

THE “SOPRANOS STATE”?
NORTH KOREAN INVOLVEMENT IN
CRIMINAL ACTIVITY AND IMPLICATIONS
FOR INTERNATIONAL SECURITY

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Abstract

North Korea has a decades-long record of official involvement in drug trafficking, is reported to produce the world's best counterfeit \$100 bills, and allegedly manufactures counterfeit products such as cigarettes and pharmaceuticals. Amid discussions of the regime's nuclear and missile programs, economic mismanagement, and appalling human rights record, however, the structure and importance of criminal activity in the D.P.R.K. has been overlooked. This thesis first attempts to establish an empirical basis for assessing North Korean involvement, and second seeks to answer interpretive questions about the nature and significance of the D.P.R.K.'s relationship to criminal activity. It concludes that the D.P.R.K. government is engaged in systematic pursuit of criminal activity distributed across different organizations within North Korea and probably managed by organs of the Central Party Committee. The regime's pursuit of such activity appears to be primarily for the purposes of financial survival and is highly adaptable. Illicit activity's role in financing the North Korean regime, and in connecting it to transnational networks of criminal organizations, raise serious implications for a range of international security issues, including the current negotiations and the risk of nuclear transfer. In addition, this behavior calls into question the assumption found in political science literature that criminality is a result of state weakness, and calls for a revised understanding of the relationship between the strength of domestic institutions and state employment of transnational criminal activity.

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Abbreviations

AFP	Australian Federal Police
ATS	Amphetamine-type stimulants
BAT	British American Tobacco
BMD	Ballistic Missile Defense
CPC	Central Party Committee (DPRK)
CRS	Congressional Research Service
CIA	Central Intelligence Agency (US)
DEA	Drug Enforcement Administration (US)
DMZ	De-Militarized Zone
DOD	Department of Defense (US)
DOS	Department of State (US)
DPRK	Democratic People's Republic of Korea (North Korea)
FAO	Food and Agriculture Organization (United Nations)
IAEA	International Atomic Energy Agency
IAI	Illicit Activities Initiative
ICBM	Inter-Continental Ballistic Missile
INCB	International Narcotics Control Board (UN)
INCSR	International Narcotics Control Strategy Report (DOS)
IRA	Irish Republican Army
HEU	Highly Enriched Uranium
JIATFW	Joint Interagency Task Force West (DOD)
KCNA	Korean Central News Agency (DPRK)
KEDO	Korea Energy Development Organization
KPA	Korean People's Army (DPRK)
KRL	Khan Research Laboratory (Pakistan)
KWP	Korean Workers' Party (DPRK)
LWR	Light Water Reactor
MW(e)	Megawatt-electric
NGO	Non-Governmental Organization
NIE	National Intelligence Estimate (US)
NIS	National Intelligence Service (ROK)
NPT	Nuclear Non-Proliferation Treaty
NSC	National Security Council (US)
PMI	Philip Morris International
PRC	People's Republic of China
PSIA	Public Security Intelligence Agency (Japan)
R&D	Research and Development
ROK	Republic of Korea (South Korea)
UNSC	United Nations Security Council
USFK	United States Forces – Korea
USSS	United States Secret Service
WFP	World Food Program (UN)
WMD	Weapons of Mass Destruction

Chapter One:

Introduction, Analytic Approach, and Hypotheses

Introduction

The Democratic People's Republic of Korea has presented some of the most intractable challenges faced by American foreign policymakers in the post-Cold War period. Two nuclear crises, the latter still ongoing, have continually garnered negative publicity for the North Korean regime. What little attention is left focuses on the country's conventional forces and its human rights abuses. Foreign policy debates on North Korea are usually limited to the best method of negotiating an end to its nuclear activities, while Congressional leaders and media focus on legislation (such as the 2004 North Korean Human Rights Act) to protect North Korean refugees and call attention to the regime's human rights violations.

Dwarfed by these issues, North Korea's involvement in drug smuggling and counterfeiting has unfortunately received relatively little media attention, public policy discussion or scholarly analysis. Only recently has the United States government given it any sustained policy attention, through the State Department's Illicit Activities Initiative designed to curtail illicit sources of North Korean finance. And two high-profile events - the Japanese Coast Guard's December 2001 sinking of a North Korean spy ship suspected of a drug drop and the April 2003 Australian capture of North Korean ship Pong Su on suspicion of smuggling heroin - have also helped to raise media and public awareness.

Despite this recent coverage, however, information on D.P.R.K. involvement in criminal activity is lacking in both breadth and depth. Media accounts are primarily anecdotal in nature, and the few existing government reports are incomplete, outdated, or descriptive rather than analytic. There are several reasons for this state of affairs. First,

North Korean criminal activity is a new phenomenon. It is thought to have existed at a much lower level in the past, and has reportedly increased significantly only in the last five years or so. Second, as mentioned above, competing priorities on the U.S. agenda vis-à-vis North Korea, such as nuclear tensions, conventional forces, and human rights, have often relegated criminal activity to second or even third-tier importance.¹ Third, policymakers' tendency to rely primarily on law enforcement tools to counter criminal activity has led to an under-leveraging of available knowledge and an incomplete policy response. Only recently has there been a widespread realization that interpenetration of domestic and international issues is forcing security policy to adapt in more areas than just counterterrorism.² Finally, September 11th focused political and academic attention on connections between states and non-state actors, increasing an awareness which the issue of state sponsorship of terrorism had prompted in the 1990's.³

The above considerations should no longer be sufficient reason for the absence of a thorough and thoughtful treatment of North Korean links to criminal activity. A study which gathers and analyzes available information fills an important gap in the academic literature on several fronts. As discussed later, illicit activity reportedly constitutes a significant source of income for the D.P.R.K. It is therefore essential to understand this behavior in order to develop a correct assessment of the incentive structure facing the North Korean regime – a potential help in the nuclear negotiations as well as overall U.S. policy. Moreover, with the nuclear issue unresolved, policymakers and analysts have expressed concern over North Korea's potential willingness to export nuclear weapons or

¹ For one perspective on the range of issues facing U.S. policymakers in regard to Korea policy, see Niksch, Larry A. "Korea: US-Korean Relations: Issues for Congress." Congressional Research Service IB98045. 16 March 2004.

² Cha, Victor. "Globalization and the Study of International Security." *Journal of Peace Research*. Vol. 37 (3): 391-403. May 2000. Berdal and Serrano also make the same point in discussing the "securitization of transnational organized crime." Berdal, Mats, and Monica Serrano, eds. Transnational Organized Crime and International Security: Business as Usual? Boulder: Lynne Rienner Publishers, Inc. 2002. pp. 13-36.

³ Thanks to Tonya Putnam for pointing this out. The 2002 National Security Strategy illustrates the prominence of this linkage in the mind of U.S. policymakers.

materials to undesirable buyers. Analyzing North Korea's non-nuclear clandestine smuggling should help elucidate the conditions under which the regime, or elements inside it, might be tempted to make such a transfer, and through what channels they might attempt to do so. In short, understanding the connections between North Korea and various criminal organizations can help clarify the structure and function of the opaque North Korean state. More broadly, it can provide a template for a more general understanding of why and how states may, in the changing international environment, increasingly rely on sub- or non-state actors to achieve their foreign policy goals.

Methodology

This thesis attempts to fill the aforementioned gaps in the current understanding of North Korea. It reviews relevant literature on North Korea, crime, and asymmetrical conflict, as well as portions of the literature on governance which may help to elucidate the workings of the North Korean state and Party apparatus. A thorough review of the literature illuminates two key research questions which this work purports to answer. The first is an empirical question about the extent of state involvement in criminal activity, and the mechanisms by which this activity operates. The second, a more interpretive question, seeks to understand the state's motivations for engaging in such activity, and the potential significance of that decision.

This project's attempt to answer the empirical question is based on a comprehensive collection and analysis of the main types of North Korean criminal activity. Working from government reports, law enforcement investigations and media sources, this author has constructed a data set of North Korean involvement in illicit activity from 1976 to 2004. This data set is broken down into incidents involving drug smuggling (Appendix B); counterfeiting (Appendix C); and smuggling of other contraband items, including endangered species, cigarettes, and pharmaceuticals

(Appendix D). This data set is then used to establish the patterns, organizational structure, and motivation for involvement in each activity.

The limitations on this data set must be acknowledged. Due to the covert nature of criminal activity, data must be compiled from known seizures and arrests. Basic reporting of these incidents is not perfectly accurate. Different sources' accounts of incidents, especially in media reports, sometimes contradict each other, and in a small number of incidents it is not clear whether an incident described by two different sources may in fact have been the same event. In these cases, any discrepancies or potential points of dispute have been noted in the Appendices.

In addition, seizure data represents “the interaction of enforcement tactics with underlying reality” rather than the reality of the activity itself.⁴ As scholars have noted, “the structure and organization of crime vary depending not solely on the predatory or entrepreneurial nature of the crime in question, but also in relation to the type and level of enforcement.”⁵ For this reason, the data analyzed here may not be a representative sample of North Korean involvement, but may reflect a competitive learning process in which the North Korean state, criminal organizations, and law enforcement are continually adapting to each other's practices.

Complete information is particularly difficult to compile when dealing with a problem of global scale. Reporting varies from country to country, and thus reflects changes not only in U.S. law enforcement efforts but various national agencies in charge of interdiction and prosecution across the world. Seizure reporting also, by definition, excludes drug shipments or counterfeit distributions which evade detection, leading to a higher probability of under-representation for sophisticated operations. (For example, the

⁴ Reuter, Peter, and Edwin M. Truman. Chasing Dirty Money. Washington: Institute for International Economics. 2004.

⁵ Serrano, Monica. “Transnational Organized Crime and International Security: Business as Usual?” In Berdal, Mats, and Monica Serrano, eds. Transnational Organized Crime and International Security: Business as Usual? Boulder: Lynne Rienner Publishers, Inc. 2002. p. 13-36.

average interdiction rate for heroin entering the United States, including both rudimentary and complex schemes, is around 10% at best.⁶) Even if Appendix B contained complete data on every seizure linked to North Korea, therefore, there is reason to believe that it represents only a fraction of North Korea's involvement.

Nevertheless, the difficulties noted above should not wholly invalidate the results of this research. They are problems intrinsic to the subject matter, and have been addressed by past scholars of both criminal activity and national security. For example, it is common for economists studying North Korea to piece together their assessment of the North Korean economy and foreign trade from "mirror statistics" released by North Korea's trading partners.⁷ This thesis attempts to modify the mirror statistics approach to assess the data regarding criminal activity by constructing a record of seizures and using those to gauge the development of North Korean involvement in drug trafficking.

In addition, other factors diminish the probability that enforcement tactics are significantly skewing the data analyzed here. The first of these is the fact that the types of seizure associated with North Korea changed over time in both drug smuggling and counterfeiting. The new seizures took place in a specific set of countries different from the patterns of the first two decades, they were transported differently, and were moved and distributed by different agents. Increased scrutiny of North Korean diplomats by customs and immigration law enforcement organizations would not by itself explain the

⁶ Quirk, Matthew. "The New Opium War." *The Atlantic Monthly*. March 2005. p. 52-3. One U.S. government official pointed out that North Korea's geography and highly controlled borders make scrutiny of border activity much easier than the long and porous boundaries of the United States. Author's interview with a U.S. government official. March 2005.

⁷ Among others, Kongdan Oh and Ralph Hassig use this approach in their book *North Korea Through the Looking Glass*. Washington, DC: Brookings Institution Press, 2000. Economists Marcus Noland and Nicholas Eberstadt, both of whom have published analyses of the North Korean economy, also use this approach. See Noland, Marcus. *Avoiding the Apocalypse*. Washington, DC: Institute for International Economics. 2000.

sudden rise in the number of drug seizures from the Japanese yakuza and Chinese Triad gangs who had had recorded contact with North Korea.⁸

Second, at the time the major shift in the data takes place, U.S. officials had recently concluded the Agreed Framework. They, as well as Asian government officials, had less incentive to push an issue they considered far down on the priority list, especially if increased enforcement would be risking confrontation and derailment of the bargain.⁹ The shift in enforcement in fact came later, after the pattern of criminal organizations linked to North Koreans became apparent, and has continued in the past five years with measures such as increased inspections and insurance requirements for ships calling at Japanese ports.¹⁰ In short, interviews with U.S. and Asian officials revealed no evidence of a shift in enforcement either around the specified time or earlier that would have impacted seizure data. Should evidence of one be found, this analysis would have to be revised to account for such an intervening variable.

