



**Japan-Korea Relations:
Inaction for Inaction**

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Despite the change in Japanese leadership from hard-liner Abe Shintaro to the more dialogue-oriented Fukuda Yasuo, this quarter's Japan-North Korea relations were largely uneventful and produced little progress. Tokyo criticized Pyongyang for missing the year-end deadline for declaring all its nuclear programs and facilities, urging North Korea to make a "political decision" to fulfill its commitment under the Six-Party Talks agreement. Pyongyang reiterated that Japan should be excluded from the talks, and blamed Japan for the U.S. failure to remove Pyongyang from its list of state sponsors of terror. North Korea asserted that there would be no improvement in their bilateral relations as long as Japan continues to press resolution of the abduction issue on Pyongyang. By mid-March, Tokyo had decided to extend economic sanctions against Pyongyang for another six months after they expire April 13, if the current situation continues with no breakthroughs. Meanwhile, with the change in South Korean leadership from a liberal-minded Roh Moo-hyun to the more conservative Lee Myung-bak, Tokyo exerted diplomatic efforts to bring South Korea closer to Japan by trying to form a united front between Japan, South Korea, and the U.S. against North Korea.

Japan-North Korea relations: more of the same

North Korea missed the deadline for producing a full account of its nuclear programs, which set the tone for the quarter's bilateral relations; new opportunities that emerged during the last quarter of 2007 with Fukuda's inauguration did not materialize. Last quarter's small signs of Tokyo-Pyongyang détente were short-lived, and the near absence of bilateral interactions turned the clock back to the chilled relations of the past few years. Japan remained skeptical of Pyongyang's willingness to cooperate and regarded its failure to meet the deadline as being typical of North Korea.

At various times throughout the quarter, Japan reiterated its call on Pyongyang to fulfill its commitment to provide a full account of its nuclear programs. On Jan. 8, Japan's Foreign Minister Komura Masahiko told a news conference that there would be no progress on North Korea's nuclear issue "as long as North Korea does not make the political decision to give a complete and correct declaration." Japan joined the U.S. in claiming that they would not accept a partial declaration. In February, Prime Minister Fukuda expressed his "disappointment" over the stalled Six-Party Talks, but again emphasized his willingness to tackle the diplomatic hurdles between the two countries. In

March, top negotiators of the Six-Party Talks, Christopher Hill of the U.S. and Akitaka Saiki of Japan, made another joint request that Pyongyang act as soon as possible.

If Japan's attitude toward Pyongyang's missed deadline was its business-as-usual skepticism, North Korea played its part in making this quarter's developments the same old story by repeating the same criticisms of Japan, focusing on the usual past misdeeds. The official *Minju Joson* criticized Japan on March 23 for its failure to apologize and compensate the "comfort women" from World War II, and reiterated that Japan-North Korea relations will not improve as long as Japan continues to link their improvement with the abduction issue.

On March 15, Japan's Chief Cabinet Secretary Machimura Nobutaka said during his meeting with the families of those abducted by North Korea that the Japanese government would extend economic sanctions against the North for another six months "unless the attitude of North Korea changes for the better." Japan banned port calls by the ferry *Mangyongbong-92*, and imposed comprehensive financial sanctions on Pyongyang after North Korea conducted missile tests in July 2006 and the nuclear device detonation in October the same year. As a result, official economic activities between Japan and North Korea have been close to nil under these sanctions. Japan's Metropolitan Police Department arrested three men on suspicion of illegally importing North Korean sea urchins by disguising them as a product originating from the PRC.

Japan-South Korea relations: so far, so good

The highlight of this quarter for Japan-South Korea relations was a 50-minute summit meeting between Prime Minister Fukuda and President Lee on the day Lee was sworn in as South Korea's president on Feb. 25. Fukuda, who led a large party of delegates from Japan, was the first leader to meet with Lee following his inauguration. The two leaders agreed to resume bilateral FTA talks, to strengthen coordination with the U.S. to press for North Korea's denuclearization, and to take a future-oriented approach toward the historical issues that have bedeviled the two countries. Although much hinges on how Tokyo and Seoul handle the more substantive aspects of these diplomatic issues, the new leadership in Japan and South Korea seems to have opted for a more cooperative relationship, and certainly the rhetoric has become much warmer.

