

**Japan-Korea Relations:
Happy Birthday, Mr. Kim**

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Japan-DPRK relations show no progress on abductions. In the meantime, the Japanese have passed new sanctions legislation as a birthday gift to Kim Jong-il. Japan-South Korea free trade agreement (FTA) talks gain momentum, as do historical animosities. Finally, the quarter saw Japanese and South Korean contributions to the Iraq reconstruction effort. The size and substance of this support show that the scope of both these American alliances in Asia has effectively expanded beyond Asia to embrace global issues of common interest.

Abductions - staying on message

The New Year opened with hopeful signs of progress on the abductions issue. Two different Japanese delegations made trips to Pyongyang in mid-January. One official with ties to the Japanese Foreign Ministry Secretariat for Abductee Affairs sought to devise some mutually agreeable formula for bringing together the relatives (still in North Korea) of the five abductees (currently residing in Japan). Another four-member Foreign Ministry delegation held meetings over abductees as well as a case regarding the detention of a Japanese national in North Korea on drug smuggling charges. The first trip by Japanese government officials in over one year sparked hopeful expressions by Japanese Foreign Ministry officials, but talks proved fruitless. North Korea apparently floated a proposal to allow the relatives to meet with the abductees, provided that the abductees flew to Pyongyang. The Japanese government insisted on reinstituting a bilateral government negotiation on the issue, as well as demanded a fuller account of pending abduction cases.

In the runup to the six-party talks in Beijing, North Korea's Deputy Foreign Minister Kim Kye-gwan first protested Japanese statements that it would include the abductions issue in the six-party agenda on the grounds that this was a bilateral Japan-DPRK issue, but then remarkably resisted Japanese agreement and subsequent entreaties to start such a bilateral dialogue before the six-party meetings in Beijing. Senior Vice Foreign Minister Aisawa Ichiro later stated Japan's hope that the bilateral dialogue would start prior to the six-party working-group talks, but the frustration on the Japanese side became clear by the end of the quarter. Prime Minister Koizumi Junichiro publicly criticized two Liberal Democratic Party (LDP) officials (Yamasaki Taku, former secretary general

and lawmaker Hirasawa Katsuei) for going outside regular diplomatic channels to meet with North Koreans in Dalian in hopes of jumpstarting talks. At the end of the quarter, Tokyo's priority remains the desire to start bilateral government talks on the abductions, but internally, it is important that government officials stay "on message" with regard to these wants with their DPRK interlocutors.

Tightening the noose: happy birthday, Mr. Kim

The most substantive activity of the quarter in Tokyo-Pyongyang relations related to Japan's incremental steps toward putting together the infrastructure, legislation, and public support for a harder line toward the North if it becomes necessary. On Jan. 29, the Lower House of the Diet passed legislation that would enable Japan to impose economic sanctions against North Korea more effectively. The legislation, which is an amendment to the foreign exchange law, did not name North Korea specifically, but the target of the legislation was clear. The bottom line of this legislation is that it would allow Japan to cut off financial remittances or impose an import ban on North Korea without a UN resolution (this was not possible under existing legislation). The Upper House passed the bill in early February prompting North Korean 1) accusations that the legislation violated the Pyongyang 2000 summit declaration between Kim and Koizumi; 2) charges that Japanese sanctions would be an act of war; and 3) demands that Japan be excluded from the next round of six-party talks. The proximity of the date of the legislation's enactment to DPRK leader Kim Jong-il's birthday prompted wry informal responses from Japanese officials about not forgetting the "Dear Leader's" special day.

If this was not enough of a birthday present, a related piece of legislation was put up for Diet deliberation in mid-March aimed at providing the legal infrastructure to impose a ban on port calls by ships flying flags of foreign carriers. Such a ban could be announced by the prime minister on grounds of national security with Diet approval within 20 days of the decision. During the quarter, METI also imposed a three-month export ban on Meishin, a Japanese trading company, for the attempted transfer of three devices controlling electric currents, which could also be used for enriching uranium, to the DPRK through Thailand in April last year without government approval. In February, a Japanese court ordered Meishin to pay a fine of ¥2 million (\$19,000) and sentenced its president, Kim Hak-chun, to one year in prison. Happy Birthday, Kim Jong-il.