Finally, defector testimony corroborates the theory that the increase in 1995 represents a change in D.P.R.K. policy. While defector testimony is insufficient by itself to establish a major change in the behavior of the North Korean leadership, the information provided by defectors is fairly consistent and confirms rather than contradicts available empirical evidence. On the basis of these factors, this author concludes that the basic patterns reflected in the table, and the major shifts noted, are essentially accurate. Pf

⁸ This argument probably ceases to work around 2001-02, when U.S. officials began to concentrate on North Korea's involvement in a broad array of criminal activities.

⁹ In fact, some Clinton administration officials interviewed by this author stressed that at this time they deliberately de-emphasized the criminal activity to focus on the nuclear issue. While this would not have impacted the law enforcement investigations of specific cases in Japan, for example, it means that there was no change in enforcement *policy* to concentrate on North Korea, nor was there political direction that would have prompted increased attention at this time. Interviews in South Korea and Japan showed that law enforcement agencies did not believe that there was any change in national policy or enforcement tactics that could have been responsible for the shift. In contrast, they believed that the increased seizures prompted policy attention in the very late 1990's, rather than policy attention prompting seizures in the mid-1990's.

¹⁰ "Money Transfer to N Korea from Japan Tumbles in FY03." Nihon Keizai Shimbun, Inc. 12 February 2005. Available from Nikkei Net Interactive, www.nni.nikkei.co.jp/cgi-bin/print.cgi. Downloaded 1 April 2005.

course, improvements on the presentation and interpretation of the data here are undoubtedly possible. This research is intended to present a first and not a final attempt at comprehensive analysis of the phenomenon.

In addition to empirical analysis, the author conducted a wide range of interviews in Washington, Seoul, and Tokyo in March and April 2005. Interviews with government officials in the three countries were intended to verify and fill in missing pieces of publicly available information. While this author acknowledges that the positions or beliefs of certain interviewees, especially at high levels, have the capacity to bias their interpretations, interviews were not used to alter the empirical data on which this author's interpretations and conclusions are based. Second, government interviews were used to explain and assess critically the current interpretations and policy treatment of the issue. As such, it provides new data on the policy response to North Korean criminal activity which has not yet been analyzed in academic books or papers.

This thesis also relies on information from defectors, obtained in two forms. First, journalistic articles on North Korea frequently include defector statements describing their involvement in or knowledge of criminal activity. While sometimes subject to sensationalism, these articles are nevertheless valuable because they remain the only publicly available source of information on the internal structure and control of such activity. This thesis represents the first attempt to integrate these media accounts into a coherent narrative of how criminal activity is domestically managed in the D.P.R.K. Second, interviews with six former North Koreans were conducted by this author in April 2005, primarily for the purpose of contextualizing the media reports and clarifying gaps or resolving conflicting information in other defector statements. This author is well-aware of the potential for bias or estimation errors associated with defector statements, and as such has used them as a descriptive supplement to the empirical analysis, rather

than a replacement for it (i.e. defector interviews were not used to obtain data on seizures and arrests, which are available in public record).

The final chapter reviews the results of the research for the various types of criminal activity. It then attempts to assess the implications of the findings for current U.S. policy toward North Korea on multiple levels, including law enforcement, diplomatic negotiations, the Illicit Activities Initiative, and the potential strengths and weaknesses of a more containment-oriented policy.

Hypotheses

In seeking to understand North Korean criminal activity, the key question that emerges is one of the extent to which the North Korean regime controls this activity. The potential answers exist along a spectrum which is roughly divided into four parts. At one end is a scenario in which the activity takes place in the context of a lack of state control. Individual officials and citizens have the incentive and the opportunity to pursue criminal activity for personal enrichment. Next on the spectrum comes the possibility that the state condones but does not involve itself in the activity; criminal activity is an understood “perk” of certain positions within the North Korean state structure but is not centrally supported or coordinated in any way. Third, the state may know about the activity and control it to a certain extent, but may give organizations a certain degree of latitude in running criminal operations. And finally, in the fourth hypothesis, the North Korean leadership has pursued a deliberate policy of drug trafficking and counterfeiting, based on either ideological motivations or the need for financial survival, and supports the activity with the full array of assets and personnel available to the central government.

In practice, financial and ideological motivations may overlap significantly. Nevertheless, close analysis of empirical patterns may still reveal some information that is helpful in distinguishing between the two. The North Korean regime may be pursuing

illicit activity as a form of offensive warfare intended to destabilize its enemies, similar to Cold War efforts by the East Germans to destabilize West German currency - a sort of ideological offensive in which financial benefit is an insignificant motivator. In the event that the state pursues illicit activity as a defensive survival mechanism, however, ideological and financial motivations are more likely to be interrelated and indistinguishable. Any policy which utilizes drug smuggling to maintain the financial viability of the state will in part be galvanized by the need to legitimate the *juche* ideology on which the North Korean regime bases its rule.¹¹

In its examination of North Korean involvement in counterfeiting and drug smuggling, this thesis will attempt to illuminate certain traits or features of North Korean behavior which may serve as indicators favoring one hypothesis over another. For example, in the event that criminal activity is the result of a lack of state control, one would expect to see other indicators of a loss of state control either within the country or in its foreign policy; failed attempts by the state to clamp down on criminal activity, such as domestic laws criminalizing participation; significant opportunity for financial enrichment compared to other available profit-making opportunities; evidence of proceeds from such activity being siphoned into individual actors' private accounts rather than Party or military coffers; significant profit opportunity for individuals not available within the North Korean state structure; lower-level and dispersed decision-making; activities which do not respond to other significant foreign policy events such as high-level negotiations which might be disrupted by the discovery of illicit activity; and a wide spectrum of officials involved, from high-level diplomats or Party officials to local fishermen and border guards. By contrast, activity run at a high level as state policy would be associated with a high degree of control in areas of trade and domestic economics; use of technology and/or resources only available by high-level governmental

¹¹ The role of *juche* ideology in North Korea is explored further in Chapter One.

order (such as use of military resources); lower probability of personal enrichment and higher opportunities for state gain; consistent involvement of high-level North Korean officials with the professional position/capability to initiate such activity; an emphasis on running drugs and counterfeiting in ideologically opposed states; patterns of high-level and centralized decision-making; activities whose frequency and timing correlates to other foreign policy initiatives by the North Korean leadership; and potential involvement of other state's high-ranking officials, which only the North Korean leadership (and not the average guard or fisherman) would have access to.

The implications of each of these scenarios are key to understanding the operation of the North Korean state, a little-understood phenomenon. If, in fact, North Korean citizens are able to counterfeit and run drugs without effective governmental control, then the model of totalitarian dictatorship commonly used to characterize North Korea may have to be rethought, with important conclusions for how the U.S. may want to structure its negotiations and any agreement reached with the D.P.R.K. If criminal activity does constitute a significant source of income that was previously unreported, the incentives as they are understood by North Korea may also be somewhat different than traditionally assessed by the United States. If the power distribution within North Korea is revealed to be different than previously assumed, with certain individuals wielding definitive control (and thus potential "spoiler" status), negotiations will have to address all actors' incentives in order to achieve the highest probability of success. And since the structure of an agreement depends in part on the ability of the North Korean regime to enforce its commitments, conclusions drawn from criminal activity could affect the type of agreements the U.S. is willing to sign with the D.P.R.K.

The extent of state control within North Korea also raises interesting questions for the risks of nuclear smuggling and the United States' attitude toward containment-oriented policy options. If private motivations are at work, then in fact the risk of nuclear

transfer may be less, since an individual motivated by private enrichment might have an incentive to sell nuclear material to terrorist groups, but would only be able to complete the transfer under conditions of near-non-existent state control. (It must be noted that even a complete lack of control over illicit activity does not indicate a lack of control over nuclear resources, especially in a state as militarily strong as North Korea, since nuclear weapons are in any state some of the most highly controlled resources.) A financially motivated state, however, would be interested in and capable of such a transfer if it calculated that the profits of selling a weapon or material were such as to justify the high level of associated risk. (Ideological warfare as a motivator has murkier implications, since one might think that transfer would be legitimated by anti-U.S. guerilla or asymmetric warfare conceptions, but one could also argue that the principles of self-reliance and survival articulated in the juche ideology would argue against a suicidal policy motivated by hatred of the United States.) In any case, understanding the conditions under which North Korea began smuggling illicit items, and describing the channels by which such smuggling takes place, gives a baseline for comparison which has not previously been delineated.

Significance

This thesis purports to offer a thorough chronicle of the involvement of the D.P.R.K. in criminal activity, and an analysis of the significance of that involvement for U.S. policy toward North Korea. More broadly, however, it aspires to make some contribution to understanding of international security beyond its applicability to the troubled North Korean state. At a time when it is commonly asserted that the domestic policies of states have taken on an unprecedented ability to affect the shifting balance of international politics through the empowerment of transnational actors, the North Korean case offers an opportunity to explore more specific mechanisms by which that process

takes place. Understanding the way in which the policies of a domestic regime can influence the direction and capabilities of transnational networks, and the way in which transnational networks can affect the internal structure and capabilities of problematic states, are critical emerging questions for international security. Moreover, the growing overlap of transnational terrorism with criminal networks highlights the relevance of understanding crime as an enabler of international conflict, and the North Korean case could prove helpful in examining this emerging dynamic. Thus the questions surrounding the North Korean case are questions, fundamentally, not only of security but of governance, of the relationship between them and its significance in the contemporary international environment. It is the author's hope that this thesis may be of some help in illuminating that connection, and in shaping policies to help the United States deal with similar cases.

Chapter Two:

Review of Academic Literature & Hypothesis Development

Overview

Literature relevant to this thesis can be separated into two types: general works on North Korea, and short policy pieces specifically assessing the importance of North Korea's involvement in criminal activity for policymakers. The latter pieces include a report for the Congressional Research Service written by Raphael Perl,¹² a policy brief written by Balbina Hwang through the Heritage Foundation,¹³ and a report by the Joint Interagency Task Force West of the Department of Defense.¹⁴ Perl covers the subject in the most depth and his report is the most recent, having been updated in March 2005. Nevertheless, his work, like that of the others mentioned, is primarily descriptive rather than analytical. Moreover, none of these policy briefs treats the behavior with satisfactory academic rigor: for example, there is no attempt to compile a data set or to apply any other form of empirical analysis. As a result, the pieces are incomplete in their presentation of the data (focusing almost entirely on drug trafficking), and lack the historical and theoretical context available from academic literature on North Korea.

The academic literature, on the other hand, suffers from near-complete exclusion of this subject. Most works contain just a passing reference to it – Oh and Hassig's otherwise excellent work, North Korea Through the Looking Glass, spares barely two lines for criminal activity,¹⁵ while Cha and Kang's Nuclear North Korea does not

¹² Perl, Raphael F. "Drug Trafficking and North Korea: Issues for US Policy." CRS Report for Congress. 5 March 2005.

¹³ Hwang, Balbina. "Curtiling North Korea's Illicit Activities." Backgrounder No. 1679. Published by The Heritage Foundation. 25 August 2003.

¹⁴ "North Korean Drug Trafficking." Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹⁵ Oh, Kongdan C. and Ralph Hassig. North Korea Through the Looking Glass. Washington, DC: Brookings Institution Press, 2000.

mention it at all.¹⁶ Marcus Noland has given the behavior its most thorough treatment in his book Avoiding the Apocalypse: the Future of the Two Koreas – a total of three pages, an interesting sidenote to his economic analysis.¹⁷ Generally speaking, however, the academic works can be separated into two camps in terms of the context they create for understanding North Korea: those who focus on the increasing weakness of state capacity inside the D.P.R.K. and those who treat the state as monolithic and totalitarian in its control. In both cases, the omission or cursory treatment of criminal activity renders the analysis less insightful and less useful than it might otherwise have been.

In short, the failure of scholars to incorporate knowledge of criminal activity into their understandings of the D.P.R.K. government, and the failure of descriptive pieces to situate their observations in historical, empirical, and theoretical context, means that available information on both sides is under-leveraged. This thesis seeks to bridge the gap by drawing on descriptive information to form an empirical analysis of North Korean criminal activity firmly situated within the existing theoretical and historical scholarship.

Extent of State Control

The 2003 seizure of the North Korean ship Pong Su ignited a brief debate over whether or not the North Korean government was in fact engaged in *state-directed* crime. Then-Secretary of State Colin Powell told the Senate that the D.P.R.K. was a state that “thrives on criminality,”¹⁸ while U.S. government officials have privately nicknamed North Korea the “Sopranos State” for its mafia-like behavior.¹⁹ The United Nations International Narcotics Control Board responded, however, that it saw “no evidence of a

¹⁶ Cha, Victor, and David Kang. Nuclear North Korea: a debate on engagement strategies. New York: Columbia University Press, 2003.

