

Projecting Economic Power:

Japan's Diplomacy towards North Korea

Maaïke Okano-Heijmans

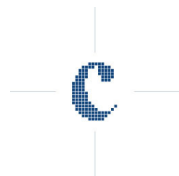
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Introduction

In recent years trade between Japan and North Korea¹ has been virtually frozen and Japanese sanctions on North Korea have been tightened. The Japanese government has shown little interest in providing any bilateral or multilateral economic or humanitarian assistance to North Korea and is taking a tough stance in the main negotiating forum, the Six-Party Talks (SPT),² by putting the alleged abduction of some seventeen Japanese nationals from Japan by North Korea in the 1970s and 1980s before other nuclear and economic issues.³ This paper argues that, taken together, these policies embody Japan's active approach to economic diplomacy, which is characterized by the deliberate avoidance of positive actions.

Japanese policy-makers practised a mix of obstructionist, punitive and conditional politico-economic policies towards their authoritarian neighbour

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- 1) North Korea's official name is the Democratic People's Republic of Korea.
- 2) Since 2003 the Six-Party Talks have brought together North Korea, the United States, China, Japan, South Korea and Russia in comprehensive negotiations around the issue of North Korea's nuclear weapons programme.
- 3) The Japanese government currently identifies seventeen Japanese citizens as having been abducted by North Korea and continues investigations into other cases, in which abduction is not ruled out. Of the seventeen (allegedly) abducted citizens, five returned to Japan in 2004. North Korea asserts that eight abductees died and that it has no knowledge of the four others. For more information on the Japanese viewpoint, see: <<http://www.kantei.go.jp/foreign/abduction/index.html>>.

from late 2002 until at least mid-2007. This represented a sharp break from earlier times, for until a decade ago the Japanese were not so hesitant about doing business with North Korea. Japan's policies are all the more remarkable when compared to South Korea's and China's increased willingness to do business with the closed country.

Japan's economic diplomacy towards North Korea needs to be understood as part of its national security policy and its strategy towards East Asia at large, in particular China. There is no denying that the single most pressing issue at stake in discussions with North Korea is Pyongyang's nuclear and missile programme, and that the United States plays a key role in these negotiations. This explains the general focus of researchers with an interest in power politics on the Korean Peninsula on security and nuclear issues.⁴ Economic cooperation and the normalization of diplomatic relations are, however, important components in bilateral as well as comprehensive negotiations with North Korea in the SPT. Japan is a crucial player in both fields. To understand Japan's strategy as a whole, it is therefore imperative that Japan's stance on the abductees' issue, normalization, sanctions and the multilateral process are analysed integrally. Each of these issues involves an economic component: the promise and withholding of economic benefits, directly or indirectly. Tokyo has employed these issues to attempt to influence the regime in Pyongyang in an active policy of economic diplomacy. Surprisingly, little scholarly attention has been given to this subject, and this paper aims to fill that gap.

Japan has made clear that North Korea poses the greatest threat to its national security⁵ and is stepping up its national defence.⁶ It is deploying anti-ballistic missile units in Tokyo and testing its missile interceptor system. Considering the substantial threat posed by North Korea, it is noteworthy that Japan is publicly prioritizing a bilateral issue — the abductees — before its national and regional security. Why is Japan adopting a negative approach? Is it using North Korea as a way to justify its controversial increased military preparedness in a context of uncertainty about an increasingly stronger China and concerns over the US commitment, and the search for a new role in East Asia?

4) Examples include the excellent works of Yoichi Funabashi, *The Peninsula Question: A Chronicle of the Second Korean Nuclear Crisis* (Washington DC: Brookings Institution Press, 2007); and Masao Okonogi (ed.), *Kiki no Chosen Hanto [The Korean Peninsula in Crisis]*, Contemporary East Asia and Japan Series, no. 3 (Tokyo: Keio Gijuku Daigaku Shuppankai, 2006). Okonogi's edited volume is representative of the outstanding research and extensive knowledge in Japan about North Korea, and at the same time reflects the shortage of analysis of Japan's policy towards North Korea at large.

5) See various issues of the annual *Diplomatic Bluebook*, Japan's Ministry of Foreign Affairs; and *Defence of Japan*, Japan's Ministry of Defence (before 2007, Japan's Ministry of Defence was known as the Defence Agency).

6) Throughout 2008 Japan deployed and tested several ballistic missile defence systems in the Tokyo area. In July 2008 the Japanese Ministry of Defence carried out its first full-fledged training exercise for missile defence. See 'Japan Holds Ballistic Shield Exercise in Tokyo', *Associated Press*, 29 July 2008.

This paper evaluates in detail Japan's accommodation of its strategic interests in the region by a negative approach to economic diplomacy with North Korea — that is, an approach characterized by a conscious denial of economic access and benefits.⁷ It is asserted that this policy needs to be interpreted as a way of projecting power since, in the words of Stephen Lukes, 'there is no good reason for excluding failures to act from the scope of power on principle'.⁸ To speak of a 'negative approach' is *not* to pass judgement on whether this policy is 'good or bad', 'intelligent' or 'successful' in the sense that it serves Japan's short-, medium- or long-term interests. Rather, the aim of this paper is to map out Tokyo's policy in order better to understand its strategy and thereby its priorities and likely path into the future. The analysis may even provide insight as to the understanding of the concept of power of the officials and politicians who are furthering Japan's policy. For many years the Japanese government has acted from the premise that slowing down bilateral and multilateral negotiations by taking an unaccommodating stance was in Japan's national interest. This policy was largely facilitated by Washington's confrontational stance towards North Korea, however, and became unsustainable when other parties proceeded towards an agreement. Japanese policy-makers since early 2008 have therefore tried to change the government's course.

To make this argument, the paper is divided into six sections. The remaining part of the introduction outlines the conceptual framework, policy context and communication channels of Japan's economic diplomacy towards North Korea. Three subsequent sections present case studies of Japan's economic diplomacy, focusing on: negotiations on normalization and single-issue politics; trade and investment, sanctions and humanitarian aid; and multilateral and regional diplomacy. The fifth section addresses the underlying political rationale — importantly, the China factor⁹ — and the ramifications of Japan's policy. Finally, conclusions are drawn.

In this context, 'negative' should not be interpreted as a value judgement but rather combination of punitive, conditional, postponing and obstructionist behaviour. Despite the obvious shortcomings of the term, it is used here because it captures the *different ways* by which Japan deliberately avoids actions that are politically, economically or strategically to the benefit of the regime in Pyongyang. This usage is similar to the generally accepted term 'negative sanctions'.

- 8) Stephen Lukes, 'Power and the Battle for Hearts and Minds', *Millennium*, vol. 33, no. 3, 2005, p. 480. Implicitly, Lukes equates failures to act with negative actions. He asserts that 'whether the absence of action should be counted as action depends on the judgement as to whether such action has significant causal consequences and on whether we are disposed to regard the actor who fails to act as responsible, in one or another sense, for so failing' — in other words, whether the inaction should be regarded as conscious or not. As will be shown, the former is certainly the case with regard to Japan's policy towards North Korea.
- 9) Strategic considerations informing Japan's policy towards North Korea primarily stem from the rise of its giant neighbour China. Considerations with regard to South Korea are hardly comparable in this respect and will therefore not be discussed in detail.

Economic Diplomacy: Concept and Context

Economic diplomacy is about economics as an instrument of foreign international policy. More specifically, it is concerned with politicians employing material capabilities (monetary or technological) and negotiations on policy questions with an economic dimension (such as bilateral and multilateral trade agreements) in the pursuit of national interests. This matches Berridge's twofold definition of economic diplomacy as: (1) diplomacy concerned with economic policy questions; and (2) diplomacy that employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.¹⁰ Since economic instruments can be used not only for foreign policy purposes but also for domestic political goals, students of economic diplomacy need to pay attention not only to the international dimension, but to the national dimension as well. Consideration of the domestic sphere distinguishes economic diplomacy from the concept that most closely resembles it: economic statecraft. Indeed, David Baldwin in his seminal work on economic statecraft largely ignores domestic politics.¹¹

While the means or techniques of economic diplomacy involve an economic dimension, the analysis focuses on the political and security spheres.¹² The reason for this is simple and obvious: strategic considerations play an important role in the definition of national interests. Economic diplomacy involves a variety of instruments and expressions, which are both directly and indirectly employed in diplomatic dealings between states. These include, but are not limited to, the well-known means of economic aid or 'carrots', and economic sanctions or 'sticks'.

Although this paper is about economic diplomacy rather than the more narrowly defined economic statecraft, it follows the conceptual

10) Geoff R. Berridge, *Diplomacy: Theory and Practice* (Basingstoke: Palgrave Macmillan, 2005), p. 81. This paper largely employs Berridge's definition and emphasizes economic diplomacy pursued by central government. Bayne and Woolcock argue that economic diplomacy is concerned with the (decision-making) processes rather than structures, and with international economic issues. In economic diplomacy, governments try to reconcile three types of tensions: between politics and economics; between international and domestic pressures; and between government and other actors. See Nicholas Bayne and Stephen Woolcock, *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations* (Hampshire: Ashgate, 2003), chapter 1.

11) David A. Baldwin, *Economic Statecraft* (Princeton NJ: Princeton University Press, 1985), 5.

12) Traditionally, research on the link between politics and economics has been scarce: the IR subfield of International Political Economy (IPE) developed only in the 1970s and 1980s. Similarly, the relationship between economic and national security issues has been a relatively neglected area of study. Prominent scholars who *were* working on these issues in the pre-war period include Albert Hirschman, Jacob Viner and E.H. Carr. Important contributions in the second half of the twentieth century were by Klaus Knorr, Quincy Wright, David Baldwin, John Odell and Solomon Polachek. Valuable historical overviews of scholarship in the respective fields can be found in Baldwin, *Economic Statecraft*, especially chapters 1 and 2; and Michael Mastanduno, Economics and Security in Statecraft and Scholarship, *International Organization*, vol. 52, no. 4, autumn 1998, pp. 825–854.

framework introduced by Baldwin, building on Lasswell and Kaplan.¹³ This refined framework distinguishes between the targets (or domain) of an influence attempt and the objectives (or scope) of an attempt. Baldwin clarifies by stating that '[T]he distinction refers to who is to be influenced (the target) and in what ways (the scope). Targets and objectives vary in number, specificity and importance'. Although the content of categories may vary, it is useful to sort out the primary, secondary, and perhaps even tertiary goals and targets of a given influence attempt.

While targets and scope are defined solely by the state that is utilizing economic diplomacy, the effectiveness of a policy needs to be measured with reference to others. This derives from the 'relational nature of the concept of power', a point emphasized by Baldwin. Joseph Nye follows this line of thinking in his seminal work on soft power, also emphasizing that power always depends on the context in which the relationship exists.¹⁴ Thus, while property concepts are in a sense possessed by a state, relational concepts are about the (actual or potential) relationship between two or more states. This delineates the distinction between intentions and capabilities, between undertakings and outcomes, and between influence *attempts* and actual *influence*.¹⁵ In other words, the fact that a country such as Japan employs instruments with a clear economic dimension as attempts to influence North Korea says little about whether or not Japan is successful in doing so. As indicated earlier, the primary aim of this paper is to call attention to the former point: the fact that the Japanese government actively employs economic instruments for strategic purposes. The rationality and effectiveness of this policy is a different issue, which is addressed in the conclusion but is *not* the main focus of this paper.

