

▶ Chapter 12

Political Leadership in Question

——Toward Japan-South Korea Cooperation in Addressing Risk

Atsushi Ijuin

Lead Economist, Japan Center for Economic Research

[Key Points]



A Season of Politics in Northeast Asia

Key Data

Russia

- State Duma elections brought forward to September
- Conflict with the West over Ukraine

USA

- State primaries and caucuses in February through June
- Presidential election on November 8

North Korea

- Congress of the Worker's Party to take place for the first time in 36 years in early May
- Possibility that First Secretary Kim Jong-un will make his first overseas visit

South Korea

- 20th legislative elections on April 13
- Maneuvering ahead of the next presidential election (2017) gets underway in earnest

China

- Maneuvering ahead of the next party congress (2017) gets underway in earnest
- Conflict with the USA over the South China Sea and cyber attacks

Japan

- G7 Ise-Shima Summit to take place on May 26-27
- House of Councillors election to take place in the summer (term of office ends on July 25)

Source: Compiled by the author

1. Addressing North Korean Risk

The seminars organized by the Japan Center for Economic Research (JCER) with the cooperation of Japanese and South Korean experts in 2015 – the 50th anniversary of the normalization of diplomatic relations between Japan and South Korea – saw a lively exchange of views regarding risk assessments of North Korea and the risk reduction measures that Japan and South Korea should take. To facilitate free debate, seminar participants undertook discussions based on the understanding that no information that could identify the speaker would be published, so this report refrains from attributing individual opinions, but most of the views expressed are contained herein.

(1) The Debate over Changes and Risks in North Korea

In assessing the risks, the first issue to arise was the evaluation of recent moves by North Korea, particularly changes since the birth of the Kim Jong-un regime. Contrary to most people's initial expectations, Kim Jong-un worked very quickly to consolidate his power from an early stage. In December 2013, he executed Jang Sung-taek, his uncle and de facto second-in-command. In May 2015, South Korean media reported that Minister of the People's Armed Forces Hyon Yong-chol, who held considerable influence over the military, had been executed by firing squad for treason. At the end of the year, information also circulated that Choe Ryong-hae, a secretary of the Workers' Party of Korea who was regarded as being a member of Kim Jong-un's innermost circle, "had been banished to a farm in the countryside to undergo revolutionary education," so shock waves spread even further.

The question of whether or not the Kim Jong-un regime will become more stable is a major issue for neighboring Japan and South Korea. Immediately after this series of incidents, the media reported the view that it was "a reign of terror by First Secretary Kim Jong-un, aimed at suppressing dissatisfaction among the military," while at the seminar, some interpreted these developments to mean that "the Kim Jong-un regime was achieving some measure of success in strengthening its position." Other opinions expressed included "he has adopted a different style of governance from that of his father, General Secretary Kim Jong-il, and the screening of top officials is going to continue;" "stability will grow in the short term, but the medium term is an unknown quantity;" and "the amplitude of the swings in foreign policy has grown and the cycle of change has accelerated." An unexpected situation, such as the leader suffering from health problems, could arise in North Korea at any time and in any form, so relevant countries need to share information

and ensure that they are prepared for anything.

The majority of participants took a harsh view of the nuclear and missile issues, which directly impact the security of Japan and South Korea. At a plenary meeting of the Central Committee of the Workers' Party of Korea in March 2013, the Kim Jong-un regime approved the "new strategic line on carrying out economic construction and building nuclear armed forces simultaneously." Nuclear and missile development is progressing in accordance with this basic policy and the majority voiced the opinion that "there is no hope of North Korea disposing of its nuclear weapons of its own accord," for reasons of both foreign policy and domestic politics. One participant commented, "North Korea's possession of nuclear weapons is already a fait accompli, so the question is whether or not the conventional strategy centered on a quid pro quo for curbing ownership of nuclear weapons or renouncing them entirely will be acceptable in future." Some expressed the view that even if the international community continues to press North Korea to dispose of its nuclear arsenal completely, "for the time being, the emphasis should be placed on thwarting the use of nuclear weapons and halting their development." In the area of security issues, participants shared a recognition that it was becoming more important to be prepared against cyber-attacks by North Korea.

Almost all members of the group agreed that the Kim Jong-un regime was devoting greater effort than before to economic policy, to strengthen the regime and secure the support of the people. The key pillars of the regime's economic policy include officially sanctioning and using markets, creating economic development zones, increasing the degree of discretion afforded to enterprises, and agricultural reform based on reducing the size of production units. The planned economy based around rationing has reached an impasse, so North Korea is exploring new measures. Most of the South Korean members of the group expressed the view that, having hit rock bottom, the North Korean economy was now improving, against the background of increased exports of the country's mineral resources and manpower, and improved food and electricity infrastructure.

On the other hand, many pointed out the contradictions and risks of the economic policy being pursued by the Kim Jong-un regime. As well as the fact that it is trying to attract foreign capital to its economic development zones, while inviting isolation from the international community with its nuclear development, these include the relationship between the market and social control, and North Korea's growing dependence on China. Above all, in terms of the relationship between the market and social control, the increasing spread of market economic elements could entail risks of the regime, in the form of the influx of information from the outside world, the rise of new individuals in positions of power, the spread of corruption, and growing inequality.

