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Japan-North Korea Relations: Selected Issues

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SUMMARY

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Mark E. Manyin
Analyst in Asian Affairs

Japan-North Korea Relations: Selected Issues

Japan and North Korea have not established official relations since the Korean Peninsula, which the Japanese Empire annexed in 1910, was liberated from Japanese rule and divided into two separate states following Japan's defeat in World War II. Attempts to establish normal relations in the early 1990s and again in 2000 ended in failure, due to seemingly unresolvable obstacles. In September 2002, a one-day summit was held in Pyongyang between Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il, the first ever between the leaders of the two countries. Koizumi and Kim momentarily appeared to break longstanding stalemates on several issues and agreed to restart bilateral normalization talks, but the talks subsequently stalled, due to two developments: North Korea's apparent admission to U.S. officials in October 2002 that it had a secret nuclear weapons program based on the process of uranium enrichment; and popular outrage in Japan at Kim Jong-il's admission that North Korea kidnapped 13 Japanese in the 1970s and 1980 and brought them to North Korea to live. Subsequently, according to the North Korean government, eight of whom died.

Japan's role is potentially critical in the current crisis over North Korea's nuclear weapons programs for a number of reasons. Most importantly, Japan has promised North Korea a large-scale economic aid package to compensate for the Japanese occupation of the Korean Peninsula from 1910-1945, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965. The assistance is to be provided after the countries agree to normalize relations, a process that Japan now links to a resolution of the nuclear issue. Reportedly, Japanese officials are discussing a package on the order of $5-$10 billion, an enormous sum for the North Korean economy, the total GDP of which is estimated to be in the $20 billion range. Currently, Japan is a significant source of North Korea's foreign exchange, by virtue of the large Japanese market for the North Korean government's suspected drug-running operations, and of remittances from Korean permanent residents in Japan. Japan is North Korea's third-largest trading partner.

Since the fall of 2002, Japan has been the Northeast Asian country most supportive of the Bush Administration's policy of pressuring North Korea to abandon its nuclear program, and has taken a number of steps to curtail North Korea's ability to earn hard currency and to import dual-use technology. Since North Korea launched a long-range missile over Japan in 1998, relations with North Korea have been a highly politicized issue inside Japan, creating strong domestic support for taking a hard line against Pyongyang. Prime Minister Koizumi, however, has equivocated on taking more coercive measures against North Korea, such as economic sanctions, absent an escalation of the situation by Pyongyang. Japan fears such measures could provoke a military response by North Korea and/or trigger a surge in refugees.

This report will be updated periodically to track developments in Japan-North Korea relations.

Contents

Introduction 1
The Pyongyang Declaration 1
The Koizumi-Kim Summit 1
The Talks Break Down 2
Selected Issues in Japan's Policy toward North Korea 3
North Korea's Nuclear Program and Japan's Increased Willingness to Consider Coercive Diplomacy 3
The Kidnapping Issue 5
An Economic Assistance Package 7
North Korean Maritime Spy and Smuggling Operations 8
North Korean Missiles 9
Japan-North Korea Economic Relations 9
Trade Has Fallen Sharply in 2003 11
Remittances and *Chosen Soren* 12
Food Aid 12
Appendix: Japan's 1965 Economic Aid Package to South Korea 13
Estimating the Present Value of the 1965 Settlement 13

Figures

Figure 1. Japan's Relative Share of North Korea's Trade, 2001-2002 10

Tables

Table 1. Japan-North Korea Trade, 1980-2002 11

Contacts

Author Information 14

Introduction

In recent years, Members of Congress have monitored the course of North Korea-Japan relations because Japan plays a potentially critical role in addressing the military threat posed by North Korea, particularly its nuclear weapons program. [1]Most important, Japan has told North Korea it is prepared to offer a large-scale economic aid package—on the order of $5 billion - $10 billion—to compensate for the Japanese occupation of the Korean Peninsula from 1910-1945. During the August 2003 six-party talks in Beijing among North Korea, the United States, South Korea, China, Japan, and Russia, the Japanese delegation reportedly reiterated its position that significant aid would be forthcoming if North Korea abandoned its nuclear program and cooperated on the issue of Japanese citizens kidnapped by North Korean agents in the 1970s and 1980s.

Japan also is important to the North Korean situation because it is a significant source of North Korea's foreign exchange. Not only is Japan North Korea's third-largest trading partner, but the Japanese market also is a major destination for the North Korean government's suspected drug-running operations and of remittances from Korean permanent residents in Japan.

Congress also has an interest in Japan-North Korea relations because Japan's bilateral issues with North Korea influence U.S. policy. The United States has long cited Pyongyang's harboring of Japanese Red Army terrorists—who face charges in Japan of hijacking a plane in 1970—as a reason for North Korea's inclusion on the U.S. terrorism list, which by law prohibits North Korea from receiving many forms of U.S. economic assistance and some trading rights.[2] At Japan's urging, the United States reportedly also has linked delisting to North Korea's cooperation with Japan on the abduction issue.

Finally, Japan arguably has been the strongest supporter in East Asia of the Bush Administration's policy of pressuring North Korea to abandon its nuclear program. Although Japan shares the objections of other regional states to the use of preemptive military force, it is more willing than China, South Korea, and Russia to employ coercive diplomatic measures against Pyongyang. Japan's position thus is important to the U.S. effort to deal with the North Korean nuclear program multilaterally, rather than bilaterally (U.S.-North Korea exclusively), as North Korea had insisted. Indeed, since the late 1990s, the rising perception of the North Korean threat has prompted and enabled Japanese leaders to broaden substantially the country's security posture.[3]

The Pyongyang Declaration

The Koizumi-Kim Summit

On September 17, 2002, Japanese Prime Minister Junichiro Koizumi and North Korean leader Kim Jong-il held a one-day summit in Pyongyang that momentarily restarted normalization talks between the two countries, which had been stalled since November 2000. Koizumi and Kim signed a short document called the "Pyongyang Declaration." Kim pledged conditionally to unilaterally extend his country's moratorium on missile testing beyond 2003 (when it was to

[1] For more on North Korea's nuclear weapons program and U.S.-Korean relations, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, and CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations*, both by Larry Niksch.

