Relations between Japan and the two Koreas were relatively calm through the middle four months of 2014. The most significant events centered on domestic issues that had implications for relations among the countries, with Japan’s reconsideration of the Kono Statement being the most notable. In all, relations remained frozen. In particular, ROK-Japan political relations remained “the worst of times.” But, so far these troubles have not had a significant impact on economic relations. Meanwhile, the DPRK and Japan have begun tentative moves to repair their relationship, which could have major consequences for regional security if they are sustained. While “the best of times” may be a bit of an exaggeration, it is worth noting that even though political relations are not deeply peaceful across East Asia, deadly conflict – or even economic sanctioning – is relatively rare, with the exception of North Korea. Disputes between other countries remain confined to the rhetorical and diplomatic spheres, and economic cooperation continues to grow in many sectors and across many borders.

A different entourage, peripatetic leaders, and a whole lotta lawsuits

There was a growing recognition of various alignments or “cliques” forming in Northeast Asia – some placing emphasis on deteriorating China-North Korea relations, others on the toasty China-South Korea relationship, and still others on a warming Japan-North Korea dyad. Of course, one commonality was that none seemed to be placing Tokyo and Seoul on the same axis. In an editorial in the Huffington Post, Park Jin, Wilson Center global fellow and professor at the Graduate School of International and Area Studies at Hankuk University, claimed that “We are in the middle of a Hobbesian transformation of the post-Cold War regional order in Northeast Asia.” His editorial started by welcoming Chinese President Xi Jinping’s latest visit to Seoul. Some chose to interpret Xi’s visit as a sign of cooling relations between China and North Korea. The implication for Tokyo-Seoul relations was that the two states harbored much of the sentiment from early-2014: a Not-In-My-Backyard (NIMBY) type of diplomacy, focusing on diplomacy in far-flung places rather than with immediate neighbors.

Nowhere was this more evident than in Japanese Prime Minister Abe’s itinerary for the months of May to August. In particular, his meeting with Israeli Prime Minister Benjamin Netanyahu in mid-May was notable given that this was the first visit by an Israeli leader to Tokyo in six years (no Japanese prime minister has visited Israel since 2006). After acknowledging “common challenges” stemming from nuclear proliferation (i.e., Iran and North Korea) and reaffirming greater economic cooperation, Netanyahu apparently stated that “We are turning east, and we want you also to turn in the direction of Israel. Your technological cake is worth more if it is topped with an Israeli cherry.” There were some awkward moments in early July during a photo
opportunity with Australia’s Prime Minister Tony Abbott, when they posed next to a haulage truck tire at an iron ore mine in West Australia, with some calling the shot “**cringe-worthy**.” *The Washington Post* laid out a picture of a peripatetic leader in reporting on Abe’s 10-day, five-nation tour of Latin America and the Caribbean, noting that Abe had visited 47 countries since being elected in 2012.

It seemed unfortunate that Korea could not make it into the list of 47 countries, amidst continued reports of a bilateral summit being rebuffed on the part of Seoul. President Park Geun-hye did meet the governor of Tokyo (and envoy of Prime Minister Abe) in late July at the Blue House – the first ranking Japanese official to be greeted since Park’s inauguration. Also, director-general level talks aimed at discussing the sexual enslavement of Korean women by the Japanese Imperial Army during World War II resumed in May (three rounds were held by the end of July). Nevertheless, the decision by the Abe Cabinet to review the landmark 1993 Kono Statement, which included an acknowledgement of the forced recruitment of Korean women as wartime sex slaves, instigated much anger from Seoul, despite Tokyo’s final verdict in June to respect the initial statement. Moreover, by the end of the month, the Korean media have reported plans by the Seoul government to release a three-volume white paper by July 2015 based on Japan’s wartime sexual enslavement of Korean women. The issue started expanding into different platforms once revelations surfaced in early August of factual errors in reporting on the so-called “comfort women” by *Asahi Shimbun*, which relied on unsound testimonies made by Yoshida Seiji (deceased). This sparked other newspaper outlets based in Japan to call for a more thorough look at the coverage.