In fact, private money-lenders that North Koreans call *donju* (money masters) are springing up in

various parts of the country, along with a new wealthy class. In analyzing the current situation, seminar participants expressed such views as “there are undoubtedly government officials and the like in the background behind these *donju*, so the public sector and the private economy are linked;” “instead of granting business rights in the form of ownership or real estate, those in power are making money, and it is only the regime that has the ability to supply resources and products;” and “right now, the regime’s approach to policy management is based on its confidence that it can control the market.”

Opinions varied as to whether or not a situation in which property ownership and economic activities by individuals are not fully guaranteed by law could be described as “the introduction of a market economic system.” While some commented that “what the Kim Jong-un regime is aiming for is development rather than opening up. It is pursuing change rather than reform,” others predicted conflict between overseas Chinese capital and North Korean government-controlled capital, saying, “inconsistencies will emerge if foreign investment in North Korea grows.” North Korea will hold the Congress of the Workers’ Party for the first time in 36 years in early May 2016, so close attention should be paid to this going forward.

Seminar participants also discussed North Korean society. The country’s prolonged economic difficulties and the spread of markets are changing the values of North Koreans. Demographic issues also seem to be having an impact. North Korea, too, is suffering from a declining birth rate, causing a drop in the school-age population, so its workforce is forecast to fall in future. Improving productivity is essential if it aims to achieve economic growth. This is said to be the reason for North Korea’s educational reforms, such as its announcement of the extension of compulsory education from 11 to 12 years and its efforts to enhance education in science and technology, with one member of the group commenting, “it is beginning to emphasize science, utility, and competition, as it is aware of globalization in the educational sector as well.” In their analysis, participants took the view that educational change might encourage social change. How can North Korea overcome the contradiction with conventional socialist values and the deification of the Kim family? Some were of the opinion that, as with the question of markets, attention should focus on the critical point of change.

Perceptions of North Korean risk also varied. If we focus on the North Korean regime, there is a fundamental risk arising from the fact that it is a socialist revolutionary regime, so its very existence poses a risk to the liberal democracies of Japan and South Korea. Some expressed the view that, if we turn our attention to the nature of the problem, the risks can be broadly classified into risks associated with North Korea’s “aggressive demeanor toward the outside world,” such as the nuclear and missile development problem and the abductions issue, and risks related to North

Korea's "instability and vulnerability," such as problems relating to the economy and food, and the issue of maintaining the regime.

However, these are mainly risks felt or feared by neighboring countries and it is not the case that the risks associated with North Korea's "aggressive demeanor toward the outside world" exist entirely independently of the risks related to its "instability and vulnerability." Some even suggested that there was a greater need for discussions involving a frank exchange of views to discover North Korea's true opinions, saying, "North Korea's actions demonstrate a dichotomy between what it says and what it really thinks, and it is senseless for us to constantly try to battle against what it says." Accordingly, some members pointed out that "there is also a need to analyze the risks as North Korea perceives them." Other opinions expressed included "North Korea probably feels that the alliance between the USA, South Korea, and Japan poses a risk to the security of the regime, and may also perceive a risk of widespread social instability or corruption being triggered by the expansion of markets and other non-socialist phenomena" and "we need to analyze and comprehensively examine why North Korea has come to feel that way."

(2) Ideas and Policy Menus for Mitigating Risk

Animated discussions took place at the seminar concerning measures for mitigating North Korean risk and Japanese-South Korean cooperation measures. The main proposals were as follows. Almost all of them have been incorporated into the various chapters of this report.

(Short- to medium-term challenges)

- Enhancing preparations for dealing with acts of provocation by North Korea
- Enhancing preparations for dealing with a sudden change in North Korea
- Enhancing intelligence-gathering capabilities and developing a shared understanding of the North Korean situation
- Cooperation aimed at resolving the nuclear and missile issues
- Addressing the issue of the resumption of the Six-Party Talks
- Urging China to take action on issues including cyber-threats
- Japanese-South Korean security cooperation within the framework of Japan's new security legislation
- Prompt conclusion of the Acquisition and Cross-Servicing Agreement (ACSA) between Japan and South Korea
- Prompt conclusion of the General Security of Military Information Agreement (GSOMIA) between Japan and South Korea

- Promoting inter-Korean dialogue and exchange aimed at stabilizing the situation on the Korean Peninsula
- Resolving the issue of the abduction of Japanese nationals
- Addressing humanitarian issues between Japan and North Korea, undertaking cultural and sporting exchange, and establishing a liaison office
- Accelerating Japan-South Korea EPA (Economic Partnership Agreement) negotiations
- Promoting negotiations on a China-Japan-South Korea FTA (Free Trade Agreement) that also take North Korea into account
- Cooperation on global issues, including the environment, anti-terrorism measures, and infectious disease

