of the Cold War, Japan’s North Korean diplomacy—and much related domestic policy—has been hitched to the U.S. wagon. In 1950, with the outbreak of the Korean War, Japan assembled its first postwar military force, the 75,000-man National Police Reserve, the direct antecedent of the Ground Self-Defense Force. The trade restraints imposed by the Eisenhower administration in the mid-1950s loomed large throughout the rest of the Cold War. In 1994, the Clinton administration devised the Agreed Framework, which required Japanese contributions to KEDO that were resisted by some officials in Kasumigaseki who were not entirely convinced that Pyongyang’s threat was serious.¹⁸ More recently—this was expressed in Diet testimony of Hori Toshikazu—it seems that Japanese support for Operation Enduring Freedom in Iraq is tied to the belief that, if Japan does not support the United States in the Middle East, it risks either that the United States would provide insufficient support in the event of a Korean contin-

17 For a Japanese government summary of the results of these talks, see MoFA (2002c).

18 For an insider’s account of the development of the Agreed Framework and Japan’s reaction, see Kanter (1998) and Green (2001, 125) on the “heavy pressure” exerted on Japan to sign onto KEDO.

gency or that the United States would act unilaterally on the peninsula in ways that would be contrary to Japan's national interests. Thus, Japanese diplomacy has focused directly and enthusiastically on promotion of six-party talks.¹⁹ It has engaged partners multilaterally, as exemplified by its sponsorship of a conference to establish Asia's first export control regime, as well as bilaterally—both within the region and abroad—to impress other states with the importance of the abduction and nuclear/missile issues. Japan has received assurances from the ROK that a nuclear North Korea will not be tolerated.²⁰

Apart from the abduction issue and the military threat—the two most important issues impinging on normalization—there are at least three subsidiary matters defining Japanese government policy vis-à-vis North Korea. The first concerns refugees. Currently Japan takes very few refugees and concentrates on providing support through the United Nations (UN). Refugees seeking asylum can apply only from inside Japan, ruling out the use of foreign embassies for this purpose. In January 2003, the MoFA Asia and Oceanic Affairs bureau chief, Mitoji Yabunaka, confirmed that the Japanese government has put “dozens” of Japanese citizens—Japanese spouses of North Korean nationals who fled North Korea to China and want to return to Japan—under its protection. Japan has stayed quiet about this out of consideration for China, which has allowed the refugees to return to Japan even though the PRC has had a repatriation order with North Korea since 1986. Still, the Japanese government does not accept political asylum seekers and does not issue travel documents to allow travel to Japan in order to apply for refugee status.

The second area concerns the regulation of remittances to North Korea. Press reports, such as that by Yonhap on 1 November 2003, estimate that cash remittances from pro-Pyongyang residents in Japan amount to more than \$1 billion a year, a sizable portion of North Korea's annual expenditures, although these may be exaggerated.²¹ Even if much less, however, these remittances constitute a large share of the total North Korean economy. While most of the funds transfers are voluntary, some have been extorted (Hughes 1999, 137). It has been reported that the Japanese government has begun pressuring the Tokyo-based Ashikaga Bank, used by Korean residents of Japan to send money to North Korea, to halt the flow of remittances. In 1994 the Ministry of Finance temporarily suspended all dollar-based remittances from the Ashikaga Bank, and in late 2003 it nationalized the bank (FEER 2003). In early 2004, the Japanese Diet amended the Foreign Exchange Con-

19 Participants in the six-party talks are China, Japan, North Korea, Russia, South Korea, and the United States.

20 For the Japanese government's official statement and a list of bilateral overtures, see MoFA (2004a).

21 A Japanese foreign ministry official (whom I interviewed on 6 March 2004) insists this figure is exaggerated, and Manyin (2003, 5) places it in the tens of millions of dollars annually.

trol Law to allow for unilateral economic sanctions, including the suspension of remittances to North Korea via Japanese banks.

The third policy concerns the regulation of trade and investment. In 1983, after the DPRK defaulted on its debts to Japanese creditors, the Japanese government ceased underwriting trade insurance for Japanese firms doing business there. As noted, this has effectively frozen any large-scale economic interaction between Japanese firms and North Korea. Although resolution of the debt problem is not the major obstacle to normalization, there can be no trade incentives unless and until these debts are satisfied. In May 2003, the Japanese government announced that it could legally invoke a complete trade ban with the DPRK. The government cited not only Japanese law, but a bilateral treaty with the United States: Because Japanese law allows the government to restrict trade if it affects the healthy development of Japan's economy, the government concluded that a Japanese failure to comply with U.S. sanctions would seriously undermine the U.S.-Japan relationship and, hence, Japan's economy.