[2] For more, see CRS Report RL31696, *North Korea: Economic Sanctions*, by Dianne Rennack.

[3] See CRS Report RL30256, Japan's Changing Security Outlook: Implications for U.S.-Japan Defense Cooperation, by Richard Cronin.

expire), admitted that North Korean agents had kidnapped 13 Japanese in the 1970s and 1980s, and issued a vague promise to comply with international agreements related to nuclear issues. Koizumi, in turn, apologized for Japan's colonization of the Korean Peninsula and offered to provide North Korea with a large-scale economic aid package, much as it gave South Korea economic assistance when Tokyo and Seoul normalized relations in 1965.

At the time, Koizumi's trip to Pyongyang was a significant departure from Tokyo's increasingly hard-line stance toward North Korea and had the potential to put Japan at odds with the Bush Administration's policy. For most of the late 1990s, Japanese policymakers sought to move slowly and deliberately on normalizing relations with North Korea, due to the launch of a long-range Taepodong Missile over the Japanese Islands in August 1998, Pyongyang's development and deployment of medium-range Nodong missiles capable of reaching Japan, new revelations about the abductions of Japanese citizens by North Korean agents, and incursions by North Korean espionage and drug-running ships into Japanese waters. This cautious approach often created tension between Tokyo and the Clinton Administration, which, along with South Korea's Kim Dae Jung, pursued a policy of engaging North Korea in the late 1990s. During this time, Japanese policymakers often appeared torn between a desire to avoid becoming isolated from U.S.-South Korea-North Korea diplomacy and domestic pressure to proceed cautiously.[4] [5]This dilemma was relieved when the Bush Administration came into office in 2001 and pursued a policy of using public accusations and warnings to pressure North Korea to allow international inspections of its nuclear facilities and agree to verifiable curbs to its missile program, including missile exports.[6]

The Talks Break Down

The Japan-North Korea normalization talks and parallel security talks stalled due to two developments shortly after the Koizumi-Kim summit: North Korea's October 2002 admission to U.S. officials that it has a secret nuclear weapons program based on the process of uranium enrichment; and popular outrage in Japan at Kim Jong-il's admission that North Korea had kidnapped 13 Japanese, eight of whom the North Koreans said had died since their abductions. Prime Minister Koizumi has said normalization talks will not continue unless Pyongyang cooperates on the abduction issue and begins dismantling its nuclear program. Also, in October, the five known surviving kidnapees traveled to Japan for a one-to-two week visit, but were not permitted to bring their children—some of whom do not know their parents are Japanese—or spouses with them. The ensuing public outcry that these relatives were being held as "hostages" led Koizumi to refuse to send the five back to North Korea and to demand that family members be allowed to come to Japan.[7] (One complicating factor is that the husband of one of the five is an American military deserter living in North Korea.) The five continue to live in Japan, and

[4] Note that Japanese diplomats were anything but passive on the issue of the abductees, which ultimately (in 2000) they convinced a reluctant Clinton Administration to include on the bilateral U.S.-North Korean agenda.

[5] The most stunning setback to Japanese diplomacy came in 1994, when the United States—with limited consultations with the Japanese—entered into an Agreed Framework with North Korea to freeze its nuclear program with the expectation that Japan would contribute $1 billion towards the construction of two proliferation-proof light water nuclear reactors. Construction of the reactors was suspended in November 2003 after a consensus was reached among the project's four principal backers, the United States, Japan, South Korea, and the European Union. Japan has contributed about $300 million to the project since 1995.

[6] For more on U.S. policy toward North Korea, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program,* and CRS Issue Brief IB98045, *Korea: U.S.-Korean Relations,* both by Larry Niksch.

[7] "Koizumi Made Final Decision to Keep 5 Abductees in Japan," *Jiji Press,* October 1, 2003.

reportedly have taken steps, such as finding jobs and buying property, to reintegrate into Japanese society.

On October 29, 2002, Japan and the DPRK held normalization talks in Kuala Lumpur, Malaysia. The Japanese delegation reportedly told the North Korean side that normalization—and therefore, discussion of economic assistance—would not proceed until Pyongyang agrees to send the children of Japanese abductees to Japan and halt its nuclear weapons program. Japanese negotiators also requested that the North dismantle its medium-range Nodong missiles. North Korea, accusing the Japanese side of breaking with the Pyongyang Declaration, made no concessions, and the meetings ended with no joint statement. Subsequently, a North Korean Foreign Ministry spokesman warned that if bilateral talks stall over the nuclear issue, Pyongyang may reconsider its missile moratorium. Separate bilateral discussions of security issues, which were to have begun in November 2002, have yet to be held. Throughout 2003, the two countries have held several official and unofficial discussions about resolving the kidnapping issue and restarting the normalization talks.

Selected Issues in Japan's Policy toward North Korea

North Korea's Nuclear Program and Japan's Increased Willingness to Consider Coercive Diplomacy

In the Pyongyang Declaration, Japan and North Korea promised to "abide by all relevant international agreements in order to comprehensively resolve the nuclear issue on the Korean peninsula." Koizumi reportedly had insisted on including this in the declaration after being briefed on U.S. intelligence indicating that North Korea's clandestine uranium enrichment program was more advanced than had been thought previously. The international agreements presumably include the 1992 North-South Korean Denuclearization Declaration, which prohibits the possession of uranium enrichment facilities, the 1992 nuclear safeguards agreement with the International Atomic Energy Agency (IAEA), and the 1994 U.S.-DPRK Agreed Framework, which committed North Korea to freezing its plutonium nuclear program.[8]

Since the revelations about North Korea's uranium nuclear program were made public in October 2002, Japan has been the Northeast Asian country most supportive of the Bush Administration's policy of combining multilateral dialogue and pressure to convince North Korea to abandon its nuclear program. At President Bush's side later that same month, Prime Minister Koizumi stated that full normalization could not take place until after the nuclear issue was resolved.[9] In mid-November 2002, Japan voted with the United States, South Korea, and the European Union to suspend shipments of heavy fuel oil to North Korea. The oil was being provided under the 1994 Agreed Framework, ostensibly to compensate Pyongyang for the energy it lost from shutting down its plutonium nuclear reactors.