In fact, some outlets were busy dealing with their own complications: Sankei’s Seoul bureau chief, Kato Tatsuya, became the defendant in a defamation suit filed by a conservative South Korean civic organization in early August, for an article that had run in the online edition of the paper. The article allegedly put forth a claim that the seven-hour period in which President Park was unaccounted for on the day of the tragic sinking of the *Sewol* ferry in April was due to her clandestine meeting with a divorced former aide. Given the lingering doubts within South Korea about the crisis management skills of its government, combined with calls by both Japanese and foreign correspondents in describing Seoul’s latest move as an attack on free speech, it will be interesting to track the eventual fate of Kato.

The Japanese media also did not pass up the opportunity to liken Seoul’s actions to the pot calling the kettle black, referring to the lawsuit filed against the Korean government by 122 South Korean “comfort women” who served US troops during the 1960s and ‘70s. Given the strong association of the label “comfort women” with the Japanese Imperial Army, the recent lawsuit lodged with the Seoul District Court on June 25 represents a rather awkward development on the part of Seoul in dealing with not only Japan, but also the US. The Korean Ministry of Gender Equality and Family has declined to comment on the lawsuit, while the US military in Korea only confirmed awareness of the suit. What is perhaps most disconcerting here is that a journal article [Katharine H.S. Moon, “South Korean Movements against Militarized Sexual Labor,”*Asian Survey*, Vol. 39, no. 2 (Mar/Apr. 1999): 310-27] written more than a decade ago still seems as if it was written yesterday. In the piece, the author analyzes two movements: the *Chongsindae* Movement (CM) and the *Kijich’on* Movement (KM), the former referring to those Korean women demanding reparation and an apology from the Japanese government for
their sexual enslavement during World War II, and the latter involving the group of women and men who have sought to publicize their (mis)treatment as prostitutes in US military camp towns (kijich’on). Despite the parallels between the two movements, they have had widely differing successes in garnering international recognition for their cause, which the author attributes to ideological disparities regarding sexual norms, nationalism, and the level of political activism by the two movements. Moon sums up nicely the asymmetric response to the two groups in the following way:

If the moral and legal burden of the chongsindae system falls on the Japanese people and government, then the moral and legal burden of the kijich’on system falls on Koreans, the Korean government, and the U.S. military. Owing partly to these differences, the KM’s understanding of nationalism is more complicated. For the KM leaders and staffers, it is not only a foreign government (military) that serves as the oppressor of women but also the Korean government, especially the former military regimes, that sought U.S. protection and tutelage (p. 321).

The KM movement is an undeniable, yet often silenced victim of South Korea’s feud with Japan; at the same time, one that provides Japan with more ammunition to attack the Seoul government for its “duplicitous” behavior of only highlighting the wrongdoings of the Tokyo government. The sad reality is that any negative news concerning Japan is almost always over-reported by the Korean media. A case in point is the coverage in mid-June of the group of women that applied for a court injunction to ban sales of a book written by Park Yu-ha, a Japanese language professor at Sejong University, which apparently depicts women who were forced into sexual slavery during Japan’s colonial rule as “prostitutes” and “collaborators” of Japan. Nevertheless, the June lawsuit filed by the 122 women is something to keep an eye on.

The enemy of your enemy is my friend

The stalemate between Tokyo and Seoul did not deter the warming of relations between Japan and North Korea. Official talks started in May when Ihara Junichi, director general of the Asian and Oceanian Affairs Bureau at the Japanese Foreign Ministry, met Song Il Ho, North Korea’s ambassador for talks to normalize relations with Japan, in Stockholm. Shortly thereafter, North Korea announced that it would open a new investigation into the abduction of Japanese citizens, reversing its earlier position that the case had been closed. In July, the two met again in Beijing, which received rare mention by the Korean Central News Agency (KCNA).