The Japanese government has taken small, but significant, steps to regulate trade with the DPRK, starting with tighter safety inspections. In much the same way that the Chinese government cut off oil shipments to North Korea in 2003 to show Pyongyang that it meant business, the Japanese Ministry of Land, Infrastructure, and Transport began spot inspections in August that hampered the ability of North Korean vessels to travel to Japan. Kyodo News reported on 25 August 2003 that the inspections, nominally designed to ensure seaworthiness, had found safety problems on 70 percent of the North Korean ships, including such minutiae as defective exhaust ducts in the galleys, misplaced emergency exit signs, and missing fire extinguishers. The *Man Gyong Bong-92*, a passenger and freight vessel connecting North Korea and Niigata that has ferried between Japan and Korea up to 20 times annually since 1971, became a special focus of attention on the suspicion that it was transporting narcotics, illegal remittances of cash, and missile parts.²²

Conclusion

Given the history of this difficult relationship, Japanese participation in a "grand bargain" among six parties presumes normalization—and, given the array of political interests at home, normalization presumes satisfactory outcome to the issues of greatest concern to Tokyo: the abductees and Pyongyang's military threat.

But there are demands for payback on both sides: The first item on Pyongyang's agenda is reparations for three decades of Japanese colonial

22 In November 2002, Tokyo metropolitan police seized documents that included instructions from Pyongyang for spying in South Korea; the documents were reportedly passed to an operative by the captain of the vessel.

rule and the forced migration of thousands of Koreans—including for sex slavery and *corvée*. The DPRK is demanding up to \$10 billion, although some estimate that normalization can be achieved for half that amount (Green 2001, 307; Manyin 2003, 9). Therefore, given the mobilization of Japanese antipathy toward the North Korean position on history and on Japan's war responsibility and given the centrality of the reparations issue to the North Korean regime, it is very difficult to imagine a grand bargain in which the demands of both sides are ignored.

Still, for the purposes of this analysis we can suspend disbelief and ask what Japan might contribute to a multilateral grand bargain with the DPRK. After all, Japan is working very hard to have its bilateral concerns addressed multilaterally. Moreover, the Pyongyang Declaration does stipulate bilateral agreement on what normalization would require and entail. Prime Minister Koizumi and Chairman Kim agreed that history could be accounted for in actions by both sides (MoFA 2002a):

Both sides, pursuant to the basic principle that when the bilateral relationship is normalized both Japan and the DPRK would mutually waive all their property and claims and those of their nationals that had arisen from causes which occurred before August 15, 1945.²³

With respect to the outstanding issues of concern related to the lives and security of Japanese nationals, the DPRK side confirmed that it would take appropriate measures so that these regrettable incidents, that took place under the abnormal bilateral relationship, would never happen in the future.

And the way to economic cooperation also could be cleared:

Both sides shared the recognition that, providing economic cooperation after the normalization by the Japanese side to the DPRK side, including grant aids, long-term loans with low interest rates and such assistances as humanitarian assistance through international organizations, over a period of time deemed appropriate by both sides, and providing other loans and credits by such financial institutions as the Japan Bank for International Cooperation with a view to supporting private economic activities, would be consistent with the spirit of this Declaration, and decided that they would sincerely discuss the specific scales and contents of the economic cooperation in the normalization talks.

23 This is characterized as a "Provisional Translation." A better translation might be: Both sides, pursuant to the basic principle that the respective governments and their nationals mutually relinquish pre-August 15, 1945, holdings of, and claims on, real and financial assets to achieve normalization of the bilateral relationship, agreed to discuss this issue of settlement of claims in concrete terms in the normalization talks.

These pledges—and the suspension of disbelief—nonwithstanding, it remains difficult to imagine getting there from here. First of all, despite its labor shortage, Japan is unlikely to allow the resettlement of a massive number of economic refugees as its part of such a six-party grand bargain. Chinese and Southeast Asian migrants have already become a domestic political problem in some areas of Japan. North Korean migrants would make matters even more difficult. Nor will political asylum likely be acceptable grounds for resettlement in Japan.²⁴

But what of the promise of increased financial flows? The most likely initial source of such flows would come from DPRK-friendly residents. Although the Chongryun is the most active group doing business with North Korea, its resources are extremely limited, and its political clout has shrunk to near zero. In the event of normalization, Korean residents of Japan will play a much diminished role, largely as go-betweens or facilitators for large firms. Local governments and local business groups in the coastal areas near North Korea, such as Niigata, are expected to increase their trade and investments. But here, too, resources are very limited—and declining. Japanese investors have displayed only limited interest in multilateral regional development programs, such as the Tumen River Area Development Program sponsored by the UN, to develop the border area of China, Russia, and North Korea (Hughes 1999, 133).