[8] For more, see CRS Issue Brief IB91141, *North Korea's Nuclear Weapons Program*, by Larry Niksch. The Agreed Framework also contained a link to uranium enrichment activities in Section III.2, which commits North Korea to implement the 1992 North-South Korean Denuclearization Declaration.

[9] See, for instance, the October 26, 2002 Joint US-JAPAN-ROK Trilateral Statement, in which states that "Prime Minister Koizumi stressed that Japan-North Korea normalization talks would not be concluded without full compliance with the Pyongyang Declaration between Japan and North Korea, in particular with regard to the security issues, including the nuclear issue, and abduction issues."

Japanese policy hardened further in the aftermath of the April 2003 trilateral U.S.-North Korea-China meeting in Beijing. The following month, during a bilateral summit in Crawford, Texas, Koizumi agreed with Bush that a policy of "dialogue and pressure" should be used peacefully to induce North Korea to give up its nuclear program. Koizumi also declared that Japan would "crack down more vigorously" on illegal activities involving North Korea or ethnic Korean supporters in Japan and would take "tougher measures" if North Korea escalated the situation. Japan is one of eleven countries participating in the U.S.-led Proliferation Security Initiative, announced by President Bush in May 2003, which is designed to interdict weapons of mass destruction shipments to and from countries of proliferation concern, such as North Korea.

Concurrently, since early 2003, the Japanese government has toughened enforcement of its controls on the export of potential dual-use items to North Korea and has announced a new interpretation of domestic foreign exchange laws that would make it easier for Tokyo to cut off bilateral trade and shut off the flow of remittances from ethnic Koreans to their relatives in North Korea. Specifically, Japan has moved away from its traditional position that sanctions against North Korea would require United Nations Security Council approval and is now taking the position that Japan could impose sanctions in cooperation with the United States, even in the absence of specific United Nations approval. Remittances to North Korea are estimated to be in the tens of millions of dollars annually.[10]

Additionally, in June 2003, Japan ordered its customs, immigration, and coast guard to expand safety inspections and searches for illicit contraband on North Korean cargo and passenger ships, which made more than 1,300 calls at Japanese ports in 2002.[11] According to the Japanese government, more than 70 percent of the 120 North Korean ships inspected in Japan from January to August 2003 were ordered to halt operations or received safety warnings, compared with a general average of 10 percent for all countries' shipping.[12] As discussed in the "Japan-North Korea Economic Relations" section below, these measures appear to have reduced bilateral trade significantly. Additionally, Tokyo reportedly has drawn up contingency plans that would bar banks from remitting funds to North Korea and deny landing rights to the crew and passengers (except Korean permanent residents of Japan) of Japan-North Korea ferries if North Korea tests a nuclear device.[13] In late November 2003, the Secretary General of the ruling Liberal Democratic Party (LDP), Shinzo Abe, a prominent advocate of using pressure tactics against North Korea, said he would try to convince the Japanese Diet to approve these measures in early 2004.[14]

Japan's tightening of restrictions against exports to North Korea has been prompted in part by increasing evidence that firms and organizations run by ethnic Korean residents in Japan have provided North Korea with key parts for its missile and nuclear programs. In May 2003, a North Korean defector who once worked as a scientist in Pyongyang's missile program testified to a Senate Governmental Affairs Committee hearing that "over 90 percent" of the parts for North Korea's missiles are smuggled aboard passenger ships by the Chosen Soren, the pro-North Korean Association inside Japan.[15] In April 2003, Japanese authorities filed criminal charges

[10] For a discussion of the remittances issue, see CRS Report RL32137, *North Korean Supporters in Japan: Issues for U.S. Policy*, by Emma Chanlett-Avery.

[11] James Brooke, "Japan Detains 2 North Korean Ships, Part Of Pressure Strategy," *New York Times*, June 11, 2003.

[12] James Brooke, "Japan Frees North Korean Ferry After Holding It For Day In Port," *New York Times*, August 27, 2003.

[13] "Japan To Cut Visits, Remittances and Talks If Pyongyang Tests a Nuke," *Japan Digest*, September 16, 2003.

[14] "Abe Vows To Seek Unilateral Sanctions Against N. Korea in Diet," *Japan Digest*, November 24, 2003.

[15] May 20, 2003 Hearing, "Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection," Senate Governmental Affairs Committee, Financial Management, the Budget, and International Security Subcommittee.

against Meishin, a trading company run by an ethnic Korean resident, that allegedly tried to ship to North Korea devices that could be used to build weapons of mass destruction. One shipment of electronic power control devices from Meishin was seized by Hong Kong customs officials at Japan's request. The shipment reportedly was bound for Thailand, and from there was to be sent to North Korea.[16]

Like most Japanese leaders, however, Koizumi has equivocated on the subject of taking more coercive measures against North Korea, such as economic sanctions, absent an escalation of the situation by Pyongyang. Japan worries that an outbreak of military hostilities could lead North Korea to launch long or medium range missiles at Japan—including U.S. bases. The prospect of a collapse of the Kim Jong-il regime also worries Japanese leaders because of the potential creation of a massive outflow of refugees. In part for these reasons, some analysts believe that Tokyo's policy toward Pyongyang might soften if the two sides were able to reach an agreement on the abduction issue. Some Japanese leaders favor the idea of delinking the kidnapping issue from the other outstanding issues.[17]

North Korea's response to Japan's toughened policy often has appeared contradictory. On the one hand, it periodically has increased the volume and intensity of its rhetorical attacks against Japan, for a time it opposed Japan's inclusion in the second round of six-party talks that are expected to be held in December 2003, and has insisted that the abduction issue not be included in the talks' agenda. On the other hand, diplomats from Pyongyang and Tokyo reportedly held several secret talks in the summer of 2003, in which they focused on resolving the abduction issue. Both sets of initiatives are likely aimed at diminishing Japan's influence over the nuclear talks.