(Medium- to long-term challenges)

- Developing a long-term vision for a cooperation framework that also takes into consideration a post-unification Korea
- Cooperation aimed at regional development of North Korea and peace and development in Northeast Asia
- Mapping out a vision for the future of East Asia: prospects for a borderless political and economic community
- Joint expansion (with the participation of China and Russia as well) into North Korean economic development zones in parallel with progress on the nuclear issue
- Supplying products and intermediate goods that will help to promote the spread of markets in North Korea
- Improving Japanese-North Korean relations and establishing the Sea of Japan Rim Economic Zone
- Trilateral cooperation between Japan and North and South Korea: introduction of equipment and technologies for industrial modernization and joint development imports from North Korea
- Multilateral cooperation: Northeast Asian security cooperation in a post-Six-Party Talks environment
- Multilateral cooperation: cooperation in the fields of logistics, energy, and the environment, etc.
- Multilateral cooperation: utilizing international financial frameworks such as the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), and exploring the concept of a Northeast Asian Development Bank (NEADB)

Discussion of measures to mitigate North Korean risk covered numerous topics and perspectives,

including politics, economics, and society. All of these are necessary, but the fact is that none of these individual measures were entirely novel. To be completely frank, almost all of the assembled experts had seen them at least once before. This was hardly surprising, given that 70 years have passed since the Korean Peninsula was divided in two in the aftermath of World War II and 20 years have already passed since the nuclear crisis in North Korea became an issue of international concern. Over this period, countless people have spent long hours in innumerable rounds of talks about such issues as the peace and stability of the Korean Peninsula, inter-Korean reconciliation and exchange, and *détente*. It is not the kind of problem for which solutions will magically present themselves.

(3) Military Options and the Cost of Inter-Korean Unification

In deliberations at the time of the first nuclear crisis in the mid-1990s, the US Clinton administration came to the conclusion that the option of a military assault on North Korea could result in the ruin of South Korea and cause numerous casualties, including among US troops, so it steered a course toward the Agreed Framework with North Korea instead. Since then, successive US administrations have been skeptical about a military solution to the situation, unless North Korea were to escalate the crisis too far.

Since the 1990s, various estimates of the cost of inter-Korean unification have been made, primarily by South Korea; almost all of these suggest that progressive unification would be cheaper and place less of a burden on South Korea than a sudden unification.

The most recent study was an estimate of the cost of unification in a broad sense, which was put together in November 2014 by the Financial Task Force on Unification, with the participation of South Korea's Ministry of Strategy and Finance and Ministry of Unification.¹ Under this estimate the cost of unification would be \$500 billion. This was based on the Bank of Korea's calculation of the cost of raising North Korean per capita GDP (gross domestic product) from its current level of \$1,251 to \$10,000 – about half of the South Korean level – within 20 years.

The figure of \$500 billion includes \$140 billion for the cost of developing infrastructure such as railways, roads, communications, and ports; and \$35 billion for the cost of industrial development, including the agriculture, forestry and fishery industry and the mining industry, as well as the development of special economic zones. \$250-300 billion of this would be procured via policy finance institutions such as the Industrial Bank of Korea and the Korean Export-Import Bank. The paper also sets out a policy of funding infrastructure development and the like via development

¹ South Korean Financial Services Commission, *Unification of the Korean Peninsula and Financial Policy Challenges* (November 19, 2014)

assistance (\$17 billion) and private sector investment (\$107.2-186.5 billion) from overseas, as well as funds from North Korea's own coffers (\$100 billion).

In December 2015, South Korea's National Assembly Budget Office published a report entitled *Unification Costs Based on Different Inter-Korean Exchange Scenarios and Subsequent Implications*. The following provides an overview of this report's findings.

Figure 1 Unification Costs Based on Different Inter-Korean Exchange Scenarios

Scenario	Start of unification	North Korean per capita GDP as a percentage of the South Korean figure in 2025 (immediately before unification)	Year of completion of unification process (point at which North Korean per capita GDP reaches 66% of the South Korean figure)	Unification cost (Calculated at a rate of \$1 = 1,200 won)
1. Maintenance at current level	2026	4%	2076 (For 50 years)	4,822 trillion won (\$4 trillion)
2. Expansion of humanitarian aid		7%	2065 (For 39 years)	3,100 trillion won (\$2.6 trillion)
3. Full economic cooperation		11%	2060 (For 34 years)	2,316 trillion won (\$1.9 trillion)

Note: North Korean per capita GDP in 2016 is assumed to be 5% of the South Korean figure.

Unification cost refers to the total cost of unification in a broad sense, until the completion of unification.