Overall, the quarter's developments showed that there is strong political will on the part of both Tokyo and Seoul for better bilateral ties and that both sides recognize the benefits that could come from such relationship. There were at least three issue areas that were on the bilateral agenda: more concerted efforts with Washington to effectively deal with North Korea, resumption of bilateral FTA talks, and a forward-looking relationship that goes beyond the past.

First, Tokyo hopes to use better Japan-South Korea ties to push Japan-North Korea bilateral issues forward by bringing Seoul's foreign policy closer to that of Japan. During the Fukuda-Lee summit, Fukuda proposed closer coordination between Japan, South Korea, and the U.S. in their bid to denuclearize the North. Soon after the summit, Foreign

Minister Komura appeared on the Japanese TV network *NHK* and stressed that there was no difference between President Lee's North Korea policy and that of Japan, and said that Tokyo and Seoul sent the same message to Pyongyang.

Compared to the previous Roh government, it is clear that President Lee's professed foreign policy goals of "global diplomacy" and "pragmatic inter-Korean relations" resonate better with those in Japan as they seek to surpass ideological differences for tangible economic and diplomatic benefits. Just as importantly for Japan-South Korea relations, Lee stressed that his government would place special importance in strengthening the U.S.-ROK alliance, which underwent a rocky period under the former Roh government. In that light, although Tokyo does not seem to expect that the new South Korean government would change its existing dialogue-oriented policy on North Korea overnight, it found Lee's approach of providing economic assistance conditional upon the progress in the Six-Party Talks more reassuring. However, it remains to be seen whether South Korea will join Japan's attempt to form "a united front against North Korea" between Japan, the U.S. and South Korea, given the complex domestic political situation within South Korea.

Second, the Fukuda-Lee summit gave significant political impetus to stalled FTA talks that have been halted for three years because of disputes over the opening of agricultural markets. During the summit, Fukuda and Lee agreed to begin preliminary discussions on resuming negotiations for an economic partnership agreement. President Lee has consistently advocated ratification of an FTA with the U.S. as well as with Japan. In a February meeting with 10 Japanese lawmakers led by former Secretary General of the LDP Koichi Kato, then President-elect Lee suggested an FTA between Tokyo and Seoul as one of the ways to improve bilateral relations.

A third area of agreement between Fukuda and Lee was a decision to resume annual exchange visits by the two countries' leaders, the so-called "shuttle diplomacy." Lee agreed to visit Japan on April 20-21 and Fukuda is expected to make a return visit in the second half of this year. Given that the past record indicates the success or failure of such shuttle diplomacy tended to depend on how Tokyo and Seoul approached historical issues, Lee's announcement that the South Korean government would not demand that Japan apologize for colonization gives some hope for improved relations. Lee's predecessor, President Roh, and former Prime Minister Koizumi initiated shuttle diplomacy in 2004, but it was suspended the following year as Tokyo-Seoul relations grew bitter over historical issues based primarily around Koizumi's visits to Yasukuni Shrine and the vehement South Korean reaction to those visits.

Strong political will for improving bilateral relations was emphasized in President Lee's speech commemorating the "March 1st Independence Day Movement," a day celebrating the Korean public's 1919 protest against Japanese colonial rule. Given that a South Korean president's Independence Movement Day speech is always considered a gauge of bilateral relations between Tokyo and Seoul, Lee's emphasis on pragmatic diplomacy rather than on Japan's need for "heartfelt apology and corresponding action" marked an important departure from former President Roh. While Roh's addresses tended to *preach*

to Japan a lesson about history, Lee warned of the danger of “being trapped in the past,” and asked “how long should we be stuck in the past when there is so much to do together?” For his part, Prime Minister Fukuda emphasized the importance of “acknowledging past facts as facts and to face history humbly by always thinking how others think.”

Despite Lee’s announcement that he would not seek apologies from Japan over its past of colonization, dissension was also heard. On Jan. 18, the day after one of Lee’s statements, South Korea’s political parties lashed out at him for his remarks. While the pro-government United New Democratic Party demanded that Lee immediately retract his “thoughtless comment” and publicly apologize, the Liberty New Party criticized Lee’s comments by asking if Lee was willing to sacrifice the nation’s pride for his so-called pragmatic diplomacy. The progressive Democratic Labor Party called Lee a “dangerous leader with a distorted historical view.”

Yet, Emperor Akihito’s congratulatory message to Lee – which was not sent to Roh – brought a welcome response from South Korean major dailies. The *Joongang Ilbo* on Feb. 27 also interpreted Prime Minister Fukuda’s visit to the restored river in downtown Seoul (Chungyecheon (청계천)) on the first day of his visit to Seoul as a sign of respect for President Lee, who had overseen the river’s revitalization while mayor. It was also reported that the joke among South Korean diplomats was that the Japanese seem to like President Lee more than the Koreans themselves.

