

KOREA BRIEFING

Korea and Its Neighbors

Michael G. Kulma
Editor

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Contents

Acknowledgments.....	5
Executive Summary.....	7
Introduction: Korea and Its Neighbors.....	9
Michael G. Kulma	
The Financial Crisis and the Korean Economy.....	11
Charles S. Lee	
A New Chapter in the U.S.–South Korea Alliance.....	17
Hwang Jang-jin	
Abducted by Abduction: The Past, Present, and Future of North Korea–Japan Relations.....	25
Nobuyoshi Sakajiri	
Sticking with Socialism: Bridging the Gap in China–North Korea Relations.....	30
John Delury	
About the Contributors.....	37

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Executive Summary

This *Korea Briefing* provides background and context on sociopolitical issues currently facing the Korean peninsula. It is accessible to readers with a cursory understanding of the challenges facing Seoul and Pyongyang, but also pertinent to seasoned Korea watchers and policy makers. The four chapters take a serious look at conditions on the Korean peninsula and in the region, addressing economics, domestic politics, intra-Asian relations, and Washington's relationship with North and South Korea. As the peninsula is home to both one of the most (South Korea) and least (North Korea) global countries in the world, special attention is paid to Korea and its neighbors as they work together, and sometimes at odds, at this critical time.

South Korea, like many nations, has been hit hard by the global financial crisis, but there is reason for hope. The government responded aggressively to the crisis, and although the value of the won has depreciated dramatically, this bodes well for Korean exporters. At the same time, interest rates are down and Korean banks largely have escaped the troubles of their American counterparts. But the turnaround of the Korean economy will depend on the major players in the international system, including the United States and China. While Korea may have weathered the worst of this financial crisis, it still needs to move forward with further reform, eschewing its dependence on exports to focus on growth at home. More than a decade removed from the Asian financial crisis, Korea seems to have learned its lessons well.

Equally positive, Seoul and Washington have made great strides in strengthening their security alliance, transforming it into a comprehensive, strategic partnership. The Joint Vision for the Alliance signed by Presidents Lee Myung-bak and Barack Obama in 2009 set the course for a more comprehensive relationship going forward. Although the uncertain status of the U.S.-Korea Free Trade Agreement remains a headache, the two nations continue to agree on strategies toward Pyongyang and the North's denuclearization, as well as most international security challenges. Seoul will continue to contribute to the war in Afghanistan and to the anti-piracy mission off the Somali Coast, in return for the full protection of the U.S. military, including nuclear deterrence.

Across the demilitarized zone, Pyongyang remains isolated and poses a challenge for all international players, not just Washington and her allies. Even for Beijing—traditionally Pyongyang's closest friend—unavoidable and vexing decisions loom large. Although Chinese leaders have prioritized Pyongyang's stability and have refrained from pushing their neighbor too hard, Beijing recognizes that it must appease Washington, Seoul, and Tokyo—or at least give the appearance of doing so. China would prefer a non-nuclear peninsula, but many in Beijing believe that it is impossible for Pyongyang to denuclearize. One thing is certain—Beijing will continue to demonstrate and promote the importance of its economic engagement with its socialist neighbor to the world as transforming force and the sole stimulus for peaceful transformation of North Korea.

Equally unclear—and certainly more problematic—is Japan’s relationship with North Korea. Tokyo’s refusal to drop the so-called abduction issue continues to impede progress in the Six-Party Talks and remains the single greatest obstacle to improving ties with Pyongyang. Should the administration of Yukio Hatoyama seek to break from this stalemate, the battle needs to be won at home by first addressing his low public approval rating, which could provide room for policy maneuvering and the space to pursue a realistic path toward normalization.

The discussions initiated in this *Korea Briefing* bring to mind larger questions about Korea’s role on the international stage and how these issues affect the rest of the world. Getting it right, while addressing the challenges and taking advantage of the opportunities, will be crucial.

Korea and Its Neighbors

Michael G. Kulma

It has been some time since the publication of the last *Korea Briefing*, and much has happened in the intervening years. This exclusively online publication will not attempt to fill that gap, but rather will focus on the critical issues that are currently facing Korea and its neighbors. Korea is at the epicenter of regional relations in Northeast Asia. From creating a new business hub for the region and increasing economic ties to leading the tech revolution, from the Six-Party Talks to the search for a security mechanism in the region, from cultural exports to cultural imports, South Korea is helping to lead the region in directions that previously were unimagined. All of these initiatives hold the possibility of deepening relations with Korea’s neighbors and allies, and thereby deepening the prospects for peace in the region.

Faced with many challenges, Korea is well placed to take advantage of a number of opportunities. To better understand these challenges and opportunities, the four chapters in this edition of *Korea Briefing* take a serious look at conditions in Korea, on the Korean peninsula, and in the region. As home to both one of the most (South Korea) and least (North Korea) global countries in the world, special attention will be paid to Korea and its neighbors as they work together, and sometimes at odds, at this most critical time. Chapters will focus on the South Korean economy, the U.S.–South Korea relationship, Japan–North Korea relations, and China–North Korea relations.

Charles S. Lee, in his chapter on the Korean economy, delves deep into the intricacies of the current economic situation in South Korea. He suggests that although the South Korean economy has been hit hard by the global financial crisis, there is reason for hope. The government was aggressive in its efforts to respond to the crisis, and though the value of the Korean won has depreciated dramatically, this should mean good things for Korean exporters. At the same time, interest rates are down and Korean banks have largely escaped the troubles of their American counterparts. Of course, as a major player on the global scene, the turnaround of the Korean economy will depend on the major players in the international system, including the United States and China, Korea’s largest neighbor. While Korea may have weathered the worst of this financial crisis, it still needs to move forward with further reform, which includes a move away from its dependence on exports to a focus on growth at home. More than a decade removed from the 1997 financial crisis, Korea seems to have learned its lessons well.

In “A New Chapter in the U.S.–South Korea Alliance,” Hwang Jang-jin, a staff writer for the *Korea Herald*, suggests that the United States and South Korea have made great strides in strengthening their security alliance, transforming it into a comprehensive, strategic partnership. The Joint Vision for the Alliance signed by Presidents Lee Myung-bak and Barack Obama on June 16, 2009, set the course for a more comprehensive relationship going forward. But this is not to say that there will be no obstacles moving forward. The stalled free trade agreement, questions over Seoul’s support for the U.S.-led war in Afghanistan, and the realignment of the alliance command structure all remain to be worked out.

While getting the politics and economics right is key to South Korea's future, perhaps nothing stands in the way of peace and prosperity as much as its relationship with North Korea. In the last year, relations surely have taken a turn for the worse, both bilaterally and multilaterally (Six-Party Talks). Seoul, for one, has taken a much more hard-line stance toward the North since President Lee took office in early 2008. Moving away from the "sunshine policy" of the previous administration, the current government has chosen a policy focused on the principle of "action for action." The response from the North has not been positive. Not only are the Six-Party Talks stalled (though this is not the only reason), but also many of the projects and activities involving direct North-South participation have experienced roadblocks. These difficulties have been compounded in the North by policies that are, at best, hard to understand, as well as by growing concerns about succession in North Korea and what that means for the future of the peninsula.

Outside of the United States and South Korea, surely the two most important countries that deal with North Korea are Japan and China. In his chapter on Japan-North Korea relations, Nobuyoshi Sakajiri, a former Bernard Schwartz Fellow at the Asia Society, looks at this critical relationship. Following former Prime Minister Junichiro Koizumi's trip to North Korea in 2002, there was a tremendous amount of hope for the relationship. However, during that trip, Kim Jong-il finally admitted that North Korea had abducted Japanese citizens, as long accused, thereby raising an issue that continues to haunt the relationship. Hopes for moving the relationship forward now rest with Prime Minister Yukio Hatoyama and the Democratic Party of Japan.

Over the past 30 years, China and North Korea have traveled very different paths. China has opened itself to the outside world, whereas North Korea has retreated further inward. While the two countries' paths have diverged economically, Associate Director of the Asia Society's Center on U.S.-China Relations John Delury suggests that both countries have stuck by socialism, and by each other. This is evident in China's attempts to initiate and maintain the Six-Party Talks. Dr. Delury points out, however, that even on the economic front, the two countries are seeing a quiet transformation. Chinese trade and investment in North Korea is up in recent years, benefiting both countries. While North Korea has yet to embrace more broad-based economic change, its border with China is humming with market opportunities. As Dr. Delury puts it, with regard to North Korea, China remains the "sole force for peaceful transformation through economic engagement."

Adequately addressing the many issues discussed in this online edition of *Korea Briefing* is key to the future not only of South Korea, but also of its neighbors and the region. With one of the largest economies in the world, facing a threatening (nuclear?) neighbor, and located between two of Asia's current powers, what happens in and to Korea matters far beyond its borders. While the focus of these chapters is on "Korea and Its Neighbors," much of the discussion brings to mind larger questions of Korea's role on the international stage and how these issues affect the rest of the world. Getting it right, while addressing the challenges and taking advantage of the opportunities, will be crucial. Tracking progress on these many fronts will surely provide opportunities for future research and publications.

The Financial Crisis and the Korean Economy

Charles S. Lee

What a difference a year can make. At the end of 2008, the bottom was falling out of South Korea's economy as the shockwaves from the subprime mortgage meltdown on Wall Street landed on its shores with ferocious force. Dragged down by plunging exports, the country's gross domestic product (GDP) contracted by 5.1% quarter on quarter between October and December. A deep recession seemed unavoidable in 2009. But by late July 2009, the Korean government reported that the economy had made a stunning turnaround, with GDP in the second quarter of the year expanding by 2.6% from the first three months. The 7.7-percentage-point swing back into positive growth territory was a rare performance even for an economy that has grown used to delivering "miracles." And Korea has managed to keep up the momentum, experiencing a 2.9% quarter-on-quarter uptick in the third quarter, the best showing in seven years.