¹⁷ Noland, Marcus. Avoiding the Apocalypse. Washington, DC: Institute for International Economics. 2000. Noland also addresses the issue in his chapter in Kim, Samuel S., ed. North Korean Foreign Relations in the Post-Cold War Era. Oxford: Oxford University Press. 1998.

¹⁸ Spaeth, Anthony. "Kim's Rackets." *Time Asia*. 9 June 2003.

¹⁹ Author's interviews with U.S. government officials. March 2005.

state-sponsored trade,” although the agency “recognized the involvement of North Korean nationals.”²⁰ In its annual reports, the U.S. Department of State has been more cautious, saying in 2005 that “Numerous instances of North Korean drug trafficking and trade in copyright products, and other criminal behavior by North Korean officials, in many cases using valuable state assets, such as military-type patrol boats, has caused many observers and the Department to come to the view that it is likely, though not certain that the North Korean Government sponsors such illegal behavior as a way to earn foreign currency for the state and for its leaders.”²¹ This is far from conclusive; only three years ago the annual report concluded with the statement that “the United States has not been able to determine the extent to which the North Korean government is involved in manufacturing and trafficking in illegal drugs.”²²

Descriptive and journalistic articles on North Korean involvement in crime generally characterize the North Korean state as one whose leaders personally direct criminal activity. Spaeth’s article in *Time*, “Kim’s Rackets,” leads off with the subtitle “To fund his lifestyle – and his nukes – Kim Jong Il helms a vast criminal network.”²³ Another article, titled “The Far East Sopranos,” refers to the regime’s leaders as “mobbed-up,” and asserts, “When U.S. officials call the North Korean regime ‘mafialike,’ they aren’t exaggerating.”²⁴ The sensational treatment of the topic, heavy reliance on anecdotal evidence (often from defectors), and political affiliations which would predispose an author to take a certain side limit the ability of these pieces to make a convincing case.

The short policy reports, while less sensational, are still limited by the lack of a systematic treatment of North Korean involvement. For example, Balbina Hwang’s

²⁰ “Observers disagree on how official the North Korean drug trade is.” *Sydney Morning Herald*. 5 May 2003. Available online at www.smh.com.au/articles/2003/05/04/1051987611297.html.

²¹ International Narcotics Control Strategy Report 2004. U.S. Department of State. March 2005.

²² International Narcotics Control Strategy Report 2002. U.S. Department of State. March 2003.

²³ Spaeth, Anthony. “Kim’s Rackets.” *Time Asia*. 9 June 2003.

²⁴ Kaplan, David E. “The Far East Sopranos.” *US News and World Report*. 27 January 2003.

policy brief, written for the conservative think tank the Heritage Foundation, asserts that “Given the authoritarian controls in place throughout North Korea, illegal activities are not conducted by a rogue organization operating independently of the government: They are sanctioned and run by the regime itself.”²⁵ To validate her argument, she uses some of the above-quoted journalistic sources. As shown by the debate over the Pong Su, what she states as fact is actually much more in question than her policy brief suggests.

Government sources are almost as categorical in their assertions. A 2000 report by the Joint Interagency Task Force West (JIATF-West) also asserts the deliberate direction of criminal activity by the North Korean government.²⁶ Again, however, the logic is the same: a long-standing string of incidents involving North Korean officials, plus the assertion that controls are so rigid inside North Korea that no entity other than the state was likely responsible. “Control of Trafficking” is relegated to a single paragraph in this 12-page report; the brevity of the report does not offer space for nuance nor does it allow for a thoughtful discussion of how this observed behavior might influence the decision-making or internal dynamics of the North Korean regime. A second government report, written for the Congressional Research Service by Raphael Perl, is perhaps the most satisfactory of the short reports available.²⁷ Calling the allegations “credible, but unproven,” his report synthesizes the evolving body of knowledge on North Korean involvement and reiterates past statements about its potential significance. However, his piece is too short to provide a detailed assessment of the precise mechanisms by which North Korean activity might be taking place, meaning that its usefulness is limited to summarizing background and raising issues for policymakers, rather than providing the analysis which might be more useful in making

²⁵ Hwang, Balbina. “Curtiling North Korea’s Illicit Activities.” Backgrounder No. 1679. Published by The Heritage Foundation. 25 August 2003.

²⁶ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

²⁷ Perl, Raphael F. “Drug Trafficking and North Korea: Issues for US Policy.” CRS Report for Congress. 5 March 2005.

policy recommendations. While this approach is altogether appropriate for a research report, it does not fill the gap in academic literature. Still missing are the empirical, theoretical, and historical dimensions needed for rigorous academic treatment.

Despite the above assertive characterizations of the North Korean state as criminal, the academic literature on North Korea has not yet acknowledged the significance of illicit activity in the D.P.R.K. And the debate over the North Korean government's role in the Pong Su case indicates that the question of the extent of state control over criminal incidents linked to North Korea has not yet been satisfactorily answered. Are North Korean diplomats running drugs because Kim Jong Il has ordered them to do so to bring in much-needed cash, as defectors allege, or are many of them freelancing to line their own pockets? Or both? In policy terms, this question is important because a criminal network whose peripheral nodes include government officials requires different organizational study and different policy responses than a network whose core is the state leadership itself.

On this point, the academic literature is not conclusive. The spectrum of opinions is wide, due largely to the fact that a lack of attention to the issue in past analyses has resulted in the tendency to ignore the distinction between state sponsorship and private enrichment. For example, Alan Dupont, in his study of crime in East Asia, writes:

The regime of Kim Jong Il has distinguished itself in East Asia by being the only government directly implicated in narcotics trafficking . . . the disintegrating economy and increasingly dysfunctional state apparatus have forced North Korean diplomats to supplement their embassy finances by engaging in a range of well-documented, government-sponsored criminal activities.²⁸

²⁸ Dupont, Alan. "Transnational Crime, Drugs, and Security in East Asia." *Asian Survey*, Vol. 39, No. 3. May/June. 1999. p. 448.

In a single quote, Dupont calls the activity “government-sponsored” and suggests that individual diplomats have sought out criminal activity to supplement their own organizational and personal coffers.

Like Dupont, North Korea scholars Kongdan Oh and Ralph Hassig, in their book North Korea Through the Looking Glass, do not distinguish between personal enterprise and state-run criminality as the methods by which North Korean transnational crime could have developed. The economy, according to them, suffers from four main problems: “the inability of central planners to coordinate economic activities in the absence of a market pricing mechanism”; the poor motivational power of socialist ideology compared to material incentives; the “autarkic nature of Juche as an economic principle”; and the drain of a “military-first system.”²⁹ The result of this economic inflexibility, they explain, is the presence of “parallel economies,” including “illegal but widespread activities like bribery, pilfering, and undocumented production.”³⁰ What Oh and Hassig call the “court economy” enriches elites through means of “financial, industrial, and trading companies able to secure state resources but unaccountable to the economic bureaucracy.”³¹ (Instead, U.S. government officials have postulated that these companies are responsible to Party bureaus known as Offices 35 and 39, which in turn are directly controlled by Kim Jong Il.³²) In the two sentences which directly mention forms of income like counterfeiting, drugs and smuggling, Oh and Hassig point to the diplomatic corps as primary conductors of illicit activity, but note that “many of these activities are sanctioned or condoned by the party or government; others are free-lance operations intended to enrich individuals.”³³ They offer no suggestion as to how one

²⁹ Oh and Hassig 59-60.

³⁰ Oh and Hassig 66.

³¹ Oh and Hassig 66.

³² Breen, Michael: Kim Jong Il: North Korea's Dear Leader. Singapore: John Wiley & Sons (Asia) Pte Ltd. 2004.

³³ Oh and Hassig 66.

might discern which is which, but note measures by Kim Jong Il to gain greater control over foreign trade, such as consolidation of foreign trade organizations and reining in of people's markets.³⁴ Such a trend might imply that the North Korean transnational trade, especially illicit trade, had gotten out of control of the state, or it might imply continued state control over all external economic activity. Oh and Hassig do not differentiate.

Finally, Marcus Noland, whose three-page description of North Korean involvement in criminal activity is the most extensive located by this author in the academic sphere, states simply that "the Kim Jong-il regime is a continuing criminal enterprise."³⁵ At the same time, however, he repeats the conventional wisdom about embassy self-financing and focuses mainly on the role of diplomats, with less attention paid to the other types of incidents which would argue for a more complex understanding of the phenomenon. While his account is correct as far as it goes, it lacks the empirical precision and integration with other knowledge about North Korea which would be necessary to convey the full significance of this activity for the D.P.R.K.

These three examples are representative of the academic literature on North Korea and its tendency to shortchange and treat with imprecision the issue of state control over criminal activity. And interestingly, the divide between state and criminal has been challenged in other fields of academia. In particular, certain scholars have argued that the roles of states and criminal organizations are in fact more similar than one might expect. Thomas Schelling wrote in 1984 about criminal organizations which operated as a "corporate state," providing "a governmental structure to the underworld, helping to maintain peace, setting rules, arbitrating disputes, and enforcing discipline."³⁶ As he puts it, organized crime seeks not only influence, but exclusive influence, and therefore seeks lines of business that lend themselves to monopoly. The following year, Charles Tilly

³⁴ Oh and Hassig 66-67.

³⁵ Noland, Marcus. *Avoiding the Apocalypse*. Washington, DC: Institute for International Economics. 2000. pp. 119-121. Noland's account appears to draw on Perl's report, among other works, in its depiction.

³⁶ Schelling, Thomas. *Choice and Consequence*. Cambridge: Harvard University Press. 1984. p. 164.

published a chapter which opened with the provocative assertion that war making and state making were “our largest examples of organized crime.”³⁷ Rather than depict criminal activity as the consequence of a loss of state control, he writes that in fact “coercive exploitation” was integral to European state formation. He claims that racketeering and protection services provided to citizens of a state are roughly comparable, and that state structure was in fact an outgrowth of the process of organizing to extract resources necessary for defense or security. Reading it this way, North Korea is a case not unlike the early European powers. Rather than the regime’s failure to monopolize critical resources leading to competition and the loss of the monopoly on force, North Korea’s structure originated endogenous to the process of resource extraction by the regime.

The trouble with these analyses is, to put in rather simplistically, that in explaining everything they explain nothing. Arguing that states are fundamentally criminal is not the same as arguing that states use certain kinds of criminal activity as a tool. It also does not explain the variation in the criminal-state relationship today. While these works are helpful in presenting a universal process which drives the formation of effective states, they offer little guidance for studying how or why aberrant or failed states have diverged from that pathway. And since they focus on the internal process of domestic power consolidation, they do not address how already-established states might use transnational criminal organizations in their external international environment.

In cases where the literature addresses involvement in criminal activity by agents of the state, it has also questioned the relevance of the state-private actor distinction. In these cases, however, the literature focuses on the security competition between criminal organizations and the state, and therefore predicates its analysis on the understanding that

³⁷ Tilly, Charles. “War Making and State Making as Organized Crime.” In Evans, Peter B., Dietrich Rueschemeyer, and Theda Skocpol, eds. Bringing the State Back In. Cambridge: Cambridge University Press. 1985. p. 169.

the state has lost the monopoly on force. Peter Andreas explores the key role that smugglers and criminals can play in the development, persistence, and termination of conflict, and the ways in which conflict is informally internationalized (“sanctions evasions, clandestine arms shipments, and other smuggling practices”) rather than formally internationalized (“through UN intervention, diplomatic initiatives, provision of aid, peacekeeping, and so on”).³⁸ He adds that “clandestine transnational networks [are] used to finance and supply the warring parties and evade external control efforts. Under these conditions, war is a continuation of business by other means: Military success often hinges on entrepreneurial success in the murky underworld of smuggling.”³⁹ Because of this connection, he rejects the traditional dichotomy between personal and political reasons for his actors’ behavior; he notes that “by collaborating with and empowering criminals and smugglers, political leaders can pursue both strategic interests and personal material interests at the same time.”⁴⁰ He further states:

There can be great variation in political motives for collusion with the criminal underworld beyond simply self-enrichment. In the Bosnian war, for example, heavy Serb use of quasi-private criminal combatants in irregular paramilitary units helped to obscure the complicity of the Blegrad government at the onset of the war. . . For the Sarajevo government, in contrast, the initial heavy dependence on criminal combatants was more of a survival strategy . . . a throwback to a much older form of organized violence but in a radically different global setting.⁴¹

Andreas describes the use of criminal activity as a tool of regime strategy, somewhat akin to the British use of pirates in the 1600’s.⁴²

³⁸ Andreas, Peter. “Criminalized Conflict in Bosnia.”