The major South Korean dailies also pointed out that the fundamentals of bilateral ties remained largely unchanged. They argued that assuming that bilateral ties will automatically improve simply because of a change in South Korean leadership was equal to placing sole blame for rocky bilateral relations on Roh, when, in fact, Japan played an equally significant part. Korea has one of the most vocal democracies in the world, and leaders respond to their constituents as well as external events. In that light, the *Korea Times* on Feb. 29 warned President Lee that his policies could alienate him from the South Korean public should it fail to bring concrete results.

In Japan, the conservative daily *Yomiuri Shimbun* featured an equally skeptical article titled “Seoul ties thawing but can always get cold” on Feb. 28, and noted that the two leaders during their summit did not include any key policy issues in an effort to create an amicable atmosphere. On a cautionary note, the daily also reminded readers that the beginning of former President Roh’s presidency also heralded promise, and at the time appeared to bring Roh and Koizumi closer with almost identical promises of a “future-oriented” relationship, but it failed. Other dailies such as the *Japan Times* focused on possible changes in Japan-North Korea relations boosted by the inauguration of pragmatic, conservative Lee in the office, cautiously raising hope of a united front between Japan, South Korea, and the U.S. against North Korea.

In a rare official move on the part of the South Korean government, the issue of granting suffrage to South Koreans residing in Japan again surfaced this quarter. Japan’s Democratic Party of Japan leader Ozawa Ichiro, in a meeting with President-elect Lee on

Feb. 21, promised that he would try to ensure ethnic South Koreans would be granted the right to vote in local-level elections. During their meeting, according to DPJ members, Lee sought the issue of local suffrage for South Koreans upon request from the Korean Residents Union (*Mindan*). On March 10, South Korean Foreign Minister Yu Myung-hwan brought up the issue during his meeting with Ota Akihiro, president of New Komeito, the third largest party in Japan and part of a ruling coalition with the LDP, which has been known to advocate such policy.

Economic and cultural relations: ever deepening integration

As the political relationship thawed between Tokyo and Seoul, the good news of the quarter was momentum to resume the FTA talks. Japan's *Nihon Keizai Shimbun* reported on Feb. 8 that the Japanese government hoped to reopen free trade negotiations after South Korea's April 9 parliamentary elections. Japan-South Korea FTA talks started in Dec. 2003, but were suspended after Japan rejected South Korea's demand to open 90 percent of its agricultural market and South Korea's car industry opposed the deal.

Amid the ever-growing current account deficit in South Korea, Seoul decided to make diplomatic efforts to address its growing trade deficit with Japan. According to *Choson Ilbo* on March 6, during Lee's visit to Tokyo in the late-April, South Korean government and business leaders will formally ask Japan to cooperate in reducing Seoul's trade deficit with Tokyo. South Korea's Ministry of Knowledge Economy (now there's an awkward English name!) and the Federation of Korean Industries launched a task force to study concrete measures to overhaul the materials and components industry because the industry accounted for more than half of South Korea's trade deficit with Japan. According to Bank of Korea data, South Korea posted its biggest monthly deficit in almost 11 years in January 2008. The seasonally adjusted current account deficit widened to a provisional \$2.03 billion in January, the biggest since \$2.21 billion deficit in February of 1997. The annual deficit with Japan has snowballed every year, reaching \$24.44 billion in 2004 and \$29.88 billion in 2007.

According to South Korea's Ministry of Commerce, Industry and Energy, the international competitiveness of South Korea's digital electronics industry increased in 2007, due in large measure to high quality. A survey of 32 products including digital TVs, mobile phones, display panels, next-generation fuel cells, and robots showed South Korea's technical competitiveness moving up an average 3 to 5 percent points on-year.

Against this backdrop, the trends of ever-deepening simultaneous cooperation and competition between South Korean and Japanese firms were more pronounced during this quarter. On Feb. 26, Sony announced a plan to jointly produce liquid crystal display panels with Sharp Corp. The decision was largely viewed in Japan and South Korea as Sony's bid to replace South Korea's Samsung Electronics as the global leader in the LCD TV market. Currently, Sony ranks second in global shipments of LCD TVs with a 17.1 percent market share, after Samsung's 18.7 percent. Sharp comes in third with 11.7 percent. According to the *Asahi Shimbun* of Feb. 27, Sony and Sharp will establish a joint venture in April 2009 and start operations in fiscal year 2009. Sony plans to invest more

than ¥100 billion to acquire a 34 percent stake in the joint venture, while Sharp will hold the remaining 66 percent.