How did Korea pull off such a feat? Certainly it was not by sheer chance. Much of the credit must go to the Korean government's timely and forceful counter-response to the financial crisis. It unleashed trillions of won in stimulus spending and slashed the interest rate to record-low levels. The latter step, in turn, has led to a weakening of the currency, giving a welcome lift to Korean exports. But credit also should go to Korean corporations and, to a lesser extent, to banks. In the preceding boom years, they had kept their management prudent and their balance sheets (relatively) clean. As a result, they were able to absorb the latest blow to the system without keeling over. To be sure, the Korean economy still faces numerous challenges. But policy makers learned well the lessons of the Asian financial crisis of 1997-1998—and the country is better off for it today.

Distant Thunder

The mounting troubles on Wall Street in the summer of 2008 at first seemed like distant thunder to many Koreans. But such perceptions quickly changed when domestic financial markets caught the jitters. In early September, vague rumors of a new currency crisis and impending corporate bankruptcies began putting pressure on the won-dollar exchange rate and Korean share prices. Then panic erupted at the news of the demise of Lehman Brothers in mid-September, with both the value of the won and the benchmark KOSPI stock index hitting year-to-date lows.

The rapidly deteriorating global economy exposed Korea's own weaknesses. The country's heavy dependence on exports became apparent when its trade balance swung into deficit in July 2008. And declining foreign demand highlighted the parlous state of the Korean consumer, as well as some large corporations, such as Doosan Group, which had been on an acquisition spree. Since 2000, the traditionally thrifty Koreans' household debt has ballooned

thanks to easy credit card and mortgage loans from banks. The total household debt as of June 2008 stood at 623 trillion won, or more than 70% of GDP—very high for an emerging economy.¹ Hoping to spread the risk among a wider base of borrowers, Korean banks shifted their lending to millions of consumers. Once bitten, twice shy, bankers understandably were reluctant to lend too much to the country's sprawling conglomerates, known as *chaebol*, whose debt-fueled expansion had helped bring the economy to its knees a decade ago. Alas, in the nothing-is-unthinkable post-Lehman world, market players again were wondering whether some unreformed banks and conglomerates, along with overextended consumers, were about to trigger another systemic crisis.

The situation went from bad to worse in the months that followed. The financial markets became even more volatile in October and November. An exodus of foreign investors triggered a frenzied sell-off in the stock market, and the flight from won-denominated assets sent the Korean currency crashing to levels not seen since the Asian financial crisis. In an effort to stem the slide of the won, the Bank of Korea repeatedly intervened in the currency market—to no avail. The won lost 25.7% of its value in 2008, closing the year at 1,259.5 to the dollar; at the end of 2007, it had fetched 936.1 to the dollar. Meanwhile, the KOSPI index fell to 1,124.5 at year's end from 1,897.1 at the end of 2007, a 40.7% drop.

As 2009 arrived, the damage to the real economy was becoming clear, too. In December, employment growth turned negative for the first time since 2003, and worries about job losses contributed to a pullback in consumer spending. In particular, sales of big-ticket items such as cars tumbled, and Korea's five carmakers in 2008 suffered the first fall in output in seven years. In response to fading demand, other companies also scaled back their operations, and overall industrial production and facility investment both contracted. For all of 2008, Korea's GDP clocked in at 2.2%, only half as strong a pace as the figure of 5.1% a year earlier.

Ferocious Pushback

Despite the flurry of dire statistics, though, the doomsayers' worst-case scenario never came true. That is largely because the country's leaders, after some initial dithering, pushed back ferociously. In late 2008 and early 2009, they unleashed just about every weapon in their policy arsenal.

On October 9, 2008, the Bank of Korea cut its benchmark interest rate by 25 basis points to 5%, reversing its decision to raise it by the same amount in August. Then, less than a month later, in an emergency meeting on October 27, the central bank slashed the rate by another 75 basis points, explaining that a sharp downturn in economic activity necessitated this unprecedented move. But this was only the beginning of the Korean monetary authorities' dramatic rescue operation. The Bank of Korea again dropped the benchmark rate by 25 basis points to 4% at its next meeting on November 11, which turned out to be a deceptively nonchalant prelude to the whopping 100 basis point cut on December 11. But the ailing

1. Kim Jae-kyong, "Household Debts Cloud Economy," *Korea Times*, September 15, 2008.

economy failed to respond to the central bankers' massive booster shots. So in January and February 2009, the Bank of Korea administered two more 50 basis point doses of monetary easing, allowing the Korean economy to enjoy the lowest interest rate in history at just 2%. Admittedly, the Bank of Korea's actions were in line with those of many other central banks around the world. The freezing of global capital markets and the severe contraction of the real economy forced them to adopt aggressive—and at times unconventional—responses. In Korea, central bankers also joined hands with other government agencies to extend a US\$100 billion guarantee on the foreign debts of Korean banks, to conduct expanded open-market operations in order to pump additional liquidity into the financial markets, and to channel some \$30 billion in foreign exchange reserves to relieve the dollar shortage of domestic financial institutions.

Most importantly, however, the Bank of Korea concluded three landmark currency-swap agreements with its counterparts in the United States, Japan, and China, worth \$30 billion, \$20 billion, and 180 billion renminbi, respectively. These tangible commitments by central banks around the world to back each other's currencies went a long way toward curbing the won's volatility. And although Korea drew down \$10.4 billion from the U.S. Federal Reserve in December, the country was able to keep its stock of foreign reserves from dropping below \$200 billion. This had an important psychological effect on investors' confidence in the Korean government, as its inability to manage foreign reserves had been a direct cause of the country's financial collapse a decade ago. In 2008, Korea's reserve holdings fell by \$61 billion to \$201.2 billion, but the amount still remained one of the world's largest.

The Korean government was no less active in deploying its fiscal resources. In November 2008, the Ministry of Strategy and Finance released 11 trillion won to spur infrastructure projects and to stimulate the small and medium-sized enterprise and agricultural sectors. Officials also decided to spend the bulk of the government's 2009 budget of 258 trillion won in the first half of the year. But when it became clear that more fiscal firepower would be needed, the government proposed in March 2009 the country's biggest-ever supplementary budget of 17.2 trillion won. Most of the money was directed at job creation initiatives, exporters and small and medium-sized enterprise financing, and welfare programs for low-income families. At the same time, the Ministry of Strategy and Finance used part of the 2009 budget to inject capital into state-owned policy banks, such as the Industrial Bank of Korea and the Korea Development Bank, in order to facilitate lending to the neediest sectors. The government, however, refrained from directly bailing out commercial banks, which in 2008 had taken a significant hit on profits, but less so on their exposure to nonperforming loans. Instead, financial authorities set up a 20 trillion won hybrid public-private fund to purchase bonds from subscribing banks in order to help shore up their capital base. They also established a second, 40 trillion won fund managed by an existing government-owned debt-resolution agency—KAMCO (Korea Asset Management Corporation)—to assume the most rotten loans and assets of financial institutions and companies.

Last but not least, in keeping with President Lee Myung-bak's campaign promise, his administration in December successfully pushed through legislation scaling back taxes on low-income earners, corporate income, and capital gains and property transactions. As they

go into effect in 2009 and 2010, these tax cuts should provide an additional rolling stimulus to the economy. In all, the Economist Intelligence Unit estimates that Korea's countercyclical programs added up to at least 140 trillion won, or some 15% of GDP.²

Keeping Recession at Bay

By the spring of 2009, this potent combination of policies was starting to bear fruit. Defying the expectations of most forecasters, GDP in the period from January to March eked out 0.1% quarter-on-quarter growth. Thus, Korea technically avoided a recession, defined as two consecutive quarters of economic contraction. Leading the better than expected results were private consumption and construction investment—both of which no doubt received a boost from the government stimulus. Moreover, in April, the Ministry of Strategy and Finance successfully carried out a \$3 billion bond issuance, as did Hana Bank and the Industrial Bank of Korea, each of which issued \$1 billion in bonds. The Korean economy's budding signs of recovery and returning confidence among foreign investors promptly set off a rally in domestic shares and currency.

Korea clearly had avoided the worst. But the economy remained unsteady. This point was brought home by a number of corporations that had their backs against the wall. In April 2009, the government arranged a 240 billion won bailout of cash-strapped GM Daewoo and Ssangyong Motor. In addition to pouring public money into the two companies, the government said it would offer tax breaks to anyone trading in old cars for new ones. Also needing a rescue were the country's shipping firms. Struggling to keep afloat amid evaporating trade, the weakest ones were desperate to unload their idle vessels. So the government moved in with public funds and purchased their surplus ships.

The carmakers and shipping lines can largely blame the global recession for their difficulty. Other companies' troubles, however, were self-inflicted. Take Doosan Group, which has roots in consumer goods, and Kumho Asiana Group, a tire and air transport company. During the past few years, both had expanded headlong into noncore businesses in heavy industry. But when the global credit crunch started to batter their own balance sheets, it became painfully obvious that they had taken on too much too fast. As a result, their creditor banks have forced Doosan and Kumho to unwind some of their recent acquisitions.

These companies, fortunately, were in the minority. Corporate Korea's blue-chip names, such as Samsung Electronics, Hyundai Motor, and LG Electronics, were far more prudent than the overly ambitious second-tier *chaebol*. Even when their exports of cell phones, SUVs, and flat-screen televisions were soaring, these leading companies remained cautious about building new plants, pursuing acquisitions, and adding headcount. They kept their debts in check while squirreling away bumper earnings during the good times. That this was a prudent strategy became apparent by mid-2009. Hyundai Motor reported record profits in the second and third quarters, while Samsung Electronics said that its quarterly earnings in the second quarter were the best in two years.