The Kidnapping Issue

For most Japanese, the most important issue in dealing with North Korea is the status of Japanese citizens kidnapped or thought to have been kidnapped by North Korean agents. Japanese politicians from all parties, and media outlets from across the ideological spectrum have warned the Koizumi government not to proceed with normalization without first making more progress on the abduction issue. Relatives of the alleged kidnapping victims have formed support groups that have successfully attracted much attention in the Japanese media, and have secured audiences with influential Japanese and U.S. officials. For years, North Korea denied any involvement in the disappearance of any Japanese, whom the North Koreans insisted on referring to as "missing persons" rather than "abductees." It was only after North Korea indicated via back-channel negotiations that it was willing to make concessions on this issue that Koizumi agreed in the summer of 2002 to travel to North Korea.

Since the late 1990s, Japanese leaders have pressed the United States to support the Japanese position on the kidnapping issue, a goal they achieved in late 2000, when then-Secretary of State Madeleine Albright raised the issue during her visit to Pyongyang. During Prime Minister Koizumi's visit to Crawford in May 2003, President Bush pledged to continue pressing for a resolution of the abduction issue in the multilateral talks, a position reaffirmed by the State Department in November 2003.[18] China and South Korea—key participants in the six-party talks—are believed to oppose discussion of the issue in the six-party talks.

[16] Sebastian Moffett, *et. al.*, "Japan Suspects Firm Has Ties With Pyongyang," *Asian Wall Street Journal*, May 13, 2003.

[17] "Pyongyang Offered To Hand Over Five Abductee Children; Tokyo At A Loss," *Japan Digest*, August 1, 2003.

[18] "Kelly Okays Tokyo's Plan To Bring Up Abduction Issue At Six-way Talks," *Japan Digest*, November 18, 2003.

At the Koizumi-Kim summit, Kim admitted that North Korea's security service abducted 13 Japanese from Japan and Europe from 1977-1982. Kim apologized to Koizumi for the kidnappings, which he attributed to overzealous individuals in North Korea's security services, and pledged verbally and in the two leaders' joint declaration that they would not occur again. Kim disavowed any prior knowledge of the kidnappings, and said the responsible individuals had been punished. Most of the 13 were teenagers or in their early 20s when they were abducted to North Korea. Some were used in training espionage agents in Japanese language and customs. Only five of the thirteen are alive, according to the North Koreans, and during the summit Kim pledged that they could return to Japan, if they wished. A Japanese delegation on a subsequent fact-finding visit to North Korea was told that the remains of all but one of the dead were unavailable.

If Kim Jong-il had hoped his admission and apology would put the kidnapping matter to rest, he was mistaken. Although a majority of Japanese supported the reopening of normalization talks, the Japanese public was shocked that so many of the kidnappees had died, and demands for a full accounting quickly arose, particularly among relatives of the kidnapped and conservative groups in the LDP. Each subsequent revelation has only produced more questions, outrage, and political pressure to obtain more information from North Korea on the abductions, which Koizumi has described as "act[s] of terrorism."[19]

Essentially, there are three difficulties to resolving the abduction issue. First, Japan has demanded that North Korea allow the nine immediate family members of the thirteen confirmed abductees—particularly the five still alive who arrived in Japan—to travel to Japan. A complicating factor is that Charles Jenkins, the husband of abductee Hitomi Soga, is a former U.S. Army sergeant who defected to North Korea in 1965 while being stationed along the demilitarized zone separating the two Koreas. Interviewed in Pyongyang, where he lives with his and Soga's two daughters, Jenkins has said that he fears being arrested by the United States if he travels to Japan. In December 2002, Japanese Foreign Minister Yoriko Kawaguchi Monday reportedly asked U.S. Secretary of State Colin Powell and Secretary of Defense Donald Rumsfeld not to prosecute Jenkins if he comes to Japan. Reportedly, the U.S. government has declined to give any assurances to Japan.[20]

Second, there are reports that some of the eight Japanese declared to be dead by North Korea are still alive. These suspicions were heightened when Japanese forensic specialists determined that the one set of remains given by North Korea were not those of the 43-year-old Kaoru Matsuki, as Pyongyang claimed. Third, many family members and support groups have raised questions about North Korean agents' involvement in the cases of nearly 100 other missing Japanese who disappeared under mysterious circumstances. During the August 2003 six-party talks in Beijing, the Japanese delegation reportedly asked North Korea to account for ten other individuals allegedly kidnapped by DPRK agents.

Meanwhile, North Korea's state-run Korean Central News Agency has warned Japanese against making "a disproportionate furor" over the abductions.[21] In October 2003, Pak Ryong Yon, deputy chief of the North Korean Foreign Ministry's Asian bureau, said that the kidnapping issue

[19] "Prime Minister calls abductions for first time 'acts of terrorism'," *Sankei Shimbun*, June 6, 2003.

[20] "Japan's Foreign Minister Kawaguchi Asks US Not To Prosecute Jenkins as Deserter," *Jiji Press*, December 17, 2002.

[21] "N. Korea warns 'disproportionate furor' in Japan," *Kyodo*, September 26, 2002.

"has been settled," and that the family members would not be allowed to travel to Japan any time soon.[22]

Some U.S. observers have expressed surprise over Japan's apparent willingness to allow the fate of a relatively small number of its citizens to interfere with achieving a major foreign policy goal. Two points are noteworthy in that regard. First, the kidnappings have become an extremely sensitive political issue in Japan. Years of effort by the relatives of Japanese actually and allegedly kidnapped by North Korea have successfully focused the attention of the media on the circumstances of the cases, and have won the support of Japanese from across the ideological spectrum.