According to the South Korean daily *Choson Ilbo* of Feb. 25, Sony's decision was bad news to Samsung. Sony and Samsung have jointly produced LCD panels since 2003, investing ₩2 trillion to set up an S-LCD factory in South Korea's Tangjeong. According to the same daily, a Samsung Electronics executive said that it need not worry for now because of the high demand for LCDs, but that it could become a problem in two or three years. Meanwhile, South Korea's LG Electronics confirmed a report that it will buy LCD panels from its Japanese rival Sharp to meet the growing global demand for flat-panel TV sets. LG Display is the world's second-largest LCD panel supplier after Samsung Electronics.

Competition between Japanese and South Korean carmakers for the South Korean car market seems imminent, as Japanese carmaker Toyota announced its plan to sell its Toyota brand in addition to the luxury brand Lexus in Korea next year. According to Toyota chairman Cho Fujio, Toyota will offer cheaper imported cars to South Korean consumers with an aim of 500 unit sales a month at first and 1,000 as soon as possible. The launch is likely to heat up competition in not only the import car market but also with domestic South Korean manufacturers such as Hyundai and Kia. Currently, Japanese carmaker Honda dominates the South Korean import car market, selling 7,109 cars last year based on three models of the CR-V, Accord, and Civic.

On the monetary front, the Korean *won* continued to weaken against the U.S. dollar and the Japanese *yen*. As the *yen/won* exchange rate soared, the weak *won* brought "a mixed blessing" for South Korean firms. Export-driven local IT companies, and local car manufacturers and shipbuilders became more competitive in the global market, while airlines, food makers, and oil refiners have been suffering from the weak *won*, as they had to pay more to import raw materials. Accordingly, the Bank of Korea decided to temporarily extend the maturity of *yen*-dominated loans as part of its efforts to protect corporate borrowers from the surge of the Japanese currency on the Seoul market.

Cultural integration between Japan and South Korea has been deepening in recent years, and during this quarter, the "Japanese Wave" in South Korea has received attention. Since the South Korean government lifted a ban on the sale of Japanese cultural products in 1998, the *Korea Times* reported on Feb. 21 the difficulty of "ignoring the growing Japanese trend" in Seoul. The *Yomiuri Shimbun* featured an article on March 19, "South Korea awash with Japanese pop culture," and noted that South Korean young people are swept up with interest in Japanese pop culture, including *manga*, novels, films, and "cosplay" cafes. According to the daily, of 4,095 *manga* published in South Korea in 2006, about 70 percent were translations of Japanese *manga*. Of the 100 best-selling books at Kyobo Book Center, the biggest in Seoul, the number of Japanese novels rose from 15 in 2003 to 42 last year, exceeding the number of South Korean novels on the list. It also commented that the Korean Wave was on decline because it had relied heavily on the popularity of a handful of actors.

In an important step toward historical reconciliation between Seoul and Tokyo, the remains of 101 Korean military conscripts who died during World War II were returned to South Korea from Yutenji Temple in Tokyo on Jan. 22, followed by a state memorial ceremony attended by high-ranking diplomats from both countries. The Japanese government invited 50 South Korean family members to attend the ceremony and provided about \$300 in condolence for each family. The South Korean ambassador to Japan called the repatriation of the remains a “valuable start to heal historical wounds.” Former Prime Minister Koizumi promised former President Roh that Japan would assist Seoul’s efforts to address the forced labor issue.

The coming quarter

With the summit between President Lee and Prime Minister Fukuda to take place in April, there is the possibility that relations between South Korea and Japan could further improve in the coming quarter. This could include restarted negotiations over the FTA, other aspects of economic cooperation, and attempts to deal with history. It remains to be seen how deep is the desire between both Lee and Fukuda to take the steps to elevate Japan-South Korea relations to a genuinely improved level, and how much domestic opinion at home will support or constrain both leaders. As to Japan-North Korea relations, much will depend on progress in the Six-Party Talks, and on North Korea and U.S. negotiations over their issues. Dramatic improvement, although always possible, at this point appears unlikely, given North Korea’s apparent willingness to stall until the next U.S. president takes office early in 2009.