2. Economist Intelligence Unit, *Country Report: South Korea* (London: Economist Intelligence Unit, 2009), 12.

To be sure, a big part of these companies' recent success was attributable to a much weaker won, as all three are major exporters. (As of October 2009, the won-dollar exchange rate had strengthened only marginally from levels at the end of 2008.) But their performance is undeniable proof that reform does pay. For example, a decade ago, investors considered Samsung Group to be one of the most toxic *chaebol*, because of its owner's obsession with turning the conglomerate into a player in the auto industry. Under enormous market and public pressure, Lee Kun-hee eventually decided that selling his just-completed, state-of-the-art car assembly plant to Japan's Nissan Motor Company was the wisest move. From the ashes of one man's dream, however, rose a new and improved Samsung Electronics. Freed from the burden of indefinitely subsidizing a loss-making sibling, the group's flagship company grew mightier than ever.

Although such painful reform has made the Korean economy more resilient, some changes adopted since the Asian financial crisis may have made the country more vulnerable to the current global credit crisis. According to the Asian Development Bank, the "unusually high degree of financial instability" that Korea suffered in spite of its "relatively strong macroeconomic fundamentals" probably was attributable to the "exceptionally high degree of capital account liberalization" that the country carried out in the past decade.³ The recent experience of Korea shows that reform is a double-edged sword for developing countries, according to the Asian Development Bank. Capital account liberalization opens up access to a huge pool of foreign savings, but it also raises the risk of contagion from financial turmoil abroad. In late 2008, as the credit crunch strangled markets in New York and London, foreign hedge funds and other investors became some of the most aggressive sellers of Korean stocks because they had to shore up their own capital base at home.

No Turning Back

Still, the Korean economy needs more, not less, structural reform. To begin with, for a country with a GDP of almost \$1 trillion, it remains too dependent on exports, which amounted to about 50% of the economy in 2008.⁴ If it does not want to be thrashed again by external storms, Korea needs to build a sounder foundation for growth at home.⁵ That means nurturing a more vibrant small and medium-sized enterprise sector that can compete against the giant conglomerates that dominate most industries. It also means promoting more service industries to complement Korea's existing strengths in manufacturing. A stronger service sector not only can function as a second engine of growth, but also can provide more work for women and the elderly than the country's leaner and meaner factories. Indeed, the unemployment rate—which hit 4% in June 2009, an eight-year high, before reversing a month later as a result of temporary hiring in the public sector—has been a big blot on Korea's otherwise hardy economic performance.

3. Asian Development Bank, *Asian Development Outlook 2009* (Manila: Asian Development Bank, 2009), 174.

4. Seyoon Kim, "Bank of Korea Upgrades GDP Forecasts as Recovery Gathers Pace," Bloomberg, July 10, 2009.

5. International Monetary Fund, "Statement at the Conclusion of the 2009 Article IV Consultation Mission to Korea," July 7, 2009, <http://www.imf.org/external/np/sec/pr/2009/pr09255.htm> (accessed January 4, 2010).

In becoming one of the first countries to claw out from the economic abyss, Korea once again has impressed the world with its sound policy making and corporate dynamism. It should not be forgotten, however, that much of the Korean economy's early recovery owes its momentum to the emergency pump-priming. No one knows how long it will take for self-sustaining growth to resume, and how strong it will be when it happens. The Korean government is constantly reminding the public that many short-term problems remain, from high household debts to the lackluster labor market. Indeed, insecurity about jobs is likely to hold back a robust pickup in private consumption. Below-trend overseas demand for Korean goods also may continue for some time, even as the won's value continues to creep up. So there is no time to rest on one's laurels. But there is no reason not to breathe a long sigh of relief either—for Korea has averted an economic disaster.

A New Chapter in the U.S.–South Korea Alliance

Hwang Jang-jin

The United States and South Korea made great strides in 2009 toward strengthening and broadening their relations. The two countries hammered out a joint vision in June, reframing their 55-year-old security alliance to meet changing regional and global dynamics. They demonstrated a united stand in dealing with North Korea in the face of its escalating nuclear brinkmanship in the first half of the year and then its charm offensive in the second half. The two countries' solidarity was reaffirmed by Seoul's difficult decision in September to send workers and security forces to Afghanistan in support of a foundering U.S. operation. The United States and South Korea also saw eye to eye on solutions to the economic crisis, climate change, nonproliferation, and other issues facing the global community. The sole sticking point was their stalled free trade agreement, signed in 2007 but as yet unapproved by either country's legislature.

Joint Vision

"You saved the best for last," South Korean leader Lee Myung-bak told U.S. president Barack Obama as they began their summit in Seoul on November 19, 2009. South Korea was the final leg of Obama's eight-day tour of Asia, where he confronted frayed ties with Japan and an increasingly powerful China. On his way to Lee's office, Obama was welcomed by thousands of citizens who lined his motorcade route, waving Korean and U.S. flags. Lee's office treated the American president to a colorful welcome by military performers and children, which Obama praised as "the most spectacular ceremony we have received" in his travels.

This third summit between Lee and Obama underscored the strength and effectiveness of an evolving alliance in tackling their common challenges.¹ The two leaders reaffirmed the Joint Vision for the Alliance, which was adopted at their previous meeting that year in Washington, D.C., on June 16. They promised to develop a future-oriented alliance through dialogue between the foreign affairs and defense chiefs of both countries in 2010, which marks the sixtieth anniversary of the outbreak of the Korean War. The Joint Vision elevates the two countries' bilateral relations to "a comprehensive strategic alliance of bilateral, regional and global scope, based on common values and mutual trust,"² and it marks the culmination of several years of efforts to adapt the alliance to the changing security environment of the twenty-first century.

1. Presidents Lee and Obama have held three summits. After a brief meeting in London on April 2, 2009, on the sidelines of a G-20 financial meeting, they held a second summit in Washington, D.C., on June 16. Obama then visited Seoul as part of his Asia trip and met Lee on November 19.

2. Joint Vision for the Alliance of the United States of America and the Republic of Korea, White House news release, June 16, http://www.whitehouse.gov/the_press_office/Joint-vision-for-the-alliance-of-the-United-States-of-America-and-the-Republic-of-Korea/ (accessed January 4, 2010).

Since the early 2000s, the United States and South Korea have been working to restructure their defense relationship, leading to the most far-reaching changes to date in military relations. The number of U.S. troops in South Korea was reduced from 38,000 in 2005 to 28,500 in 2008. U.S. military bases have been relocated and consolidated to locations south of Seoul, and wartime operational control of troops will be transferred to South Korea by 2012.³ As the transformation began, however, the two countries lacked a shared vision for the alliance in the post-Cold War era. The alliance's mission and goals remained limited to deterring aggression by communist regimes and failed to reflect Seoul's growth in defense, economic, and diplomatic clout, which has broadened its potential to contribute to peace, democracy, and free markets across the world.⁴

The Joint Vision offered a manifesto for charting a new path forward. It recast the rationale for the alliance, confirmed the two countries' common strategic interests beyond the peninsula, and identified areas of cooperation on a broader scope. The statement declared that the bilateral bond was not the remnant of a bygone era but was based on the two countries' fundamental commitment to democracy and a market economy. It called for an expansion of their partnership to encompass political, economic, social and cultural cooperation.

The goal of the alliance was defined as ensuring "a peaceful, secure and prosperous future for the Korean peninsula, the Asia-Pacific region, and the world." It articulated "peaceful reunification on the principles of free democracy and a market economy" as one of its key aims on the peninsula. For peace and prosperity in the Asia-Pacific region, the Joint Vision pledged cooperation with regional institutions and partners. The statement enumerated the alliance's global priorities, which include peacekeeping, postconflict stabilization, development assistance, terrorism, the nonproliferation of weapons of mass destruction, piracy, climate change, poverty, energy security, and epidemic disease.

3. The realignment was largely attributable to strategic and technological changes that required and enabled U.S. strategic flexibility to respond rapidly to simultaneous threats worldwide and the need for greater contributions from allies and partners. The drain on U.S. military forces from combat operations in Iraq and Afghanistan and South Korean opposition to the large U.S. military presence contributed to the reconfiguration of the U.S. Forces Korea. See Bruce Klingner, "Transforming the U.S.-South Korean Alliance," Backgrounder no. 2155, Heritage Foundation, June 30, 2008, <http://www.heritage.org/research/asiaandthepacific/bg2155.cfm> (accessed January 4, 2010).

4. In April 2008, Lee and former U.S. President George W. Bush agreed "to develop the current ROK-U.S. alliance into a strategic alliance that seeks to enlarge common interests on the basis of universal values and strong trust" (see "Full Text of S. Korea-U.S. Summit Statement," Camp David, April 20, 2008, <http://asiafoundation.org/resources/pdfs/ROKUS-SummitFullTextApr08.pdf> [accessed January 4, 2010]). However, the concrete forms and missions of the envisioned strategic alliance remained vague. The two governments' plan to define it in more practical terms was delayed as a result of Lee's domestic political crisis as well as the U.S. presidential election. From early May, Lee faced more than two months of street protests against an agreement signed just before the summit to resume imports of U.S. beef regardless of the age of the cattle.

Global Partnership

The Joint Vision reflected Washington's need to broaden its network of alliances and cooperation in the Asia-Pacific as well as Seoul's increasingly assertive, outward-looking attitude as a middle-power country.