Substantive increases in the form of direct investment would have to come from large Japanese firms and financial institutions. But this would depend on two things. First, it would depend upon resolution of the DPRK debt. As noted, North Korea owes Japan more than 100 billion *yen* in unpaid export bills after its default in 1975. If forgiven by the government of Japan and/or picked up by an international financial institution, the path would be cleared for significantly more direct foreign investment. Still, Japanese firms are wary of doing business in North Korea, and they have very attractive alternatives in China and elsewhere.

Given these alternatives, the second barrier—the abduction issue—looms even larger. Although the Japanese government has expended enormous diplomatic effort to place this issue on the six-party table, *Nikkei Shimbun* on 3 October 2003 reported that the Chinese premier, Wen Jiabao, had told Prime Minister Koizumi that China prefers this issue be handled bilaterally between Japan and the DPRK. And, in the absence of economic pressure in the other direction, the political costs of backing away from this issue are growing. On 12 September 2003, *Nikkei Shimbun* reported that Secretary General Abe of the LDP had declared that, if the eight families of the abductees are not allowed to return to Japan, bilateral relations will not be normalized.

24 On 11 November 2003, Kyodo News reported that the Ministry of Justice had rejected a recommendation by Tokyo Regional Immigration Bureau to grant asylum to a Korean resident who had been a DPRK spy.

And, in what was the first time a government official had attached a figure to potential levels of Japanese aid to North Korea, Abe added: “If relations are not normalized, then economic assistance of hundreds of billions of *yen* will not flow to North Korea.”

Short of normalization—the current *sine qua non* for any Japanese initiative within a grand bargain—even Japan’s tried-and-true tied aid seems a nonstarter. This option—official development assistance to North Korea in an amount equal to the outstanding debt Pyongyang owes to Japanese firms (possibly extended through Japan Bank for International Cooperation/Japan International Cooperation Agency)—could be used to repay long-standing debts and free larger Japanese firms to begin to explore business opportunities in the North, particularly for infrastructure projects. Of course, the Japanese government would also have to reinstate its trade insurance for Japanese commercial activities in the DPRK, and there is no evidence this program is under active review. Finally, without normalization, there can be no most-favored-nation status, without which DPRK exports would continue to be severely disadvantaged.

Thus, Japan’s willingness to participate in a grand bargain is restricted by a number of thorny bilateral issues that remain to be resolved. Japanese-DPRK economic relations remain hostage to political solutions that seem beyond either country’s grasp. In the interim, one possible alternative is for Japanese firms to act as a secondary engine, that is, by nesting their investments inside projects negotiated and led by South Korean firms, hardly the first choice for Japanese or Korean interests.²⁵

Although there is no question that Japan has an important part to play in any engagement process with North Korea, progress is stymied by difficult bilateral issues, crowned by the thorny problem of the abductees. The now latent Pyongyang Declaration remains an important breakthrough and an important road map for managing historical and debt issues, both of which are prerequisites for normalizing relations. But, as Secretary General Abe of the LDP stated in February 2004 (reported in the *Mainichi Shimbun* on 2 February) after his plan for unilateral economic sanctions against the DPRK became law: “A lack of pressure has resulted in delaying resolution of the abduction issue.”

This underscores above all that the problem is not about economics. The question of abductions hangs heavily as a deal breaker over Japanese engagement in any grand bargain. Management of the issue is made more difficult by the emotional involvement of many of Japan’s citizens in the fate of the abductees, driven by a genuine sense of horror at the actions of the North Korean government, but also nurtured for political gain by the LDP. While Prime Minister Koizumi’s willingness to take risks has had benefits, his use

25 Hughes (1999, 134) uses the term secondary engine.

of populist politics is a double-edged sword: it connects to the Japanese people while it simultaneously constrains the ability of Japan's bureaucrats to reach a hard-headed bargain in the national interest.²⁶

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26 For more on Japanese leadership, see Samuels (2003).

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