Amidst reports of Xi Jinping’s visit to South Korea and speculation that Xi’s decision to visit Seoul ahead of Pyongyang was a signal of cooling China-DPRK relations, Prime Minister Abe announced that Japan will ease partial sanctions levied on the North. The decision was made with the understanding that Pyongyang would set up a special entity to investigate the status of Japanese abductees, which would eventually lead to lifting travel bans, loosening Japanese oversight of remittances, and allowing port calls by North Korean ships for humanitarian purposes. Despite memories of a similar pledge by the North falling through in 2008, the Tokyo government was hopeful, with Chief Cabinet Secretary Suga Yoshihide claiming that Japan expected to receive an initial report from Pyongyang on the abduction issue by the end of the summer. Current speculation is that the report will be released sometime in September.
Alongside the inter-governmental track, sports diplomacy has also made a comeback with news in early July that Japanese wrestler-turned-politician Kanji “Antonio” Inoki was collaborating with Chang Ung, North Korea’s official International Olympic Committee member to organize an international wrestling exhibition for Aug. 30-31 in Pyongyang. It was reported that the event would bring together at least 21 competitors from Japan, the US, France, Brazil, China, and the Netherlands. It is difficult to completely forget the event a couple months earlier when Dennis Rodman held a basketball tournament in Pyongyang – something that left lingering questions as to whether the event was a testament to the limits of sports diplomacy in general or the charms of one sports personality in particular. The Washington Post story on the topic quoted Joseph Nye, who remarked that “When it comes to North Korea, I tend to be a little bit skeptical about these sorts of things.” The Japan Times article highlighted previous successes on the part of Inoki, like his efforts to secure the release of 41 Japanese hostages in Iraq during the Gulf War back in 1990, after meeting with Saddam Hussein’s son and hosting a wrestling show in Baghdad. Inoki allegedly also converted to Islam that same year in hopes that this would facilitate a more congenial condition for negotiations with the Iraqi leaders. In contrast to these potentially positive developments between Japan and North Korea, the Korea Football Association (KFA) announced in mid-July that there will be no friendly match this year between South Korea and Japan, once again, showing a diverging mood across the two dyads.

For Japan, the euphoria that comes with any (unilateral) headway in negotiations with Pyongyang is almost always weighed against the concerns that directly follow from its neighbor (South Korea) and ally (US). Sure enough, Kyodo News reported in mid-July that US Secretary of State John Kerry had been on the phone with Japanese Foreign Minister Kishida Fumio to relay US concern over the potential impacts the Tokyo-Pyongyang bilateral track could have on US-Japan-South Korea trilateral cooperation on the denuclearization front. Earlier in May, the US had indicated that its support for an improvement in the Japan-North Korea relations was conditioned on progress made in denuclearizing the North. Similarly, Seoul also warned of the possible negative implications of placing the abduction issue on center stage while sideling other items. The mood was certainly not helped by North Korea’s decision to continue testing ballistic missiles – one in late June, and another in early July. Nevertheless, a looming “disjointedness” was placated to some extent by tripartite defense ministerial talks on the sidelines of the Shangri-La Dialogue in Singapore on May 31, and trilateral military talks on the sidelines of the Rim of the Pacific (RIMPAC) exercise in Hawaii the following month.

When trade follows the flag

A recurring theme in both the empirics of the Japan-Korea dyad as well as some discourses within academia is: what impact does politics have on economic relations (or does trade follow the flag)? For the most part, the economic cog in the Tokyo-Seoul relationship wheel has turned regardless of sordid news in the political sphere. It is unsettling then, that there were reports during May-August of troublin developments.

The first concerned results of a Thomson Reuters/INSEAD Asia Business Sentiment Survey released in June. The survey constructs a quarterly index based on responses from 200 top companies in 11 economies based in the Asia-Pacific, with a reading above 50 indicating a positive outlook/sentiment by the businesses in the region. Both Japan’s and South Korea’s index
fell in June, from 59 to 56 and 67 to 50, respectively. Companies in both regions had mutual concerns about rising costs, with fewer reports of higher employment. Another poll conducted for Reuters by Nikkei Research found that one-third of Japanese business executives (that took part in the survey) believed that diplomatic tensions with China and South Korea hurt business, leading to a decrease in sales and procurement and moving forward with deals, due to communication issues.