President Obama's resolve to strengthen ties with the world's fastest-growing region was underscored during his first Asian tour, which took him to Japan, China, and South Korea, as well as to the Asia-Pacific Economic Cooperation summit in Singapore. Calling himself "America's first Pacific president," Obama pledged to pursue greater and more equal engagement with Asia, which many believed had been neglected by the George W. Bush administration as it became preoccupied with its war on terrorism. While Obama's trip was criticized for producing few substantive results—he made little progress in resolving a dispute with Japan over the relocation of the Futenma military base and failed to win any pledge from China over its currency policy—his senior advisor, David Axelrod, stressed, "We came here to lay a foundation for progress. We've done that."

President Lee initiated the Global Korea vision, which embraces the nation's greater role in international affairs, seeks to act as a bridge between industrialized countries and the underdeveloped world, and aims to broaden Seoul's diplomatic efforts in Asia, Africa, and Latin America. Another foreign policy priority of the conservative president was the restoration of the alliance with Washington, often frayed during the 10 years under predecessors Kim Dae-jung and Roh Mu-hyun.

Lee values the Korea-U.S. alliance not only as the pillar of security on the peninsula, but also as a vehicle for Korea's broadened engagement in world affairs. The Lee government seeks to increase its official development assistance and share Korea's growth experience with developing countries. South Korean and U.S. officials met in Washington in November to discuss joint official development assistance programs that will combine Seoul's development experience with U.S. financial resources.⁵ South Korea will host the fifth G-20 summit in November 2010; the creation of a balanced and sustainable global growth likely will be high on the agenda. The cooperation of the United States is crucial for the success of the Seoul meeting.

South Korea is also stepping up its participation in global security efforts in cooperation with the United States. In March 2009, Korean naval forces joined a multinational campaign to crack down on piracy off Somali waters. Following North Korea's second nuclear test in May, South Korea joined the U.S.-led Proliferation Security Initiative, which aimed to stop shipments of weapons of mass destruction. The decision stirred a fierce domestic controversy. Liberal politicians accused the government of aggravating tensions with North Korea, which considered Seoul's participation in the initiative a declaration of war.

5. The Lee administration has pledged to increase its official development assistance from a meager 0.09% of gross national income in 2008 to 0.15% by 2012 and 0.25% by 2015. South Korea became a member of the Development Assistance Committee of the Organisation for Economic Co-operation and Development in November.

Furthermore, in September 2009, Seoul announced its decision to increase the number of civilian workers in Afghanistan and to send security personnel to protect them. Currently, 25 South Korean medical staff and job training experts work inside the U.S. base at Bagram, north of Kabul, supporting a U.S.-led team. The government plans to raise that number to 100, while also deploying 40 policemen and up to 350 troops in July 2010. The government wants the National Assembly to approve the dispatch of personnel in February. However, the opposition Democratic Party opposes the troop dispatch on the grounds of security conditions in Afghanistan. Seoul sent 210 military medics and engineers to Afghanistan in 2002 and withdrew them in 2007. In the summer of 2007, Taliban insurgents took 23 Korean Christian missionaries hostage, demanding an immediate troop pullout. Two of them were executed and the others were released.

Seoul plans to create a permanent peacekeeping unit in 2010. The National Assembly approved a bill that enables the government to dispatch peacekeeping forces without the need for a lengthy and politically charged parliamentary approval for each deployment. Currently, about 400 Koreans are serving in peacekeeping missions in 15 areas around the world.

The North Korean Nuclear Issue

No issue underscored the unity between the United States and South Korea more vividly than the North Korea conundrum. Rejecting the Obama administration's offer of dialogue early in 2009, Pyongyang ratcheted up tension with its rocket launch in April and a second nuclear test in May. In protest against a UN rebuke in April, North Korea declared that it would not return to the Six-Party Talks with South Korea, the United States, China, Japan, and Russia. It restarted its nuclear facilities at Yongbyon, which had been frozen under a previous agreement of the six parties, and began a uranium enrichment program, which could give it another path toward building atomic bombs. The tension began to ease after former U.S. president Bill Clinton's visit to Pyongyang in August, which secured the North's release of two U.S. journalists. Following that visit, Pyongyang called for direct dialogue with the United States, and in October, North Korean leader Kim Jong-il expressed his country's willingness to return to the Six-Party Talks, depending on the outcome of the bilateral contacts with Washington. Pyongyang has demanded that the United States recognize its status as a nuclear weapons state and that mutual nuclear disarmament be on the agenda of their talks.

Throughout these developments, South Korea and the United States have worked in close coordination, making their two-track approach of punishment and diplomacy more effective and preventing the North from exploiting gaps between the allies. During their June 2009 summit, Presidents Lee and Obama pledged sustained and robust enforcement of a new UN sanction imposed after North Korea's nuclear test.⁶ The leaders also made it clear that an alternative path to peace, economic opportunity, and integration into the international community is open to North Korea if it gives up its nuclear program.

6. UN Security Council Resolution 1874 imposed further economic and commercial sanctions on North Korea and encouraged member states to search North Korean cargo for goods connected with its nuclear program.

With the turn toward reconciliation, the November summit set the stage for the allies' concerted diplomacy to engage North Korea. Presidents Lee and Obama worked to coordinate long-term strategies to resolve the nuclear issue and to bring peace to the peninsula. They agreed to push for a comprehensive deal that would call for the North's denuclearization in exchange for a security guarantee and aid. "We fully shared the view that the North Korean nuclear issue requires a definite and comprehensive resolution, which I described as a grand bargain," Lee said in a news conference following the summit.⁷ In September, he proposed a single-step package deal to replace the incremental action-for-action framework of previous Six-Party Talks. He viewed the piecemeal approach as vulnerable to North Korea's "salami" tactics of separating issues and making new demands for progress in every step. Obama said during the news conference that a new approach was needed to break a pattern "in which North Korea behaves in a provocative fashion, and then is willing to return to talk and then that leads to seeking further concessions."

The United States and South Korea agreed to work together to craft more effective options and strategies for the package deal. The two nations' leaders also reaffirmed their shared goal of a complete and verifiable elimination of North Korean nuclear weapons and programs. The close coordination between the two countries helped assuage concerns in Seoul that South Korea would be excluded or marginalized from the denuclearization process between the United States and North Korea. Pundits in Seoul, however, still worry that with limited options for stripping the North of its atomic arsenal, Washington eventually may accept its possession of nuclear capabilities and shift focus to curbing the transfer of nuclear weapons, materials, and technology to rogue states and terrorists.

On December 8–10, 2009, Stephen Bosworth, U.S. special envoy on North Korea, visited Pyongyang with the goal of drawing the North back into the Six-Party Talks. Bosworth said the two sides had a "common understanding" on the need to resume the talks, but fixed no date. Pyongyang demanded that sanctions be removed before it would return to the multinational forum. But Washington and Seoul maintained a united position that the lifting of sanctions could be considered only after the North joins the talks and demonstrates progress toward denuclearization.

Defense Issues

Another strong message sent to North Korea was the renewed U.S. commitment to extended deterrence, including the nuclear umbrella and a full array of U.S. military might, to protect the South. The Joint Vision marked the first time that such an assurance was included in a summit statement between the two countries. U.S. defense secretary Robert Gates and his South Korean counterpart, Kim Tae-young, reconfirmed the commitment during their

7. "Remarks by President Barack Obama and President Lee Myung-bak of Republic of Korea in Joint Press Conference," November 19, 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-and-president-lee-myung-bak-republic-korea-joint-pre> (accessed January 24, 2010).

meeting in October 2009. Seoul officials said that the two nations have agreed to formulate a concrete strategy for extended deterrence by 2012.

The two allies also made progress in developing a joint military operational plan to deal with a possible collapse or implosion in North Korea. In November 2009, news reports in Seoul speculated that the so-called Operation Plan 5029 had been worked out. Although the military denied this report, General Walter Sharp, the top U.S. commander in South Korea, noted in a lecture that month the two allies agreed that U.S. forces would be responsible for eliminating weapons of mass destruction in North Korea and preventing amphibious landing operations in the territory. The Combined Forces Command created Concept Plan 5029 in 1999 to prepare for such contingencies. The United States proposed upgrading it to an operational plan, but the administration of South Korean president Roh Mu-hyun rejected the offer, claiming that it might provoke the North.

In the Joint Vision, Presidents Lee and Obama expressed confidence in the ongoing evolution of the U.S.–ROK command structure. The United States is scheduled to transfer operational control to Seoul in April 2012, while the Combined Forces Command will be replaced by parallel independent commands that will coordinate operations through the Alliance Military Coordination Center. During their meeting, Lee and Obama reaffirmed that the two sides would continue to review the plan in light of security threats and South Korea's preparedness for the transfer. However, ahead of the summit, about 9 million Koreans, led by veterans groups, signed a petition against the transfer, which they claimed would weaken the allies' coordinated response against further North Korean aggression. In addition, concerns have grown about Seoul's self-reliant command capability, which is key to the transfer of operational control, as its defense reform and modernization plans faced difficulties because of budget shortfalls.

Free Trade Agreement

Free trade has been a bone of contention in bilateral ties between the United States and South Korea for several years. The landmark United States-Korea Free Trade Agreement was signed on June 30, 2007, under Presidents Roh Mu-hyun and George W. Bush. It promised to be Seoul's biggest-ever free trade agreement and Washington's second largest after the 1994 North American Free Trade Agreement.

Studies have estimated that trade between the two countries could increase US\$10 billion to \$20 billion within five years of implementation. Two-way trade amounted to \$84.8 billion in 2008, with the United States standing as South Korea's fourth-largest trading partner and Seoul as Washington's seventh-largest partner. The free trade agreement would help both countries secure crucial inroads into the regional markets of East Asia and North America. Besides economic gains, the agreement is integral to the transformation of bilateral ties into a comprehensive, strategic partnership.