Premier Koizumi made clear that, despite these actions and new legislation, Japan had no intention to impose sanctions on North Korea in the near future. Nevertheless, if this were to come to pass, there is little denying that such sanctions would have teeth. The *ManGyongBong-92* ferry, for example, remains one of the few direct channels of cash into the North from Japan. It was estimated last year that some \$1.8 million went to Pyongyang through this boat. If this were stopped, along with other sanctions, the North Korean leadership's already shrinking purses would feel the pinch.

Historical spats occur....

Seoul-Tokyo relations experienced their usual spats over history-related issues this past quarter. The calendar in many ways foreordained this since the first quarter of 2004 meant that there would be a New Year visit by Koizumi to Yasukuni Shrine and an address by the South Korean head of state to commemorate the March 1, 1919 uprising. Neither Seoul nor Tokyo disappointed in this regard. The South Korean Foreign Ministry lodged a protest in Seoul with the Japanese ambassador over Koizumi's visit to Yasukuni Shrine, complaining that it was his fourth visit in only three years. ROK President Roh Moo-hyun in his address to the nation on March 1 dug into Koizumi by remarking that "a national leader should not behave like a thoughtless person or a politician hungry for popularity," and called on Japanese to be more sensitive to their history in Asia.

Historical animosity was also evident in a controversy surrounding a new South Korean postage stamp that depicted the disputed Tokto/Takeshima Islands as Korean. The stamps were hugely popular in Korea, selling out almost immediately upon their issuance. Japanese Foreign Minister Kawaguchi Yoriko asked that the decision to issue the stamp be reconsidered, albeit unsuccessfully.

...but economics thrives

These historical spats, however, pale in comparison to a variety of watershed events on the Seoul-Tokyo economic front. First, in a quiet but significant event, Nissan Motors set up a wholly owned sales company in South Korea this past quarter as it prepares to enter the Korean market in 2005. Nissan would be the third major Japanese automaker to enter the market (following Honda and Toyota). Both Nissan's and Honda's actions and the larger growth of the Japanese foreign car market in Korea symbolize the maturation of the bilateral relationship beyond historical issues. South Koreans are confident enough today to fully lift the ban on Japanese car imports (lifted in 1999), and welcome the competition.

Of potentially greater significance this past quarter were the continuing discussions on a free trade agreement between Seoul and Tokyo. A second round of FTA negotiations was completed in Tokyo. The first round of talks in December 2003 led to the establishment of six committees: commodity trade, nontariff measures, investment and service trade, other trade issues, and dispute settlement. The second round of talks focused in greater depth on trade liberalization in agriculture, commodities, and services. The ROK and Japan are scheduled to hold a third round of talks in April 2004 with the goal of an FTA by 2005.

FTA fever

In addition to the 2005 target for the Korea negotiations, Japan previously had only one FTA, with Singapore (2001). But Tokyo is in the midst of final negotiations with Mexico, hopes to conclude FTAs with Thailand, Malaysia, and the Philippines by the end of 2004,

and has begun talks with Indonesia. What is the likelihood of successful negotiations? Why Japan's interest in FTAs?

The new-found enthusiasm for FTAs within Japan is a function of two factors. First, China's aggressive push for negotiating bilateral FTAs throughout the region has awakened Japan to its unfavorable position. Beijing's pacts with 10 countries in Southeast Asia, including some of Japan's most important trading partners, created a fear in Japan of "missing the bus" on FTA pacts. Second, it appears as though the domestic politics of FTAs in Japan are finally being won by free-traders over once-powerful agricultural constituencies. Given the Japanese economy's comparative advantages, any FTA likely translates to an import of cheaper agricultural goods contrary to the interests of the 2 million-plus powerful farmers' lobbies in Japan. Japan's only FTA in this regard (with Singapore) expressly excluded agricultural products. Increasing competition from China, however, appears to have created political courage to reduce agricultural trade barriers and move forward with FTAs in a reasonably proactive fashion.

Japan's FTA negotiations with Mexico will be an important indicator of the likelihood of a successful FTA with Korea. The Mexico talks are expected to be completed in June and, if successful, will be the first test of how willing Japan will be to reduce trade barriers (the same would hold true for Korea's equally protective agricultural sectors). One press report quoted METI's positive attitude – "What is most important [with the Mexico FTA talks] is that for the first time, Japan was able to free so many farm and industrial products," said Hayashi Hirokazu, head of the trade policy bureau at the Ministry of Economy, Trade and Industry. "The agreement would likely give a huge push to ongoing FTA talks with Malaysia, Thailand, the Philippines, and South Korea."