Targets and Objectives of Japan's Policy

Better understanding of the hierarchy in goals and targets of Japan's economic diplomacy towards North Korea starts from recognition that Japan's relations with North Korea revolve around an array of international, regional, bilateral and domestic issues. The following paragraph of the Pyongyang Declaration of 17 September 2002, signed by (then) Prime Minister of Japan Koizumi Junichiro and North Korean Chairman Kim Jong-il provides important clues:

Both leaders [confirm] the shared recognition that establishing a fruitful political, economic and cultural relationship between Japan and the DPRK through the settlement of [the] unfortunate past between them and the outstanding issues of concern would be consistent with the fundamental

13) Harold D. Lasswell and Abraham Kaplan, *Power and Society: A Framework for Political Inquiry* (New Haven CT: Yale University Press, 1950); and Baldwin, *Economic Statecraft*, pp. 15–18.

14) Joseph S. Nye Jr, *Soft Power: The Means to Success in World Politics* (New York: PublicAffairs, 2004), p. 2.

15) Baldwin, *Economic Statecraft*, pp. 22–24.

interests of both sides, and would greatly contribute to the peace and stability of the region.¹⁶

Four long-term targets and objectives of Japan's economic diplomacy towards North Korea can be discerned from this paragraph.¹⁷ First is the improvement of ties with North Korea through the normalization and broadening of relations. Better relations are of importance in a multilateral context as well, as they will stimulate the integration of North Korea in the regional and global order. The settlement of war history is another stated objective, of clear significance both bilaterally and to Japan's relations with countries in East Asia. North Korea is the last country in the region with which Japan has not settled its colonial and war history. Although an official agreement is unlikely to end all discussion about Japan's aggression in Asia, it would certainly relieve the burden of the past. The symbolic value of such an agreement is likely even to impact positively on Japan's standing in the region. The third objective recognized in the Pyongyang Declaration is the settlement of issues of mutual concern. This includes, of course, the abduction of Japanese nationals by North Korea. *Ad hoc* issues with a strong national security component that involve individual citizens have historically had a powerful impact on bilateral relations. Decisions by politicians and government officials to (de)emphasize such issues can bring about major breakthroughs or setbacks in relationships at large. Lastly, the bilateral relationship between North Korea and Japan is recognized to be of importance to peace and stability in the East Asian region. Put differently, the bilateral relationship has direct implications for Japan's national security in a multilateral context. This implies that considerations related to national military capabilities and the management of relations with China, the United States and other countries inform Japan's policy towards North Korea.

The objectives of Japan's policy towards North Korea are thus diverse and multidimensional. They provide clues as to the main targets of Tokyo's policy. The direct target is, of course, the regime in Pyongyang. The scope of Japan's policy, however, is significantly wider and includes countries in the East Asian region — in particular China — as well as the Japanese public, Korean residents in Japan, and the United States.

Japanese policy-makers' policy preferences change when perceptions and prioritizations of interests shift. This is exactly what happened after the signing of the Pyongyang Declaration, when the abductees' issue became the focal point of Japan's policy towards North Korea.¹⁸ The Pyongyang

16) Preamble of the Pyongyang Declaration. The full text (English version) of the Pyongyang Declaration can be found at: <http://www.mofa.go.jp/region/asia-paci/n_korea/pmv0209/pyongyang.html>.

17) The 1990 preliminary meetings to normalize diplomatic relations had a similar four-point agenda. See *Diplomatic Bluebook 1991*, Japanese Ministry of Foreign Affairs, Chapter IV, 2-3 (3).

18) Ironically, it was at the summit leading to the Pyongyang Declaration that Kim Jong-il confessed to the abduction of Japanese nationals, which triggered Japan's hardline approach.

Declaration's positive tone is indeed hard to reconcile with Japan's policy of recent years. Nevertheless, the four basic elements of the bilateral relationship remain unchanged.

'Pipes' for Communication between Japan and North Korea

Political and economic connections between Japan and North Korea are sparse. For many decades, the most important political pipe for communication was the General Association of Korean Residents in Japan (*Chosen Soren*). However, the role of this interest group has diminished during the last decade because of the increasingly tough stance of the Japanese government and declining membership and funds of the group.¹⁹ Direct high-level contact between North Korea and Japan at the governmental level was established at the time of renewed engagement in late 2001. Rather than an open diplomatic source, however, this involved secret negotiations between the head of the Japanese Foreign Ministry's Asian and Oceanian Affairs Bureau, Tanaka Hitoshi, and his North Korean counterpart, referred to as 'Mr X'. Unfortunately, this political line of communication dried up when confidence was shattered after the Japanese government did not return five Japanese abductees who Pyongyang had allowed to visit Japan in October 2002.²⁰

Economic connections between Japan and North Korea have been similarly scarce. Until the 1990s, individual politicians — mostly of the opposition Japan Socialist Party — played a mediating role through a number of friendly organizations that aimed to facilitate trade and strengthen economic ties.²¹ The Japanese government arguably wanted to preserve this pipe as a guarantee for Japanese companies that were active in North Korea.²² As the prospects for improved bilateral relations — and thus economic projects — increased in the early 1990s, politicians of the ruling Liberal Democratic Party (LDP) started to become involved. This period of engagement was short-lived, however, as security concerns became

19) Christopher W. Hughes, *Japan's Economic Power and Security: Japan and North Korea* (London: Routledge for the Sheffield Centre for Japanese Studies, 1999), p. 184.

20) Hitoshi Tanaka and Soichiro Tahara, *Kokka to Gaiko [The State and Diplomacy]* (Tokyo: Kodansha, 2005), p. 61–65.

21) The most influential organizations were the Japan–North Korea Association (*Niccho Kyokai*), the Japan–North Korea Trade Association (*Niccho Boeki-kai*) and the Japan–North Korea Diet Members' Friendship League (*Niccho Yuko Giinrenmei*). The Japan–North Korea Association was established in 1955 with the goal to promote friendship between Japan and Korea (South and North). The Friendship League and Trade Association were established in 1971 and 1972 respectively and aimed to develop relations between Japan and North Korea. Their efforts focused on free movement, and economic and cultural exchange. Both organizations were active and relatively successful at the national and local levels until bilateral relations between Japan and North Korea started to worsen from the late 1990s. The Trade Association merged with the East Asia Trade Study Group (*Higashi Ajia Boeki Kenkyukai*) in July 1993 and continued its operations under the latter name.

22) Jong-hua Shin, 'Chosen Hanto Seisaku wo Meguru Nihon no Kokunai Seiji' [Japan's Domestic Politics with regard to its Korean Peninsula Policy], *Hogaku Seijigaku Ronkyu*, 35 (December 1997), pp. 60–61.

increasingly important in Japan's policy throughout the 1990s. Organizations with a friendly attitude towards North Korea became marginalized and replaced by groups considering ways to contain Pyongyang.²³

The main political players in the policy process in recent years have been the Japanese Prime Minister and his Cabinet Office, and the ruling LDP. The power of influence of the foreign ministry appears to be a function of these two, although mostly of the Prime Minister.²⁴ The interest group advocating the rights of the abductees most strongly — the Association of Families of Victims Kidnapped by North Korea (*Kazokukai*) — exerts significant influence on policy towards North Korea.²⁵ Last but not least, the media and public opinion shape policy-making towards North Korea. Although they have no direct political power, they have largely shaped the political debate about North Korea and, since 2002, have effectively made an accommodating stance by the government impossible. Television and other forms of media directed the public into a relatively constricted range of views on North Korea through narrow, biased saturation coverage focused on the abductees' issue.²⁶ Public opinion ultimately constricted the government's policy agenda and its range and choice in dealing with Pyongyang.²⁷

As Tokyo took an increasingly tough stance against North Korea from late 2002, opportunities for direct communication between the two governments vanished. For the Japanese government, the SPT have since then served as a venue for meetings and a means to preserve a minimum level of contact. Yet it is clear that a shortage of lines of communication hampers a government that wants to take a more engaging approach. This is illustrated by developments in issues ranging from the normalization of relations to abductees and assistance to sanctions, to which the discussion now turns.

23) Examples include the inter-party Diet Members' Alliance for the Early Rescue of Japanese Kidnapped by North Korea, and, within the LDP, the Council to Consider Diplomatic Cards against North Korea and the Special Committee on the Abductees Problem Policy. Notably, the establishment of the inter-party Diet Members' League for the Promotion of Normalization of Diplomatic Relations between Japan and North Korea in May 2008 signalled a shift away from the one-sided hardline position, paralleling the softer approach pursued by Japan's Prime Minister Fukuda from late 2007.

24) This is in line with Shinoda, who argues that since the 2001 reorganization, the institutional support of the Cabinet Secretariat came to play an increasingly important role in foreign and defence policy-making. See Tomohito Shinoda, *Koizumi Diplomacy: Japan's Kantei Approach to Foreign and Defense Affairs* (Seattle WA: University of Washington Press, 2007).

25) The *Kazokukai* seems to be less effective since mid-2007, however. The association was established in 1997 and its members are families of (alleged) abduction victims. Two other interest groups working for the abductees' purpose are the Diet Members' Alliance for the Early Rescue of Japanese Kidnapped by North Korea (the Abduction League) and the National Association for the Rescue of Japanese Kidnapped by North Korea (*Sukuukai*). These groups play a more marginal role in the policy-making process.

26) Kyung Gu Lynn, 'Vicarious Traumas: Television and Public Opinion in Japan's North Korea Policy', *Pacific Affairs*, vol. 79, no. 3, 2006, pp. 483–510.

27) In early 2008, it appeared that the public had become somewhat saturated and the media started slowly to change their discourse. A change to the more accommodating Prime Minister Fukuda, who did not stress the abductees issue to the extent that former Prime Minister Abe did, seemed to reinforce this trend.

Towards Official Diplomatic Relations

An important feature of negotiations on the normalization of relations between Japan and North Korea concerns the funds that Japan is to provide to North Korea as settlement for Japanese wrongdoings during the colonial period and Pacific War history of the first half of the twentieth century.²⁸ Financial compensation or, as the Japanese insist, ‘economic assistance’ will provide the North Korean regime with huge funds relative to its economy’s size and could give a major impulse to the ailing North Korean economy. The provision or postponement of these funds is thereby a lever of the Japanese government in negotiations with Pyongyang.