³⁹ Andreas, Peter. “Clandestine Political Economy in War and Peace in Bosnia.” *International Studies Quarterly* 48: 29-51. 2004.

⁴⁰ Andreas, Peter. “Criminalized Conflict” p. 3.

⁴¹ Andreas, Peter. “Clandestine Political Economy in War and Peace in Bosnia.” *International Studies Quarterly* 48: 29-51. 2004. p. 32.

⁴² Cooper, Zack. “Roman and British Experiences with Maritime Piracy and Implications for Combating Terrorism Today.” CISAC Honors Thesis. 20 May 2005.

Abuse of power and manipulation of state capacity can be so thorough as to make the state structure indistinct from that of organized crime. Thomas Koppel and Agnes Szekely write that weak state capacity in postcommunist societies has enabled a unique form of organized crime in which the division between state and criminal organization became increasingly less relevant:

In communist and postcommunist societies, where planning is centralized but local control often negligent, criminal networks often emerged within governments. At the extreme, the state itself becomes an exponent of organized crime. This clearly happened in the postcommunist Yugoslavia under Slobodan Milosevic, where organized crime and the plundering of local resources became central pillars of economic and political power. Important state functions and ownership of national resources were assumed by self-interested “clients” of the autocratic Milosevic.⁴³

In such a case, they write, criminal activity became “the *raison d’être* of the ministerial clique around Milosevic,” and “in the face of international opposition, the state became a patron of organized crime.”⁴⁴ As Berdal and Serrano explain, in state-organized crime, “symbiotic relationships have emerged whereby an illegitimate regime maintains its grip on power by encouraging and enabling criminal enterprises to expand.”⁴⁵ Berdal and Serrano cite Bayart, Ellis, and Hibous’s description of the “criminalization of the state in Africa” as an additional example of the “participation of collective, semi-clandestine power structures in economic activity considered illegal in international law,” and “the insertion of such economic activities in international networks of crime.”⁴⁶ This description sounds similar to the “mafia state” model cited by U.S. officials to explain North Korean activity now, where (as Andreas claimed) the distinction between state and

⁴³ Koppel and Szekely, “Transnational Organized Crime and Conflict in the Balkans.” In Berdal and Serrano, Transnational Organized Crime and International Security. p. 131.

⁴⁴ Ibid.

⁴⁵ “Transnational Crime and International Security: the new topography.” Berdal and Serrano, 198.

⁴⁶ Berdal and Serrano 1999. Citing Bayart, Ellis, and Hibou 1999, p. 25-26.

criminal organization is decreasingly clear – and decreasingly relevant. Berdal and Serrano, however, (and Bayart, Ellis, and Hibou’s paper), still draw a distinction between the criminal enterprises and the state, whereas the North Korean model, as described in the chapters to follow, erases that boundary at least domestically.

In other cases, as in the example of Manuel Noriega, government involvement in transnational crime was a case of corruption, where an individual abused powers provided by the state to aid criminal proceedings.⁴⁷ Noriega’s case remains fundamentally different from what is suggested about North Korea, however, in one and possibly two respects. First, the agency of the criminal activity clearly resided with the drug traffickers, who would have continued to run drugs (admittedly perhaps much less successfully) without his involvement. Second, his actions were a perversion of government resources against the usage intended by the state, rather than adherence to a deliberately crafted state policy of criminal activity.

All of these cases, however, focus on the weakness of the state and the emergence of criminal activity as a response to that weakness. Andreas argues that criminalization occurs “in a context of anemic state administrative capacity and high dependence on external funding and supplies (especially of food, oil, and arms).”⁴⁸ In The Criminalization of the State in Africa, authors Bayart, Ellis, and Hibou argue that “the criminalization of politics and of the state may be regarded as the routinization, at the very heart of political and governmental institutions and circuits, of practices whose criminal nature is patent.”⁴⁹ While their work goes beyond discussing the *use* of criminal organizations to discuss their absorption by the state, they conclude that the states in Africa are for the most part not criminalized. Furthermore, their discussion of the process

⁴⁷ U.S v. Noriega. US District Court for the Southern District of Florida. Case No. 88-79-CR. 746 F. Supp. 1506. 1990.

⁴⁸ Andreas, “Criminalized Conflict.”

⁴⁹ Bayart, Jean-Francois, Stephen Ellis, and Beatrice Hibou. The Criminalization of the State in Africa. Bloomington: Oxford University Press. 1999.

of criminalization defines it as socially constructed by citizen alienation from state power structures,⁵⁰ and as such links criminality inextricably to the loss of a monopoly on force. As another chapter on transnational criminal activity notes, “Abdication of state power is generally acknowledged as the preeminent conjurer of transnational criminal enterprise.”⁵¹

The question, however, is whether in the North Korean case this understanding is correct. This author has found no scholar willing to argue that the North Korean regime has lost a monopoly on force inside its territorial borders. Unlike the state apparatus in the civil wars Andreas studies or in the African cases cited, the D.P.R.K. retains a strong administrative capacity with little sign of social unrest. As such, it may be an example of an administratively strong state choosing survival mechanisms similar mechanisms to those of the weak governments – for example, in the Bosnian case.⁵² This research hopes to extend the study of state criminalization to answer that question, and perhaps further elucidate the questions about use and variation left unanswered by Schelling and Tilly.

In the North Korean case, the question of why scholars have failed to distinguish between personal enrichment and state-run policy is usually rooted in standard assumptions regarding the nature of the Korean state and, specifically, the belief that North Korea’s totalitarian system has obliterated any distinction between private and public roles. This belief is illustrated by a statement from William Bach from the U.S.

⁵⁰ “The process of criminalization often expresses the maturation of a ‘social capital’ which has been built up over recent decades” by the narratives of decolonization and social injustice. p. 114.

⁵¹ Serrano, Monica. “Transnational Organized Crime and International Security: Business as Usual?” In Berdal, Mats, and Monica Serrano, eds. Transnational Organized Crime and International Security: Business as Usual? Boulder: Lynne Rienner Publishers, Inc. 2002. p. 21. Serrano cites A. Anderson, “Organized Crime, Mafia, and Governments.” In G. Fiorentini and S. Peltzman (eds.), The Economics of Organized Crime. Cambridge: Cambridge University Press. 1997.

⁵² Andreas’ comments on the interaction between formal intervention and informal criminalization are also valuable. He writes that sanctions and embargoes can “create economic opportunity structure for criminal actors that helps to criminalize the political economy of the conflict zone. . . internationally supported protected enclaves and “safe areas” can also shape the geography of the clandestine political economy of the war, since these areas often to run into stable commercial centers of black market exchange” (“Criminalized Conflict” 7). The potential comparison of these enclaves to North Korean Free Trade Zones (as at Rajin-Sonbong) is an aspect which this thesis will hopefully be able to elucidate.

State Department, who noted in a May 2003 hearing, “Given the tight controls in place throughout North Korea and the continuing seizures of amphetamines and heroin suspected of originating from North Korea, one must ask how any entity, other than the state, could be responsible for this high-volume drug trafficking.”⁵³ As will be shown in subsequent chapters, this type of unquestioning acceptance of these premises can result in an oversimplified and incomplete understanding of the structure and workings of the North Korean state.

One study in particular of the North Korean leadership might offer an alternate explanation to the less-controlled “parallel economy” scenario delineated by Oh and Hassig. More akin to William Bach and claims from defectors, Adrian Buzo provides evidence of the highly centralized and controlled nature of the North Korean regime and suggests that criminality could exist as a form of policy consistent with North Korean ideology.⁵⁴ The author asserts that the structure of the North Korean state is rooted in Kim Il Sung’s personal experiences, first as a guerilla and then in his contact with the Stalinist ideals of state organization, both of which, his work would imply, led to an ideology with which criminal activity is not only acceptable but in fact a normal tool of state policy. As Buzo notes, the Stalinist state was the only governance model with which Kim had direct experience. His ascension within that system, therefore, meant “the entrenchment of a high degree of commandism and autarky within the system” and the creation of a “political culture marked by exclusion, centralisation, strict accountability, hierarchy, and discipline.”⁵⁵ This explanation seems to uphold the credibility of

⁵³ “Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection.” Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

⁵⁴ Buzo, Adrian. The Guerilla Dynasty: Politics and Leadership in North Korea. New York: I.B. Tauris and Co., 1999.

⁵⁵ Buzo 11, 24, 28.

explanations such as Mr. Bach's, that the highly centralized, controlled nature of the North Korean regime makes it highly likely that such activity is state-mandated.

A further step towards explaining the North Korean regime's relationship to criminal actors, however, arises from an examination of the literatures on principal-agent problems and selectorates, which may be able to provide a more nuanced understanding of the meaning of the much-debated "state control." In the principal-agent literature, organizations (or, as applied to political science, states or regimes) that lack resources find other organizations to complete that work for them. However, because these contracted agents have a strong incentive to divert resources for personal benefit, the organization/state/regime must structure incentives so as to encourage cooperation.⁵⁶ Thus, the North Korean regime could have employed its trading companies and diplomats to do the trafficking for the regime, at the same time structuring incentives within the system such that actors are induced to continue cooperating in accordance with the state. As noted earlier, this kind of scenario has parallels in both the Balkans case explored by Andreas and in the British policy of contracting out to pirates to harass its enemies on the high seas.

The literature on principals and agents dovetails with work by Bruce Bueno de Mesquita, which postulates the existence of a sub-state group called the "selectorate."⁵⁷ The author defines the selectorate as the group of decision-makers; for example, all adults over the age of 18 without a felony conviction define the current US selectorate. In North

⁵⁶ V. Nilakant and Hayagreeva Rao, "Agency Theory and Uncertainty in Organizations: An Evaluation," *Organization Studies*, Winter 1994. (http://www.findarticles.com/p/articles/mi_m4339/is_n5_v15/ai_16548966) See also Oliver E. Williamson. Thanks to Nina Hsu for this citation.

⁵⁷ Bueno de Mesquita, Bruce, et al. "Policy Failure and Political Survival: the Contribution of Political Institutions." *The Journal of Conflict Resolution* 43(2): 147-61. April 1999. Further information can be found in Bueno de Mesquita, Bruce. "The Selectorate Model: A Theory of Political Institutions." With James D. Morrow, Randolph Siverson and Alastair Smith in Joseph Berger and Morris Zelditch, eds., *Contemporary Sociological Theories* Boulder, CO: Rowman and Littlefield, 2002, pp. 275-301. See also Bueno de Mesquita, Bruce. "Minimum Winning Coalitions in Politics." *International Encyclopedia of Social and Behavioral Sciences*. V. 3.11. Oxford: Elsevier Science. 2001. Thanks to Professor Stephen D. Krasner for these suggestions.

Korea's case, it appears that perhaps the state has contracted out criminal activity, not externally, but to its own selectorate as a way of maintaining their loyalty. Problems with maintaining control over this selectorate, however, as suggested by the principal-agent literature, may have prompted the regime to transfer criminal activity to a set of external actors – criminal organizations – instead. This literature raises the question of what kind of selectorate exists in the North Korean case and whether and how drug trafficking and counterfeiting have been used to ensure its loyalty. If so, access to the benefits of criminal activity might be a key identifier for loci of power within the North Korean regime, a helpful policy tool. Whereas the literature on state organized crime argues that the distinction between state and individual is not necessarily distinguishable or relevant when viewed from an external perspective, the principal agent and selectorate ideas offer a framework by which to assess, if possible, the intra-state dynamics of such a state and the potential internal mechanisms by which it wields its power.

In sum, while journalistic accounts and policy briefings accept at face value the assertion that the North Korean government is in essence a “mafia state,” the academic literature has yet to systematically treat and assess the evidence supporting such allegations. Academic literature, instead, offers a range of opinions on the extent of state control over criminal activity, and often obliterates the distinction between private activity uncontrolled by the state and state-directed criminal enterprises. Where it does discuss criminalization, it premises its discussions on assumptions which do not appear to apply to the North Korean situation, particularly with regard to the monopoly on force. This thesis attempts to test and refine past journalistic and policy assertions about state control, thereby filling a gap in the existing academic literature.

Potential State Motivations

The second major question in the analysis of North Korean criminal activity can be phrased as follows: if the activity is in fact state-directed, what are the motivations by which a state might choose to engage in such activity?