Source: South Korean National Assembly Budget Office (December 7, 2015)

The foregoing estimates assume that North and South Korea will begin peaceful unification in 2026 and show the cost of unification in each scenario over the decade up to that point, according to the level of inter-Korean economic cooperation. The estimates reflect the cost of unification in a

broad sense, including private sector investment, in order to bring North Korea's per capita GDP up from 5% of the South Korean level (projection for 2016) to 66%; 66% is the level of interregional income disparity within South Korea in 2012. The three scenarios were as follows: (1) maintenance of inter-Korean exchange at the current level (limited exchanges and cooperation); (2) expansion of humanitarian aid, including food, medical, and agricultural development assistance; and (3) full economic cooperation, including the promotion of economic investment. The results show that if South Korea promoted economic cooperation with North Korea, income levels in North Korea would rise quickly, which would more than halve the cost of unification compared with maintaining inter-Korean exchange at its current level.

(4) Examples of Policy Coordination and Comprehensive Programs

The policy menus for reducing North Korean risk include items that are mutually contradictory. This is because North Korean risk consists of risks associated with its "aggressive demeanor toward the outside world" and risks related to its "instability and vulnerability," so the measures for combating these risks tend to be focused in contradictory directions. To put it in terms often used by policymakers, it is a question of dialogue and pressure, or exchange and deterrence. The most important issue is the question of coordination; that is to say, determining which items on these menus to choose and in which order to implement them.

In fact, there are prior examples of comprehensive programs that took such matters into account.

One such example is the joint statement issued on September 19, 2005 following the Six-Party Talks between South Korea, North Korea, the USA, China, Japan, and Russia, which set out the consensus reached on the Korean Peninsula issue by the main countries concerned. The joint statement covered both security and economic matters, and affirmed that the goal of the talks was the verifiable denuclearization of the Korean Peninsula in a peaceful manner. North Korea committed to abandoning all nuclear weapons and existing nuclear programs and returning, at an early date, to the Treaty on the Nonproliferation of Nuclear Weapons and to International Atomic Energy Agency (IAEA) safeguards. The USA, which North Korea regards as its biggest security threat, affirmed that it had no nuclear weapons on the Korean Peninsula and had no intention to attack or invade North Korea with nuclear or conventional weapons.

It incorporated undertakings that the USA and North Korea, whose relationship hitherto had been antagonistic, would take steps to normalize their relations subject to their respective bilateral policies, and that Japan and North Korea would take steps to normalize their relations in accordance with the Pyongyang Declaration, on the basis of the settlement of unfortunate past and the outstanding issues of concern. The Six Parties undertook to promote economic cooperation in

the fields of energy, trade and investment. The USA, China, Russia, Japan, and South Korea stated their willingness to provide energy assistance to North Korea, with South Korea reaffirming a specific proposal to provide 2 million kilowatts of electric power to North Korea.

The Six-Party Talks subsequently entered a period of stalemate over North Korea's 2006 missile launch and nuclear test, but in February 2007, the Six Parties adopted a joint communique entitled "Initial Actions for the Implementation of the Joint Statement." This set out a plan to establish five working groups and the procedure for resolving issues. The working groups were as follows: (1) Denuclearization of the Korean Peninsula; (2) Normalization of North Korea-US Relations; (3) Normalization of North Korea-Japan Relations; (4) Economy and Energy Cooperation; and (5) Northeast Asia Peace and Security Mechanism. The communique referred to the provision of emergency energy assistance to North Korea and presented a vision for building a new security mechanism to support Northeast Asian economic development, as a long-term task. North Korea has long struggled with problems in the areas of security and energy, which are the very cornerstone of economic development, so the agreement had many positive aspects from its perspective. Accordingly, the agreement gave rise to hopes that the suspended talks process would resume and that bringing the content of the agreement to fruition would be the first step toward restoring trust.

However, as is common knowledge, there was no visible progress thereafter. Today, several North Korean nuclear tests later, the Six-Party Talks are regarded as merely having given North Korea the time and leeway to undertake nuclear development. Nevertheless, the reality is that the factors behind the failure to reach an agreement included not only problems on the North Korean side, but also the fact that Japan, the USA, China, South Korea and Russia fell out of step with each other, due to differences in their priorities and motives. Having taken great pains to put together this menu, the five countries failed to demonstrate sufficient determination and solidarity to apply pressure to North Korea. They lacked adequate political power and ability to coordinate with each other. Subtle differences in approach in such areas as security policy are only to be expected, even among allies and nations on friendly terms with each other, but there was even a noticeable disconnect between the stances of the key countries of Japan, the USA and South Korea.

There are precedents for partnership between Japan, the USA and South Korea functioning comparatively well, such as the Trilateral Coordination and Oversight Group (TCOG) meetings instituted between them in the late 1990s. To address the North Korean missile issue, which was a focal point for the USA at the time, President Clinton appointed former Secretary of Defense William Perry – who also enjoyed considerable trust among Republicans – as North Korea policy coordinator, effectively making him the US special envoy on North Korean issues. Through

frequent working-level talks, the three countries coordinated their policies and put together comprehensive programs such as the report that Perry submitted to the US president. One factor contributing to the smooth functioning of this initiative was the relationship of trust that existed between the leaders of the three countries concerned: President Clinton, South Korea's President Kim Dae-jung, and Prime Minister Keizo Obuchi of Japan. The fact that such an eminent personage as former Secretary Perry was in charge of coordinating domestic affairs with foreign policy also helped to facilitate matters. Political leadership is essential, precisely because of the difficulty in achieving a coordinated approach to Korean Peninsula issues.