These billions of dollars are also important in the multilateral context. The establishment of official diplomatic relations between Tokyo and Pyongyang is a stated goal in the two major agreements that were adopted in the six-party framework in September 2005 and February 2007. In the multilateral context, the financial stimulus to be provided by Japan constitutes a welcome ‘carrot’ to lure North Korea into a comprehensive deal. Indeed, during one of the SPT sessions, North Korea implied that economic aid from Japan (and South Korea) would be needed for ultimate settlement of its

28) A formula based on the amount that South Korea received with the normalization of relations in 1965 (adjusted to present times) calculates roughly the amount that Pyongyang would receive. Estimates of the amount of the settlement range between US\$ 3.4 and US\$ 20 billion. See Mark E. Manyin, *Japan–North Korea Relations: Selected Issues*, CRS Report for Congress (Congressional Research Service), updated 18 April 2003, p. 9. The practical significance of this package becomes clear when compared to North Korea’s estimated gross national income of US\$ 20.8 billion in 2004, according to the Bank of Korea.

nuclear programme.²⁹ The prospect of normalization thereby gives Japan a strong diplomatic card in bilateral as well as multilateral negotiations. Rather than taking a positive approach, in recent years Tokyo has used this card to obstruct negotiations indirectly — thereby fending off improvement of bilateral relations and at the same time becoming a spoiler of the SPT.

A parallel can be drawn between the normalization of diplomatic relations between Tokyo and Beijing, which took place in 1972, and of Tokyo and Pyongyang. In the early 1970s the United States and Japan were on the verge of opening a new era in relations with China. The allies coordinated their approach to a certain extent, but took individual action when deemed to be to their own benefit. The surprise visit of US President Nixon to China — bringing about the infamous ‘Nixon shocks’ — clearly illustrates this. These happenings have an analogy in the ‘Bush shocks’ that engulfed Japan in mid-2007. The United States then indicated several times that it would proceed with taking North Korea off the terrorism list without consulting Japan or paying full attention to Japanese interests, mainly the abduction issue. The Japanese government thereby awoke to the fact that it should not take at face value earlier indications of support on the abductees’ issue by North American officials, including US President Bush.³⁰ Intense debate and diverging opinions about the relative importance of security, political and trade interests make for a comprehensive political puzzle — domestically, between the two allies, and towards China and North Korea respectively.

Negotiating Normalization: 1991 to the Present

A warming of relations between South and North Korea in the late 1980s prompted the start of bilateral negotiations towards normalizing diplomatic relations between Japan and North Korea in January 1991. Less than two years later, in November 1992, talks stalled and in early 1993 North Korea withdrew from the Non-Proliferation Treaty. Pyongyang’s Nodong missile test in May 1993 and confrontation over its suspected nuclear missile programme in 1994 heralded the beginning of a more critical assessment of North Korea by Japanese politicians and the public.³¹

On the surface, Japan followed the US engagement after Washington and Pyongyang signed the Agreed Framework in October 1994. In 1995 Japan provided 200,000 tons of rice as humanitarian assistance and in March 1995 a Japanese political delegation visited North Korea. From 1997, Japan participated in and provided considerable funds to the KEDO project

29) Kuniko Ashizawa, ‘Tokyo’s Quandary, Beijing’s Moment in the Six-Party Talks: A Regional Multilateral Approach to Resolve the DPRK’s Nuclear Problem’, *Pacific Affairs*, vol. 19, no. 3, 2006, p. 422.

30) This is discussed in more detail in the following paragraph.

31) The 1994 nuclear crisis was sparked by a series of North Korean non-compliant activities and North Korea’s withdrawal from the IAEA. It ended with the visit in June 1994 by former US President Jimmy Carter to Pyongyang and the subsequent negotiation of the Agreed Framework later in 1994.

(Korean Peninsula Energy Development Organization, to resolve North Korea's nuclear problem peacefully). Furthermore, the government agreed to resume negotiations on restarting normalization talks. This short period of re-engagement in the mid-1990s came to an end with the test-firing by North Korea of a Taepodong-1 ballistic missile over Japanese airspace in August 1998. This confirmed mounting Japanese suspicions about North Korea and deepened feelings of distrust. Tokyo responded by refusing to provide final financing for KEDO and freezing the negotiations that aimed to restart normalization talks.

Security considerations started to play a role in bilateral negotiations and received growing media attention. The launch of the Taepodong missile and cases of North Korean spy boats entering Japan's territorial waters induced the Japanese government to reconsider its defence strategy. The Chinese nuclear tests of 1995 also played an important role in this development.³² Japan was once again persuaded to relive its participation in the KEDO project, to lift sanctions and to restart normalization negotiations in 2000 following the North-South Summit earlier in 2000. A delegation led by Murayama Tomiichi of the Social Democratic Party (SDP) visited Pyongyang in late 1999. The seeds for a confrontational policy by Japan were already undeniably, however, planted.

Single-Issue Politics: The Abductees' Issue

Ad hoc issues with a strong national security component that involve the well-being of individual citizens abroad (hereafter, consular issues) have framed Japan's relations with North Korea and negotiations on diplomatic normalization for decades. In 1992 negotiation talks were stalled by a North Korean commando's confession of the abduction of a Japanese woman by the Korean name of Lee Eun-hye. Conversely, the opening of these negotiation talks in 1990 had heavily depended on a breakthrough in a consular case concerning the release of the captain and crew of the *Fujisan Maru*, who had been detained in North Korea since 1983 when North Korea found a defecting soldier aboard the cargo ship. Other issues concern the return of Japanese wives who moved to North Korea with their Korean husbands in the late 1950s and early 1960s, and the Japanese hijackers of the *Yodogo* JAL airplane who had been in asylum in North Korea since 1970. In all of these cases, politicians of the ruling LDP played an important mediating role. Vastly aware of the domestic political value of the funds that would become available with official bilateral relations, they took an engaging stance as both countries moved towards normalization in the early 1990s. More recently,

32) On the consular front, Japan was furthermore reminded that, despite not sharing a land border with North Korea, refugees are a concern bilaterally as well as in a broader sense. The widely published intrusion of five North Koreans into its consulate-general in Shenyang, north-east China, in May 2002 exemplified this. For more details, see, among others, C.H. Kwan, *Japan's Two-Faced Diplomacy in Shenyang* (Tokyo: RIETI, 21 May 2002).

Japanese politicians have ridden the wave of media attention by playing tough on Pyongyang.

Long-time observers of North Korea have argued that Pyongyang's foreign policy is highly predictable.³³ This also goes for the link between developments in consular issues on the one hand, and the state of the North Korean economy and the geostrategic context of bilateral relations on the other. More specifically, breakthroughs in *ad hoc* issues directly involving individual citizens are in an inverse relationship to the state of the North's economy. Pyongyang does not concede on such issues when the state of the North's economy is (relatively) stable, while it shows a more conciliatory stance when facing an economic crisis. Such was the case in 1997 when Pyongyang allowed Japanese wives of Korean husbands to visit Japan, in 2002 when Kim Jong-il confessed to the abduction of Japanese nationals, and in May 2008 when North Korea showed willingness to make progress in the *Yodogo* and abductees' issues.

Changes in the broader strategic context reinforce this link between the state of the North Korean economy and its stance towards Japan. Geostrategic changes in 1991 prompted North Korea to be more open to communication with Japan. Pyongyang saw the need to engage Tokyo, as its traditional allies — Russia and China — increasingly interacted with old foes from the late 1980s. When North Korea's relationship with the United States was at a low early in the new millennium, Kim Jong-il also saw benefits in improved ties with Tokyo.

The link between developments in consular issues — and thereby bilateral relations between North Korea and Japan at large — and the state of North Korea's economy and its geostrategic position suggests that Pyongyang's moves are largely governed by factors beyond Tokyo's control. Put differently, Japan's leverage over North Korea is limited. In this context it is not surprising that certain Japanese politicians would employ relations with North Korea for strategic purposes that transcend the bilateral relationship between Tokyo and Pyongyang, such as an expansion of Japan's military capabilities. In particular, LDP politician Shinzo Abe consciously started using the abductees' issue as an instrument of negative economic diplomacy — aiming to maintain the status quo and the Korean threat — in consideration of Japan's strategic interests in East Asia at large.

Paradoxically, the abductees' issue took the limelight following an active policy of engagement initiated by Japanese Prime Minister Koizumi. From his inauguration in 2001, Koizumi and his foreign affairs aide Tanaka Hitoshi engaged in secret negotiations with the Pyongyang regime, resulting in the first bilateral summit in history in September 2002. A tangible result of this summit was the Pyongyang Declaration, which formally stated that both

33) For example, see Scott Snyder, *Negotiating on the Edge* (Washington DC: United States Institute of Peace Press, 1999), especially chapter 2. An argument for the consistency of Washington's policy is presented in James Kelly and Victor Cha, 'Facts Please', *PacNet Newsletter*, no. 18, 13 March 2008, available online at <<http://www.csis.org/pacfor/pacnet/>>.

sides would 'make every possible effort' for an early normalization of relations. North Korea's Kim Jong-il took the bold step of confessing to and apologizing for a number of abductions by North Korea. North Korea's perceived unwillingness, however, to cooperate further on the issue prompted Japan to adopt an increasingly tough stance. Indeed, the Pyongyang Declaration was criticized for not including a single 'agreement' between the parties and for sidestepping important issues such as nuclear proliferation and the abductees' issue.³⁴

Koizumi went to Pyongyang for a second summit in May 2004, mainly with the purpose of discussing the situation of eight family members of abductees who had returned to Japan in October 2002. In his meeting with the North Korean Chairman, Koizumi stated that Japan would not invoke sanctions as long as the Pyongyang Declaration was observed.³⁵ Although positively formulated, this was a clear hint that Japan might change to a conditional or punitive approach to economic diplomacy. Following this meeting, which was in itself successful, the media and public adopted an increasingly critical stance towards North Korea. Lacking further progress on the abductees' issue, the Japanese government turned towards a policy of containment rather than engagement. Koizumi's Chief Cabinet Secretary Shinzo Abe became the personification of the confrontational domestic forces and the *Kazokukai* successfully put a human face on the abductees' issue, thereby keeping the issue prominent in the media's and public's mind.³⁶

Commitments in the September 2005 six-party agreement drew Japan back to the negotiating table, and formal negotiations towards normalization restarted reluctantly in February 2006. The domestic environment was far from conducive to improved relations, however. Opinion polls conducted from 2002 reveal that the abductees' issue has consistently been the Japanese people's primary concern in relations with North Korea. With an average of 87.5 per cent, anxiety about the abductees' issue has preceded that of the nuclear issue by more than 20 per cent.³⁷ Even today, progress in negotiations on the normalization of relations is scant, as no real progress has been made in the abductees' issue, which remains a precondition for the establishment of diplomatic ties.

34) Toshimitsu Shigemura, *Chosen Hanto 'Kaku' Gaiko: Kitachosen no Senjutsu to Keizairyoku* [Korean Peninsula 'Nuclear' Diplomacy: North Korea's Strategy and Economic Power] (Tokyo: Kodansha, 2006), pp. 69–70.