A second indicator of success will be whether bureaucratic proposals to streamline Japan's ability to negotiate FTAs bear fruit. The Japan Business Federation (Nippon Keidanren), for example, has called for a special two-year ministerial task force, led by the prime minister, to facilitate economic collaboration with East Asian economies. Citing the lack of coordination among ministries and agencies in the Mexico FTA talks, Keidanren recommended that such a streamlining would significantly enhance Japan's ability to conclude these pacts over the next two years. One thing is for certain – the political leadership in Japan is putting itself out in front on the issue. Koizumi stated that such FTAs would promise at least \$18 billion in increased Japanese output and over 250,000 new jobs.

Trilateral relations

Trilateral Coordination and Oversight Group (TCOG) meetings among the Americans, Japanese, and South Koreans during the quarter largely dealt with coordinating messages to the North Koreans at the six-party talks in Beijing. Deputy Secretary of State Richard Armitage made strongly supportive statements during the quarter about U.S. willingness to back Tokyo on the abductions issue in both six-party and Japan-DPRK bilateral negotiating fora. Regarding the North Korean nuclear problem, the most substantive

accomplishment of the quarter among the three capitals was Tokyo and Washington obtaining Seoul's commitment to the "CVID" (complete, verifiable, and irreversible dismantlement) formula. The end of the quarter saw moderate confidence expressed on all three sides about a working group meeting to start in April, as agreed to at the six-party talks.

Global war on terrorism – Asian style

The quarter saw a major policy address on terrorism by President George W. Bush on the one-year anniversary of the war against Iraq. In the speech, the U.S. president singled out both Japan and South Korea for their "historic commitments" of troops and materiel to the war against terror. Japan pledged \$5 billion to promote the reconstruction of Iraq, including grants to the UN Development program, World Bank, and other nongovernmental organizations. These monetary contributions amounted to the second largest only behind the United States. In a truly historic step, a contingent of Ground Self-Defense Forces arrived in the southern Iraq city of Samawah in February. Air Self-Defense forces also flew humanitarian supplies into Iraq for the first time (including soccer balls!). A total deployment of about 550 troops, the group's primary mission is to repair local infrastructure and provide water and medical services.

In February, the South Korean national assembly voted overwhelmingly (155-50-7) to approve the dispatch of 3,000 troops to northern Iraq. The ROK contingent would be the third largest contingent behind the Americans and the British in Iraq. (The last time the ROK sent combat forces overseas was nearly 40 years ago to Vietnam where ROK forces were the second largest battle contingent after the U.S.) A battle contingent of 800 troops that were initially scheduled to go to Kirkuk was postponed at the last minute as Seoul wanted to reevaluate the volatile situation in the northern Iraq city. ROK officials made clear at the end of the quarter that the last-minute cancellation did not mean Seoul was reconsidering their troop dispatch.

President Bush's praise of Seoul and Tokyo was not exaggerated. In both cases, America's two most prominent Asian allies have shown their support for establishing stability in the Middle East – Japan with the second largest monetary contribution, and South Korea with the third largest contribution of manpower. Who said America's Asian alliances were only about Asia?

Chronology of Japan-Korea Relations January-March 2004

Jan. 1, 2004: PM Koizumi visits Yasukuni Shrine. ROK Foreign Ministry lodges protest.

Jan. 13, 2004: Japanese four-member official delegation makes secret trip to Pyongyang for negotiations aimed at creating government-level dialogue on abductions issue.

Jan. 13, 2004: Kanagawa prefectural police arrest a Japanese businessman on suspicion of illegally exporting to the DPRK a machine that could be used for nuclear development.

Jan. 13, 2004: ROK Foreign Minister Yoon Young-kwan rejects plea by Japanese Foreign Minister Kawaguchi Yoriko to halt production of a stamp rendering image of Tokto/Takeshima Island.

Jan. 21-22, 2004: TCOG meetings in Washington. The ROK was represented by deputy foreign minister Lee Soo-hyuk, Japan by director general of Asian and Oceanian Affairs Yabunaka Mitoji, and hosted by Assistant Secretary for East Asian and Pacific Affairs Jim Kelly.