The literature on organized crime provides one such answer. It is commonly assumed, often without discussion, that financial profit alone drives criminal activity. Thus, Berdal and Serrano assert that “transnational and transstate organized criminal activities such as drug trafficking, money laundering, and the illicit smuggling to migrants follow, above all, the logic of profitability and economic gain.”⁵⁸ And, as Vlassis has observed in the same volume, “financial or other material benefit” was codified as intrinsic to the nature of organized crime in the UN Convention against Transnational Organized Crime.⁵⁹ The belief that organized crime is driven exclusively by profit is found in the U.S. policy community as well. In his description of North Korean involvement in illicit activity, Marcus Noland states that this activity was begun and is continued for the purposes of financing North Korea’s chronic trade deficit.⁶⁰

The belief that criminal activity is guided above all by the logic of economic gains directs our understanding of the structure and organization of organized criminal entities. Crime is explained as an economic enterprise: a market, a monopoly, a network, but always an entity defined by the pursuit of economic gain. Access to information and power which will increase profit is understood to motivate criminal networks to penetrate licit worlds of business and government,⁶¹ while officials see the opportunity to profit by assisting illicit activity and are therefore corrupted. Ian Taylor discusses “structures of opportunity” which are favorable to criminal activity, and argues that crime can be seen

⁵⁸ Berdal and Serrano 7.

⁵⁹ Vlassis, Dimitri. “The UN Convention Against Transnational Organized Crime.” In Berdal and Serrano. p. 83-94.

⁶⁰ Noland 121.

⁶¹ Williams in Arquilla and Ronstedt, p. 80.

as an outgrowth of the redefinition of economic life caused by the expansion of free-market policies.⁶² And Phil Williams sees the developing links between criminal organizations as “arrangements of convenience, based largely on economic considerations, rather than part of a grand, global criminal conspiracy.”⁶³ The empirical examination of the structure of North Korean involvement in criminal activity, therefore, should provide some hints as to whether or not the motivations are parallel.

In the North Korean case, one can therefore safely assume that that if the activity is being pursued by individuals devoid of state involvement, that such individuals are motivated by financial profit. Non-monetary incentives to pursue such activity (such as professional advancement, celebrity, ideology, etc.) would almost certainly be a function of state structure and therefore tend toward the analytic framework of state organized crime or principal-agent issues (rather than corruption or a loss of state control over the activity). Recent work by Michael Kelley does note that factors other than immediate short-term profit may induce criminal organizations to alter their patterns and organizational structure.⁶⁴ However, these are tactical adjustments made for the sake of long-term continuation (and therefore financial viability) of the activity, with the financial motivation remaining the long-term, overriding objective.

Even if the activity is state-directed, it may be simply explained by the economic woes of the D.P.R.K. – in particular their need for hard currency. In the 1970’s, bottlenecks in the command economy began to appear, and by 1975, North Korea became the first communist country to default on its international debt. The loss of Soviet and Chinese subsidies in the early 1990’s further exacerbated the country’s economic woes. According to the Central Intelligence Agency, North Korea’s GDP real growth rate

⁶² Taylor in Berdal and Serrano.

⁶³ Williams in Berdal 68.

⁶⁴ Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*. Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. "From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs." *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

since 1990 has been as follows: -2% in 1991; -10-15% in 1992; -7-9% in 1993; 0% in 1994; -5% in 1995; -5% in 1996; -3.7% in 1997; -5% in 1998; 1% in 1999; -3% in 2000; -3% in 2001; 1% in 2002; 1% in 2003; and 1% in 2004.⁶⁵ The national budget released in April 1999 totaled 9.39 billion North Korean won - less than half the budget in 1994.⁶⁶

By the end of the decade, authors were declaring the North Korean economy a failure. In his 2000 book, economist Marcus Noland begins his discussion of the North Korean economic situation with the statement, "The North Korean economy is, in essence, broken." He goes on to note that it is "beset with a variety of problems typical of CPE's [Centrally Planned Economies], and is unable to generate enough output to sustain the population biologically."⁶⁷ As Oh and Hassig put it, the North Korean economy has been "destroyed" by the Kims' blind adherence to failed economic ideology in the face of a fundamentally altered international environment.⁶⁸

This lack of growth was compounded by a series of natural disasters (floods, droughts, and typhoons) in the mid-1990's which severely impaired the country's food supply and led to widespread hunger and death. Widespread grain shortfalls began in 1993, and the resultant food shortage in 1994 made international headlines with pictures of starving North Korean children. Floods in 1995 and 1996 further lowered grain production, damaged infrastructure, and significantly harmed North Korea's already-reduced farmland capacity.⁶⁹ In August 1995, North Korea appealed for international help, prompting a series of assessment missions by the Food and Agricultural

⁶⁵ CIA World Factbook 1992-2005. Available online . Note that each year's estimate is taken from the following year's World Factbook (so that the 1996 estimate appears in the 1997 World Factbook entry, and so on.)

⁶⁶ Pomfret, John. "North Korea's conduit for crime: Cash-poor Pyongyang uses tiny Macau to move its dirty money." *The Washington Post*. 25 April 1999.

⁶⁷ Noland, Marcus. Avoiding the Apocalypse: the Future of the Two Koreas. Washington: Institute for International Economics. 2000. p. 82.

⁶⁸ Oh, Kongdan, and Ralph Hassig. North Korea Through the Looking Glass. Washington: Brookings Institution Press, 2000. p. 41.

⁶⁹ Food and Agricultural Organization/World Food Program. Crop and Food Supply Assessment Mission to the Democratic People's Republic of Korea. 22 December 1995, 6 December 1996, 25 June 1998, 12 November 1998. Available online at www.fao.org/countryprofiles/index.asp?lang=en&iso3=PRK&subj=3

Organization and World Food Program. Disaster continued for the next three years, with heavy rainfall/flooding in July 1996, drought in 1997, and floods again in 1998.

Amid this crisis, North Korea's "external economic chief," Kim Jong U, proposed a trade of missiles for food. In an incident that seems to have been largely forgotten by the American policy community, he noted that North Korea could either sell missiles to get the hard currency to purchase food, or could take aid from the United States as a replacement. Rather than evidence of humanitarian charity on the part of D.P.R.K. leaders, this incident most likely indicates the leadership's concern that acute hunger could threaten regime survival. As another high-level D.P.R.K. visitor to the State Department that spring noted, "Revolutions are made by hungry people."⁷⁰

Members of the policy community have drawn on these statistics to argue that the North Korean regime is motivated by a need for hard currency. In some eyes, even the nuclear program is an attempt to draw the United States into negotiation in order to obtain economic aid.⁷¹ Others have pointed to North Korea's ongoing trade imbalance in order to highlight the usefulness of illicit activity in financing the gap. Marcus Noland notes in his analysis of the North Korean economy that imports have consistently exceeded exports; he details the potential sources of revenue which finance that gap, including aid, Japanese remittances, arms sales, and illicit activity.⁷² Economist Nicholas Eberstadt placed North Korea's merchandise trade deficit at \$1200 million in the early 2000's.⁷³ This includes aid, Japanese remittances, arms sales,⁷⁴ and illicit activity,

⁷⁰ Oberdorfer 386.

⁷¹ Sigal, Leon. "North Korea is No Iraq: Pyongyang's Negotiating Strategy." Nautilus Institute Foreign Policy Forum Online. 23 December 2003. Available online at www.nautilus.org/fora/security/0227A_Siga.htm. Citation originally noted in Cha, Victor, and David Kang. *Nuclear North Korea: a Debate on Engagement Strategies*. New York: Columbia University Press. 2003.

⁷² Noland 89-141.

⁷³ Eberstadt, Nicholas. Congressional Testimony. "Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection." Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

although the precise breakdown of the inflow year-by-year is uncertain. In 2000, remittances and criminal activity were thought to provide around \$100 million annually,⁷⁵ but in March 2005 one U.S. government official estimated income from illicit activity at \$500 million per year.⁷⁶

At the state level, however, an alternate explanation to that of financial gain exists. Adrian Buzo's work, mentioned earlier, seems to suggest another understanding of such activity: rooted in the North Korean ideology. He writes that Kim's time as a guerilla, and his assignment of high leadership offices to others who had shared his experience, led to the entrenchment of a certain political culture:

[G]uerilla life instilled in [Kim Il Sung] the values of self-reliance, perseverance, and unremitting struggle, but we may also see in this period the roots of his later attitude of deep suspicion and mistrust toward "outsiders" and more broadly the diversity and pluralism of the outside world. He lived in a predatory, political subculture of force which encouraged in him an outlook that accepted callousness and criminality as a daily reality.⁷⁷

Buzo writes that this leadership shared an outlook that was not only Stalinist but reflected the key traits of "its ex-guerilla leadership: ruthless, Spartan, secretive, suspicious of intellectual activity, resourceful, predatory, and improvisatory."⁷⁸ The guerilla base of the D.P.R.K. state inured them to hostility and isolation, and prepared them for a long-term struggle against much more powerful, traditional adversaries, making the post-Cold-War environment a less striking change for the North Korean regime than it perhaps seems to us, and not one which should have prompted a fundamental rethinking of the North

⁷⁴ It should be noted while gross income from arms sales may be much higher, much of the income is assumed to be put back into weapons development, leading to a smaller profit margin. In 1996, the U.S. Arms Control and Disarmament Agency placed North Korean arms trading at well below \$200 million/year. United States Arms Control and Disarmament Agency. "World Military Expenditures and Arms Transfers 1993-4. Washington: Department of State. 1998.

⁷⁵ Noland 120.

⁷⁶ Author's interview with a U.S. government official.

⁷⁷ Buzo 10.

⁷⁸ Buzo 28.

Korean system. (To support this view, he cites a 1992 speech given by Kim Jong Il to show that the DPRK interpreted the weakness of the Communist bloc to have come from its reformist tendencies, which must therefore be avoided.⁷⁹⁾

In the context of Buzo's analysis, then, criminal behavior could be seen as a potential form of asymmetric warfare, fought with ideological motivations and guerilla tactical flexibility, to ensure the financial means by which the DPRK can finance its continued isolation. In the same way that Buzo asserts that Kim Jong Il has not ruled out "the tactical use of elements of reform as a means of supporting and defending the socialist economic system,"⁸⁰ tactical flexibility could allow criminal enterprise to provide illicit income for the sake of the larger socialist struggle, even if the end goal of these measures remains system maintenance and defense (rather than reform). While Buzo does not directly cite North Korean criminal activity as such a parallel, his sole direct comment on North Korean criminality implies that he believes it to be similar. He discusses it as another natural outgrowth of Kimist ideology: "a crude, predatory outlook on foreign relations, embracing support for international terrorism, bribery, petty forms of coercion, smuggling, and widespread abuse of diplomatic privileges including arms, drugs, and currency dealing."⁸¹ While suiting the need for tactical flexibility, criminal enterprise is ideologically justified and motivated as a continuation of the anti-imperialist struggle by typically guerilla, unconventional means. Buzo notes that Kim's adherence to these life-defined traits sharpened with age, even as conditions might have forced others to re-evaluate. This is a particularly interesting observation when applied the question of criminal activity, since the period Buzo pinpoints is also the period in which North Korean criminal activity was first recorded. This ideological rigidity has continued, he says, because "to depart from this ideology would threaten the D.P.R.K.'s very self-

⁷⁹ Buzo 208.

⁸⁰ Buzo 216.

⁸¹ Buzo 244.

definition as a state.”⁸² As discussed earlier, Buzo predicates this argument on the assumption that the control of the North Korean state apparatus is strong and effective.

Interestingly, Oh and Hassig’s analysis of the role of ideology in North Korean policy decisions does not necessarily conflict with Buzo’s assessment, although their explanation of the North Korean economy seems to be incompatible. After mentioning the “autarkic nature of Juche as an economic principle,” they maintain that the domestic response to North Korea’s economic woes has been more political than economic, using ideology to reinforce state control. Oh and Hassig assert that “No other country today puts as much effort into the production, elaboration, and dissemination of ideology as does North Korea.”⁸³ The Juche ideology, the authors write, combines self-reliance with Korean nationalism, an adaptation of the Marxist-Leninist ideals to the Korean situation.⁸⁴ Thus, while they do not explicitly state it, Oh and Hassig seem to believe that criminal activity reflects a breakdown of state capacity and control, rather than a choice by the state to retain its administrative power. This interpretation would be consistent with Andreas’ findings on criminalization, but inconsistent with common understandings of the capacity exercised by the North Korean state.

An article by Samuel Kim, although it deals with traditional conceptions of Korean security issues and does not overtly assess criminal activity, further elaborates the theoretical explanation for North Korean strategy within which these behaviors can be placed.⁸⁵ Kim draws on asymmetric conflict and negotiation theory to list four variables which have affected the power balance and performance of the weaker North Korean state: “the weak state’s proximity to the strategic field of play; the availability to the stronger state of viable alternatives; the level of stakes for both states in conflict and the

⁸² Buzo 203.