35) Press Conference by Prime Minister Koizumi after the Japan–North Korea Meeting, 22 May 2004, available online at <<http://www.mofa.go.jp>>. During the summit, Kim promised to conduct a new investigation into the cases of ten other acknowledged or suspected abductees. Koizumi announced that Japan would provide 250,000 tons of food and US\$ 10 million worth of medical supplies as humanitarian assistance.

36) James L. Schoff, *Political Fences and Bad Neighbors: North Korea Policy-Making in Japan and Implications for the United States* (Cambridge MA: Institute for Foreign Policy Analysis, June 2006), p. 6. For example, members of the *Kazokukai* gave a speech to the United Nations Human Rights Committee in 2003, contributed to an American-made documentary film on the subject, had a meeting with US President Bush and other US officials in 2006.

37) Japan Cabinet Office, public opinion polls 2002–2007.

As Chief Cabinet Secretary under Koizumi, Abe successfully used the abduction issue — his long-time pet project — to rise quickly to power. From September 2006, and by then Prime Minister, he pursued a confrontational policy, cooperating with other parties to the extent that Tokyo would not be regarded as *merely* blocking the SPT process. By making normalization conditional upon progress in the abduction issue, Japan simultaneously secured greater international interest and maintained a powerful tool to punish North Korea for lack of progress. The domestic constraint that resulted from Abe's policy, however, frustrated Japanese policy-makers already back in 2004.³⁸ Strong public support for the hardline policy left little room for manoeuvre.

Clearly, the single-issue politics served Abe well in terms of political power domestically. On the one hand, this suggests that narrow domestic interests prevail over broader strategic purposes. More broadly, however, Abe's policy can be seen as a realist stance that recognizes that the North Korean regime is primarily interested in negotiations with the United States while Tokyo is generally relegated to the sidelines. The aim is therefore to secure national interests — strategic goals *as well as* votes. With little to lose bilaterally and lots to gain domestically, Abe adopted a negative approach that ensured that multilateral engagement would not move too fast without real concessions from Pyongyang.

This policy worked as long as Washington took a largely confrontational stance towards North Korea. A major flaw in Abe's policy, however, was failure to anticipate that the United States might change to a more conciliatory approach following North Korea's attempts to break the deadlock by escalating tension.³⁹ The Japanese confrontational forces seemed to believe that earlier statements in support of the abductees' issue from Washington were absolute.⁴⁰

By the time of Abe's resignation in September 2007, the abductees' issue had acquired such a high profile that a policy change was virtually

38) John S. Park, 'Inside Multilateralism: The Six-Party Talks', *The Washington Quarterly*, vol. 28, no. 4, 2005, p. 86 and p. 91.

39) North Korea's nuclear test constituted a desperate attempt by North Korea to get Bush's attention. In this sense, at least, it was very successful.

40) Although no progress had been made on the abductees' issue, the United States in late 2006 and early 2007 reportedly offered to rescind North Korea's designation as a State Sponsor of Terrorism. This contradicted earlier commitments, made for example in 2000 by the US State Department and in the 2003 annual report on terrorism. Japanese concerns diminished following the alleged discovery by Washington in September 2007 of the transfer of nuclear technology or equipment to Syria by North Korea and because of the impasse around North Korea's nuclear weapons' declaration in the Six-Party Talks in late 2007. Renewed engagement between Washington and Pyongyang from spring 2008 — resulting in the belated disclosure by Pyongyang of a list with its nuclear programmes and holdings and Bush's announcement of his intention to take North Korea off the terror list on 26 June 2008 — put Japanese policy-makers on high alert again. See Larry Niksch and Raphael Pearl, *North Korea: Terrorism List Removal*, CRS Report for Congress (Congressional Research Service), 14 January 2008; Michael Green and James Prystup, 'The Abductee Issue is a Test of America's Strategic Credibility', *PacNet*, no. 45, 15 November 2007; and 'Abduction Not an Issue for Terror List Removal: Vershbow', *Yonhap News*, 14 May 2008.

impossible in Japan. The 'Bush shocks' had made it clear, however, that Japan should prepare for a more engaging policy by the United States towards North Korea, which might be pursued without taking fully into account Japanese concerns. Japan's new Prime Minister Fukuda strongly hinted of a desire for a more conciliatory approach, indicating that he regarded the nuclear and missile threat from Pyongyang as a more important issue.⁴¹ He made clear attempts to gear the public and politicians towards a more engaging policy, including on economic diplomacy, but was extremely careful to avoid upsetting the Japanese public.⁴²

The United States eventually removed North Korea from its list of terrorism-sponsoring states on 11 October 2008.⁴³ Japan's immobility, coupled with North Korea's decision to await real progress on the side of Japan or the United States before proceeding with a reinvestigation of the abductees' issue,⁴⁴ left the Japanese government with empty hands. The symbolic move by the United States to rescind North Korea's designation as a State Sponsor of Terrorism against the strong wish of its main ally did not come suddenly or without consideration of the abductees' issue, however. Through a push-and-pull method, Washington had since mid-2007 been trying to force the two parties into serious negotiations that could forge a breakthrough in the abductees' issue.⁴⁵ This illustrated the deadlock in which the United States found itself: Washington had the power to spur progress on nuclear negotiations; but wanted Japan's cooperation for a comprehensive deal, so sought not to upset its ally unnecessarily.

This case study shows that negotiations on the normalization of relations between Japan and North Korea evolve from an array of political, economic and strategic considerations. On the one hand, the funds that are to

41) Interview with Japanese Prime Minister Fukuda, *Financial Times*, 12 November 2007.

42) One indication of Fukuda's desire to shift policy came with the (unconfirmed) news that the Japanese government had requested of South Korea to arrange a meeting between the parents of abducted Yokota Megumi and their daughter's husband and grandchild, living in North Korea. See 'Yokota-san fusai, magomusume to Kankoku de menkaian: Seifu ga Lee-seiken ni chuukai yousei' [Mr and Mrs Yokota to Meet Granddaughter in South Korea: Government Requests Mediation to Lee Government], *Yomiuri Shimbun* (online), 9 May 2008.

43) On 26 June 2008 US President Bush announced his intention to remove North Korea from the list of states sponsoring terrorism. The actual rescission of North Korea's designation as a State Sponsor of Terrorism can be carried out 45 days after the President's notification to Congress, and on 11 August 2008 US Secretary of State Condoleezza Rice called Japan's Foreign Minister Komura Masahiko in an attempt to reassure him that the United States was still considerate of Tokyo's concerns and wanted real progress from Pyongyang in the verification phase.

44) In June 2008 North Korea agreed to a reinvestigation of the abduction issue, and Tokyo and Pyongyang prepared a framework for this in August 2008. In return, Tokyo promised to lift certain sanctions. If the investigation results in substantial findings, this could be presented as a diplomatic success to the Japanese public and provide leeway for broader negotiation and policy change.

45) In spring 2008, the issue was once again taken up in bilateral negotiations between Washington and Pyongyang. Subsequently, both North Korea and Japan made conciliatory gestures during several rounds of bilateral talks in mid-2008. North Korea reportedly offered to let the hijackers of the *Yodogo* return to Japan via a third country and to reopen investigation into the abductees' issue. Japan offered to lift certain sanctions in return.

become available as settlement for the past are an (economic) instrument of Japan's policy. These funds make Japan's cooperation in multilateral negotiations significant to North Korea and other parties, and are thereby a lever in bilateral as well as multilateral negotiations. On the other hand, the abductees' issue is a (political) instrument in normalization negotiations. By making progress on this issue a precondition for the normalization of diplomatic relations, the Japanese government effectively employed the abductees' issue as justification for its negative approach to economic diplomacy — that is, the postponement of normalization and economic aid.

North Korea's geographic closeness to Japan makes Japan a vulnerable target, leading to expectations that Tokyo would adopt a more engaging policy. The slowing of negotiations by the Japanese government, however, suggests that Japan's strategic goals reach beyond North Korea. By prolonging the North Korean threat and postponing a settlement, Japan buys itself time to build up domestic defence capabilities, thereby improving its national security at large.

Push and Pull: Traditional Tools of Economic Diplomacy

As discussed above, the state of the North Korean economy has an impact on relations between Tokyo and Pyongyang in a bilateral and regional context. North Korea does not feel the need to give in to Japanese demands when its economy is relatively stable. At times of domestic economic crisis and natural disasters (such as famine or flooding), however, Pyongyang generally takes a more welcoming approach. Pyongyang's ambiguous approach is explained by the fact that for North Korean leaders, economic development is a double-edged sword.⁴⁶ On the one hand, economic stability is a prerequisite for Kim's primary objective: regime survival.⁴⁷ On the other hand, development poses a threat to the authority and legitimacy of the North Korean regime.⁴⁸ Economic liberalization is a potential source of domestic insecurity, as it encourages integration with the regional and world economy, points to flaws (inefficiencies or discrepancies) in past policies of Pyongyang, and creates a new, potentially more assertive entrepreneurial class. Indeed, this dilemma informed Pyongyang's decision to develop nuclear weapons as a strong

46) Economic and political development need not involve an open market economy and democratic system. North Korean opening and reform would likely lead to a system similar to that of Vietnam or China.

47) Economic stability should not be confused with economic reform.

48) James A. Foley, 'Fail-Safe: North Korea's Stability Paradox', *Jane's Intelligence Review*, vol. 19, no. 10, October 2007, pp. 33–34.

deterrent against attack and a bargaining tool — to obtain economic and humanitarian aid — in multilateral negotiations. At the same time, it suggests that denuclearization is neither logical nor beneficial from Pyongyang's perspective.

The understanding that change in North Korea needs to start from within seems to inform Japan's policy towards the authoritarian country. Lacking signs of willingness in Pyongyang to allow real economic development, Japanese policy-makers are strengthened in their belief that North Korea is more useful for indirect rather than direct foreign policy objectives. From this perspective, Japan is served by the status quo, which can be prolonged by championing the abductees' cause. Withholding economic aid and humanitarian assistance, and sanctioning trade and investment are other means to the same end.

Bilateral Trade and Investment

Economic linkages that developed mostly during the 1970s were an important factor driving relations between Japan and North Korea until the 1990s. In contrast to Japanese foreign trade and investment in other countries, trade was led not by big businesses (*Ote-gaisha*), but by small- and medium sized companies (SMEs). These SMEs were mostly led by Japanese of Korean origin, with ideological affinity to Pyongyang and membership of *Chosen Soren*.⁴⁹ Japanese parliamentarians in the early 1970s displayed significant interest in economic relations and became active in the Friendship League and Trade Association. Even LDP politicians were conscious of the opportunities that North Korea could provide for domestic politics. A special committee was formed to survey the substantial 'aid and development' programmes that would become available with the normalization of relations and to open lucrative business opportunities for core factions of the LDP and their associates in the construction industry.⁵⁰ The vast natural resources that North Korea harbours also attracted the attention of Japanese policy-makers and traders. For resource-poor Japan, North Korean minerals and coal constitute a welcome diversification of its energy imports. In the 1980s, metal products and raw materials made for a substantial proportion of imports to Japan from North Korea.