Second, Japan is not unique in altering its foreign policy due to concerns about the safety of its citizens held in captivity by foreigners. In the 1980s, for instance, Reagan Administration officials sold arms to Iran to secure the release of American hostages, going against both law and the Administration's broad policy toward Iran. In 1996, Evan Hunziker, a mentally unstable 26-year-old American swam into North Korea, where he was charged with espionage. Hunziker's plight became a major issue in US-DPRK relations, holding up sensitive policy initiatives until he was released. Neither of these cases involved the abduction of American citizens from U.S. soil by foreign agents.

An Economic Assistance Package

In their joint September 2002 statement, Koizumi and Kim agreed that Japan would provide North Korea with an "economic cooperation" package in recognition of the "tremendous damage and suffering" Japan inflicted during its colonial rule of Korea from 1910-1945. The size and form of the package were to have been negotiated as part of the two countries' normalization talks set to begin in late October 2002. Using the 1965 Japan-South Korean normalization agreement as a model, Koizumi agreed that the assistance package would consist of grants, low-interest long term loans, humanitarian assistance, and financing credit for private firms. In their joint statement, Koizumi expressed a "deep remorse and heartfelt apology" for Korea's colonization. Significantly, the agreement stipulates that the economic assistance will begin only after relations are normalized.

Accepting this outline for an economic assistance package was a significant shift for North Korea. Previously, Pyongyang had demanded that the package be labeled as "reparations," or "compensation" and in November 2000 had flatly rejected Japan's formal offer of "economic assistance." At the summit, North Korea also dropped its insistence that Japan issue a more formal, legally binding apology from the Japanese emperor and/or prime minister. Finally, by agreeing to link the aid package to the damage from the colonial era, North Korea also firmly backed away from its periodic insistence that Japan provide compensation for harms allegedly inflicted since 1945.

Should the larger issues of North Korea's nuclear program and the abductees be resolved, the size of Japan's economic package is likely to be the subject of considerable debate between the two sides. As detailed in the appendix of this report, estimates of the present value of the 1965 Japan-ROK settlement vary widely, from as low as $3.4 billion to as high as $20 billion. According to Japanese North Korea-watchers, no consensus has been reached in Tokyo on Japan's bottom line, but media outlets have speculated that the final sum will be at the upper end of the $5 billion - $10 billion range.[23] Japanese officials have not denied these reports. It is possible that Japanese

[22] "N. Korea Dismisses Hope Kin of Abductees Come to Japan Early," *Kyodo World Service* September 30, 2003.

[23] See, for instance, *Tokyo Shimbun*, October 26, 2000.

negotiators will try to obtain restitution of the ¥80 billion or so (about $667 million at $1 = ¥120) that North Korean enterprises owe Japanese banks from deals carried out in the 1970s and 1980s. In private conversations, Japanese officials say it is more likely they will seek to settle these claims through an internationally-mediated process.[24]

A major concern associated with Japan's possible financial assistance package is fungibility. The massive size of Japanese aid relative to the North Korean economy—$10 billion is roughly half North Korea's estimated total output (gross domestic product) each year—raises fears that it will help to sustain the Kim Jong-il regime without inducing any behavioral changes.[25] There are concerns that Japanese financial assistance could directly or indirectly finance military modernization, for instance by raising North Korea's overall economic wealth, by freeing up budgetary resources to be redirected toward the military, and/or by improving the country's infrastructure such as roads, railways and communications networks.[26] This issue now appears to hinge on the outcome of the six-party talks. Should these succeed in resolving the key security issues, the concerns about fungibility could become less relevant.

North Korean Maritime Spy and Smuggling Operations

In 2001 and 2002, Tokyo became increasingly alarmed by incursions of espionage and drug-running ships thought to be of North Korean origin into Japanese waters.[27] According to one estimate in the fall of 2002, such ships made the crossing from their base in North Korea between five and twelve times a year, often releasing smaller boats that in turn launched rubber rafts to ferry agents to and from the Japanese coast. The agents' missions reportedly included gathering information about the outside world, smuggling money and goods, swaying influential opinion-makers in Japan regarding North Korea, recruiting ethnic Korean residents in Japan to gather information about South Korea, conducting surveillance on U.S. and Japanese military installations, and occasionally identifying solitary Japanese for kidnapping. The agents reportedly relied heavily upon the roughly 200,000 Korean residents of Japan who identify themselves as North Korean citizens, often using threats against family members in North Korea as a means of coercion. North Korea is thought to be a major supplier of methamphetamines on the Japanese market, which are believed to be sold to Japanese organized crime syndicates.[28]

In December 2001, Japanese coast guard patrol boats chased and exchanged fire with one suspected North Korean spy ship, the first time since World War II Japanese vessels had fired more than a warning shot upon an intruding vessel. The confrontation ended when the mystery boat sank inside China's exclusive economic zone. It is unclear whether the boat was sunk by Japanese fire or by a self-detonated charge. Following the incident, the Koizumi government suspended food aid shipments, which had been resumed only in October 2001 in hopes of obtaining progress on the kidnapping issue. In the summer of 2002, after protracted negotiations

[24] Author's conversations with Japanese officials and North Korea experts, 2002 and 2003.

[25] The U.S. Central Intelligence Agency estimates that North Korea's gross domestic product (GDP) was approximately $22 billion in 2002. The CIA's GDP figures are derived from purchasing power parity (PPP) calculations, meaning they are designed to show the quantity of goods and services that can be purchased *in the target country*. The CIA, *World Factbook 2002*.

[26] For more on the fungibility argument, see Marcus Noland, "North Korea's External Economic Relations," February 2001, http://www.iie.com/papers/asia.htm.

[27] For more on allegations of North Korea's drug trafficking activities, see CRS Report RS20051, *North Korean Drug Trafficking: Allegations and Issues for Congress*, by Raphael Perl.