But the free trade agreement has been stuck in limbo in both countries. South Korea's opposition parties have repeatedly blocked its ratification in the National Assembly, demanding

more government support for the agricultural and service sectors, which will be hit hardest by the market opening. More importantly, the agreement bill has been held hostage to a political confrontation over President Lee's policies on cutting property and corporate taxes, easing business regulations, and allowing conglomerates and newspaper publishers to own bigger shares of broadcasting companies.

The free trade agreement also faces opposition in the Democratic-controlled U.S. Congress, and it has been sidelined by the Obama administration, which first needed congressional support for pressing health care reforms. In addition, there is pressure from American automobile firms and unions, which want greater access to the Korean market, claiming a large imbalance in auto trade that accounts for more than three-quarters of the U.S. trade deficit with South Korea.⁸ They claim the deal would give Korean auto companies guaranteed access to the U.S. market while leaving Korea's nontariff barriers in tax and regulations in place.

Obama, who called the pact "badly flawed" during his presidential campaign, pledged to move the accord forward during his summits with Lee. But he refused to put a timeline on ratification, saying that the two sides should address their differences before the deal is sent to Congress.

During their November summit in Seoul, the two leaders sounded the most positive tone yet, sending a glimmer of hope for reviving the trade deal. Senior Seoul officials said that Lee and Obama had devoted much of their meeting to in-depth discussions of the agreement and broadened their common understanding about the economic and strategic importance of free trade between the two countries. Lee offered a timeline for U.S. ratification and Obama reacted positively, according to officials, although no details of the discussion were revealed. Both leaders agreed that U.S. trade with Korea was relatively balanced and should not be treated the same as ties with the rest of Asia, where Washington suffers huge deficits. "Those imbalances are not as prominent with Korea. But there has been a tendency to lump all of Asia together when Congress looks at trade agreements," Obama said in the news conference. "One of my goals is to make sure that as we work through these issues the American people and American business and workers recognize that we have to look at each agreement in each country on its own merits," he added.

Lee also indicated his government would be willing to address U.S. automakers' concerns. "If automobiles are a problem, we are in a position to discuss them again," he said. But Seoul's foreign and trade ministers ruled out any renegotiation that would lead to a revision of the treaty. Even if talks are reopened, the two sides will find it difficult to narrow their differences in automobile provisions. South Korea will also face domestic pressures to secure greater protection for its agricultural and service markets.

8. Official figures show 700,000 Korean cars exported to the United States and 5,000 American cars imported into Korea in 2007. However, Seoul officials pointed out that these figures do not take into account the more than 125,000 vehicles made by a General Motors subsidiary in Korea, but include automobiles made by a Hyundai Motor plant in Alabama.

Seoul is hoping for congressional approval in the United States by the end of June 2010, which likely would be the last chance for ratification before the midterm elections in November. The U.S. Chamber of Commerce warned that the United States could suffer a net loss of nearly 350,000 jobs, \$35 billion in export sales, and \$40 billion in gross domestic product if it fails to implement the United States-Korea Free Trade Agreement while the European Union moves ahead with its own agreement with Korea. The Seoul-Brussels free trade agreement was signed in October, and it is likely to take effect in mid-2010.

Conclusion

In 2009, the United States and South Korea took their relations to a new level, forging a multifaceted, global alliance. In the year ahead, mutual trust and understanding can provide a basis for the two nations to tackle the challenge of North Korea, push forward with a bilateral free trade agreement, and complete the realignment of the alliance command structure. Washington and Seoul are expected to speed up coordination of a common approach to North Korea. While Lee and Obama agreed on the need for a comprehensive deal with the North, detailed strategies are needed. A dramatic breakthrough is unlikely, however, as Pyongyang has raised the stakes by demanding U.S. recognition of its status as a nuclear weapons state and by raising the prospect of a peace treaty, possibly to divert attention from denuclearization.

The free trade agreement will continue to strain U.S.-South Korea relations in 2010. Many experts doubt that the Obama administration will seek congressional approval of the trade deal while other domestic issues are more pressing. Despite Lee's expressed willingness to address American automakers' concerns, Seoul officials have ruled out the possibility of renegotiations.

Finally, Seoul may demand the postponement of the planned transfer of wartime operational control. Defense minister Kim Tae-young expressed misgivings in January 2010, noting that President Lee and the military were considering rearranging the schedule. This marked the first time a Seoul official indicated the possibility of a delay. This would introduce a new source of contention with the United States, which stands firmly by the schedule.⁹

9. General Walter Sharp, commander of U.S. Forces Korea, said in a forum in Seoul on October 7, 2009, "On the OPCON transfer, we are on track. We will be prepared for 17 April, 2012. By 2012, the Republic of Korea military leadership will be ready to take over."

Abducted by Abduction: The Past, Present, and Future of North Korea-Japan Relations

Nobuyoshi Sakajiri

Kim Jong-il, chairman of the National Defense Commission of North Korea, started reading a memo. "I would like to give an explanation about this matter." In this context, "this matter" referred to the so-called abduction issue that Japanese prime minister Koizumi Junichiro had raised during the morning session of the summit talks with Kim. It was September 17, 2002, at the Paekhwawon Guest House in Pyongyang.¹

Although Koizumi had demanded Kim's "outright apology" that morning, Kim did not clarify his attitude regarding the abductions. Koizumi's visit to Pyongyang was a day trip, and it was clear that the prime minister would never sign the Pyongyang Declaration that had been drafted by the Japanese and North Korean governments if Kim would not acknowledge that North Korea had abducted Japanese citizens and then offer a formal apology.

The Japanese delegation was informed of the results of a North Korean investigation of the matter at a preparatory working-level meeting prior to the morning session. At that meeting, North Korea notified Japan that eight of the abductees had died and that five were still alive. The causes and circumstances of the deaths were not explained.

At the beginning of the afternoon session, Kim made the first remarks. "We have thoroughly investigated this matter including by examining our government's role in it. . . . To my understanding this incident was indicated by special mission organization in the 1970s and 1980s driven by blindly motivated patriotism and misguided heroism." Kim concluded his remarks by saying, "I would like to take this opportunity to apologize straightforwardly for the regrettable conduct of those people. I will not allow that to happen again."

Although Kim's acknowledgment was not written into the Pyongyang Declaration that both leaders signed that day, many on both sides, including perhaps Kim and Koizumi themselves, believed that they had overcome one of the biggest obstacles to normalizing relations between North Korea and Japan, which the Pyongyang Declaration outlined. The declaration stated that the two countries would "make every possible effort for an early normalization of relations."² However, both sides completely underestimated the emotional reaction of the Japanese public to Kim's bombshell apology.

1. Prior to this meeting, Japanese family groups had long accused North Korea of abducting Japanese citizens from the late 1970s to the early 1980s; North Korea had always denied such accusations. (The Japanese government took almost no action, and the media paid the accusations scant attention.) According to the National Association for the Rescue of Japanese Kidnapped by North Korea and the Association of Families of Victims Kidnapped by North Korea, the total number of Japanese abducted by North Korea is estimated at around 100.

2. See the full text of the declaration at http://www.mofa.go.jp/region/asia-paci/n_korea/pmv0209/pyongyang.html (accessed January 24, 2010)

Desire for Normalization

This first summit between Kim and Koizumi was an outgrowth of interests on both sides. Together with Iran and Iraq, North Korea had been upgraded from a “rogue state” to a member of the “axis of evil” by U.S. president George W. Bush in his State of Union address on January 19, 2002. Bush never hid his feelings toward Kim, and he often expressed his sympathy for the North Korean people. Bush’s harsh rhetoric, naturally, aroused a strong sense of crisis for Kim, who feared for his regime’s survival, and prompted him to engage with Koizumi, who was well known as one of Bush’s closest friends among foreign leaders.

Additionally, Kim Jong-il was eager to receive compensation for the Japanese colonial occupation of the Korean peninsula from 1910 to 1945, which surely would help his regime restore the North Korean economy. During the negotiations leading up to the normalization of Japan–South Korea relations in 1965, both sides had agreed on “economic aid” of US\$500 million to South Korea. When Shin Kanamaru, then the strongman of Japan’s leading Liberal Democratic Party, visited Pyongyang and met with General Kim Il-sung in September 1990, it was rumored that he had offered Kim, during the bilateral conversation in Japanese, economic aid of around \$8 billion in compensation for the Japanese occupation. Although the Pyongyang Declaration did not specify a figure, it was understandable that the North Koreans would expect economic aid from Japan following normalization.

For Japan, on the other hand, North Korea, one of its closest neighbors, is the only country in the world with which it has not established diplomatic relations. It is also the most feared country in Japan, as more than 150 North Korean missiles presently are targeted at Japan, first at U.S. military bases and then at Japanese Self-Defense Force bases. The possibility of a nuclearized North Korea only adds to the tension.

Thus, for Japan, the prime minister who achieves normalized relations with North Korea undoubtedly will go down in Japanese history as a great diplomatic leader. Establishing ties with North Korea has been a professional dream of all Japanese diplomats, not just the prime minister. Hitoshi Tanaka, former director general of Asian and Oceanian affairs for the Japanese Foreign Ministry, who played a key role in preparing for Koizumi’s surprise visit to Pyongyang, loved to use the Japanese term *taigi*, “noble cause,” in explaining to his colleagues the importance of normalizing relations with North Korea. While several attempts at normalization were made by Japanese and North Korean diplomats during the 1990s, the abduction issue was a stumbling block each time. Whenever the Japanese brought up the issue, North Korea denied its occurrence.