⁸³ Oh and Hassig 12.

⁸⁴ Oh and Hassig 17.

⁸⁵ Kim, Samuel S., ed. North Korean Foreign Relations in the Post-Cold War Era. Oxford: Oxford University Press. 1998.

degree of their resolve; and the degree of control for all involved parties.”⁸⁶ Therefore, Pyongyang’s geographic location, “its high stakes, resolve, and control, its relative asymmetrical military capabilities, and its coercive leverage strategy have all combined to enable the D.P.R.K. to exercise bargaining power disproportionate to its aggregate structural power in the U.S.-D.P.R.K. asymmetric conflict and negotiations.”⁸⁷

In Kim’s theoretical framework, criminal activity could be construed as an example of “adaptive, situation-specific learning” for the sake of system maintenance, without cognitive or normative learning. It is a change in the processes of the North Korean system, but one which remains firmly within the parameters of the system itself.⁸⁸ This assessment fits with the general impression of ideological rigidity which Buzo, Oh and Hassig illustrate. Kim argues that Kim Jong Il’s response to the need for “more than these temporizing revenue-raising measures” has been twofold: “selective and controlled opening to engage in onetime attempts to earn foreign exchange through projects that would not affect system maintenance (e.g., the Rajin-Sonbong Special Economic Zone and the Mt. Kumgang tourism project) while at the same time engaging in brinkmanship to extract concessional aid from the rest of the world.”⁸⁹ Although he does not mention it, criminal activity fits the definition of this policy nicely; its limited interaction with the domestic politics of North Korea limits its ability to challenge the *juche* ideology, enabling North Korea to participate in the global capitalist economy under the guise of subverting it. His work could suggest that criminal activity has been conducted as a financial survival strategy under asymmetric conditions, but can be justified by the *juche*, guerilla legitimacy, and anti-capitalist elements of North Korean ideology.

⁸⁶ Kim 47.

⁸⁷ Kim 51.

⁸⁸ Kim 44.

⁸⁹ Kim 44.

Indeed, North Korea has a history of using unconventional or asymmetric forms of warfare. North Korea has a long-standing record of involvement in hijacking, kidnapping, and other acts of terrorism, primarily directed against the Republic of Korea.⁹⁰ D.P.R.K. provocations, however, appear to have peaked in the decade or two after the Cold War, and declined since the mid-1970's. Infiltration attempts also appear to have declined over time.⁹¹ As one researcher notes, "the most intense phase of the provocations was in the latter half of the 1960's."⁹² More specifically, a chart in Seoul's War Memorial Museum shows D.P.R.K. infiltration attempts declining from hundreds in the 1960's to under 10 since 1991. Today, North Korea's involvement in terrorism appears to be limited to arms trades with potential terrorist connections and the harboring of Japanese Red Army terrorists⁹³ - who it recently offered to return to Japan, ostensibly in exchange for the financial reparations/benefits accompanying normalization.⁹⁴ In fact, scholars argue that North Korea's use of force has increasingly been calculated to achieve economic gains.⁹⁵ Should the criminal activity appear to be primarily ideologically

⁹⁰ The report by Dick Nanto of the Congressional Research Service contains the most complete and concise listing of such incidents from 1950-2003. Nanto includes in his list of provocations "armed invasion, border violations, infiltration of armed saboteurs and spies, hijacking, kidnapping, terrorism (including assassination and bombing), threats/intimidation. . . . and incitement." Nanto, Dick. "Chronology of North Korean Provocations 1950-2003." Congressional Research Service Report RL 30004.. 18 March 2003.

⁹¹ See Appendix 5 for a graphical representation of this trend. According to Nanto, North Korea infiltrated 3,693 armed agents into the ROK between 1954 to 1992, with 20% of those in 1967-8. Nanto, Dick. "Chronology of North Korean Provocations 1950-2003." Congressional Research Service Report RL 30004.. 18 March 2003.

⁹² Nanto, Dick. "Chronology of North Korean Provocations 1950-2003." Congressional Research Service Report RL 30004.. 18 March 2003.

⁹³ "Overview of State-Sponsored Terrorism." In *Patterns of Global Terrorism*.. U.S. Department of State. 30 April 2001.

⁹⁴ Ward, Andrew, and David Ibson. "North Korea offers to hand over Red Army hijackers to Japan." *The Financial Times*. 6 July 2004.

⁹⁵ Michishita, Narushige. "Calculated Adventurism: North Korea's Military-Diplomatic Campaigns." Korean Journal of Defense Analysis. Vol XVI, No. 2, Fall 2004. Michishita's strategic-level study of North Korean military-diplomatic campaigns breaks North Korean policy into four periods: genesis of campaigns, from 1966-72; diplomatic use of limited force, 1973-1982; rise of terrorism, 1983-92; and elaborate and sustained campaigns, 1993-2000.⁹⁵ He writes that as hopes of communizing the South faded, North Korea moved into a stage where survival became a more immediate objective than overthrow of the South. As it did so, economic gains became increasingly important as a political objective; the Agreed Framework was the first time North Korea demanded economic incentives for its military actions.

motivated, this conclusion will have to be reconciled with these changes in other aspects of North Korean asymmetric warfare tactics.

The conceptual frameworks advanced by these authors suggest two primary potential motivations for North Korea to engage in criminal activity: financial and ideological. Nevertheless, their failure to explain criminal activity as part of this framework weakens their analysis. A rigorous treatment of North Korean involvement in criminal activity may, therefore, help readers understand the circumstances under which one or the other motivation guides D.P.R.K. policy, or may add nuances to our conceptions of North Korea's motivations which might otherwise be overlooked.

Testing the Hypotheses

The review of the above literature has attempted to elucidate the key questions which remain to be answered with regard to North Korean involvement in transnational crime. As noted in Chapter One, there are four main hypotheses about the nature of North Korean involvement in transnational criminal activity. First, criminal activity may be taking place in the context of a lack of state control, where individual officials and citizens have the opportunity and incentive to pursue criminal activity for personal enrichment. Second, it may be state-sanctioned or condoned, but not supported or actively directed by the state. Third, the activity may be taking place in the context of continued state control as a deliberate government or Party policy, but may be orchestrated with autonomy by various organs within the state apparatus. Fourth, this activity may be a fully coordinated scheme by the top leadership, rigidly managed and scrutinized. In all but the first scenario, the activity may be taking place either to meet the regime's need for hard currency – a purely financial motivation – or as a form of asymmetric strategy to counter overwhelming power which it perceives to be directed against it. As noted earlier, the ideological warfare explanation would be more likely be

offensive in nature under the fourth hypothesis than the third, which would have a more defensive or survival purpose posited by the third explanation. The weight of ideological motivations might therefore be expected to increase as state control increases.

This thesis tests these hypotheses by analyzing the patterns and trends of North Korean involvement in counterfeiting and drug smuggling. To do so, it isolates the mechanics of each of these two types of activity, and examines those features to see if they would indicate the extent of state control. More specifically, it examines motives, organizational structure and incentives, trade patterns, and control processes for both activities. For example, counterfeiting seems to be more probable as a state-directed activity given the type of press used and the consistency with which diplomats have access to counterfeit money for distribution. Alternately, recent testimony by Mr. Bach of the State Department that North Koreans have moved further down the trafficking chain⁹⁶ presents evidence that North Korean criminal activity might exist outside state control, since diversification of roles could suggest increased difficulty in state regulation. This kind of examination of the mechanics of different types of North Korean criminal activity will help assess the structure and motivations for such involvement. This thesis will also assess the distinction between state policy and private enrichment by attempting to discern the degree to which profits from each type of activity would help state, group, or individual interests. (As a caveat it must be noted, however, that this attempted line of analysis is much more difficult than the first. The structure of the North Korean case may in the end render such a differentiation irrelevant, or the opacity of the North Korean regime may make it impossible to trace the different entities' interests, opportunity costs, and distribution of benefits as they are vested in various activities.) As the extent of state

⁹⁶ Bach. Testimony at "Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection." Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

control is explored, more satisfactory interpretation about the potential motivations for criminal activity will be assigned as well.

Chapter Three:

North Korean Involvement in Drug Trafficking

Introduction

The next two chapters seek to provide an analytic account of North Korean involvement in transnational criminal activity. In their assessment of each of the types of activity (drug, counterfeit, and other), they seek not only to document the basic facts surrounding that type of smuggling, but also to identify the trends and changing patterns in criminal activity. Appendix B of this thesis is intended primarily as a reference to complement the analysis contained in this chapter.

As noted previously, Chapter Three offers an empirically based analysis of North Korean involvement in drug trafficking, based on the data set in Appendix B but supplemented by interview material. It seeks to elucidate the extent of state control over criminal activity and to analyze the state's organization of such activity where possible. It also seeks to comment on state motivations for engaging in such activity.

Drug Smuggling

The data set in Appendix B documents a total of 75 drug trafficking incidents in which North Koreans were either cited or believed to have been involved. These incidents have been collected from an array of sources including a report by the Drug Enforcement Administration which was included in the House of Representatives' Advisory Group Report on North Korea in 1998, and a 2000 report by the Joint Interagency Task Force West of the Department of Defense. To the events listed in these reports, however, have been added incidents which were printed in news and investigative reports in American and Asian media, leading to the most complete publicly

available data set compiled to date.⁹⁷ Defector reports, as stated earlier, are used to flesh out descriptions of North Korean involvement, and were not a source of information in compiling the data set.

It is apparent from this data that the level and type of involvement by the D.P.R.K. in drug trafficking have shifted over time along three empirically observable variables: the level and type of state involvement in the activity; the geographic location of the trafficking; and the type of drugs trafficked. (A fourth variable, development of internal state policy, has been added to complete the account.) Early seizures were almost entirely from the D.P.R.K. diplomatic corps, were geographically diversified, and were typically narcotics (opium, heroin), with some marijuana and cocaine. The post-Cold War period, however, has seen a regional concentration in East Asia as well as a rise in incidents where criminal organizations and not North Korean officials are caught trafficking, with the implication that these elements have replaced diplomatic officials and trading companies as North Korea's main trafficking mechanism. North Korea has also assumed a greater role in production, and now traffics not only in opium-based products, but increasingly in methamphetamine and other amphetamine-type stimulants (ATS).

The graph below shows the total seizures of D.P.R.K.-related drugs, both opium/heroin-type and amphetamine-type stimulants, from 1976 to 2004:

⁹⁷ As mentioned in the Methodology discussion in the Introduction, any contradictions or suspicious reports have been noted in the Appendix.

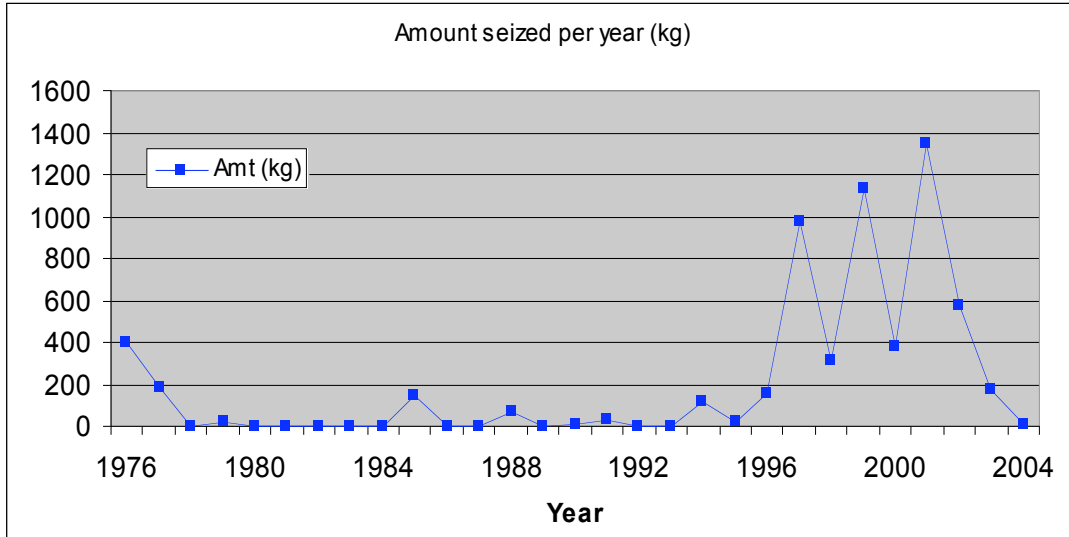


Figure 1: Amount of Drugs Linked to North Korea Seized 1976-2004

The total amount of drugs confiscated in D.P.R.K.-related seizures remained relatively small in size throughout the first two decades, but then showed a steep rise around 1996 which was sustained thereafter. It should be noted that, if anything, this chart under-represents North Korean involvement in the drug trade, since this author has been unable to locate amounts for many of the seizures listed in the Appendix. Several factors may explain a major shift at this time. By 1996, floods and droughts inside North Korea (and the famine that resulted) may have given North Korea's leadership an incentive to increase their pursuit of non-traditional sources of income. Moreover, the leadership transition which followed the death of Kim Il Sung may have provided a short-term window of opportunity for independent decisions by officials which deviated from previously held guidelines, or new leadership may have imposed new rules. As Michishita noted in "Calculated Adventurism," reorganization of North Korean intelligence apparatus in 1982 and the subsequent placing of the Research Department for External Intelligence under Kim Jong Il's direct control paved the way for North Korea's terrorist activity. One U.S. official's comment that the people formerly doing terrorist

activity seemed to have moved into criminal activity suggests a personal element to the change in state policy, although this cannot be confirmed.⁹⁸