Jan. 21, 2004: *North Korean Central News Agency* broadcasts accuse Japanese missile defense activities as part of a preemptive war strategy.

Jan. 29, 2004: Japan Diet Lower House passes an amendment to the foreign exchange law enabling Japan to take sanctions against North Korea if necessary.

Jan. 31, 2004: *Korean Central News Agency* blasts Japan for sanctions bill.

Feb. 3, 2004: Two-day Japan-U.S. Strategic Dialogue led by Japanese Vice Foreign Minister Takeuchi Yukio and U.S. Deputy Secretary of State Richard Armitage. Japan agrees to CVID formula for North Korea (complete, verifiable, and irreversible dismantlement). U.S. says willing to support Japan on abduction issue within context of six-party talks.

Feb. 9, 2004: House of Councilors passes amendment to the foreign exchange law, enabling Japan to take sanctions against DPRK if necessary without a UN resolution.

Feb. 9, 2004: *Korean Central News Agency* broadcasts report calling for Japan to be excluded from upcoming six-party talks in Beijing in response to sanctions bill.

Feb. 10, 2004: Japan's FM Kawaguchi rebuffs in press conference KCNA broadcast attempting to bar Tokyo from six-way talks.

Feb. 12, 2004: NHK reports that Japanese delegation including Deputy Foreign Minister Tanaka Hitoshi, Yabunaka Mitoji, head of the ministry's Asian and Oceanian Affairs Bureau, and three other ministry officials go to Pyongyang for bilateral talks.

Feb. 18, 2004: Japan's ruling coalition shelves consideration of a bill banning DPRK ships until after conclusion of the six-party talks at the end of February.

Feb. 22, 2004: Director General Yabunaka arrives in Seoul for trilateral coordination talks with Deputy FM Lee and Assistant Secretary Kelly in advance of six-party talks.

Feb. 24, 2004: North Korean Deputy FM Kim Kye-gwan demands that abduction issue should not be on the agenda of upcoming six-party talks.

Feb. 25-28, 2004: Six-party talks on North Korea's nuclear disarmament held in Beijing.

Feb. 26, 2004: Japan and South Korea complete second round of FTA talks in Tokyo. Third round is scheduled for April 2004 in Seoul.

Feb. 29, 2004: PM Koizumi says Japan will remain firm in the six-party talks and expresses satisfaction that both the talks and a working group are likely to continue.

March 1, 2004: On the anniversary of the March 1, 1919 movement, ROK President Roh Moo-hyun calls on Japanese leaders to be more cognizant of historically insensitive comments about Japan's occupation of Korea from 1910 to 1945.

March 3, 2004: PM Koizumi states that sanctions against North Korea are not on the immediate horizon in response to queries by Diet officials.

March 7, 2004: FM Ban Ki-moon meets with counterpart in Japan to discuss six-party talks working group, FTA, and visa-exemption agreements.

March 10, 2004: Deputy Chief Cabinet Secretary Hosoda Hiroyuki urges North Korea to come up with a date for bilateral talks, as agreed during the six-party talks.

March 11, 2004: Senior Vice FM Aisawa Ichiro says Japan hopes resumption of bilateral talks with the DPRK on abductions will take place in advance of the six-party working group.

March 11, 2004: Japanese newspapers report that a South Korean man linked to a North Korean spy ship that sank off Amami-Oshima Island after being shot by the Japan Coast Guard in December 2001 received deposits of several million yen from transactions related to North Korean drug smuggling.

March 16, 2004: Nissan Motor Co. sets up sales company in South Korea in preparation for its bid to enter market in mid-2005

March 17, 2004: Japanese Foreign Ministry officials express hope that working-level group on North Korean nuclear disarmament will start in April.

March 17, 2004: Officials of the LDP and its ruling bloc partner, New Komeito, reach final agreement on legislation allowing Japan to ban port calls by North Korean ships.

March 20, 2004: President Bush, in speech at one-year anniversary of war against Iraq, singles out Japan and South Korea for their efforts to help fight the war on terrorism.

March 23, 2004: ROK Deputy FM Lee meets in Seoul with Japanese counterpart Yabunaka to discuss the working group on North Korea's nuclear disarmament.

March 29, 2004: METI statement imposing three-month export ban on Meishin trading company for attempted export of dual-use technologies to North Korea.