The Japanese people initially supported their government’s new approach to North Korea. An opinion poll taken by the newspaper *Asahi Shimbun* on September 18, 2002, immediately after the prime minister’s visit to Pyongyang, showed an increase in the cabinet’s approval rating to 61%, a 10-point spike compared to late August. According to the poll, 81% of respondents gave the summit a positive evaluation, and 58% approved of normalizing relations with North Korea. However, as the Japanese public’s interest in the abduction issue grew following the summit, people became increasingly more cautious about normalization.

Mutual Deception

Kim Jong-il’s confession opened a Pandora’s box. The month after the first summit meeting between Koizumi and Kim, North Korea allowed the five surviving abductees—Kaoru Hasuike and his wife Yukiko, Yasushi Chimura and his wife Fukie, and Hitomi Soga—to visit Japan. They arrived at Haneda Airport in Tokyo on October 15, 2002. Their emotional reunions with their families in Japan were covered widely in the media and made a profound impression on the Japanese public.

The Japanese government, however, had promised North Korea that the abductees were to be returned to Japan only temporarily, and that their stay would last 7 to 10 days. This promise quickly became a target of public criticism. Making the situation worse for the Japanese government, it was revealed that officials had set aside an allowance for the abductees to buy souvenirs to take with them when they returned to Pyongyang. After a clash of opinions between moderates and hard-liners inside the government, chief cabinet secretary Yasuo Fukuda, who previously had insisted that the government was obliged to send the abductees back to Pyongyang because the Japanese Ministry of Foreign Affairs had obtained North Korea’s agreement on the basis of a temporary return, announced, “We will not return the five to North Korea.”

In response to this announcement, the North Korean government furiously protested what it regarded as a “broken promise” on the part of the Japanese. North Korea’s anger persisted long afterward. In a sense, the concept of a “temporary return” was a product of mutual deception. On the one hand, the North Koreans claimed that it was the abductees’ free will to return to Japan temporarily and to come back to North Korea. On the other hand, the Japanese knew that the five would never want to go back to Pyongyang.

Taboo in Japan

From the North Korean point of view, the Pyongyang Declaration was the first significant positive development in the last century of Korea–Japan relations, as Ambassador Jong Thae-hwa told his Japanese counterpart in Kuala Lumpur on October 30, 2002, at the negotiations for normalization. According to Jong, the abduction issue was “settled” when Kim Jong-il apologized. However, the matter was not yet settled from the Japanese point of view. To be sure, following the abductees’ homecoming, Japanese public opinion would never look approvingly on the Japanese government’s attempts to improve relations with North Korea without first providing a more satisfactory conclusion to the abduction issue.

Many Japanese found themselves feeling guilty over having neglected the abduction issue for so many years. The abductees were “forgotten victims.” Both sympathy for the abductees and their families and anger toward the North Korean government grew rapidly after the abductees returned home.

The growing animosity was fueled by public accounts of the story of Megumi Yokota, who had been abducted at just 13 years old in November 1977 from the Japanese coastal city of Niigata. The North Korean government claimed that she had suffered from depression and committed suicide in March 1994. In November 2004, they handed over human remains that they claimed were those of Megumi. However, DNA tests in Japan determined that the remains did not belong to Megumi, and the Japanese government insisted that there was no evidence to support North Korea's claim that Megumi had died. Open discussion of whether Megumi is still alive has become extremely difficult, and the subject is now almost taboo in Japan.

In the area of foreign policy, strategic thinking in Japan has taken a back seat to raw emotion and narrow-minded indignation. The result is a Japanese foreign policy that refuses to compromise or even negotiate before the abduction issue is resolved. Under tremendous pressure from the public, Japanese diplomacy has been abducted by the abduction issue. There is a mantra among Japanese diplomats who are in charge of negotiations with North Korea: "No talks without progress on the abduction issue."

Frustration and Anger

In response to Japan's "abduction first" stance, North Korea reacted initially with frustration and then with anger. The Korean Central News Agency referenced the abduction issue on January 27, 2004, noting that "Japan is perfidiously behaving, misinterpreting the DPRK's magnanimous approach towards the 'abduction issue.' The DPRK side clarified its principled stand on the issue and expressed its sincere attitude towards the handling of issues." The report added, "Explicitly speaking, the DPRK has done all it can as regards the 'abduction issue.'"³

On February 3, 2006, the news agency criticized Japan by saying, "The Japanese conservatives should refrain at once from such mean acts designed to attain their sinister political purpose. Japan much touted 'abduction issue' will get it nowhere."⁴ Then, on June 13 of that year, a spokesman from the North Korean Foreign Ministry said that the Japanese government had driven North Korea–Japan relations to "the worst phase in history by persisting in their moves to internationalize the abduction issue already resolved" between the two countries. "The relations between the DPRK and Japan are, in essence, those between a victim and an assailant. Therefore, the latter ought to make due apology and compensation understandable to the victim if the bilateral relations are to be settled. . . . Nevertheless, Japan has not yet made any honest apology to the Korean people with a humble bow."⁵ Our Dear Leader sincerely apologized. What more do you want? This is the North Korean logic.

3. "KCNA on DPRK's Sincere Approach towards 'Abduction Issue,'" Korean Central News Agency, January 27, 2004, <http://www.kcna.co.jp/index-e.htm> (accessed January 24, 2010).

4. "KCNA Urges Japan to Honestly Approach DPRK-Japan Inter-Governmental Talks," Korean Central News Agency, February 3, 2006, <http://www.kcna.co.jp/index-e.htm> (accessed January 24, 2010).

5. "DPRK FM Spokesman Exposes Japan's Moves to Internationalize 'Abduction Issue,'" Korean Central News Agency, June 13, 2006, <http://www.kcna.co.jp/index-e.htm> (accessed January 24, 2010).

In fact, looking back on the history of relations between Japan and North Korea, in many cases, Japan has been the assailant and North Korea the victim. For example, in late medieval times, Japanese forces invaded North Korea and occupied Pyongyang for seven months in 1592–1593. In the modern era, Japan annexed Korea in 1910 and turned it into a colony until 1945. A restrained estimate is that several hundred thousand Korean people were mobilized for labor service or drafted as military personnel within the extensive Japanese empire. During the Korean War of 1950–1953, Japan served as the most important air force and logistics base for U.S. armed forces fighting against North Korea. The abduction issue, however, has completely reversed the historical picture. Japan is now the victim and North Korea the assailant.

Transition of Power

It has been more than seven years since Prime Minister Koizumi first visited Pyongyang, yet bilateral relations remain at a standstill. According to a number of North Korean officials, North Korea has not given up its interest in normalizing relations with Japan, despite its harsh rhetoric toward that country. In April 2005, one official said, "We have been ready for negotiation with Japan since Koizumi's first visit. However we are not able to bring a person to life." Another official said in August 2008, "We need Japanese financial support to rebuild our nation. As the Japanese military occupied the Korean peninsula from 1905 to 1945, the Japanese colonial government suppressed our society and culture, Japan must compensate for that."

Since Koizumi stepped down in September 2006, Japan has had three prime ministers—Shinzo Abe, Yasuo Fukuda, and Taro Aso—in three years. This political instability has further weakened Japan's capacity to negotiate with North Korea. Dialogue between the two countries has remained in deadlock.

In the general election held in August 2009, the opposition Democratic Party of Japan won a landslide victory, and Yukio Hatoyama became prime minister. His stance on North Korea is understood to be moderate. This understanding may prove to be more flexible than the position taken by the Japanese government in the recent past, urging further "progress" on the abduction whenever the two countries sit down to negotiate other matters.

To serve Japan's national interests, the Hatoyama administration should pursue a realistic path toward normalization with North Korea. Key in this effort will be Japanese public opinion. It is necessary for the prime minister to maintain a high approval rate in order to explore a bold approach toward North Korea. With low approval ratings, his three predecessors had no choice but to take a hawkish stance against Kim Jong-il so as not to lose public support, and as a result, they made no inroads toward diplomacy with North Korea. At the same time, the Japanese public must come to grips with the reality that it simply is counterproductive to constantly criticize North Korea and shout demands at Kim Jong-il. Continuing its hard-line—and, in many cases, counterproductive—stance could leave Japan abducted by the abductions.

Sticking with Socialism: Bridging the Gap in China–North Korea Relations

John Delury

Despite their obvious differences in size and population, the People's Republic of China (PRC) and the Democratic People's Republic of Korea (DPRK) once bore a striking resemblance to one another. Chairman Mao Zedong and Great Leader Kim Il-sung, the Great Leap Forward and the Chollima campaigns, the three worlds strategy and *juche* (self-reliance) ideology—whether foreign policy, economic philosophy, or political culture, the two communist states often moved in tandem. There was good reason for Chinese Communist Party and Korean Worker's Party officials to invoke a metaphor from imperial times, comparing their relationship to that of lips and teeth.

Over the past 30 years, however, China and North Korea have chosen profoundly different paths to “strength and prosperity.”¹ By the year of Orwellian significance, 1984, Kim Il-sung sensed that a great change was afoot on the Asian continent, and he worried about its implications. In a private conversation with East German leader Erich Honecker, recently made public by the North Korea International Documentation Project, Kim warned,

“The old generation of leadership in China is dying out. We should show the new generation an opening. If we leave China to the capitalists, there is the risk that China will become a quasi-colony again... Because of our position—the length of our border with China, confrontation with the U.S. and Japan—what we are most afraid of is that China will not stick with socialism.”²

In economic terms, Kim Il-sung's fear has been realized, but to opposite effect. China did not stick with socialist economics, but instead transformed itself into one of the main engines of global capitalism. In its search for natural resources and new markets, Beijing is creating quasi-colonies of its own across Africa and Asia. China's market-driven growth is even transforming North Korea, feeding a bottom-up marketization of one of the world's last bastions of planned economics.