2. A Season of Politics in Northeast Asia and the Role of Leaders

(1) The Decision That Kim Jong-un Will Have to Make

2016 will be a season of politics in Northeast Asia, with a succession of major elections and meetings scheduled to take place.

Firstly, in North Korea, one of the region's biggest destabilizing influences, the Congress of the Workers' Party of Korea will be held for the first time in 36 years in early May. The Politburo of the Workers' Party of Korea officially announced the convening of the Seventh Party Congress on October 30, 2015; the last time that the Party Congress – North Korea's supreme decision-making body – was convened was the Sixth Party Congress, which took place on October 10–14, 1980.

Naturally, as the Congress of the Workers' Party of Korea was not held at all during the Kim Jong-il era due to economic difficulties, among other reasons, this will be the first time that it has taken place under the Kim Jong-un regime. The Politburo of the Workers' Party of Korea announced that it had decided to convene the Party Congress, "reflecting the demand of the party and the developing revolution that witness epoch-making changes in accomplishing the revolutionary cause of Juche, the cause of building a thriving socialist nation." As such, there is a strong possibility that Kim Jong-un will reveal new policies on domestic affairs and foreign relations. It is expected that North Korea will turn this into a political event for asserting the legitimacy of the succession of power and the administration, and showing audiences both at home and abroad that the Kim Jong-un regime has become firmly established. A proposal for inter-Korean unification based on a federal model emerged from the previous Party Congress in October 1980. In light of subsequent changes in world affairs, attention will focus on the approach to inter-Korean relations that emerges. On the foreign policy front, there is the question of when Kim Jong-un will make his first overseas visit as supreme leader. Also of interest is whether he will choose China as the destination of his first visit and whether relations between China and North

Korea improve to the extent of holding talks with General Secretary Xi Jinping and other top officials, or whether Kim will explore other paths.

In the arena of domestic affairs, North Korea is placing the utmost importance on the economy, taking steps to improve management that will extend the autonomy of those working on the front lines of industry and agriculture, as well as opening up to other countries via special economic zones, so the focus will be on how it develops these measures further. In his 2016 New Year Address, First Secretary Kim Jong-un highlighted “the principle of giving priority to self-development,” stating that North Korea should use its own efforts, technology, and resources to build a thriving nation. Attention will focus on whether North Korea’s economic policy will become more inward-looking or more open in future. While North Korea’s planned economy has been at a standstill, markets have spread throughout the country and changes in people’s lifestyles and values have been occurring. Prioritizing the stability of the regime will lead to reluctance to introduce or reform market mechanisms, but the supreme leader, Kim Jong-un has made a direct promise to the North Korean people that he will improve their standard of living, saying “Our party is firmly resolved to ensure that our people...enjoy all the wealth and prosperity socialism has to offer and never again be obliged to tighten their belts.” As such, he will have to make bold decisions in order to achieve results.

Regarding the crucial nuclear and missile issues, North Korea’s constitution already proclaims it to be a “nuclear state,” so some North Korea watchers take the view that it is extremely unlikely to abandon its nuclear and missile development, now that it has spent such vast sums and has a realistic prospect of creating a missile capable of reaching the USA. However, we must recognize that the international community will not permit North Korea to possess nuclear weapons, so an improvement in its relations with the main countries concerned will be impossible if it continues with nuclear development. Sincere actions to resolve the issue of abductions of Japanese nationals, which Kim Jong-il admitted and apologized for, will also be essential to elicit the cooperation of the international community.

Personnel changes among top officials will also be key in making progress with Kim Jong-un’s raft of policies. The previous Party Congress, in 1980, was the venue at which Kim Jong-il made his first official appearance as President Kim Il-sung’s successor. Kim Jong-un has carried out several reshuffles of key officials since inaugurating his regime. In his speech at an October 2015 event to mark the 70th anniversary of the founding of the Workers’ Party of Korea, he stressed that the Party had set attaching importance to young people as its strategic line, so we are highly likely to see a major generational change at the forthcoming Party Congress. While difficulties will probably arise as a result of his being the third-generation leader, there is no need to fear a

complete change in policy or direction. Personnel is the supreme leader's biggest weapon, so he should have the courage to use personnel as a lever to put an end to incorrect policies and outdated bad habits, and carry out bold reforms.

(2) 2016: Election Year

Outside North Korea, the rest of Northeast Asia faces a year packed with political events, as well.

Across the 38th parallel from North Korea, South Korea's 20th National Assembly elections will take place on April 13. Having been inaugurated in February 2013, President Park Geun-hye and her cabinet have already passed the halfway point and entered the latter half of their five-year term of office. The results of the nationwide legislative elections will have a major impact on the running of the administration in its latter stages, as well as on the selection of candidates for the next presidential election in 2017 and the South Korean political situation thereafter. With North Korea due to hold its Party Congress in early May, what kind of relationship will South Korea build with its northern neighbor once the election results emerge? The direction of inter-Korean relations during President Park's term of office is likely to determine this.