49) Imports from North Korea in the 1980s consisted largely of metal products, marine products (seafood), raw materials and vegetable and fruit products, while in the mid-1990s textile manufactures and marine products accounted for most of Japan's imports. Export to North Korea largely consisted of general, electric and transport machinery (busses and trucks, followed by automobiles), and textiles. Throughout the 1990s until trade collapsed because of sanctions, North Korea was running a trade surplus with Japan thanks to its exports of textiles and high-cost agricultural products, mainly *matsutake* (mushrooms). Illicit trade via third countries is now the greatest concern of the Japanese government. These statistics are from Japan's Ministry of Foreign Affairs and Trade and from JETRO, see *Country Report* (Tokyo: Sekai Keizai Joho Sabisu, 2006), downloaded from <www.jetro.go.jp> in November 2006.

50) Gavan McCormack and Wada Haruki, 'The Strange Record of Fifteen Years of Japan–North Korea Negotiations', *Japan Focus*, 2 September 2005, p. 4.

In the early 1990s bilateral relations between Japan and North Korea appeared to enter a new era. On the political front, relations improved with the start of official negotiations on diplomatic relations. In the economic sphere, the potential for Japanese trade and investment in North Korea seemed to increase with the economic reforms and opening of North Korea. Pyongyang tried to lure Japanese business and, for purely geographical reasons, the Special Economic Zone of Rajin-Sonbong, as well as Wonsan, proved promising.⁵¹ The Japanese furthermore showed interest in the capital city of Pyongyang and the Tumen Delta Development Programme. Pyongyang's efforts seemed to pay off when a group of representatives from big Japanese companies undertook a trade mission to North Korea in July 1992.⁵² In 1991 the Japan Travel Bureau had started organizing tours to North Korea.⁵³ In August 1992, the 'North-East Asia Economic Committee' (*Hokuto Ajia Keizai Inkai*) was established by sixteen companies and interest groups.⁵⁴ The interest of big businesses in North Korea constituted a promising change in economic relations. It constituted a break with earlier times, when small- and medium-sized Korean-Japanese companies engaged in trade and investment. The positive outlook of a normalization of relations, for which official negotiations had started, provided an important stimulus to big businesses.

A negative spiral in relations, however, started with North Korea's firing of a missile in May 1993 and the first nuclear crisis in 1994. The death of North Korea's Great Leader Kim Il-sung in July 1994 deepened uncertainty about the political future and stability of North Korea. In the economic field the promise of reforms and opening proved false. As a result, both smaller companies run by Japanese of Korean ethnicity and big Japanese companies lost interest. In this worsening environment, Japanese companies also became

51) The Rajin-Sonbong Free Economic and Trade Zone — created in 1991 — is part of the Tumen River Area Development Programme (TRADP), spearheaded by the UN to integrate and further develop the economies of North Korea, the Russian Far East and north-east China. Rajin-Sonbong (renamed Rason in 2000) is located along the coast in the north-east of North Korea, close to the Russian and Chinese borders. The city of Wonsan was connected to Niigata in Japan through the regular Mangyongbong-92 ferry link. The ferry connection has been suspended as part of the sanctions that were enacted following Pyongyang's missile test in July 2006.

52) 'Kitachosen ni ogata keizai shisetsudan, niccho boekikai nado 13 nichi haken: Kaihatsu yunyu de shodan' [Big Economic Mission to North Korea, Japan-North Korea Economic Committee Dispatched on the 13th: Business Discussions on Development Import], *Keizai Shimbum* (evening edition), 9 July 1992.

53) Atsuhito Isozaki, 'Kitachosen no Tainichi Inbaundo Seisaku' [North Korea's Inbound Policy towards Japan], *Kokusai Joho*, no. 77, February 2007, p. 103.

54) This group included major companies such as Nomura Securities, Tokyo Bank, Marubeni, Nissho Iwai, Tokyo Maruichi Shoji, Nippon Yusen and Komatsu. See 'Tomanko kaihatsu ato-oshi, Nihon 16 kigyō: dantai ga senmonan' [Tumen Delta River Development Backed: 16 Japanese Companies Form Special Plan], *Keizai Shimbum* (evening edition), 20 August 1992.

more anxious about North Korea's outstanding debt, which already constituted 80 billion yen in 1992.⁵⁵

By 2006 the total trade volume between Japan and North Korea had declined to only one-third of its 2002 level, from roughly US\$ 370 to 120 million. In 2007 only US\$ 9 million in exports was left. Although bilateral trade, even at its peak, never comprised more than 0.1 per cent of Japan's total trade, this amount was substantial for North Korea.⁵⁶ Meanwhile, the decline in Japan's trade with North Korea stands in sharp contrast with growing South Korean and Chinese willingness to do business with the North.⁵⁷ North Korea's trade with China more than doubled between 2002 and 2006.⁵⁸ While Japan's leverage thus diminished because of the lower intensity of its economic relations, Japan is also losing out to South Korea and China and is furthermore depriving itself of access opportunities to North Korea's raw materials (including coal, minerals and zinc). Considering the volatility of the energy market, North Korea's internationally competitive prices could make for valuable diversification and a reduction in costs.⁵⁹

The falling trade figures illustrate the effect of sanctions, which were steadily implemented from 2004 to squeeze North Korea. Financial flows also decreased as the Japanese government hardened its policy towards *Chosen Soren* and *pachinko* (gambling parlours), which are widely believed to have provided the North with significant sums of cash.⁶⁰ This restricting or easing of indirect help by supporters of Pyongyang in Japan — mainly through financial flows — is part of a conscious policy of punitive economic diplomacy

55) *Keizai Shimbun* (evening edition), 9 July 1992. Although North Korea's debt is now with the Japanese government, which acted as a guarantor, Japanese companies have written off but obviously not forgotten North Korea's external debt.

56) Illustrative of the difference is Shigemura's observation that the power of the North Korean economy is less significant than that of large Japanese companies, while its national budget is smaller than the net profit of, for example, Toyota. See Shigemura, *Chosen Hanto 'Kaku' Gaiko*, p. 98. US intelligence has estimated North Korea's GDP in terms of purchasing power parity at US\$ 40 billion a year for the past three years, whereas the Bank of Korea (of South Korea) gives a figure of US\$ 20.9 billion for 2006 (see *CIA World Factbook 2008*, available online at <<https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>>; and Bank of Korea, at <<http://ecos.bok.or.kr/>>). With an estimated nominal GDP of US\$ 2.2 billion in 2008, North Korea lists 156th in the CIA's world rating. It follows Surinam and precedes a list of countries whose movement is not restricted by economic sanctions or exclusion from international financial institutions.

57) Despite the even greater challenges facing companies from outside the region, even a few western funds are investing in North Korea; see 'Opening Up: Doing Business in North Korea', *Financial Times*, 21 January 2008.

58) Data compiled from United Nations Statistics Division (COMTRADE) and the Ministry of Unification of South Korea.

59) Reportedly, North Korean hard coal is 20 per cent cheaper compared to international markets. South Korea, which like Japan has very limited natural resources, is quickly increasing its imports. The Ministry of Unification in July 2007 set up the South-North Exchange Cooperation Resource Association [*Nanboku Koryu Kyoryoku Shigen Kyokai*] for this purpose. See 'Sekai ga chumoku suru Kitachosen no kobutsushigen' [The World's Attention to North Korea's Mineral Resources], *Chosun Online*, 24 May 2008.

60) *Asahi Shimbun*, morning edition, 10 February 2004.

by the Japanese government. Prime Minister Koizumi explicitly mentioned this in his meeting with Kim Jong-il in Pyongyang in May 2004.⁶¹

Big businesses aligned with the Japanese government's hardline position towards North Korea. The comment of Keidanren Chairman Fujio Mitarai, soon after the North Korean nuclear test in October 2006, is clear evidence of this. Mitarai indicated that trade-restricting measures were necessary by saying:

It is unacceptable barbaric behaviour that North Korea performed a nuclear test, disregarding the restraints of the United Nations and the entire world. It is only natural that the UN and Japan deal with this in a stricter manner, and we as private businesses will adopt an attitude along the government's line [author's translation].⁶²

The actual impact of the missile and nuclear test and subsequent sanctions on economic relations between Japan and North Korea became clear in the months thereafter. Nissan stopped exporting station wagons to North Korea in July 2006 and effectively terminated all business in October 2006. Furthermore, the Nippon Steel Corporation stopped all imports of hard (stone) coal in July 2006 and Mitsui Chemicals tightened security control at domestic plants from September 2006.⁶³

Missing out on access to cheap national resources is for now not a substantial enough concern for the Japanese government to change its economic diplomacy. Obstacles to trade and investment are larger than the concern that by staying away, economic influence in North Korea is conceded to China and South Korea in the short term — with possible negative consequences for the medium and long term.⁶⁴ The political risk of regime collapse and ensuing instability of the economy are reasons for companies to stay away. Moreover, the harsh domestic criticism that private businesses would confront if they were to invest constitutes a barrier, and Pyongyang's refusal to allow entry to Japanese nationals since mid-2006 is obviously not helpful.⁶⁵ From a purely economic perspective, North Korea is not promising prospect because it has no advantage other than cheap labour. Furthermore,

61) Press conference after the Japan–North Korea meeting, 22 May 2004, available online at <www.mofa.go.jp>.

62) See <http://www.keidanren.or.jp/japanese/speech/kaiken/2006/1010.html>, from 10 October 2006. This translation by the author is given because the official English translation provided on the Keidanren website is somewhat softer than the original Japanese. The official translation reads: 'It is [an] unforgivable, uncivilized act and it is only natural that international community is going to take harder attitude towards North Korea. Following the Japanese government's policy on this issue, private companies will take a very careful consideration of business activities with the country'; available online at <<http://www.keidanren.or.jp/english/speech/press/2006/1010.html>>.

63) 'Tai-kita bijinesu shukusho no ugoki: Nissan ga torihiki teishi' [Reducing Business with North Korea: Nissan Stops Trade], *Yomiuri Shimbun* (morning edition), 11 October 2006.

64) Schoff, *Political Fences and Bad Neighbors*, p. 23.

65) Of all East Asian countries, Japanese residents are the only ones refused entry, with certain *ad hoc* exceptions made by North Korea for unclear reasons; information imparted during a meeting with METI official in Tokyo, 23 April 2008.

exporting to the United States and China is not yet possible — for legal and practical reasons respectively — and a domestic market is lacking.

Unilateral and Multilateral Sanctions

Japanese economic sanctions against North Korea are of fairly recent origin and involve a relatively straightforward legal framework. While the United States has imposed sanctions for a variety of (often overlapping) reasons since 1950, laws for unilaterally implementing sanctions were not in place in Japan until 2004. North Korea was not placed under sanctions following its missile launch in 1993. In fact, serious discussion on the establishment of a legal framework for sanctions started in Japan only after the firing of the Taepodong missile in 1998. Six years later in 2004, two laws that enable the enactment of unilateral sanctions were revised and implemented in the Diet.