The economic relationship has transformative potential. But politically speaking, China has stuck by its brand of one-party socialist rule. And the PRC has more or less stuck by its old socialist comrade, the DPRK. It is true that as Beijing charts its “peaceful rise,” it is increasingly drawn to the role of equal player on the world stage, standing alongside the most powerful developed nations. Yet it rebuffs calls to go hard on Pyongyang, and wields its lever-

1. The North Koreans' expressed goal is to become “a strong and prosperous great nation” (*kangsong taeguk*); the phrase is remarkably similar to the long-standing Chinese pursuit of “enriching the people and strengthening the nation” (*fumin qiangguo* 富民强国).

2. James Person, ed., “Limits of the ‘Lips and Teeth’ Alliance: New Evidence on Sino-DPRK Relations, 1955–1984,” working paper, North Korea International Documentation Project, http://www.wilsoncenter.org/topics/pubs/Sino_DPRK_Rel.Reader_webfinal.pdf (accessed January 4, 2010).

age on the DPRK lightly. China invests its diplomatic capital in the Korean peninsula mostly toward maintaining the status quo. Beijing's grand solution for resolving the Korean nuclear issue, the Six-Party Talks—a forum for resolving security concerns on the Korean peninsula with representation from China, North and South Korea, the United States, the Russian Federation, and Japan—is now in jeopardy, and a new philosophy of dealing with the DPRK may emerge in the years to come. But for now, the political dynamic in PRC–DPRK relations hews to the status quo, even as Chinese capitalism is quietly revolutionizing the two countries' economic relationship.

Status Quo Diplomacy

Since the beginning of the Hu Jintao era, Beijing's role in Korean diplomacy has been defined by the effort to mediate between Pyongyang and Washington. Mediation led the PRC to take one of its most proactive steps yet on the world stage, launching the Six-Party Talks in 2003. In the years prior, antagonism between North Korean leader Kim Jong-il and U.S. president George W. Bush had been intensifying. In January 2002, Bush named North Korea a member of the “axis of evil.” In a meeting with Republican senators, widely reported in the press, Bush called Kim Jong-il a “pygmy,” and in an interview with journalist Bob Woodward, he declaimed, “I loathe that guy!” In October of that year, Bush dispatched his first diplomatic team to Pyongyang with rigid instructions to confront North Korean officials over allegations of a highly enriched uranium program, and not to engage in open discussions. The accusation effectively killed the talks.³

North Korea took none of this lying down. The Korean Central News Agency heaped invective on President Bush. North Korean diplomats defiantly told the visiting U.S. delegation that they were fully entitled to a nuclear weapons program, which many took to be a tacit acknowledgment of a highly enriched uranium program. And, watching the run-up to Operation Iraqi Freedom, the North Koreans took a simple lesson: If Iraq had indeed possessed weapons of mass destruction, the American invasion might never have occurred in the first place. So North Korea withdrew from the Nuclear Non-Proliferation Treaty, expelled International Atomic Energy Agency inspectors from the nuclear plant at Yongbyon, and restarted its plutonium program.

Beijing watched these developments with trepidation. A nuclear North Korea threatened to upend the strategic status quo in East Asia, which favors China as the sole member of the nuclear club—even though Japan, South Korea, and even Taiwan all have the resources to make a push at nuclear capability. Military conflict or regime collapse, on the other hand, boded ill for regional stability, and would increase the likelihood that a flood of refugees would pour across the China–North Korea border. Absorption of the DPRK by the Republic of Korea (ROK), meanwhile, would bring the U.S. alliance, and perhaps even U.S. troops, right up to the Chinese border. None of these scenarios made for pleasant strategic thoughts in Beijing.

3. Mike Chinoy, *Meltdown: The Inside Story of the North Korean Nuclear Crisis* (New York: St. Martin's Press, 2008).

Therefore, China invested serious diplomatic capital in the effort to defuse the brewing crisis and head off North Korea's nuclear ambitions. The Chinese helped convince both the North Koreans and the Americans to travel to Beijing for a first round of talks in September 2003. Progress was slow. China's mediation of hostilities between the United States and North Korea reached farcical proportions—for example, when the Chinese engineered a chance for U.S. assistant secretary of state Christopher Hill to meet directly with North Korean vice foreign minister Kim Gye-gwan by not showing up to a three-way dinner in July 2005. Finally, during the fourth round of talks, the landmark September 19, 2005, joint statement created a framework for a phased resolution of the standoff based on the principle of “action for action.” The basic terms of the deal required North Korea to denuclearize in return for security assurance, economic and energy assistance, and normalized relations with the United States and Japan.

Three weeks later, on October 9, the DPRK seemed to make a mockery of the Six-Party Talks—and, by extension, the host government—by staging an underground nuclear test explosion, not far from the Chinese border. Beijing reacted harshly, using language reserved for real umbrage, calling it a “brazen” act. But Chinese leaders also pushed aggressively behind the scenes to reengage Pyongyang in the diplomatic process and salvage the talks. Once again, Beijing emerged as the mediator, now with President Bush's more active support. Against the wishes of many in his administration, Bush authorized Secretary of State Condoleezza Rice and Assistant Secretary Hill to “negotiate with evil,” while outsourcing the diplomatic initiative to Beijing. Throughout 2006, the “hard slog of diplomacy” unfolded, until finally the six parties achieved a second watershed agreement with the February 13, 2007, joint statement, which committed all parties to a series of concrete steps with clear timelines.

China faithfully delivered on its part of the February agreement throughout 2007 and 2008, including the provision of heavy fuel oil to the DPRK. The relatively smooth progress of the Six-Party Talks was emerging as a rare showcase for Chinese diplomacy. But clouds were darkening the horizon by the summer of 2008, as Pyongyang let allegations of proliferation activities in Syria and the secret highly enriched uranium program fester, Washington moved up the goalpost for a “verification protocol” to ensure North Korean compliance, Japan refused to ship heavy fuel oil without a reopened investigation into the fate of Japanese citizens abducted by North Korean agents from 1977 to 1983, and the new conservative government in Seoul fought an increasingly harsh war of words with Pyongyang. By the end of the year, Chinese diplomats watched in anguish and awkwardness as their grand contribution to Northeast Asian peace and security came apart at the seams.

The first half of 2009 brought a string of controversial actions by the DPRK: disavowing its agreements with the ROK, the Six-Party Talks, and the 1953 Korean War Armistice; convicting two American journalists who had illegally crossed the border to 12 years of hard labor; detaining a South Korean manager at Kaesong, restricting border traffic, and demanding huge increases in rent and wage payments for the industrial plant; conducting a satellite

rocket test, underground nuclear test, and a series of long- and short-range missile tests. These actions opened up the debate in Chinese think tanks, academe, and media over the appropriate “basic line” toward the DPRK.⁴

In a May 2009 poll conducted by the conservative Chinese paper *The Global Times*, half of the 20 top Korea experts in China supported pushing forward with sanctions—a departure from their previous unanimity in opposing a hard line on Pyongyang. Some Chinese analysts began to wonder aloud whether it was time for the teeth to bite the lips, and to send Pyongyang a clear message that Beijing would not tolerate nuclear brinkmanship. But senior foreign policy experts such as Shen Dingli concluded that because of the DPRK's fears about its security and the United States' inability to allay those fears, “it is virtually impossible for North Korea to denuclearize.”⁵ The implication was that one day soon, the world might have to grudgingly accept a nuclear North Korea, as it had Pakistan.

As tensions mounted during the spring of 2009, Chinese foreign ministry statements repeated the mantra of calling on all parties to act with restraint and patience. Beijing's official statement following the DPRK's May nuclear explosion called the action regrettable, but did not raise the red flag by describing Pyongyang's act as “brazen,” as it had in 2006. Beijing lobbied to temper the ensuing UN Security Council Resolution 1874, and continues to trade extensively with North Korea. Chinese premier Wen Jiabao reaffirmed the policy of engagement with Pyongyang during his October 2009 visit.

Chinese policy toward its northeastern neighbor may be at a crossroads, but there also may be no clear direction forward. Beijing presumably would prefer an economically developing, peaceful, Communist Party–led North Korea. An impoverished, isolated, nuclearizing state, which does not do China's bidding yet counts Beijing as one of its only friends on the global stage, is not the ideal partner to have across an 850-mile border. But Beijing can imagine worse scenarios: a nuclear-armed DPRK that triggers an East Asian arms race, reaching as far as Taiwan; an imploding North Korea that spews refugees, and possibly fissile materials, across the Yalu and Tumen rivers; an absorbed North Korea that removes the socialist, Beijing-aligned buffer zone with the U.S.-allied Republic of Korea; or a strategically “flipped” DPRK that achieves a breakthrough normalization with its historical adversary, the United States, as counterbalance against the dominance of its long-standing comrade, the PRC.

In light of these undesirable contingencies, Beijing is doing its best to maintain the diplomatic status quo, not pushing Pyongyang too hard, but not getting too far out of step with the United States, South Korea, Japan, and Russia, and not swimming against the mainstream in the United Nations and UN Security Council. As nuclear diplomacy lurches forward and back, meanwhile, China's relationship with North Korea continues to expand

4. See “Shades of Red: China's Debate over North Korea,” Asia Report no. 179, International Crisis Group, November 2, 2009, http://www.crisisgroup.org/library/documents/asia/north_east_asia/179_shades_of_red__chinas_debate_over_north_korea.pdf (accessed January 4, 2010); and Bonnie Glaser, Scott Snyder, and John S. Park, “Keeping an Eye on an Unruly Neighbor: Chinese Views of Economic Reform and Stability in North Korea,” joint report of the Center for Strategic and International Studies and U.S. Institute of Peace, http://belfercenter.ksg.harvard.edu/publication/17831/keeping_an_eye_on_an_unruly_neighbor.html (accessed January 4, 2010).