Something that will affect not merely the situation in Asia, but also world affairs as a whole is the US presidential election on November 8. Key points of contention are likely to emerge gradually over the course of the primaries and caucuses, which began in February. US media interest in anti-terrorism measures and Middle Eastern issues appears to be high, but how will matters concerning China and the rest of the USA's Asia policy be positioned? US foreign policy tends to change considerably when there is a change of administration. The Obama administration has adopted a policy of "strategic patience," which means waiting for change in North Korea, but the stance adopted by the next administration will be a major influence on the Korean Peninsula situation. Attention will also focus on whether North Korea – having gone ahead with its fourth nuclear test – will carry out further acts of provocation or embark upon a bold dialogue offensive.

The US-China relationship is a major variable affecting the Asia-Pacific regional situation and conflict between the two countries has been deepening over the South China Sea situation and cyber-attacks. The Obama administration has left handling of the North Korea issue up to China, to a great degree, but the direction taken by US-China relations under the new administration will influence the situation on the Korean Peninsula going forward. In China, jockeying for position is expected to get underway in earnest, with a view to the appointment of senior party officials at the 2017 Communist Party Congress. In Russia, the State Duma elections that were initially due to take place at the end of 2016 are now expected to be brought forward to September. President Putin's

term of office runs through to the spring of 2018 and the State Duma elections are positioned as a preliminary skirmish in the next presidential election. Inevitably, the repercussions of the domestic affairs and power games of these three major powers – the USA, China, and Russia – seem likely to extend all the way to the Far East.

Japan, too, is facing a national election, with an election for the House of Councillors due to take place this summer. The administration of Shinzo Abe has positioned the resolution of the abduction of Japanese nationals as one of its most important tasks. Ahead of the House of Councillors election, the G7 Leaders' Meeting (the Ise-Shima Summit) will be held in Mie Prefecture on May 26-27. In the field of politics, measures to counter the extremist organization Islamic State (IS) are expected to be discussed, but Japan's prime minister is likely to use his authority as the leader of the chair country to focus on the question of how to deal with the Korean Peninsula and the South China Sea, among other East Asian issues.

(3) Involvement of Top Leaders and New Umbrella Negotiations

While election years can have a negative side, with the emergence of a political vacuum, they can also mean that complex webs of interests are more clearly defined, as they become subject to the verdict of the people. We must also be conscious of this fact in regard to the Korean Peninsula situation.

Quite often, in an election, there is a tendency for appeals to the electorate by political parties and candidates regarding policy on countries such as North Korea to take one of two tacks: dialogue or pressure. However, oversimplifying the issue is not very meaningful. This is because, as described above, there are two sides to North Korean risk, so if the issue cannot be fully cleared up by means of war, then any measures to deal with the situation need to tackle both aspects as well. The most important issue is the question of balance and coordination; that is to say, determining which items on these policy menus to choose and in which order to implement them.

Public support is essential to decisions on major issues, but leaving everything up to public opinion renders politics or diplomacy meaningless. Appealing to nationalism and competing to establish the most hard-line stance on foreign affairs in a bid for popularity is the height of folly. While some have highlighted problems concerning its content and procedures, the fact that Japan's new security legislation was enacted before North Korea's fourth nuclear test was perhaps a spot of luck for Japanese authorities, in a sense. One cannot deny that if it had been enacted immediately after the test, it could have been interpreted as a panicked response on the part of Japan, thereby further ratcheting up tensions in Northeast Asia. That would have played into North Korea's hands. The requisite security frameworks must be put in place in times of peace.

Rather than leaving negotiations with countries such as North Korea up to the court of public opinion, it is necessary to distance such issues from domestic affairs, to some extent, and to endeavor to explore responses calmly, based on objective information and data. In fact, the USA and South Korea have hitherto alternated between taking a conciliatory line and taking hard-line measures vis-à-vis North Korea, but neither an exclusively cooperative stance, nor an approach based entirely on pressure have been able to bring about radical change in North Korea. A former diplomat summed up the lessons learned from dealing with North Korea over the last 30 years or so as follows: “If you focus on economic cooperation first, they just ‘eat and run,’ enjoying the benefits without giving anything in return; if you apply pressure alone, it just triggers a backlash.”

While North Korea should be reflecting on its failure to enrich its people through its adherence to a military-first diplomacy of brinkmanship, there is something that its neighbors should learn from their experiences to date. Over the 20 years or so since the issue of North Korea’s nuclear development first raised its head, the Korean Peninsula situation has involved repeated bouts of tension and dialogue. Every time that the crisis level has risen due to North Korea’s military provocation or development of weapons of mass destruction, the countries concerned have sought to restore calm by providing North Korea with economic support, but they have failed to reach a fundamental solution to the problem. We must not forget that the power struggles and lack of solidarity among these countries not only allowed North Korea to take advantage of the situation to postpone denuclearization initiatives and economic reform, but also gave it sufficient time to improve its nuclear missile capabilities. In seeking institutional transformation with the goal of denuclearization and economic development, it is vital for the countries concerned to coordinate their actions fully.