North Korea is presently the state under the heaviest sanctions imposed by Japanese law and international regulations. This is remarkable as Japan is commonly known to shy away from using sanctions as an instrument of foreign policy, yet the Japanese government has since 1998 imposed punitive measures and sanctions on North Korea. Broadly speaking, motivations have been threefold: the first, long-term purpose of sanctions is the maintenance of peace and safety in Japan;⁶⁶ second, sanctions are imposed to express disapproval of hostile acts, such as the launch of missiles or the nuclear test;⁶⁷ and third, sanctions have been implemented in response to delayed progress in the human rights situation, including the abductees' problem.⁶⁸

Complementing official sanctions, the Japanese government has imposed restrictions on trade and dealings with North Korea that could be qualified as sanctions. One example is tightening supervision of *Chosen Soren* and affiliated credit unions. Further examples are: labelling food products such as *asari* (short-necked clams) as products of North Korean origin; obligatory insurance for North Korean ships over 100 tons in displacement; and support for North Korean asylum seekers.⁶⁹ These measures serve to demonize North Korea and to restrict the trade and activities of North Korea(ns) in Japan. In other words, they are examples of Japan's approach to

66) This is stated in the Foreign Exchange and Foreign Trade Control Law (FEFTCL of 1949 and last revised in 2004) and Law for Special Measures Concerning Interdiction of Ports Entry by Specific Ships (LSMCIPESS of June 2004). A detailed analysis can be found in Satoru Miyamoto, 'Economic Sanctions by Japan against North Korea: Consideration of the Legislation Process for FEFTCL (February 2004) and LSMCIPESS (June 2004)', *International Journal of Korean Unification Studies*, vol. 15, no. 2, 2006, pp. 21–46.

67) Sanctions have been either unilaterally imposed under the FEFTCL and LSMCIPESS, or passed in conformation with UN resolutions (Security Council Resolutions 1540, 1695 and 1718).

68) Possibilities hereto are stipulated in the North Korean Human Rights Act of June 2006, which considers the UN General Assembly Resolution of December 2005 and refers explicitly to the possibility of invoking the FEFTCL and LSMCIPESS.

69) For a fine outline, see Christopher W. Hughes, 'The Political Economy of Japanese Sanctions towards North Korea', *Pacific Affairs*, vol. 19, no. 3, 2006, pp. 464–465.

economic diplomacy that aims to pressure Pyongyang economically and politically.

The measures and sanctions that Japan has progressively imposed, especially since late 2006, are an expression of Japan's increasingly hardline policy and an important explanatory factor for the sharp decrease in trade in recent years. Japanese sanctions were implemented immediately after the North Korean missile launch and nuclear test in October 2006⁷⁰ and extended for a fourth period of six months in October 2008. The run-up to the third extension of Japan's unilateral economic sanctions indicated, however, the desire of Japanese Prime Minister Fukuda's government to soften Japan's policy. In several announcements in March and April 2008, Prime Minister Fukuda, as well as Chief Cabinet Secretary Machimura Nobutaka, stated that sanctions would not necessarily be extended, providing a sign of improvement in the situation.⁷¹ As no such breakthrough came, however, it was decided to extend sanctions. Nevertheless, the path towards the extension of sanctions was remarkably different from before and exhibited readiness on the part of the Japanese government for greater engagement with North Korea.

Economic and Humanitarian Assistance

Setbacks in bilateral relations did not keep the Japanese government from providing humanitarian assistance when North Korea faced a food crisis in the mid-1990s. At a rare North Korean request, Tokyo in 1995 provided rice and medical supplies. This assistance was channelled through UNICEF, the UN Development Programme and the World Food Programme. Japan provided similar assistance two years later in 1997, this time through the Red Cross. While Tokyo suspended all help following the launch of the Taepodong missile over Japanese territory in 1998, it again pledged humanitarian assistance in 2000 and provided 400,000 tons of rice in 2004.

In recent years, the Japanese government has adopted a hardline stance towards Pyongyang on economic and humanitarian assistance, linking aid to the abductees' issue. Japan's (then) Foreign Minister Taro Aso in 2007 went as far as to state bluntly that Japan 'will not pay even one yen' in assistance until the abduction issue is solved.⁷² Despite such tough talk in public, several examples of a simultaneous but little noted softer government stance on economic assistance exist. These occurrences did not arouse much public response even if the media reported them. A first example concerns the discussion on energy that was generated about the Russian island of Sakhalin,

70) The missile test constituted a breach of the Pyongyang Declaration, which included a commitment to 'maintain the moratorium on missile launching in and after 2003'.

71) See, for example, 'Kitachosen e no keizai-seizai no encho shimesu: Machimura Kanbochokan "Kazokukai" no yosei ni' [Signaling Extension of Economic Sanctions towards North Korea: Chief Cabinet Secretary Machimura follows request of 'Kazokukai'], *Yomiuri Shimbun*, 16 March 2008.

72) Japanese Foreign Minister Taro Aso in a speech in Fukuoka on 3 March 2007; see 'Japan to Press Pyongyang for Abduction Probe', *Japan Times Online*, 4 March 2007.

40 kilometres north of Japan. With the help of soft loans provided by the Japan Bank of International Cooperation (JBIC), the Japanese government and private companies since the 1970s heavily invested in the exploration of oil fields.⁷³ In mid-2004 the possibility of oil produced at Sakhalin going not only to Japan but also to North Korea became real.⁷⁴ The net effect would be, of course, that energy generated with Japanese taxpayers' money would flow towards North Korea. This is hardly compatible with Japan's strong rejection of aid to North Korea and its dire need for energy sources. The plan did not materialize in the end, but it was remarkable that the issue did not arouse public opposition.

A second accommodating decision by the Japanese government towards North Korea concerns the announcement in December 2007 that Japan was effectively to shoulder the Japanese expenses for KEDO.⁷⁵ This assistance, provided through the JBIC and amounting to approximately US\$ 420 million, was provided to and to be returned by KEDO in five years starting from 2008. Although the Japanese Foreign Ministry officially stated that this debt was to be repaid by North Korea, the government admitted that the possibility of North Korea being able to repay was virtually nil. Indirect though it was, this writing-off of North Korean debt can in effect be regarded as assistance to North Korea.⁷⁶ Like the Sakhalin case, however, the issue went largely unnoticed by the media and the public.

Considering the negative view of North Korea, one would have expected the Japanese public to demand an explanation from the government on these issues. The lack of criticism illustrates, however, the one-sided focus of the Japanese public on the abductees' issue. While this single issue has made for an extremely negative view of Pyongyang, the North Korean question at large is hardly considered. At the same time, these examples of a softer stance towards North Korea provide insight into the broader considerations of the Japanese government, for which the public hardline stance is being used as a cover.

As Japanese politicians and the public pay little attention to anything other than the abductees, humanitarian assistance seems to have become a political tool. The Japanese government refuses to cooperate in energy and humanitarian assistance, to which the six parties committed in February 2007.⁷⁷ Even as another food crisis looms in North Korea in 2008–2009, the

73) An analysis of energy projects at Sakhalin and Japan's strategic interests therein is presented in Jan-Hein Chrisstoffels, *Getting to Grips Again with Dependency: Japan's Energy Strategy* (The Hague: Clingendael Energy Paper, 2007), pp. 34–41.

74) 'Taikita ene-shien Roshia ni "ri"? Rokusha-kyogi, Bei ni yoninron' [Energy Support to North Korea Advantage for Russia? Six-Party Talks, US Gives Consent], *Asahi Shimbun* (morning edition), 25 June 2004.

75) 'Kitachosen no keisuiro kensetsuho saimu, Nihon ga jitsujō "katakari"' [Japan to Shoulder Debt for Construction of Light-Water Reactor for North Korea], *Yomiuri Shimbun*, 22 December 2007.

76) Indeed, this sum will most likely be deducted from the economic assistance / ODA scheme that becomes available with the normalization of diplomatic relations.

77) 'Japan to Press Pyongyang for Abduction Probe', *Japan Times Online*, 4 March 2007.

Japanese government refuses to provide relief. It thereby takes a substantially different stance from the United States, which in May 2008 pledged to provide humanitarian aid.

While prospective economic and humanitarian assistance are still levers in Japan's relations with North Korea, the power of these instruments — Japan's actual leverage — declined with the sharp downturn in trade relations throughout the past decade. In fact, Japan's influencing power diminished not only in the bilateral but also in the international context — that is, relative to South Korea and China. Seen from this perspective, it may be surprising that the Japanese government continued a negative economic diplomacy that involved several substantial downsides. The explanation may be twofold. First, Japanese policy-makers were satisfied with the attempts at influence through the withholding of prospective economic assistance and trade that would follow the normalization of relations. This stems from the conviction that North Korea cannot really start its road towards development without Japanese help — that is, money, technical assistance and investment. Second, Japanese policy-makers' objectives actually have less to do with North Korea as such, but instead serve broader national and regional interests. This is in line with earlier findings.

The Multilateral Effort and Regional Diplomacy

Japan's economic diplomacy towards North Korea is not only practised through its policy on normalization and economic issues, but also through multilateral and regional diplomacy that involves economic policy questions. Since their establishment in 2003, the Six-Party Talks have been the most important multilateral framework for comprehensive negotiations with North Korea. For the Japanese government they are a valuable framework for communication and at the same time a forum where economic instruments can be used for attempts at influence in a multilateral setting. Japan's attempts to influence Pyongyang's position in the region are another expression of indirect economic diplomacy. Here, too, the Japanese government practises an obstructionist policy. Tokyo opposes North Korean membership of economic and financial institutions, including regional and multilateral institutions such as the Asian Development Bank (ABD), the International Monetary Fund (IMF) and the World Bank.

Japan's obstructionist and postponing economic diplomacy in the regional context provides further insights into the broad objectives and targets that shape Japan's attitude towards North Korea. Particular attention in this regard needs to be attributed to the 'China factor': the influence on Japanese policy of concerns about a rising China; China's direct challenge to Japan; and Japan's relative position as a regional and global power.

*Six-Party Talks*⁷⁸

Tokyo put forward the idea for a six-way approach for negotiations with North Korea in 1998. The Japanese government was driven by fear of being left out in multilateral negotiations on an issue of great importance to Japan's national security. Ever since the six-party process materialized in August 2003, Japan's role has been constrained, however. Its policy is two-sided: Tokyo plays a largely circumstantial role in the practical sense; and is a powerful spoiler in a broader, strategic way. Its role is circumstantial because its leeway is framed by US initiatives, South Korean consent and Chinese brokering.