In late August, another Reuters poll highlighted some trends in corporate Japan (but have unmistakable parallels to South Korea) that may make conditions harder for firms, and thereby also have consequences on bilateral relations. For instance, the poll found that roughly 60 percent of Japanese firms are hard hit by labor shortages, which is pushing up hiring costs and affecting profits. The backdrop of an aging society combined with limited immigration has frequently been documented. But in the case of Japan, labor shortages are particularly poignant since the country’s need for workers in the post-2011 earthquake and tsunami along with preparations for the 2020 Olympics is high. A similar story could be told for its neighbor, where the Seoul government announced on Aug. 26 that the country had recorded its lowest birthrate to date since 1970, with 8.6 babies per 1,000 South Koreans being born in 2013. This came shortly after results of a simulation commissioned by the South Korean National Assembly, which warned that South Korea may face natural extinction by 2750 given the current birth rate. A Wall Street Journal blogpost on the simulation cites some caveats that were obviously left out of the simulation, such as potential rebounds. Although the post mentions the success of Park Chung-hee’s national family planning campaign during the ‘60s, it ends quite ominously, stating that “Park’s oldest child, current President Park Geun-hye, has no offspring.”

There are also concerns about Japanese growing dominance in Korea’s savings market, though this is a relatively newer field than Japan’s traditional control in the lending market. Reports surfaced that Standard Chartered Korea had agreed to sell two of its units – SC Savings Bank and SC Capital—to J Trust, a Japanese-based finance company. J Trust previously acquired Mirae (Chinae) Savings Bank in 2012, including other small- and mid-sized payday loan providers such as KJI Capital and Hi Capital. The lending market (and perhaps the newly emerging savings realm) is an interesting case as it has rarely been charged with nationalistic sentiments despite the clear Japanese presence in the loan industry and the ease with which a foreign country could squeeze the lifeline of one’s citizens.

On July 2, Korea’s Financial Supervisory Service (FSS) announced that it had approved the acquisition of Yeju Savings Bank and Yenarae Savings Bank by the Japanese company A&P Financial, which runs the leading private lending brand Rush N Cash. A&P Financial opened its savings bank the same month under the name of “OK,” short for “Original Korean.” A&P Financial has been a mainstay in Korea’s private lending market, with Rush N Cash taking the top position in profits. The comparative figures provided in the table below, which were released by the FSS in March (for the accounting period of July 2012 to June 2013), is well worth a look as it clearly shows the strength of the Japanese firms in the Korean market.
Currency: won

<table>
<thead>
<tr>
<th></th>
<th>Korean Firms 7/2012-06/2013</th>
<th>Japanese Firms</th>
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<tbody>
<tr>
<td>32.8 billion</td>
<td>Net Profit</td>
<td>296.5 billion</td>
</tr>
<tr>
<td>3.2974 trillion</td>
<td>Total Debit Balance</td>
<td>4.4377 trillion</td>
</tr>
<tr>
<td>2.6406 trillion</td>
<td>Unsecured Loans</td>
<td>4.3550 trillion</td>
</tr>
<tr>
<td>656.8 billion</td>
<td>Secured Loans</td>
<td>82.8 billion</td>
</tr>
<tr>
<td>754,985</td>
<td>Number of Customers</td>
<td>1,491,439</td>
</tr>
<tr>
<td>37.80%</td>
<td>Interest Rate (Average)</td>
<td>28.90%</td>
</tr>
<tr>
<td>6.30%</td>
<td>Delinquency Rate</td>
<td>9.50%</td>
</tr>
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</table>

There is no indication yet that political tensions have any noticeable impact on the progress of Japanese firms in either the Korean lending or savings market, which is certainly a welcome counter to the purported dim business sentiments.

**Autumn 2014**

The last four months of 2014 may see some improvement in ROK-Japan relations, although it would be wise not to be too optimistic. There is an internal sense among the South Korean leadership that improving relations with Japan should be a priority. Whether the desire to move forward translates into any type of meeting remains to be seen, but at least such discussions are quietly beginning in Seoul. As for DPRK-Japan relations, although the steps forward appear clear, the real question is whether it is possible for the North Korean leadership to provide any more clarity on the abductee situation. If, against all expectations, the DPRK can make significant steps to resolving the abductee situation, it is quite likely that the Japanese will respond positively. However, if history is any guide, this is unlikely to happen. In short, the most likely scenario for the near term is more of the same.

**Chronology of Japan-Korea Relations**

**May – August 2014**

**May 12, 2014:** Japan’s Toyo Engineering Corporation (TOYO) announces that a consortium including TOYO and three South Korean companies has won a contract worth $3 billion to build a large gas chemical complex in western Turkmenistan.