[28] *Washington Post*, "N. Korea's Secret Mission Details Emerge of Long-Term Spy Project to Gain Influence in Japan," October 13, 2002.

with Beijing, Japanese salvage teams raised the ship, confirming that it was of North Korean origin, heavily armed, and was a mother ship to three smaller craft that presumably were designed for beach landings and other close-to-shore activities. Coast guard personnel participating in the chase reported seeing North Korean agents throwing large bags overboard, raising suspicions that the ships were engaged in drug-smuggling activities.[29]

Until Koizumi's trip to Pyongyang, North Korea had denied any connection to the suspicious ships. At the summit, Koizumi said that Kim acknowledged that "certain military officers" had sent out ships into Japanese waters, and pledged that such actions would not occur again.[30] The Japanese daily Asahi Shimbun has published a detailed report that the 1,500-person 727 Liaison Office, the North Korean agency thought to be responsible for dispatching spy ships to Japan, was disbanded in the summer of 2002.[31] If true, the move may indicate a recognition by Pyongyang that its ship movements are well-observed by U.S. reconnaissance satellites. This information is routinely shared with Japanese and South Korean defense officials.

North Korean Missiles

Aside from Kim Jong-il's admission on the abductees, the most tangible result of the Koizumi-Kim summit was Kim's pledge to extend North Korea's self-imposed moratorium on missile launches beyond its 2003, though some security specialists argue that the value of the moratorium is severely limited because Iran and Pakistan are thought to act as North Korea's surrogates in testing missiles.[32] While the U.S. concern about the DPRK's missile programs centers around proliferation, Japan is focused on the direct threat. North Korea's missile program has been high on Japan's agenda ever since Pyongyang's August 1998 Taepodong launch, though for the moment Tokyo appears to believe that priority should be given to the nuclear issue. Japanese security officials are most concerned about the North's cache of up to 100 medium-range (600-900 miles) Nodong missiles that are capable of reaching all of Japan, including Okinawa. U.S. intelligence officials reportedly believe that North Korea has developed or is developing new long-range and medium-range missiles, both of which would be capable of reaching all of Japan.[33]

Japan-North Korea Economic Relations

Japan has long been one of North Korea's largest economic partners, though trade and financial flows have declined in recent years. After the Soviet Union ended its support for Pyongyang, Japan emerged as North Korea's second-largest trading partner (after China), a position it held until it was displaced by South Korea in 2002. (See **Figure 1**.)

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[29] The ship's arsenal included rocket launchers, machine guns, an antiaircraft gun, and two antiaircraft missile launchers. Behind forward-opening double doors at the stern, investigators found a 33-foot-long boat, an inflatable black rubber raft with outboard motor, and a one-man underwater scooter. "Japan Says North Korea Boat In Sea Battle Was A Spy Ship," *New York Times*, October 5, 2002.

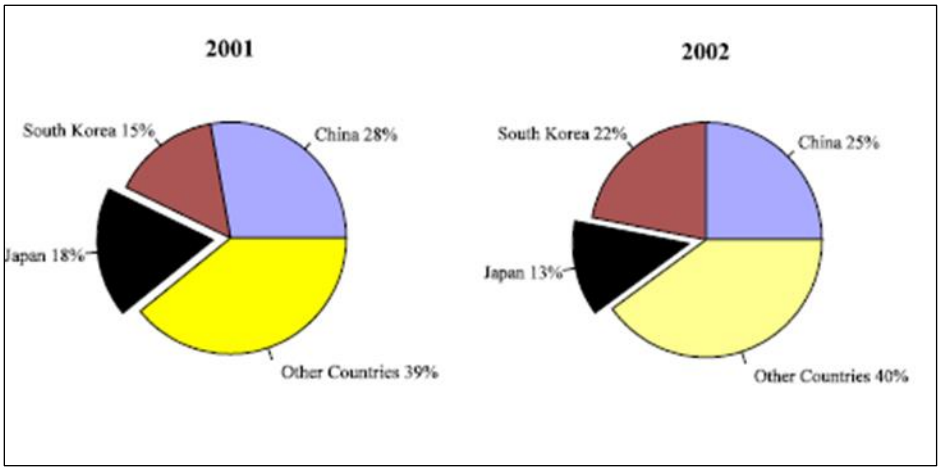
[30] NHK Television, "Koizumi Issues Statement After Historic Summit With DPRK's Kim Chong-il," September 17, 2002, as translated by FBIS, JPP20020917000132.

[31] *Asahi Shimbun*, "Pyongyang Shuts Spy Ship Section," October 4, 2002.

[32] The Pyongyang Declaration reads, "According to the spirit of this declaration, the DPRK expressed its intention to postpone missile launches until after 2003." For more on the North Korea-Pakistan connection, see CRS Report RL31900, *Weapons of Mass Destruction: Trade Between North Korea and Pakistan*, by Sharon Squassoni.

[33] Bill Gertz, "North Korea To Display New Missiles," *Washington Times*, September 9, 2003.

Figure 1. Japan's Relative Share of North Korea's Trade, 2001-2002



Sources: KOTRA (Korea Trade Investment Promotion Agency) and South Korean Ministry of Unification.[34]

Notes: North Korea's total trade was approximately $2.6 billion in 2001 and about $2.9 billion in 2002. The figures include foreign countries' assistance to North Korea, which is recorded as North Korean imports.

North Korea's main export items to Japan are clams, men's suits, mushrooms, and coal. Japan's primary exports to North Korea are cars, electrical components, woolen fabrics, and general machinery. Many of the electronics components and clothing materials that are sent to North Korea are assembled into finished products and re-exported to the big discount stores that have sprung up throughout Japan over the past decade.[35] Additionally, North Korea is in default on over ¥80 billion (about $667 million at $1 = ¥120) in loans from Japanese banks, many of which have stopped handling transfers to North Korea.