It comes as no surprise, then, that Japan's actual contributions have been minimal. This is true in proposals and suggestions for progress, actions to restart negotiations when talks were deadlocked, or outlining a medium- and long-term vision of the SPT process in the context of future relations in and around the Korean Peninsula.⁷⁹ More critical, perhaps, is Japan's postponing and obstructing behaviour, which — beyond merely slowing negotiations — puts the process as a whole at risk. The Japanese government employs economic and political instruments in two working groups that were established by the 2007 SPT Agreement.⁸⁰ These are the Working Groups on economy and energy cooperation and on the normalization of North Korea–Japan relations. By making progress on the abductees' issue conditional on the normalization of relations and provision of assistance, Japan is effectively postponing progress in both fields. Moreover, the Japanese government refuses to provide energy assistance, to which the parties committed in February 2007.⁸¹ Although energy assistance is currently progressing even without Japan's cooperation, negotiations on normalization and economic cooperation lag behind. Tokyo clearly does not feel the need to comply with all of the provisions of SPT agreements and its commitment to the deal is half-hearted at best.

From a US perspective, Japan's participation in the SPT constitutes a critical paradox, particularly since Washington recently adopted a more engaging stance towards Pyongyang. On the one hand, US officials admit that a deal with North Korea will need the full backing of Japan. The substantial Japanese economic aid that would become available with the normalization of

78) This paragraph draws on Maaïke Okano-Heijmans, 'Japan and the Multilateral Talks: Peripheral Player, Powerful Spoiler', in Koen De Ceuster and Jan Melissen (eds), *Ending the North Korean Nuclear Crisis: Six Parties, Six Perspectives* (The Hague: Clingendael Diplomacy Paper no. 18, November 2008).

79) Ashizawa, *Tokyo's Quandary, Beijing's Moment in the Six-Party Talks*, pp. 420–421.

80) *Initial Actions for the Implementation of the Joint Statement*, Beijing Agreement of 13 February 2007, part III.

81) In October 2008 Japan agreed to a US move to ask other countries — the United States, Russia and Australia have been mentioned — to replace Japan's share of energy aid being provided to North Korea. At the same time, Japan agreed to provide technical assistance and shoulder costs for disabling nuclear facilities, indicating that its negative approach to economic diplomacy is not absolute and — to the extent that it is directly related to the abductees' issue — symbolic. See 'US Eyes Oil Aid Sources for North Korea / Replacements Sought for Japan Assistance', *Yomiuri Shimbun Online*, 22 October 2008.

relations is a key component of a comprehensive agreement with Pyongyang.⁸² At the same time, however, Washington has made it clear that it will move ahead even without an immediate solution to the abductees' issue. In an attempt to break the deadlock and avoid having to upset its ally when moving ahead, the United States pressed North Korea — in bilateral as well as multilateral meetings — to address the abductees' issue with Japan.

The situation is complicated by the crucial difference in threat perception between the United States and Japan. The two countries share concerns of nuclear and missile development and the export of weapons of mass destruction. Nevertheless, geographic proximity makes the threat more real for Tokyo than for Washington because Japan is in reach of North Korean missiles, nuclear devices and refugee flows. Anything less than complete denuclearization of the Korean Peninsula is hence unacceptable to the Japanese government. This explains Japan's rather lukewarm response to the February 2007 SPT agreement, which includes a timeframe and monitoring mechanism for the declaration of nuclear programmes and disablement of existing nuclear facilities, but addresses denuclearization only in vague terms.⁸³

Against this background, Japan's hawkish Prime Minister Abe adopted the only strategy whereby Japan could maintain some control. His hardline approach included mentioning the abductees' cause in the multilateral context whenever possible, and delaying the normalization of relations, while other parties struggled to achieve a multilateral agreement. Japan assumed that sooner or later it will get what it wants because Japanese money is required for a successful conclusion of negotiations with North Korea in the SPT.

Simultaneously, the multilateral talks serve as a welcome context for the Japanese government to meet with North Korea while not seeming weak. The reopening of consultations towards official negotiations in 2006 was desirable in order to confine tension and to appeal on the abductees' issue bilaterally.⁸⁴ As in its bilateral policy, the Japanese government thus adopted an obstructionist approach involving the negation of political-economic means. Japan is criticized, however, for 'hijacking' the SPT. In the eyes of

82) Schoff, *Political Fences and Bad Neighbors*, p. 19. Stephan Haggard and Marcus Noland provide a rare analysis of the importance of economic issues in the Six-Party Talks in *A Security and Peace Mechanism for Northeast Asia: The Economic Dimension* (Washington DC: Peterson Institute for International Economics, April 2008).

83) In the Joint Agreement 'the Parties reaffirmed their common goal and will to achieve early denuclearization of the Korean Peninsula [...]'. This point is made by Hitoshi Tanaka, former Deputy Minister for Foreign Affairs of Japan, who was closely involved in negotiations with North Korea under former Prime Minister Koizumi. See Hitoshi Tanaka, 'Five Myths about Dealing with North Korea: A Japanese Perspective', *East Asia Insights: Toward Community Building* (Tokyo: Japan Center for International Exchange), vol. 2, no. 3, June 2007, p. 3.

84) Schoff argues that when bilateral talks were on hold, the Japanese government used the Six-Party Talks as a means to demonstrate its commitment to the abduction issue. See Schoff, *Political Fences and Bad Neighbors*, p. 21.

many — Japanese and non-Japanese — North Korea has conceded on the abductees' issue in many ways.⁸⁵

Again, the security context is crucial to understanding Japan's actions. It can well be argued that the North Korean threat is useful for Tokyo and that Japanese interests are well served by retaining the status quo.⁸⁶ Pyongyang's belligerency creates leeway to pursue a more proactive military policy and to create more offensive capabilities for broader (collective) defence purposes in the light of an increasingly strong China and mounting uncertainty about the alliance with the United States. Although the Japanese government wants a denuclearized Korean Peninsula and a stable neighbour, an SPT solution is not an immediate priority. This explains why Japan is consciously adopting the role of spoiler.

North Korea's Integration in the Region

Japan's diplomacy in the region with regard to North Korean membership of multilateral economic and financial institutions is a further expression of Japan's negative economic diplomacy. Again we find that Tokyo employs negotiations on economic policy questions for strategic means.

In 2000 North Korea was welcomed for the first time in the ASEAN Regional Forum (ARF), the organization whereby ASEAN member states and twelve countries in the Asia-Pacific region — including Japan, China, South Korea, the United States and Australia — discuss security issues. North Korea even signed ASEAN's so-called 'non-aggression pact' by joining the Treaty of Amity and Cooperation in July 2008. While North Korea thus participates in multilateral forums that address regional security, it has until now not been granted membership of financial institutions. The Asian Development Bank (ADB) rejected Pyongyang's membership application three times, mainly because of resistance from Japan and the United States. Opposition by Japan — in conjunction with the United States — to Pyongyang's entry in the ADB, the International Monetary Fund (IMF) and the World Bank effectively hampers North Korean trade relations and blocks its access to financial funds that could stimulate the North Korean economy. Pressure on Japan to accept North Korean membership of international financial institutions, however, increased in October 2007 when North Korea's speedy accession to the IMF and the World Bank was proposed at the IMF and World Bank annual meeting.⁸⁷ Japan's obstructing power may diminish further now that Washington has removed North Korea from the list

85) The South Koreans takes the extreme opposite position, seemingly wanting to avoid discomforting the North and being likewise accused of narrow-mindedness. Indeed, while it is clear that a significant number of South Korean citizens have also been kidnapped by the North, the government has kept remarkably silent.

86) A similar argument could be made for several other parties to the Six-Party Talks, including North Korea.

87) 'Kankoku fuku-shusho: IMF ha Kitachosen kameijunbi wo' [South Korean Vice-PM says IMF Should Prepare for North Korea's Membership], *Keizai Shimbun* (evening edition), 23 October 2007.

of terrorism-sponsoring states. In the meantime, North Korea attempts to move forwards on the issue by directly linking membership of international financial institutions to the nuclear issue. In August 2008 North Korea asked the United States to support it joining the ADB and IMF, in return offering to accept a US-proposed protocol aimed at examining North Korea's declared nuclear programmes.⁸⁸

Although the United States will not give in lightly to North Korean requests, it is clear that Japan needs to reconsider the actual leverage of its negative approach — and the ramifications of failing to adjust promptly — when other parties move on these issues. The United States' position is of particular importance in this regard, as the interrelatedness of the nuclear, economic and abductees' issues makes for a threesome of interdependency among the United States, North Korea and Japan. As mentioned earlier, Japan's obstructionist policy in the SPT and in other multilateral forums was facilitated by the United States hindering Pyongyang's (economic) relations with other countries by including North Korea on the terror list. It is therefore doubtful whether Japan can maintain its hardline policy since the United States removed North Korea from the list of State Sponsors of Terrorism in October 2008. At the very least, it is safe to say that Japan's obstructive power is at least less effective when not backed — officially and unofficially — by its alliance partner.

Removal from the list of terrorism-sponsoring states has been a major goal of the regime in Pyongyang since 2000.⁸⁹ This is unsurprising, as it serves symbolic as well as economic purposes. First, to be taken off the terror list sends a strong signal that North Korea is no longer regarded by the United States as a rogue state or outcast. This improves both Pyongyang's standing in international society and facilitates better relations between North Korea and the United States and with other states in the region. Second, North Korea's delisting opens the way to bilateral and multilateral foreign aid and financial assistance and thereby benefits Pyongyang economically. It goes without saying that these developments diminish the power of Japan's negative economic diplomacy.

In light of these developments, the Japanese government may give greater consideration to the consequences of its negative approach to the North Korea question on its position in the region. As outlined earlier, the government did not mind too much the fact that it is considered as sidelined in the SPT. The obstructionist stance was after all part of a conscious strategy. However, for Japan to be left out in discussions on a multilateral, cooperative framework that may grow from the six-party process may be more problematic. Proposals for the establishment of a more institutionalized North-East Asian cooperative forum are increasingly heard. Discussions include the question of whether such a framework is to grow from the SPT or

88) 'Pyongyang Seeks Membership in International Lenders', *Korea Times*, 18 August 2008.

89) Niksch and Pearl, *North Korea: Terrorism List Removal*.

from an expanded ASEAN framework.⁹⁰ The Japanese government, however, does not seem to be seriously engaged in debates on this issue — domestically or internationally — although its regional diplomacy and the redefining of its role in East Asia will be seriously undermined if Tokyo is neither part of nor taken seriously in these talks. Even if discussion on these issues seems premature at this stage from a Japanese point of view, the Japanese government should make its voice heard; if anything just to make sure that its ideas and interests are known and addressed.

90) A 'North-East Asia Peace and Security Mechanism' Working Group was established with the 2007 SPT Agreement. For a different view, see Reudiger Frank, 'Integrating North Korea into Regional Framework', *The Korea Herald*, 21 May 2008.