Trend One: State Involvement in Trafficking

The chart below shows the evolution of documented state involvement in trafficking seizures from 1976 to 2004:

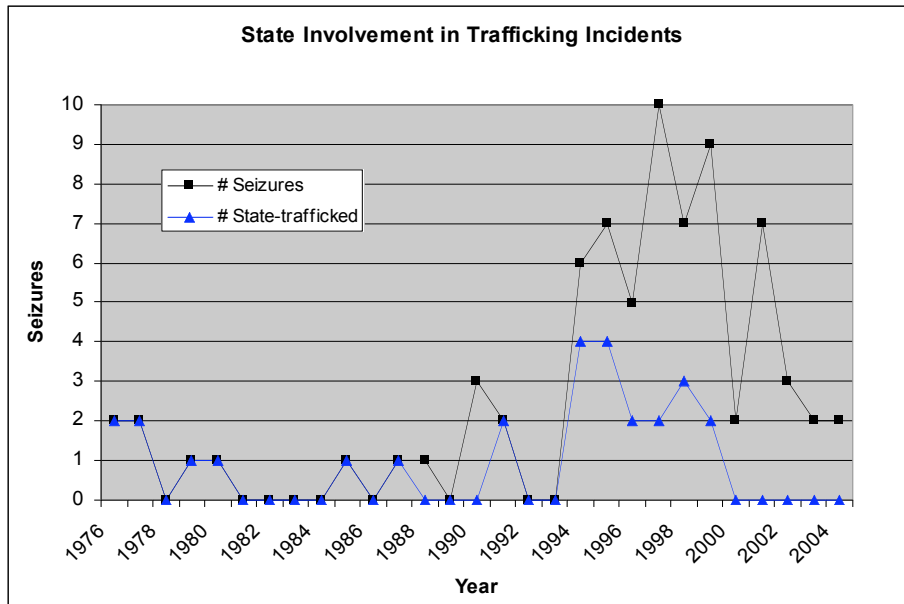


Figure 2: North Korean State Involvement in Drug Trafficking 1976-2004

The blue line represents seizures where people with a known official designation have been caught trafficking in drugs. From 1976 to 1994 the majority of these were declared diplomatic personnel, but the line also includes unstated official designations, such as State Security or Intelligence, which are responsible for the increase in the late 1990’s. There have been no recorded incidents since 2001 of known North Korean officials apprehended for the trafficking of drugs, although the trial of the Worker’s Party official aboard the Pong Su could perhaps be considered an exception. Nevertheless, it is clear

⁹⁸ Author’s interview with a U.S. government official.

that after an increase in involvement in the mid to late 1990's, North Korean involvement in the riskier aspects of the drug trade have declined. The evolution of this process, particularly the divergence between North Korean involvement in the drug trade (which includes production and arrangement of deals) and North Korean involvement in drug *trafficking*, beginning in 1995, is explored below.

The earliest recorded incidents were drug seizures made from North Korean diplomats: Scandinavian countries and Egypt in 1976, Venezuela and India in 1977, Laos in 1979 and Egypt again in 1980. These seizures spanned the globe, at least as far as North Korean diplomatic representation went (see the later section for an assessment of changes in geographical patterns of activity over time). According to a number of U.S. government officials and other sources, it was common knowledge during this time that North Korean embassies were required to “self-finance,” and transporting drugs under diplomatic cover offered a relatively easy and low-risk way to make money. In the 1970's and 1980's, therefore, individual North Korean diplomats trafficked various types of drugs to fund embassy operations.

The exact knowledge and involvement of the central state is not precisely known; a report in 2000 by the Joint Interagency Task Force West stated that North Korea “purchased drugs for resale”⁹⁹ but does not specify the central state's involvement, and no publicly available information points to the involvement of the central state at this initial stage. According to defectors, however, the inexperience of North Korean diplomats in trafficking gradually necessitated involvement of intelligence personnel to help them do business.¹⁰⁰ Although the leadership does not appear to have played a supervisory role in directing or coordinating the activity at this time, the pressure on embassies to fund their operations independent of monies coming from the center meant

⁹⁹ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹⁰⁰ Author's interview with a former member of the North Korean elite who worked at an embassy. Seoul, South Korea. 5 April 2005. Translated by Mr. Park Syung Je.

that Pyongyang was at least willing to tolerate criminal activity in its diplomatic corps. The D.P.R.K. government insists that these are instances of individual misbehavior, and that offenders have been punished when they return to North Korea. Their claim cannot be confirmed or denied on the basis of current publicly available knowledge, but statements by a former member of the North Korean diplomatic corps indicating that none of the officials who were ejected from their posts for illicit smuggling were punished upon their return to the D.P.R.K. seems to contradict the D.P.R.K.'s assertion.¹⁰¹ Anecdotal evidence also reveals several cases in which officials ejected from one country for criminal activity were sometimes reposted to other places. In one of the best-known cases, Kil Chae-kyong, a former North Korean diplomat expelled from Sweden in 1976 for drug trafficking resurfaced in Vladivostok in 1998 attempting to exchange counterfeit bills; he was identified as a Deputy Director of the International Department of the Korean Workers' Party.¹⁰²

The late 1980's and early-to-mid 1990's are marked by a diversification of the type of North Koreans involved in trafficking. Although diplomats continued to be caught across the world (including in Nepal and Sweden), trading company and economic officials, as well as North Koreans without a clear official designation, also began to appear, although generally with small amounts of drugs. In addition, non-diplomatic officials of North Korea - particularly State Security agents and Intelligence agents in the Russian Far East - began to be reported in possession of drugs (as one might expect if reports that these personnel had begun to assist diplomats in covert activity were true). For example, lumberjacks from the D.P.R.K. Forestry Mission, later reported to be

¹⁰¹ Interview with a former member of the North Korean elite who worked at an embassy. Seoul, South Korea. 5 April 2005. Translated by Mr. Park Syung Je.

¹⁰² "North Korean Drug Trafficking." Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000. Also Pomfret, John. "North Korea's conduit for crime: Cash-poor Pyongyang uses tiny Macau to move its dirty money." *The Washington Post*. 25 April 1999. p. A21. To underscore the high rank of this official, it must be noted that the International Department of the KWP outranks the Ministry of Foreign Affairs.

Intelligence agents, were arrested with approximately one kilogram of opium in Russia in late 1990.¹⁰³ In 1994 a North Korean - official designation unreported, if existent - was stopped by Russian customs officials with 200 grams of opium in his shoes.¹⁰⁴ Many times, these official designations were not publicly declared (as diplomats are) but were revealed during the course of investigation.

The area around Vladivostok and northward saw a series of incidents where North Koreans, especially but not only those with an unstated official designation, were found in possession. As two journalists wrote in December 1996:

The Russian Far East is suddenly awash in opium. In Komsomolskna-Amure, once a centre for Soviet military production and off-limits to outsiders, police confiscated 40 kg of the drug between January and July – compared with only half a kilogram in all of 1995. Police in Russia’s Maritime Territory south of the city are unearthing seven- and eight-kilogram stashes of opium with increasing regularity.¹⁰⁵

Most of the drugs, they believed, were being shipped from the Far East to Europe. The reported combination of large-scale purchases with several incidents of much smaller distribution raises the question of whether officials were pocketing some of the opium to line their own pockets, or whether multiple distribution schemes of various sizes were being employed (i.e. smaller sales for Russian locals, large scale sales for shipment). The article continued:

Anonymous military intelligence officials have, however, confirmed to the *Itar-*

¹⁰³ “Major Incidents of Drug Trafficking by North Koreans.” Drug Enforcement Administration Report. 1998. Under the terms of an agreement with Russia, North Korea sent timber workers to the Russian Far East. The agreement lapsed in 1993 but was renewed in 1995. Noland, Marcus. *Avoiding the Apocalypse*. Washington, DC: Institute for International Economics. 2000. p. 98. However, the timing of the arrests does not exactly correlate with the signing of logging contracts, which expired in 1993 and were not renewed until 1995. This raises the question of why timber workers were still in Russia at that time, as well as prompts the need for an explanation of the presence of state security officials.

¹⁰⁴ “Major Incidents of Drug Trafficking by North Koreans.” Drug Enforcement Administration Report. 1998. Also included in “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹⁰⁵ Quinn-Judge, Sophie, and Shim Jae Hoon. "Opiate of the Party: North Korea Fuels Opium Boom in Russia." *Far Eastern Economic Review*. 5 December 1996.

Tass news agency that North Koreans are using timber workers to smuggle both opium and heroin through the Russian Far East. . . In the past, workers who have escaped from these remote camps have been tracked down by North Korean security agents and imprisoned on camp grounds. There appears to be little possibility that individual workers are free-lancing as drug dealers to locals.¹⁰⁶

The previous close surveillance of timber workers by state security agents and the subsequent arrest of certain suspected intelligence and security agents in possession implies that multiple North Korean political entities (at the least, the State Security Agency and the Forestry Ministry) were able to collude; what is less clear is at what level they cooperated. It remains unclear whether this was a scheme hatched by a group of locally based (therefore lower-level) officials without higher knowledge, or one centrally directed by a higher level.

Somewhat earlier than these Russian incidents, however, Asian criminal organizations first made an appearance. In the late 1980's law enforcement saw the beginnings of North Korean connections to established Asian crime rings. In one such case, the gang of Lai King-man, a former Hong Kong policeman who pleaded guilty in New York to trafficking in heroin, made several transactions with North Koreans living in Macau, for a racket that used diplomats to smuggle drugs through Hong Kong into the United States.¹⁰⁷ (At this point, as late as 1986-7, North Koreans were still trafficking drugs produced by others.) Another heroin case, in South Korea, involved the Asia Sharon crime ring, and the gangster involved, Lee Bok-hon, reported having visited the North "six times between April 1992 and November 1993," as well as arranging deals between North Korea and Southeast Asian crime rings. The South Korean Agency for

¹⁰⁶ Quinn-Judge, Sophie, and Shim Jae Hoon. "Opiate of the Party: North Korea Fuels Opium Boom in Russia." *Far Eastern Economic Review*. 5 December 1996.

¹⁰⁷ Dobson, Chris. "The failure of Kim Il-Sung to maintain North Korea's self-reliance. . ." *South China Morning Post*. 17 July 1994. Also mentioned in Kaplan, David E. "The Wiseguy Regime." *US News and World Report*. 15 February 1999. According to Dobson, Lai commented that the North Koreans stopped dealing with his gang once they began producing their own drugs.

National Security Planning said it had seized faxes exchanged with Pyongyang, among other evidence. At least one of Lee's meetings, he said, involved an unnamed "high-ranking communist party cadre."¹⁰⁸

The mid-1990's also saw the emergence of North Korean trading companies as focal points for drug trafficking. Increased scrutiny of official and quasi-official North Korean posts, however, relegated the trading companies to more of a behind-the-scenes coordinating role. As one journalist wrote, "North Korean diplomatic and trade missions, long used as smuggling centers, are being watched more closely, forcing the regime to split the take in "joint ventures" with traffickers from China, Japan, and Taiwan."¹⁰⁹ The first publicly recorded involvement of a trading company surfaced in 1994 in Shanghai, where a Maebong employee was cited for smuggling opium through the Embassy.¹¹⁰ According to defectors, however, involvement began earlier than that. Defector Kim Dok Hong says he was a senior official at Chosun Ongryook Trading Co. in the late 1980's when he was approached by friends at Bureau 39 of the Central Party Committee who asked if he would be willing to trade drugs on the side. After that, he says, he met with members of the Japanese yakuza and took trains into China transporting white powder packed in boxes under dried squid.¹¹¹ Thus the role of the trading companies appears to have been more in management and arrangement of the deals, with the actual trafficking and distribution increasingly done by Asian criminal elements.¹¹²

¹⁰⁸ Dobson, Chris. "The failure of Kim Il-Sung to maintain North Korea's self-reliance. . ." *South China Morning Post*. 17 July 1994.