5. Shen Dingli, “The DPRK-US Nuclear Game in the Obama Era,” Policy Forum Online 09-011A, Nautilus Institute, February 10, 2009, <http://www.nautilus.org/fora/security/09011Shen.html> (accessed January 4, 2010).

in the economic sphere. Indeed, while the political narrative of China–North Korea relations over the past few years contains many headlines but little real change, the economic story of trade and investment between the two countries is one of quiet transformation.

Capitalism Across the Yalu and Tumen

Five years ago, it might have seemed to most observers that South Korea was positioned to become the North's major economic partner. The Mount Kumgang resort on North Korea's southeastern coast was attracting a steady stream of tourists from the South. South Korean companies were eagerly watching the development of the North's Kaesong Industrial Park, which would grow to encompass more than 100 firms employing some 40,000 workers. North–South bilateral trade grew from US\$425 million in 2000 to \$724 million in 2003, peaking at \$1.82 billion in 2008. However, tensions mounted between Seoul and Pyongyang after the inauguration of South Korean president Lee Myung-bak, and began to affect the two countries' economic relationship. Kumgang's operations were suspended a year ago after a tragic shooting incident. Kaesong remains open, but the park's expansion has slowed considerably. North–South trade was down 25% in early 2009, and at present, there are limited prospects for expanding economic contacts.⁶

The ebb of North–South trade has exposed a major economic shift that has been at work for some time: China's rise as the DPRK's principal economic partner. The PRC's share of North Korea's total trade rose from 25% in 2002 to approximately 40% by 2004. In 2008, trade between China and North Korea increased by 48%, with China exporting \$2 billion and importing around \$750 million from North Korea.⁷ China commanded 73% of all DPRK trade excluding South Korea, giving a sense of the likely scenario if trade between the North and South continues to decline.⁸ An unknown amount of unrecorded trade, including drugs, counterfeit currency, and smuggling, also flows across the China border into North Korea.

There are important asymmetries in the economic relationship between China and North Korea. For one, China makes up a majority share of North Korea's trade, whereas the DPRK's contribution to China's trade is miniscule. North Korea's trade deficit with the PRC is also growing rapidly. The bilateral deficit rose from \$200 million in 2004 to \$760 million in 2006 and \$810 million in 2007.⁹ In 2008, the gap rose above \$1.2 billion.

6. Institute for Far Eastern Studies, "Inter-Korean Exchange 20% Down in 2009," NK Brief no. 09-10-19-1, October 19, 2009, <http://ifes.kyungnam.ac.kr/eng/m05/s10/content.asp?nkbriefNO=316&GoP=1> (accessed January 4, 2010).

7. Yonhap News Agency, "N. Korea's 2008 Trade Hits Record US\$3.8 Bln: Report," May 18, 2009, <http://english.yonhapnews.co.kr/northkorea/2009/05/18/69/0401000000AEN20090518001300320F.HTML> (accessed January 4, 2010).

8. Institute for Far Eastern Studies, "DPRK Trade Hits Record High in 2008," NK Brief no. 09-5-27-1, May 27, 2009, <http://ifes.kyungnam.ac.kr/eng/m05/s10/content.asp?nkbriefNO=283&GoP=1> (accessed January 4, 2010).

9. Park Hyun Min, "A Mass-Scale Trade Deficit Results After the July 1 Economic Measure," *The Daily NK*, July 26, 2007, <http://www.dailynk.com/english/read.php?catald=nk00100&num=2424> (accessed January 4, 2010).

And yet, although relatively small and highly imbalanced, North Korean trade is of major local significance to China, and possibly of long-term strategic value. A large share (perhaps three-quarters) of DPRK trade is conducted by small and medium-sized Chinese enterprises that are based in the rust belt provinces along the DPRK border, which are still recovering from the privatization reforms of the 1990s. China's northeast needs sources of growth wherever they can be found. Yanbian Korean Autonomous Prefecture is home to nearly a million ethnically Korean Chinese, and the last thing Beijing desires is another restive ethnic minority on its frontiers.

China's investments in North Korea are increasing, and they may be driven by strategic considerations of long-term access to natural resources, as well as sustaining the North Korean system so as to avoid radical destabilization along the northeast border. Chinese aggregate investment in the DPRK grew from \$3.5 million in 2003 to \$130 million in 2006.¹⁰ Increasingly, Chinese investment (as opposed to trade) is being encouraged by Beijing and carried out by state-owned enterprises.

Another key piece in the puzzle of China–North Korea relations is the nature of North Korea's reliance on China to supply its energy needs, and how that translates into political influence for Beijing. China is unlikely—and to some extent, unable—to simply flip a switch and cut off North Korea's energy supply. China may supply as much as 70% to 90% of North Korea's crude oil, but oil amounts to only 6% of North Korea's primary energy consumption as a whole.¹¹ Unconfirmed reports suggest that Beijing shut off the oil pipeline to North Korea twice for political reasons, in 2003 and 2006. But Chinese officials claim that the three-day suspension in 2003 occurred for technical reasons, and that the stoppage in oil exports in September 2006 (*before* the DPRK's controversial nuclear test in October) was temporary and not politically motivated.¹²

Even a month-long stoppage may not have an immediate impact, as China's oil supply to the DPRK occasionally drops steeply to ensure adequate domestic supply in China. China may be unlikely to do more than a month-long suspension, as that could cause long-term structural damage to the pipeline.¹³ U.S. policy makers hoping to vicariously exercise Beijing's leverage should bear in mind that the China–North Korea energy trade goes in two directions: the DPRK exports coal and electricity to China, at below-market prices.¹⁴

10. Park Byung-kwang, "China–North Korea Economic Relations During the Hu Jintao Era," *Study of International Issues* 9, no. 1 (Spring 2009), http://www.koreafocus.or.kr/design2/layout/content_print.asp?group_id=102543 (accessed January 4, 2010).

11. Library of Congress, "Country Profile: North Korea," July 2007, http://memory.loc.gov/frd/cs/profiles/North_Korea.pdf (accessed January 4, 2010).

12. See Joseph Khan, "China Cut Off Exports of oil to North Korea," *New York Times*, October 30, 2006; Kimberly Ann Elliott, "Economic Leverage and the North Korean Crisis," *International Economics Policy Briefs* no. PB03-3, Institute for International Economics, April 2003, <http://www.iie.com/publications/pb/pb03-3.pdf> (accessed January 4, 2010); Andrew Scobell, "China and North Korea: From Comrades-in-Arms to Allies at Arm's Length," March 2004, <http://www.strategicstudiesinstitute.army.mil/pdffiles/00364.pdf> (accessed January 4, 2010); and Julia Joo-A Lee, "To Fuel or Not to Fuel: China's Energy Assistance to North Korea," *Asian Security* 5, no. 1 (January 2009): 45–72.

13. Christopher Twomey, "Explaining Chinese Foreign Policy Toward North Korea: Navigating Between the Scylla and Charybdis of Proliferation and Instability," *Journal of Contemporary China* 17, no. 56 (August 2008): 401–23.

14. Nathaniel Aden, "DPRK Energy and Energy-Related Trade with China: Trends Since 2005," DPRK Energy Experts Working Group Meeting, March 8, 2008, <http://www.nautilus.org/DPRKEnergyMeeting2008/papers/Aden.pdf> (accessed January 4, 2010).

For a variety of political, economic, and technical reasons, China is unlikely to restrict energy supplies to North Korea as a means of diplomatic leverage. Instead, China hopes that economic relations will motivate the DPRK to follow the path of marketization and opening. One Chinese scholar, in an interview with expert Scott Snyder, summarized the situation as follows:

“In the DPRK, there is no reform mentality yet. Kim Jong Il’s regime lacks the political and economic basis for reform. There is a lack of ideological theory—that is the political context. And there is a lack of capital—that is the economic context. . . . We hope reforms that promote stability will be implemented. We should not treat the DPRK reforms as the same as Chinese reforms. They have a totally different situation. China is a much bigger country. . . . The DPRK is facing a very different international environment than China faced thirty years ago.¹⁵”

Trapped in a hostile international environment and threatened by the prospect of a market transition, Pyongyang so far has resisted both the Chinese and Vietnamese model of transition out of centralized planning and avoided the Soviet and East European fate of regime collapse or color revolution. But the China–North Korea border trade is flooding the northern part of the DPRK with Chinese goods, creating market opportunities for entrepreneurial North Koreans moving their products across the rivers. The surge in border crossings that began during the famine years of the mid-1990s originally was fueled by a one-way flow of North Koreans who were escaping misery and hunger. Today, many border crossers return to the DPRK, with goods to sell and stories to tell about life on the other side.

Washington, Seoul, and Tokyo are intent on pushing Beijing to join their sanctions regime. But cuts in Chinese economic ties would reduce the market stimulus that they produce in North Korea, and the ground-floor transforming effects of increased interaction. It may be wiser to let Beijing do what it does best. China is now the only door open to North Korea economically, and the sole force for peaceful transformation through economic engagement.¹⁶

15. Anonymous Chinese scholar, quoted in Scott Snyder, *China’s Rise and the Two Koreas: Politics, Economics and Security* (Boulder, CO: Lynne Rienner, 2009), 129–30.

16. See “North Korea Inside Out: The Case for Economic Engagement,” Asia Society Center on U.S.-China Relations/ University of California Institute on Global Conflict and Cooperation Task Force Report, 2009, http://www.asiasociety.org/files/pdf/North_Korea_Inside_Out.pdf (accessed January 4, 2010).

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