The China Factor

The role of China as a consideration in Tokyo's economic diplomacy towards North Korea has been touched upon several times, but merits closer scrutiny. The bilateral relationship between Japan and China is the most important, and at the same time one of the most volatile, of all inter-state relations in East Asia. Tokyo and Beijing recognize the significance of stable relations and simultaneously compete for political influence in the region.⁹¹

In the strategic competition for leadership that is currently going on in East Asia, bilateral relations with Pyongyang are not very important to Tokyo, particularly when compared to the relationship with Beijing.⁹² This largely explains Japan's negative approach to economic diplomacy and its role as spoiler in the SPT. Rather than working actively to improve the bilateral relationship with North Korea, Tokyo in recent years has prioritized the advantages that an obstructionist stance offers in the multilateral and domestic sphere — that is, retaining the status quo and winning votes. In adopting this policy, Japan has furthermore been assured that China — chair of the SPT — is not credited with progress.

Lack of, or slow, progress in the SPT may indeed be advantageous to the Japanese in that it does not grant China foreign policy success. The obstructionist approach is, however, unlikely to serve Japan's interests in

91) The bilateral relationship is best characterized as direct engagement and indirect competition. See Maaïke Okano-Heijmans, *Japan's Economic Diplomacy towards China: The Lure of Business and the Burden of History*, *Clingendael Diplomacy Paper*, no. 14 (The Hague: Clingendael Institute, November 2007), pp. 41–43.

92) A similar argument was made by Shinichi Kitaoka in a meeting with the author in Leiden, March 2008.

terms of its repositioning in the region and strategic rivalry with China. After all, an assessment of how Japan's negative policy impacts on China's standing in the region should be based on more than China's current role in the six-party process. Beijing's role in a multilateral cooperative framework that may succeed the SPT and its economic strength and influence in North Korea need to be considered as well. Japan may rightly be confident that true economic development in North Korea — if and when Pyongyang is ready for change — can only come with Japanese funds and technology. Even so, Chinese advancement into North Korea does harm Tokyo's long-term economic interests in North Korea. The observation by a Japanese official that China already regards North Korea as its fourth north-east province makes this issue all the more pressing.⁹³ Furthermore, the Japanese government misses out on a chance to be (seen as) proactively involved in the region, if it shies away from discussion about the future of a regional security and economic framework. If Japan believes that a framework that is not dominated by China serves its interests,⁹⁴ an ASEAN-based forum may have important benefits over an SPT-based mechanism. Japan's obstructionist stance thus not only frustrates short- and medium-term success that would partly be credited to China, but — and more fundamentally — it also undermines Japan's potential to contribute proactively to the region's stability and prosperity. This latter effect is obviously at odds with Japan's long-term interests, overall foreign policy and potential to exert influence in the region.

93) Interview by the author, April 2008. This refers to the north-east region recovery policy of China's central government, which aims — among other things — to develop the region and increase regional cooperation. Officially, it covers the provinces of Liaoning, Jilin (with the Yanbian Korean Autonomous Area and Changbai Korean Autonomous County as two of its four ethnic minorities' areas) and Heilongjiang, as well as four of the easternmost leagues of Inner Mongolia.

94) One is led to believe that Japan would consider its interests to be better served in a framework that includes the United States and possibly other non-Asian countries, considering Japan's long support for the broader East Asia Summit over an 'Asian-only' ASEAN+X framework.

Conclusion: Economic Diplomacy as a Strategic Tool of Foreign Policy

Considering Japan's involvement and concerns at the international, regional, bilateral and domestic levels, it is clear that there are few issues in its relationship with Pyongyang over which Tokyo has real control. The Japanese government holds powerful cards *vis-à-vis* North Korea, but the effectiveness of its attempts at influence is constricted because of the context in which the relations exist. Economic diplomacy is a potentially powerful instrument in the bilateral and multilateral context, and most Japanese officials and politicians have for years propagated a negative approach to economic diplomacy. They acted from the premise that the slowing of bilateral and multilateral negotiations by taking an unaccommodating stance was in Japan's national interest. By projecting rather than exercising power through a one-sided policy, these officials aimed less to influence the regime in Pyongyang than to enhance Japan's national security at large. This eventually resulted in a hardline approach that constricted the Japanese government's policy agenda and options towards Pyongyang.

Japan's economic diplomacy is exercised through the (in)direct promise, provision, withholding and sanctioning of economic benefits. This policy is largely practised in the bilateral and multilateral context, but domestic policies also have a role to play. The tightening or easing of indirect help for Pyongyang by supporters of North Korea in Japan (mainly financial flows), for example, supports Japan's economic diplomacy. As trade relations between Japan and North Korea are limited at present, Tokyo's strongest economic cards lie (hidden) in the fact that vast sums will become available

with normalization of relations and that Japan's aid is necessary for a comprehensive, multilateral solution to the North Korean nuclear crisis. Although the Japanese government will in the end have to follow US engagement, the economic implications of the normalization of relations and the prospect of economic and humanitarian assistance give it important levers in the short to medium term.

Better relations with North Korea would undeniably have certain security and potential economic benefits for the Japanese. The collapse of North Korea can hardly be thought to be in Japan's interest, considering the political unrest and flow of refugees that would surely follow. Indeed, improved chances for regional stability, the failure to settle Japan's war and colonial history with North Korea — and even Russia and the region at large — deprived access to cheap natural resources and other goods, and a worsening of Japan's relative economic position compared to the Chinese and Koreans, all constitute 'opportunities lost' for a Japan that adopts a negative economic diplomacy towards North Korea.⁹⁵ Yet Japan has for a long time been willing to give up these potential benefits.

Japan's economic diplomacy towards North Korea is better understood by sorting out the primary, secondary and tertiary goals and targets or attempts at influence — that is, following Baldwin's conceptual framework. This leads to the conclusion that although the regime in Pyongyang is the direct target of Tokyo's policy, the Japanese government's broader goals are more important. Officially, Japan aims to cooperate with the North Korean government in order to settle issues of concern to both states. Japan's actions, however, suggest that at least from late 2002 until mid-2007, Tokyo sought to maintain the status quo. In other words, improving bilateral relations appeared to be a secondary or even tertiary concern. How can this be explained?

A first consideration of Japanese politicians such as Shinzo Abe is the assessment that — on the economic front — North Korea has relatively more to gain from improved relations.⁹⁶ In other words, the economic 'opportunities lost' incurred by North Korea from Japan's negative economic diplomacy outweigh the benefits lost on the Japanese side. Abe was likely strengthened by the recognition of others — including the United States and North Korea — that only Japan can provide the funds that are needed for a comprehensive SPT agreement. Although the nuclear issue precedes economic issues in multilateral negotiations, a peaceful and stable Korean Peninsula is hardly conceivable without progress in the economic field.

95) In the domestic context, it has been argued that improved relations with North Korea would also add to a solution to a domestic threat to national security, namely that of (North) Koreans who are resident in Japan (estimated at 200,000 individuals); interview by the author, Tokyo, April 2008.

96) This is no new phenomenon in the political economy of East Asia; economic aspects of relations with Japan have been crucial for the development of virtually all countries in the region. Indeed, economic diplomacy throughout the post-war period has been a — if not *the* — major force in Japan's foreign policy.

Furthermore, Japanese policy-makers acted from the premise that, while China and South Korea now outrank Japan in terms of trade with North Korea, it is only with Japanese money, technology and investments that the North Koreans can really start to rebuild their economy. Accurate or not, these considerations appear to have informed policy-makers' decisions.

Japan obviously has more to gain from an obstructionist policy than only making sure that North Korea does not obtain economic benefits without real concessions. To understand this, Japan's policy needs to be assessed in the context of its relations with other countries in the region, particularly China, and Japan's domestic politics. Pyongyang's nuclear and missile programmes pose a direct security threat, but at the same time provide Japan with an opportunity to strengthen its military capabilities. Tokyo can enhance its regional posture without reference to its broader concerns. In other words, the North Korean threat is used as an opportunity in the security field, as it creates a favourable environment for stepping up missile defence and increasing the role of the Self-Defence Forces in areas surrounding Japan. From a regional perspective, the North Korean threat is thereby a welcome justification to improve military capacities and Japan's relative position without having to refer to China's rise. The negative economic diplomacy pursued by Abe suggests that these were the primary considerations in his policy towards North Korea.

Not only the benefits *vis-à-vis* Pyongyang and Beijing, but also domestic political gains informed Japan's tough stance against North Korea. Against the background of a very critical public opinion towards North Korea, the negative approach to economic diplomacy served politicians' personal and party-wide purposes. The winning of votes by Japanese parliamentarians playing tough on North Korea should, however, *not* be regarded as the primary goal of Japan's policy. The costs of Japan's negative economic diplomacy are too substantial to validate such a claim. Winning votes by demonizing North Korea can furthermore be seen as a secondary or even tertiary, rather than a primary, goal because it strengthens policy-makers who aim for an obstructionist approach more than it is a political goal in itself.

The softer approach pursued by Japan's (then) Prime Minister Fukuda from late 2007 on all key issues of bilateral and multilateral concern — the abductees, normalization of relations, sanctions and in the SPT — were evidence of a desire to shift away from an economic diplomacy of mere denial of benefits to North Korea. Fukuda clearly wanted to follow suit as Washington and Pyongyang made progress in the multilateral framework. He aimed for a face-saving way to break the impasse and soften Japan's negative approach to economic diplomacy. When Taro Aso took up the prime ministerial post in September 2008, the chances for continuation of this policy abated, and the Japanese government will avoid a policy that risks upsetting the Japanese public as long as the ruling LDP faces a likely defeat in Japan's upcoming parliamentary elections. While the forces and incentives to

shift to a more positive approach thus exist within Japan, these are not strong and substantial enough to justify much hope for quick policy changes.

Nevertheless, regional and security concerns as well as recent developments in the SPT can in the longer term be expected to provide incentives for a more positive economic diplomacy towards North Korea. Considering Washington's engaging stance, which new US President Barack Obama is unlikely to reverse altogether, the 'opportunities lost' of an uncooperative Japan in the multilateral framework — and thereby the costs of a negative economic diplomacy — are bound to increase. These include loss of face in the region as well as missed opportunities to shape a newly emerging regional framework to Japan's advantage. If and when progress is made in the abductees' issue, security concerns will likely be addressed through more positive economic diplomacy towards North Korea. An engaging policy, similar to the new economic diplomacy pursued towards China, is feasible. It should be recalled that improved economic ties in the 1990s contributed significantly to the reduced likelihood of Sino-Japanese military conflict⁹⁷ and served as confidence-building measures in the political field.

Change will not come easily, however. The Japanese public's profound distrust suggests that while Tokyo may budge to a certain extent, it will not change easily to a largely accommodating approach. Furthermore, it remains questionable whether the elite in Pyongyang is willing to open and start reforming North Korea. One only has to remember the deception of North Korea's false promise of reforms involving the Rajin-Sonbong economic zone in the early 1990s to realize that the desire of both Japan *and* North Korea to break the stalemate should not be overestimated.

97) Yoshinori Kaseda, 'Japan and the Korean Peace Process', in Tae-Hwan Kwak and Seung-Ho Joo (eds), *The Korean Peace Process and the Four Powers* (Hampshire: Ashgate, 2003), p. 139.

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