**May 15, 2014:** Japan and South Korea hold director-general level talks in Tokyo regarding the Japanese Army’s sexual enslavement of Korean women during World War II.

**May 26, 2014:** Ihara Junichi, director general of the Asian and Oceania Affairs Bureau at the Japanese Foreign Ministry, and Song Il-ho, North Korea’s ambassador for talks to normalize relations with Japan, meet in the Swedish capital of Stockholm.

**May 29, 2014:** As a result of negotiations in Stockholm, North Korea agrees to open a new investigation into the abduction of Japanese citizens, reversing Pyongyang’s earlier insistence that the abduction issue had already been settled.
May 29, 2014: Yonhap News reports that Seoul and Washington’s support for improvement in Japan-North Korea relations is conditioned on progress in denuclearizing North Korea.


June 4, 2014: Letter to the US White House endorsed by Senators Tim Johnson (D-SD), Martin Heinrich (D-NM), and Mark Begich (D-AK) urges President Barack Obama to increase efforts to address the issue of Japan’s sexual enslavement of women during World War II.

June 8, 2014: Bae Chun-hee, a former South Korean “comfort woman” or “sexual slave” for the Japanese Imperial Army during World War 2 passes away at the age of 91. Her death leaves 54 Korean “sexual slave” survivors, from an initial 237 that were registered on the government list.

June 15, 2014: Korea Times reports the Japanese embassy rejected all South Korean female applicants 26 years or older for working holiday visas in Japan, in a bid to curb prostitution.

June 16, 2014: Korea Herald reports that Standard Chartered Korea has agreed to sell two of its units – SC Savings Bank and SC Capital – to a Japan-based finance company, J Trust. Pending approval from financial regulators in both Japan and Korea, this will mark the first acquisition of a Korean-based savings bank by a Japanese lender.

June 17, 2014: During his confirmation hearing in the US Senate, Mark Lippert, nominee for US ambassador to South Korea, expresses his intention to work to enhancing dialogue between Seoul and Tokyo.

June 20, 2014: South Korean Navy holds live-fire drills near Dokdo/Takeshima Islands. Japan’s Chief Cabinet Secretary Suga Yoshihide denounces the exercises.

June 20, 2014: Abe administration announces the decision to uphold the 1993 Kono Statement that includes an apology for sexual enslavement of women by the Japanese imperial army during World War II. The finding that there were multiple consultations between Tokyo and Seoul over the wording of the statement sparks outcry from the South Korean government.

June 23, 2014: In an interview with the Korea Times, CEO of the Korea Tourism Organization (KTO), Byun Choo-suk, cites the need to reduce dependence on foreign visitors from China and Japan, and to diversify the targets of Korean tourism.

June 23, 2014: South Korea’s Vice Foreign Minister Cho Tae-Yong summons Japanese ambassador to protest Japan’s review of the Kono statement.

June 24, 2014: South Korea’s Vice Foreign Minister Cho Tae-yong meets US Deputy Secretary of State William Burns in Washington to relay Seoul’s concerns regarding Japan’s review of the Kono Statement.
June 25, 2014: *Japan Times* reports on the “embarrassing distraction” for the South Korean government of a lawsuit brought on by its own nationals – 122 Korean survivors or “comfort women” who are claiming that the South Korean government abused them as prostitutes for US troops stationed in Korea during the 1960s and ‘70s.

June 30, 2014: South Korean National Assembly’s Foreign Affairs Committee adopts resolution denouncing Japan’s review of the Kono Statement.

July 1, 2014: Abe Cabinet adopts a resolution lifting the ban on exercising collective self-defense and outlines a shift that relaxes restrictions placed on Japan’s Self-Defense Forces (SDF) to aid an ally under attack along with activities in UN-led peacekeeping operations.

July 1, 2014: US state of Virginia’s law regarding the use of “East Sea” alongside “Sea of Japan” in all new public school textbooks goes into effect.


July 3, 2014: *Korean Central News Agency (KCNA)* reports on inter-governmental talks between Japan and North Korea in Beijing.

July 4, 2014: *Asahi Shimbun* reports that Prime Minister Abe has announced that sanctions regulating travel and money transactions involving North Korea will be lifted.

