

Informal notes from July 31st Senate Foreign Relations Committee Hearing, “Corruption in North Korea’s Economy”

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Informal notes from July 31 2003 Senate Foreign Relations Committee Hearing, "Corruption in North Korea's Economy"

See <http://foreign.senate.gov/hearings/2003/hr030731p.html> for announcement

Witnesses:

Dr. Nicholas Eberstadt

Henry Wendt Scholar in Political Economy, American Enterprise Institute

Mr. Michael J. Horowitz (written testimony can be found at

<http://foreign.senate.gov/testimony/2003/HorowitzTestimony030731.pdf>)

Senior Fellow, Hudson Institute

Note: This hearing took place after a Closed Members Briefing in the Capitol at which unnamed Administration officials testified. Senator Brownback noted that he hoped these officials would testify at either a committee or subcommittee hearing in the fall. Brownback was the only Member present at the public hearing. Excerpts from Brownback’s statement can be found

Senator Brownback's opening statement: The hearing was called to examine how North Korea raises revenue; Brownback referred to a Wall Street Journal article about North Korea's "Division 39" that combines legitimate and illicit activities to raise revenue. In his statement, Brownback emphasized the suffering of the ordinary North Korean people and condemned countries in the region that put regional stability ahead of the needs of those people. He also said that said that understanding funding sources would allow for the application of greater pressure: "Understanding what's most important to Pyongyang allows us to ensure that the regime feels the heat we seek to place upon it. Finally, understanding the scope of North Korea's illicit attempts to raise money can point us, along with the countries in the region, to practical ways in which the international community can present a united front against Pyongyang."

Nicholas Eberstadt's testimony: Nicholas Eberstadt used mirror statistics from countries trading with North Korea to compare imports with exports; since imports are greater, this indicates funding that does not come from legitimate trade. He finds that the excess of imports over exports was about \$600 million a year in the mid-to-late 1990s and probably about \$1.2 billion in the year 2002.

However, mirror statistics don't provide evidence of the source of the additional revenue. Eberstadt concludes that this difference can be explained in part through drug trade, military sales and counterfeit money, in addition to official aid from China, Japan, Russia, the European Union, the United States and South Korea. It also comes from illicit aid, such as the South Korean payments, now under investigation, that were made to North Korea in advance of the June 2000 Summit.

Eberstadt presented an additional chart that subtracts out China's assumed contributions, and said that the "unexplained extra has risen from about \$50 million to over \$900 million, almost towards a \$1 billion. It's a curve that goes almost straight up from '97 to 2002." Eberstadt concluded that "these charts may help us to appreciate that non-commercial sources of income may be one of the explanations for why the North Korean system has managed to survive for these last number of years when it seemed to be under such extraordinary pressure."

Michael J. Horowitz's testimony (Since Michael Horowitz's testimony is available on the Web, I'll include just a few highlights here): Horowitz described in horrifying detail two kinds of human slaves that "the regime and the people around the regime export for profit;" the trafficking of women and North Korean laborers sent to Southeastern Siberia to log.

Horowitz announced the formation of the "The North Korea Freedom Coalition;" over 25 organizations, such as the Religious Action Center of Reform Jews and the National Association of Evangelicals, participated in the first meeting. He said the Coalition will work with Congress to introduce the development of legislation that would emphasize the inclusion of human rights in all conversations and negotiations with North Korea. The planned legislation would also include the prosecution of South Korean companies complicit in that Division 39 trade and the illegal trade of weapons and other sources of illegal trade. The legislation would also support refugee camps, provision of visas to North Koreans, increase pressure on the U.N. and China to protect North Koreans in China, and pressure South Korea to provide more "safe havens" for refugees.

Horowitz said “[The U.S.] is a very generous people. We're spending \$100 billion to bring down -- to bring democracy and hope in Iraq and we will spend more. And the United States will share the burden with countries like South Korea and Japan, but only so long as they're not actively propping up the regime. We think the military option is not necessary or on the table or credible or there at this point. . . . Because that illicit economy that extracts bribes in order to keep itself in power so that it can enslave its own people is, in the end, not only an affront to decent humanity, it's a threat to American national security.”

Q&A Highlights

Q: Brownback asked how long North Korea could survive if its illegitimate trade was eliminated.

A: (Eberstadt): After explaining the challenges to North Korea in expanding its legitimate trade, Eberstadt went on to define a form of economic collapse caused by a breakdown in the food system. He said “One of the things that happens when you have a breakdown of that sort, of the national food system, is you get a huge de-urbanization of the population, as might be imagined. The society breaks into individual family units and these millions of family units move from cities to countryside in a desperate hunt for food. . . . I think it is certainly plausible to talk about bringing sufficient economic pressure upon this very unusual and distorted DPRK economy, sufficient pressure to force it to the point of this sort of an economic collapse. What we would have to recognize, I think, is that an economic collapse would also entail some very big humanitarian risks, very, very big humanitarian risks of the sorts that we saw in end of war Germany, end of war Japan with the big movement of desperate peoples out of the cities looking for shelter and sustenance.”