Coordination between countries requires resolve on the part of their leaders. Looking back over the history of negotiations with North Korea, the greatest progress was made when the leaders of each country made a determined effort to undertake comprehensive negotiations with North Korea’s supreme leader. There are limits to what can be achieved through working-level talks alone when it comes to problems involving regions with a long history of conflict and an intricate web of other countries’ interests, as is the case on the Korean Peninsula, so determination and political leadership on the part of national leaders are essential. North Korea is involved in complex problems, including the abductions issue, as well as the nuclear and missile issues, so it would be most effective to undertake summit-level negotiations as a big package that brings all of the leaders together.

In fact, the reason why there has been no progress on security issues on the Korean Peninsula hitherto is that the status quo was not necessarily all bad for the administrations of the countries

concerned. It is not only China that would face the risk of an influx of refugees and consequent impact on domestic affairs from North Korea, which is positioned as a buffer zone against the USA and South Korea. Even in the other countries concerned, dynamics that were actually seeking the maintenance of the status quo also came into play.

However, the situation in North Korea has already gone beyond the bounds of what is permissible. While we should avoid giving anything to North Korea in return for simply holding talks, we should carefully examine and compare the risks of leaving things as they are and the risks of engagement. If we want to finally succeed in moving a mountain that has remained immovable for a long time now, we must develop better-modulated policies and put together a stronger menu than before, which both applies pressure and offers incentives to North Korea. We should be prepared for a little friction. While ensuring that we have a risk management plan equipped for a worst-case scenario, we must build a negotiating framework that involves the top leaders of all relevant countries so that we can zero in on a comprehensive solution. Of all the conceivable peaceful methods, this is probably the most feasible approach.

While North Korea only occupies a small amount of land, it is rich in rare metals and other natural resources, and it has a highly educated population. If we get the policy right, it has the potential to achieve economic development within a short period. Geographically, it is positioned in a crucial location, so it could be the key to promoting Northeast Asian economic cooperation in such areas as logistics and energy. If the leaders of North Korea and the other countries concerned demonstrate adequate determination, they could build a win-win situation. Above all, neighboring countries will need to look at this as a chance to turn risk into opportunity.

(4) The Roles of the USA and China and the Importance of Cooperation between Japan and South Korea

What will be vital in doing so will be the roles of the USA, which boasts the world's strongest military capacity, and China, which has considerable influence over its neighbor, North Korea. Even after the presidential election, the vacuum in US policy on the Korean Peninsula could continue for some time, as it will take a while for the new administration to formulate its Asia policy. It is precisely at a time like this that the leaders of Japan and South Korea have a more substantial role to play, given their location in East Asia. While there may be some differences in nuance, many of the risks posed by North Korea to Japan and South Korea are the same, so the two countries need to join forces and seek the cooperation of the USA and China.

Needless to say, China's cooperation will be essential in increasing the effectiveness of sanctions against North Korea, which has repeatedly carried out nuclear and missile tests. While China-North Korea relations cooled as a result of the fourth nuclear test, various moves are underway behind the

scenes. There is information to suggest that talks are underway regarding China's "One Belt, One Road" (New Silk Road) initiative aimed at creating a new economic bloc, as well as infrastructure support for North Korea. Depending on the approach, this could be a positive development for Japan and South Korea, but it has the potential to be a negative one in the absence of coordination with the relevant countries.

If North Korea's dependence on China becomes too strong as a result of the expansion of economic cooperation, the kind of inter-Korean unification desired by South Korea will become a distant prospect. The strengthening of Chinese control over North Korea could have a serious impact on Japan's security, if the Sea of Japan became an inland sea for China. Lacking an outlet to the Sea of Japan, China has embarked on joint development of the port city of Rason in northeastern North Korea; at the same time, in 2011, two of its naval vessels called at the port of Wonsan, a key North Korean city on the Sea of Japan. The situation is transitioning from North Korean risk and developing into Chinese risk. It will likely be necessary to look back over the history of conflict between Japan and China over the Korean Peninsula, which dates back centuries.

There are limits to what Japan and South Korea can achieve alone in dealing with China as it pursues its own national interests. They will likely need to make the new US president aware of how important the Korean Peninsula issue is amid a myriad of international issues, and to have the USA step up its approaches to China on this issue. Preparations for this must begin right away. While there is a possibility of bringing the USA and China together in addressing North Korea's fourth nuclear test, as it relates to nuclear nonproliferation, power struggles in East Asia are involved in the question of precisely how to deal with the issue, so it could become a factor that escalates antipathy between the USA and China. Stuck in the middle between them, Japan and South Korea will need to work carefully together to lead the USA and China in a positive direction.