Below, **Table 1** shows that bilateral trade has declined significantly since the 1980s, primarily due to the severe deterioration of North Korea's economy that began with the withdrawal of Soviet and Chinese support in the late 1980s and early 1990s. By 2000, the real value of North Korea's exports to Japan had fallen to one-third of 1985 levels, and Japanese exports to North Korea had plummeted to one-sixth the level of 1980. That said, the shrinking of the North Korea economy may mean that trade with Japan—particularly exports, which generate hard currency—is relatively more important to North Korea today than was true in the 1980s.

[34] For an analysis of recent data on North Korea's trade, see Aidan Foster-Carter, "Pyongyang Watch: Seoul's Secret Success," *Asia Times Online*, November 19, 2003.

[35] "Intelligence," *Far Eastern Economic Review*, April 17, 2003.

Table 1. Japan-North Korea Trade, 1980-2002

(billions of yen)

	Nominal Figures			Real figures[a] (1995 = base year)			
	Japanese Exports to DPRK	DPRK Exports to Japan	Total Trade	Japanese Exports to DPRK	DPRK Exports to Japan	Total Trade	¥/$ Rate
1980	85	41	126	129	90	219	204
1985	59	43	102	88	90	178	201
1990	25	43	68	31	59	90	135
1995	24	32	56	24	32	56	103
2000	22	28	50	20	30	50	115
2001	18[b]	27	45[b]	17[b]	30	48[b]	131
2002	17	29	46	—	—	—	119
1-9/02	12	23	35	—	—	—	—
1-9/03	8	15	23	—	—	—	—

Source: Source: Japan Statistical Yearbook 2003; 2002 and 2003 figures from Japan Customs.

a. Real figures, which adjust for price changes, are calculated using the Bank of Japan's export and import indices.

b. 2001 Japanese export figure does not include the 499,999 MT, worth over Y112 billion ($900 million), of husked brown rice that Japan sent to North Korea as food aid.

Trade Has Fallen Sharply in 2003

As shown by the bottom portion of Table 1, which compares trade figures for the first nine months of 2002 and 2003, trade in 2003 has declined by approximately one-third since 2002. The decline was particularly sharp during the second and third quarters, when Japan imposed its more rigorous inspection regime on North Korean shipping. From January through April 2003, trade fell by 17% compared with the same period in 2002. From May to September, year-on-year trade volume dropped by 43%. What is particularly surprising about these figures is that trade has fallen, not increased, since North Korea resumed the Mangyongbong ferry service that had been

suspended from January to July 2003. The ferry normally makes one or two runs a month from North Korea to the port of Niigata, Japan.

Remittances and *Chosen Soren*

Much of Japan's trade with North Korea is said to be facilitated by the *Chosen Soren* (*Chochongryun* in Korean), the organization of pro-Pyongyang ethnic Koreans who are permanent residents of Japan.[36] *Chosen Soren* also is known to organize remittances to North Korea. Though several sources have estimated the flows to be on the order of hundreds or even billions of dollars per year, more recent analysis has pointed out the implausibility of these estimates, instead placing the actual amounts below $100 million per year.[37] Moreover, the remittances are believed to have declined to the $30 million level since the early 1990s, following the bursting of Japan's economic "bubble," a development that not only presumably reduced the personal wealth of pro-Pyongyang Koreans in Japan, but also sent many of *Chosen Soren's* credit unions into bankruptcy.[38] Several of these credit unions have been taken over by the Japanese government, a move that sparked controversy in Japan as bilateral relations deteriorated, particularly when revelations surfaced that some credit unions had funneled money to the North Korean government. In 2001, North Korea halted its investigations into the kidnapping issue after the Japanese government launched an investigation of the finances of *Chosen Soren* and its associated credit unions.[39]

The takeovers marked a break from the Japanese political establishment's previously tolerance of *Chosen Soren*. Indeed, many leaders of Japan's ruling Liberal Democratic Party (LDP) had warm ties with the organization, exempting it from paying local taxes, for instance. Some have argued that *Chosen Soren* members provided a link between the LDP and yakuza organized crime syndicates.[40]

Food Aid

Since the mid-1990s, Japan has sent 766,000 MT of food aid to North Korea to help alleviate the effects of severe food shortages. About two-thirds (500,000 MT) was donated in 2000, and the remainder was given in 1995 and 1996. Almost all of Japan's aid has been channeled through the UN World Food Program. Generally, Tokyo has linked food shipments to progress in Japan-DPRK relations. Food shipments were suspended following North Korea's 1998 Taepodong launch, resumed in 2001 when progress on the kidnapping issue appeared possible, then were suspended again in December 2001 following the North Korean spy incident. Since 1995, the United States has provided over 1.7 million MT of food assistance to North Korea. South Korea has sent about 1.5 million MT.

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[36] For more on the Chosen Soren, see CRS Report RL32137, *North Korean Supporters in Japan: Issues for U.S. Policy*, by Emma Chanlett-Avery.

[37] Nicholas Eberstadt, "Financial Transfers from Japan to North Korea," *Asian Survey*, Vol. XXXVI, No. 5, May 1996; Marcus Noland, *Avoiding the Apocalypse*, (Washington, DC: Institute for International Economics), p. 132.

[38] See CRS Report RL32137, North Korean Supporters in Japan: Issues for U.S. Policy, by Emma Chanlett-Avery.

[39] Doug Struck, "Japanese Bailouts Benefitted N. Korea, Officials Say," *Washington Post*, December 8, 2001; and "North Korea Must Continue to Search for Abducted Persons," *Nihon Keizai Shimbun*, December 21, 2001, translated by American Embassy, Tokyo, Public Affairs Section, Office of Translation and Media Analysis.

[40] Mindy Kotler, "Interdiction May Not Just Modify North Korea's Behavior," Policy Forum Online, The Nautilus Institute. June 13, 2003.