A: (Horowitz): Horowitz disagreed with Eberstadt about the extent of the humanitarian risk. Horowitz said that the market reforms introduced in North Korea last summer were a sign that the regime was losing control of the 100,000 middle-level people, including colonels if not generals. He called the reforms “a powerful signal of vulnerability on the part of the regime and a powerful indication that that implosion scenario that Nick has described need not take place. It could be a lot closer to the East European, the Soviet Union implosion. That's not to say it won't have horrific consequences. It's not to say there won't be burdens and adjustments that will be necessary, but not the sort of mass starvation that Nick is talking about.” Horowitz added that in order for such a collapse to take place, it is necessary to “get a critical mass of refugees willing to come out and just to take that community of what one would otherwise call middle class, but the apparatuses of the regime on whom the regime relies to hold its power.”

Horowitz mentioned the S2 visa provision that offers U.S. “safe haven” for people with information on terrorist activities, recommending that the current cap of 200 people be increased to 5,000 and be expanded to include asylum for people with information about weapons of mass destruction programs. He said “That would be an invitation for those apparatuses, knowing that they'd have safe harbor in the United States, to begin to -- to begin an implosion scenario that would not be as dire for the people of North Korea as the one that Nick has talked about. So I keep coming back to this refugee issue and a safer harbor for refugees as a means of sending signals to the North Koreans and as a means of moving towards a Soviet Union style implosion. I think that's a credible scenario if we do it right.”

Q: What are the of sources of illicit income since 1997?

A: [Eberstadt]: Eberstadt said that Kim Dae Jung's sunshine policy increased opportunities for financial aid from South Korea, the U.S. and the Japanese government; these governments "began to subsidize the DPRK through official flows of financial aid, aboveboard and on the table paid for by taxpayers. . . In effect engagement policy, as always, meant subsidizing the North Korean state through taxpayer funds. That's what the engagement policy has been." He added that military exports and narcotic sales have also increased.

A: [Horowitz]: Horowitz agreed that the engagement policies have "subsidized and legitimized the regime. . . It's our money. It's in some measure Japan's money and it's very particularly South Korea's money that's kept the regime propped up." While recognizing that the "devastation and dislocations" caused by the collapse in East Germany could be worse in North Korea, Horowitz again condemned the South Korean government. He said "[T]his coalition is willing to tell the South Koreans, a generous American people with church lobbies and human rights lobbies and South Korean lobbies talking to Congress and talking to a president who would be receptive, would be willing to share any burden with South Korea to accommodate the people of North Korea. But we're also -- this coalition has sent out a signal that if you're out there busily at work propping up this regime, providing those ramp up funds that Nick has talked about, you're going to be on your own when that collapse takes place. . . It is the fact that the South Korean politicians have been able to get away, get Nobel Prizes for Sunshine Policies designed at root to keep Pyongyang in power and to bribe them. We've got to strip that mask away and begin working with South Korean church people and South Korean human rights people and South Korean parliamentarians. I think that too is another avenue to ending the crisis that we confront and doing so on a non-military basis."

Brownback: A few questions and answers later, Brownback indicated he had spoken with the President about North Korea the night before. Brownback said "[The President] brought up the topic and he's deeply committed to a strong U.S. stance in that region and towards North Korea. And he understands and feels very strongly about the plight of the North Korean people as being one of the most horrific situations -- probably the worst human rights situation inflicted directly by a government of anywhere in the world, and that's some pretty tough competition."

Mr. Horowitz spoke at length again of the role he envisions for South Korea, saying "South Korea is one of the miracles of the world. Here is a people that created this extraordinary economy by diligence of hard work, a measure of faith. . . And South Korea rightly wants to join the circle of great nations. This is a bar. This stands in the way of doing it, saying that you're willing for your own brothers to starve because it might cost you too much money if they were free. It's not worthy of the South Korean people. And I think we in the United States need to send some signals to them saying, "Join us in the push for human rights and a generous American people will share that burden. Yes, it will be tough on your economy if this regime implodes in some sort of way. But we can have interim governments so that they don't have to be integrated into one single government, as happened in East Germany, and there could be a phase in process for that to happen. . . And most of all, we will be generous as an American people to bring that freedom to the people of North Korea and to allow your economy to sustain the difficult burdens and adjustments that will be entailed. . . [But] you cannot be any more in the position of subsidizing this regime to a degree that keeps it afloat and keeps it going and pays for its gulags and pays for its oppression."

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