On December 28, 2015, the governments of Japan and South Korea reached an agreement that represented a "final and irrevocable resolution" to the issue of the Imperial Japanese Army's comfort women, which was the biggest outstanding issue between the two countries, but they have only just begun to rebuild the badly damaged relationship between them. If the leaders of two countries refuse to engage with each other, the bureaucracy below them will not take any action. As with the shuttle diplomacy that used to take place decades ago, the leaders of both countries must build a relationship in which they meet often and discuss outstanding issues of concern between them.

It is odd that Japan and South Korea cannot undertake in-depth discussions of their responses to North Korea and security issues unless the USA is involved as an intermediary. The foreign affairs and defense authorities of both countries finally held security dialogue in the spring of 2015, after

an interval of five years. As well as the resumed director-general-level talks, they should hold ministerial-level 2+2 dialogue. Aides close to the leaders were involved in coordinating the arrangements that led to the November 2015 summit meeting taking place between Prime Minister Shinzo Abe and President Park Geun-hye, marking the first time that the leaders of these two countries had met for three and a half years, but the heads of the administrative bodies that support the National Security Council (NSC) in both countries must also build relations that will facilitate routine exchanges of frank opinions concerning security and strategic issues.

It is also important for the political leaders of both countries to adopt a more strategic perspective in discussing such issues as South Korea's participation in the Trans-Pacific Partnership (TPP), the Japan-South Korea Economic Partnership Agreement (EPA), and the China-Japan-South Korea Free Trade Agreement (FTA), with a view to the North Korea issue and the future development of a Northeast Asian economic zone.

All of these things are possible if the leaders of these countries demonstrate their resolve to make them happen. The political leaders of Japan and South Korea must not lose sight of the big picture and bring about a situation in which they again lock horns over low-priority issues. How can we reduce the risks in this region, particularly those arising from the North Korea issue? Having reached a turning point, the situation in Northeast Asia will not wait while the region's political leaders procrastinate. We have just marked the passing of 70 years since the end of World War II and 50 years since the normalization of diplomatic relations between Japan and South Korea. Particularly at a time like this, the leaders of the Japanese and South Korean government administrations have a duty to undertake in-depth discussions with a view to the next 50 years, and to make progress with initiatives aimed at achieving peace and development in Northeast Asia.

References

- Atsushi Ijuin (2002) “*Kimu Jon Iru ‘kaikaku’ no gyojitsu*” [Truth and falsehood of Kim Jong-il's ‘reforms’] Nikkei
- (2013) “*Chūchō keizai kankei no shintenkaï*” [New developments in China-North Korea relations], in Lim Hua Sing ed. “*Ajia kyōdotai—sono kōzō to kadai*” [An Asian community: Concept and challenges] Sososha
- (2014) “*Kitachōsen no keizai kaikaku de arata na ugoki Toppu ga gōrei, ‘shijōka’*”

susumu tokku” [New developments in North Korea’s economic reforms Under orders from the top, the special zones introduce market mechanisms]

Japan Center for Economic Research Staff Report

<http://www.jcer.or.jp/report/researcher/index.html>

————(2014) “*Seisai kaijo wo machiwabiru Kitachōsen kigyō Datsuchūgokuizon he, bōeki takakuka wo suishin*” [North Korean companies eagerly await the lifting of sanctions Promoting the diversification of trade to reduce reliance on China]

Japan Center for Economic Research Staff Report

————(2015) “*Motomerareru hokutōajia senryaku no saikōchiku—Chiiki kyōryoku no kanōsei to kadaï*” [The restructure required in Northeast Asian strategy—The potential for regional cooperation and the challenges faced therein] Japan Center for Economic Research “*Hokutōajia no keizai renkei—Sengo 70 nen, kawaru keizai chizu*” [Economic partnership in Northeast Asia—The changing economic map, 70 years after the war]

————(2015) “*Kitachōsen jirenma kakae keizai kaikaku tesaguri—Zōsan mezashi, kōgyō/nōgyō de jishuken kakudai*” [Facing a dilemma, North Korea gropes its way to economic reform—Expansion of autonomy in the industrial and agricultural sectors, with the aim of boosting production] Japan Center for Economic Research Staff Report

————(2015) “*Gaishi yūchi, Genzan—Kumugansan no kankō kaihatsu ni shōjun—shikōsakugo no kin’yū kaikaku Shinrai kaifuku ga saidai no kadaï*” [Wonsan seeks to attract foreign capital—Sights set on tourism development at Mount Kumgang—Economic reform by trial and error Restoring trust is the biggest challenge] Japan Center for Economic Research Staff Report

Atsushi Ijuin (2014) “A firsthand look at North Korea’s marketization” NIKKEI ASIAN REVIEW (Dec. 1-7, 2014)

————(2015) “North Korea looks to cut Chinese apron strings” NIKKEI ASIAN REVIEW (Jan. 12-18, 2015)

————(2015) “FLIRTING WITH CHANGE—Pyongyang comes as close as it dares to economic reform” NIKKEI ASIAN REVIEW (Nov. 30-Dec. 6, 2015)

————(2015) “ROOMS AVAILABLE—Desperate for foreign investment, Pyongyang targets tourism” NIKKEI ASIAN REVIEW (Dec. 21-27, 2015)