July 4, 2014: In an address at the Seoul National University, Chinese President Xi Jinping stresses the joint suffering of China and South Korea under Japanese colonial rule. According to *The Japan Times*, Chief Cabinet Secretary Suga Yoshihide reportedly said that “Any attempt by China and South Korea to coordinate in picking apart past history unnecessarily and making it an international issue is utterly unhelpful for building peace and cooperation in the region.”

July 7, 2014: Japanese wrestler-turned-politician Kanji “Antonio” Inoki announces that he and Chang Ung, North Korea’s official International Olympic Committee member, will organize an international wrestling exhibition on Aug. 30-31 in Pyongyang.

July 10, 2014: *Bloomberg News* reports that Kyocera has filed a suit with the Tokyo District Court against the Japanese arm of the South Korean conglomerate Hanwha Group – Hanwha Q Cells – for patent infringement on its solar panels technology.

July 11, 2014: South Korean National Assembly’s Foreign Affairs Committee passes resolution denouncing latest moves by the Abe administration to expand the role of its military.

July 16, 2014: Korea Football Association (KFA) announces that there will be no friendly match this year between South Korea and Japan.

July 16, 2014: According to Kyodo News, US Secretary of State John Kerry warned Japanese Foreign Minister Kishida Fumio via phone that trilateral cooperation among the US, Japan, and South Korea could be disrupted if Japan-North Korea relations progress along separate tracks.

July 17, 2014: Poll conducted for Reuters by Nikkei Research reveals one-third of Japanese firms believe their business is hurt by political tensions with China and South Korea.

July 17, 2014: Poll conducted by the Genron NPO and the East Asia Institute shows percentage of Japanese that hold a negative impression of South Korea increased from 37.3 percent in 2013 to 54.4 percent in 2014, while those with a positive impression fell from 31.1 to 20.56 percent.

July 17, 2014: South Korean Ministry of Gender Equality and Family announces that it plans to apply for UNESCO designation for documents regarding those women forced into sexual slavery under the Japanese Imperial Army during World War II.

July 17, 2014: UN Human Rights Committee tells Japan to adopt the phrase “enforced sex slaves” in reference to those who were forced into military brothels during the Pacific War, resulting in disapproval by the Japanese delegates at the meeting in Geneva, Switzerland.

July 22, 2014: Seoul Administrative Court orders the government to disclose the negotiation process involved in the Japan-Korea military information sharing deal that fell through in 2012.

July 23, 2014: Officials from Japan and South Korea meet for the third round of high-level talks in Seoul, on the subject of sexual slavery or “comfort women.”

July 25, 2014: Korea Times states that President Park has rebuffed proposals for meetings put forth by Prime Minister Abe including the scheduling of a bilateral summit.

July 25, 2014: President Park meets Masuzoe Yoichi, the governor of Tokyo and Prime Minister Abe’s envoy, at the Blue House in Seoul.

July 28, 2014: Citing data released by the Financial Supervisory Service (FSS), Yonhap News reports Japanese leasing companies are gaining more ground in the Korean secondary financial market through acquisition of local savings banks.

Aug. 3, 2014: Kyodo News reports that the Japanese Coast Guard rescued four North Korean fishermen that had drifted into Japanese waters due to engine failure.

Aug. 4, 2014: Lawsuit filed by a group of Japanese-Americans with the US federal court to have the “comfort women” statue removed from Glendale, California, is dismissed.

Aug. 5, 2014: Asahi Shimbun retracts some earlier reports on the “comfort women,” admitting that there were factual errors concerning testimonies by Yoshida Seiji (deceased).
Aug. 9, 2014: Japanese Foreign Minister Kishida meets South Korean counterpart Yun Byung-se on the sidelines of the ASEAN Regional Forum (ARF) in Myanmar.

Aug. 10, 2014: Foreign Minister Kishida holds informal meeting with North Korean counterpart Ri Su Yong on the sidelines of the ARF.

Aug. 15, 2014: In a liberation day speech, President Park urges Japan to make efforts to resolve ongoing history issues.

Aug. 15, 2014: Prime Minister Abe sends ritual offering to Yasukuni Shrine, but opts not to visit in person.

Aug. 18, 2014: Sankei Shimbun’s Seoul bureau chief appears at the Seoul Central District Prosecutor’s office for questioning regarding the alleged defamation of President Park.