Appendix: Japan's 1965 Economic Aid Package to South Korea

On June 22, 1965, Japan and South Korea signed a Treaty of Basic Relations, normalizing relations between the two countries for the first time since Japan annexed the Korean peninsula in 1910. As part of the final settlement, Japan agreed to provide South Korea with a total sum of $800 million[41], which consisted of: a) an outright grant of $300 million, to be distributed over a 10-year period; b) a $200 million loan to be distributed over a 10-year period and repaid over 20 years at 3.5% interest; c) $300 million in private credits over 10 years from Japanese banks and financial institutions.

Prior to the 1965 agreement, the normalization negotiations between Tokyo and Seoul had dragged on for over fourteen years, and had triggered strong emotions in both countries. Throughout the 1950s, South Korean President Syngman Rhee adopted a confrontational approach toward Japan, and successive Japanese governments showed little enthusiasm for accepting Rhee's demands that Japan apologize and compensate for its colonization of the Korean peninsula.

Relations warmed dramatically following a military coup in 1961, led by general Park Chung-Hee, who established rapid industrialization—following the Japanese model of export-led development—as his country's paramount economic goal. To this end, Park was eager for Japanese economic assistance, and adopted conciliatory postures on most outstanding issues. The approximate size and composition of the compensation package was one of the first issues to be resolved following Park's coup. The South Korean side, which at one point had asked for as much as $2 billion, lowered its demands to $700 million in grant aid before agreeing to the $800 million total package. Reportedly, until late 1962, Japan had offered only $70 million in total compensation, a figure the U.S. State Department at the time described as "unrealistically low."[42] Furthermore, the Treaty on Basic Relations did not contain any reference to a Japanese apology. Instead, Japan's reparations payment was characterized as "economic assistance."

The terms of the Treaty enraged many South Koreans. Charging that the agreement amounted to a "sellout," Korea's opposition parties boycotted the ratification process in the National Assembly. Violent anti-government protests erupted throughout the country, and the Park government imposed martial law to suppress anti-government protests around the country, the second time in less than a year troops were mobilized to curtail protests against the government's Japan policy. The agreement also faced strong but eventually ineffectual opposition in Japan, where the Socialist Party—which had friendly ties with North Korea—argued that the Treaty would impede Korean unification and was a prelude to an anti-communist alliance in Asia.[43]

Estimating the Present Value of the 1965 Settlement

There are a wide range of estimates for the present value of the 1965 Japan-South Korea settlement. At the low end is a method that adjusts for inflation in the U.S. economy, yielding a

[41] According to the South Korean Ministry of Foreign Affairs and Trade, the aid was distributed in dollars, not yen.

[42] Foreign Relations of the United States, 1961-1963, Volume XXII (Northeast Asia), 567-69; Chong-Sik Lee, Japan and Korea: The Political Dimension (Stanford, CA: Hoover Institution Press, 1985), 50.

[43] Lee, Japan and Korea, 55.

value of approximately $3.4 billion in 1999 dollars.[44] At the high end is a calculation that produces a value of $20 billion in today's dollars by adjusting for inflation in the Japanese economy, appreciation of the yen, accrued interest, and differences in population in North and South Korea.[45] One methodology that adjusts for Japanese inflation since 1965 and for inter-Korean population differences yields a present value of ¥418 billion ($3.8 billion using an exchange rate of ¥110 = $1). If the same disbursement formula used in 1965 were applied today, the ¥418 billion would break out as ¥157 billion ($1.42 billion) in outright grants, ¥104 billion ($950 million) in concessionary government loans, and ¥157 billion ($1.42 billion) in private credits.[46]

The above figures should be interpreted as rough approximations. Computing the present value of a past sum is an inherently inexact task. When more than one country is involved, the calculation is made even less precise by long-term changes and short-term fluctuations in exchange rates. Additionally, a calculation might also take into account differences between Japan's occupation of North Korea and South Korea, including the extent of the claims for damage by the occupation authorities. Finally, the adjustments are made for the total figure of $800 million, even though the actual value of Japan's compensation package was lower: Over 60% ($500 million) of the settlement was disbursed as government loans and private credits, which are less valuable to the recipient than outright grants. Thus, the calculations presented provide only a preliminary comparative baseline, with many qualifications.

On the other hand, the 1965 settlement occurred before the revelation that Japan had forcibly used tens of thousands of Korean "comfort women" to provide sexual services to Japanese soldiers during World War II. North Korea periodically has insisted that Japan's compensation take into account the comfort women's plight.

Author Information

Mark E. Manyin
Analyst in Asian Affairs

[44] This method uses the U.S. gross domestic product (GDP) deflator to adjust for inflation between 1965 and 1999. The GDP deflator is the ratio of nominal GDP in a given year to real GDP in that same year. In 1999 the GDP deflator was 104.37 (1996 = 100), 4.35 times the 1965 deflator of 23.98. Thus, $800 million in 1965 dollars would be worth approximately $3.4 billion in 1999 dollars.

[45] Marcus Noland, "The Economics of Korean Unification," prepared for *Foresight Magazine*, February 2000. For his accrued interest adjustment, Noland assumes an annual rate of return of 5%. Noland acknowledges that the Japanese side is likely to reject the notion of adjusting for accrued interest, on the grounds that North Korea's intransigence is to blame for the perennially stalemated normalization talks. March 2000 conversation between Marcus Noland and the author. According to the U.S. Census Bureau, in 1965, North Korea's population was approximately 11.9 million, approximately 40% the size of South Korea's population of 28.7 million in the same year. In 1999, North Korea's population was estimated to be 21.4 million, around 45% the South Korean total of 47 million.

[46] This method uses the Japanese GDP deflator to adjust for inflation between 1965 and 1999. In 1999 the Japanese GDP deflator was approximately 3.5 times the size of the deflator in 1965. Using this figure, the 1965 compensation package of ¥288 billion would be worth roughly ¥1.01 trillion today ($9.2 billion, at ¥110 = $1). To adjust for population differences, multiply ¥1.01 trillion by 0.41, which is the ratio of North Korea's 1965 population (11.9 million) to South Korea's 1965 population (28.7 million). The result is ¥418 billion ($3.8 billion).

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