Chronology of Key Events: Japan-Korea Relations January-March 2008

Jan. 7, 2008: Japan and the U.S. urge Pyongyang to submit “complete and correct” declaration of its nuclear programs and facilities.

Jan. 15, 2008: South Korea’s Ministry of Commerce, Industry and Energy says competitiveness of the country’s digital electronics industry moved up 3 to 5 percent points in 2007.

Jan. 16, 2008: Lee Sang-duk, a special envoy from South Korea’s President-elect Lee, pays a visit to Prime Minister Fukuda. According to *Choson Ilbo*, Fukuda says that Tokyo will support Seoul and cooperate in its efforts to reunify the two Koreas.

Jan. 17, 2008: President-elect Lee says that South Korea will make no demand during his presidency for apologies about Japan’s colonization of the Korean Peninsula at a meeting at the Seoul Foreign Correspondents’ Club.

Jan. 22, 2008: The remains of 101 South Korean military conscripts by Japan’s imperial army during World War II return to South Korea from Japan. ROK government

delegation and 50 family members of the victims hold a memorial service at the Yutenji Temple in Tokyo. Japanese Foreign, Health, and Labor Ministry officials attend.

Jan. 29, 2008: Japan reiterates its call on North Korea to fulfill a commitment to provide a full account of its nuclear programs and facilities under the Six-Party Talks.

Jan. 31, 2008: North Korea's official *Korean Central News Agency* says that Japan-North Korea relations will not improve if Japan continues to make the resolution of the abduction issue a condition for better bilateral ties.

Feb. 11, 2008: President-elect Lee meets with 10 Japanese lawmakers led by Koichi Kato, former secretary general of the LDP, and discusses issues including the North Korean nuclear issue and the resumption of the FTA talks.

Feb. 19, 2008: Korean Institute of Defense Analysis hosts a trilateral South Korea-Japan U.S. security workshop and discusses nonsecurity related incidents such as rescue missions. They agree to jointly formulate plans to counter transnational disasters or accidents.

Feb. 21, 2008: President-elect Lee meets Democratic Party of Japan leader Ozawa. Ozawa promises Lee that he will try to ensure that South Koreans residing in Japan can be granted voting rights in local-level elections.

Feb. 24, 2008: Foreign Minister Komura Masahiko stresses that there is no difference between President Lee's North Korea policy and that of Japan.

Feb. 25, 2008: Lee Myung-bak inaugurated South Korea's president. During his inauguration speech, Lee emphasizes "global diplomacy," and "pragmatic inter-Korean relations" as pillars of his government's foreign policy goals.

Feb. 25, 2008: Prime Minister Fukuda and President Lee have a 50-minute summit at South Korea's presidential Blue House and agree to develop a future-oriented bilateral relationship. They also discuss various bilateral issues, including the resumption of FTA negotiations and the North Korean nuclear issue.

Feb. 26, 2008: Sony announces that it will jointly produce LCD panels with Sharp in a bid to replace Samsung Electronics as the leader in global shipments of LCD TVs.

March 1, 2008: President Lee stresses pragmatic diplomacy between Japan and South Korea during his speech commemorating the Independence Movement Day.

March 5, 2008: South Korea's Knowledge-based Economy Minister Lee Youn-ho says that the South Korean government and business leaders will formally ask Japan to cooperate to reduce the bilateral trade deficit during President Lee's summit with PM Fukuda in April.

March 10, 2008: South Korea's Foreign Minister Yu Myung-hwan asks the Japanese government to start a campaign to grant suffrage to South Koreans residing in Japan during his meeting with the leader of New Komeito Ota.

March 12, 2008: South Korea's Presidential Office announces that President Lee will visit Tokyo on April 20 to hold a summit with Prime Minister Fukuda on April 21.

March 15, 2008: Japan's top government spokesman Machimura Nobutaka says that the Japanese government is likely to extend economic sanctions against Pyongyang after they expire on April 13 in the absence of progress in the bilateral issues.

March 17, 2008: Top Japanese negotiator to the Six-Party Talks Akitaka Saaiki and U.S. counterpart Christopher Hill agree that North Korea should provide a complete account of its nuclear programs.

March 20, 2008: Japanese carmaker Toyota announces that it will sell the Toyota brand in South Korea in addition to the luxury Lexus brand next year.

March 23, 2008: North Korea urges Japan to make apologies and compensation for the "comfort women" in the official *Minju Joson* newspaper.