¹⁰⁹ Kaplan, David E. "The Far East Sopranos." *US News and World Report*. 27 January 2003.

¹¹⁰ "Major Incidents of Drug Trafficking by North Koreans." Drug Enforcement Administration Report. 1998.

¹¹¹ Spaeth, Anthony. "Kim's Rackets." *Time Asia*. 9 June 2003. Kim served for 17 years on the Central Committee, under which Bureau 39 operates. Kaplan, David E. "The Wiseguy Regime." *US News and World Report*. 15 February 1999.

¹¹² The choice of NK's honorary consul (who issues visas) in Macau, Wong Sing-wa, also implies that money laundering may be a more recent operational function of the outposts. See the comments on Stanley Ho later in this section. As for Wong, Macau security officials said that he "had no criminal record, but we have registered information that links him to organized crime and gambling in Macau" including a connection to "one of the VIP rooms of the Lisboa Casino" – allegedly controlled by the 14K Triad.

That change in operations has also led to a regionalization of the trafficking, with more and more emphasis on East Asia and less worldwide reach. According to defectors, after North Korea began producing opium for export in the mid-1990's, it first smuggled the products to Russia, China, Hong Kong, and Macau – places where transport was relatively easy and it was also easier to avoid the customs officials.¹¹³ Gradually, however, maritime smuggling became more common, and meetings between smuggling ships and North Korean officials were increasingly reported. According to one defector, who claims to have worked for Bureau 39 for several years in the mid- to late-1990's, 200-kilogram shipments of narcotics left Wonsan Port five times a year in the ManGyongBong ship which carries passengers between North Korea and Japan. Other sources suspect the use of spy ships to rendezvous or leave drugs for pickup by Japanese boats.¹¹⁴ In the famous case of one North Korean spy ship, sunk after exchanging fire with the Japanese Coast Guard on a suspected drug drop in 2001, authorities confiscated a Toshiba phone that Japanese authorities said had calls to “known gangland operatives.”¹¹⁵

Discerning the role of the North Korean government in these activities has become increasingly difficult with the decrease in North-Korean-trafficked seizures and the alleged involvement now in production rather than trafficking (see Trend Two). The North Korean regime has denied any involvement with the drug trade, and admissions of culpability have not been obtained from North Korean officials, only by those associated with them (i.e., criminals like Lai King-man). As one North Korean official, Hong Kong consul Song Il-hyok, retorted, “We have nothing to do with it. These are irresponsible

Lisbon-based weekly newspaper *Independent*, quoted in Lintner, Bertil. "The Macau Connection: The Former Portugese Colony was a Terrorist Base for Pyongyang." *Far Eastern Economic Review*. 25 October 2001.

¹¹³ Author's interview with two North Korean defectors. 5 April 2005. Translation done by Ms. xxx and Mr. Park Syung Je. Opium going to Russia and China could be transported overland; direct flights from Pyongyang to Macau began in 1995.

¹¹⁴ Tetsuya Suetsugu. "Risky Business Leading North Korea to Ruin." *Yomiuri Shimbun*. 22 August 2003.

¹¹⁵ Ibison, David. "Pyongyang's Spy Ship Reveals a Dark Secret." *The Financial Times*. 28 May 2003.

claims... My country has made it quite clear, the government has always been against the use of heroin or any kind of drugs.”¹¹⁶ Moreover, some diplomats, when apprehended, committed suicide; others “signed statements saying they were acting alone.”¹¹⁷ North Korean officials maintain that the officials who have been caught smuggling drugs have been punished,¹¹⁸ but anecdotal evidence and defector statements bring such a denial into question.

The United Nations International Narcotics Control Board stated in May 2003 that it saw “no evidence of a state-sponsored trade,” although the agency “recognized the involvement of North Korean nationals.” Comparing the case being made against North Korea to the WMD case in Iraq, head of the agency Herbert Schaepe argued that even the North Korean system was not controllable, comparing it to the corruption of the allegedly state-run Soviet system.¹¹⁹ This does, however, stand in contrast to earlier, more equivocal statements in the 1997 Report of the INCB, which notes that the Board had received “disquieting reports” about the situation in North Korea, and was concerned that the D.P.R.K. had not accepted a 1995 proposal to send personnel to clarify the issue.¹²⁰

U.S. government officials, citing court rather than intelligence standards of proof, are careful to say that the drugs have been sourced to, rather than manufactured in, North Korea, since manufacturing would require either a match to a known chemical baseline, which officials have not been able to obtain, or access to the suspected sites in North

¹¹⁶ Michael, Peter. “Hong Kong ‘key market for North Korean drugs.” *South China Morning Post*. 26 May 2003.

¹¹⁷ Solomon, Jay, and Jason Dean. “Drug Money: Heroin Busts Point to Source of Funds for North Koreans.” *The Wall Street Journal*. 23 April 2003.

¹¹⁸ Perl, Raphael F. “Drug Trafficking and North Korea: Issues for US Policy.” CRS Report for Congress. 5 March 2005.

¹¹⁹ “Observers disagree on how official the North Korean drug trade is.” *Sydney Morning Herald*. 5 May 2003. Available online at www.smh.com.au/articles/2003/05/04/1051987611297.html.

¹²⁰ International Narcotics Control Board, “1997 Annual Report.” February 1998. para. 294. Original citation found in “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000. North Korea has 63 hectares of licit opium production that it has declared to the United Nations. “Observers disagree on how official the North Korean drug trade is.” *Sydney Morning Herald*. 5 May 2003. Available online at www.smh.com.au/articles/2003/05/04/1051987611297.html.

Korea.¹²¹ Other government officials are more convinced of the state's role, arguing along the lines of the International Narcotics Control Strategy Reports released in recent years: that the consistent involvement of state personnel and assets makes it highly likely the state is involved.¹²² Without access to classified information, this author cannot rule definitively; the opaque nature of the North Korean regime and the available evidence leaves the North Korean regime with the option of "plausible deniability," however unlikely.

The case of the Pong Su, a North Korean freighter captured off the coast of Australia in 2003 and linked to the drop of 125 kilograms of heroin, exemplifies the difficulty of assigning a precise interpretation to instances of North Korean involvement in the drug trade. The U.S. government used this case, especially the presence of a Workers Party official on board the ship, to point out their suspicions of state involvement.¹²³ Others found the evidence less conclusive, with an Australian Federal Police agent citing Macao-based organized crime instead.¹²⁴ The source of the drug, sometimes attributed to the United Wa army of Burma, but sometimes to North Korea, is inconclusive.¹²⁵ The Workers' Party official was originally released on the grounds that there was insufficient evidence to try him for involvement, although Australia has recently announced that it has decided to prosecute him after all.¹²⁶ Some see the Pong Su case as an indication that North Korea is still involved in trafficking drugs produced

¹²¹ Author's interviews with U.S. government officials.

¹²² Author's interview with U.S. government officials.

¹²³ "US attacks North Korea's 'state' drugs trafficking policy." *Agence France Presse*. 1 March 2004. See also "U.S. suspects drug trade by N. Korea as 'state policy.'" *Kyodo News Service, Japan Economic Newswire*. 1 March 2004.

¹²⁴ Tarabay, Jamie. "Australia Charges North Korean Ship's Crew in Drug Case." *The Wall Street Journal*. 22 April 2003. Also "Macao-based organized crime said behind N. Korea heroin trade." *Kyodo News International, Inc.* 20 November 2003. See also Simpson, Cam. "N. Korea drug-trade charges in question; Evidence shaky in case cited by U.S." *Chicago Tribune*. 10 March 2004.

¹²⁵ Dawson, Alan. "Australian Bust Adds Evidence North Korea Major Player in Global Heroin Trade." *Bangkok Post*. 21 July 2003. See also "Macao-based organized crime said behind N. Korea heroin trade." *Kyodo News International, Inc.* 20 November 2003. See also Simpson, Cam. "N. Korea drug-trade charges in question; Evidence shaky in case cited by U.S." *Chicago Tribune*. 10 March 2004.

¹²⁶ 2004 International Narcotics Control Strategy Report. U.S. Department of State. Released March 2005.

by others, arguing against recent interpretations that the North Korean government had shifted its involvement to production to decrease risk and mask its involvement.¹²⁷

Trend Two: Development of State Policy

By the date of this later case, reports had surfaced that North Korea was involved not only in trafficking but in production. It should be noted here that most of the information in this section comes from defector reports, which have been compiled into an overarching story about the internal development of North Korean involvement in drug production. According to U.S. government officials, the United States has been unable to verify stories about opium cultivation due to problems with obtaining satellite imagery which would enable an accurate estimation of poppy growth.¹²⁸ Without access to the laboratories inside North Korea, reports of methamphetamine production cannot also be confirmed. Thus the section which follows must be read as a partial account, by no means a comprehensive explanation of North Korean decision-making in this aspect of state policy, and one which may contain outdated or incorrect information. It is this author's belief, however, that it is better to present such information, with the caveat given, than to ignore it entirely.

In the mid- to late-1990's, criminal organizations caught transporting or distributing drugs began to point at North Korea as a behind-the-scenes partner. Lee, for example, claimed to have arranged the sale of North Korea-grown opium to another

¹²⁷ Economist Marcus Noland suggests that perhaps North Korea finds it financially profitable to traffic drugs for others, while State Department officer William Bach suggested to Congress that the shift to so-called "joint ventures" may be a result of increased U.S. and Asian law enforcement pressure and may represent the evolution of regime-criminal organization partnership to a "two-way street" scenario in which North Koreans have moved further down the trafficking chain. See "Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection." Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

¹²⁸ Author's interviews with U.S. government officials. Obtaining satellite information on North Korean poppy growing might sound easier in theory than it is in practice. Poppies bloom over a relatively short period of time, in selected areas. Moreover, diverting satellite time from other D.P.R.K. targets, especially military and nuclear sites, might be difficult to do given the current state of affairs, and the weather must be sufficiently clear to obtain an accurate reading of agricultural developments.

syndicate.¹²⁹ And one 1994 press report cited a South Korean intelligence report which quoted North Korean military defector Lieutenant Im Young-sun as saying that Pyongyang grew opium. According to Im, “a processed form of the drug was then smuggled to Hong Kong, Russia and China and sold for cash to buy food and fuel, including rice from Vietnam.” The same article quoted an unnamed “Asian analyst” as saying that “opium is the side income of the military. . . Last year they made 50 tonnes. They cultivate it in the mountain areas of North Korea.”¹³⁰ U.S. military intelligence officials said that North Korea was the third-largest producer of opium in 2003.¹³¹

This account is consistent with other defector statements that the late 1980’s and early 1990’s marked a strategic decision on the part of the North Korean leadership to grow opium for export.¹³² For example, in May 2003, an anonymous defector testified before the Senate Governmental Affairs Committee as follows:

North Korea started its production of drugs secretly in the late 1970’s in the mountainous Hamkyung and Yangkang provinces. North Korea began to produce and sell drugs in earnest in the late 1980’s, when Kim Il-sung toured Hamkyung-Bukdo Province and designated the area around Yonsah Town in Hamkyung Province to be developed into an opium farm. It was known that the Japanese Colonial government used to grow opium in this area. Kim Il-sung needed cash.

The local province party committee developed an experimental opium farm in Yonsah Town in secret, and the farm was tightly guarded by the security agents. They began to produce opium at the collective farms located in towns like Yonsah, Hweryung, Moosan, and Onsung in Hamkyung-Bukdo Province. All opium produced at these farms was sent to the government to be processed into

¹²⁹ Dobson, Chris. “The failure of Kim Il-Sung to maintain North Korea’s self-reliance. . .” *South China Morning Post*. 17 July 1994.

¹³⁰ Dobson, Chris. “The failure of Kim Il-Sung to maintain North Korea’s self-reliance. . .” *South China Morning Post*. 17 July 1994.

¹³¹ Paddock, Richard C. and Barbara Demick. “North Korea’s Growing Drug Trade Seen in Botched Heroin Delivery.” *Los Angeles Times*. 21 May 2003. In 2000, the Department of Defense placed North Korean heroin production at 3-4.5 tons annually, ranking it 6th in the world, behind Colombia and Mexico. “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹³² North Korea has some licit opium production which it has reported to the United Nations.

heroin. They called these opium poppies broad bellflowers in order to hide the operation from the general public, but this was an open secret.¹³³

The Defense Department reports that the “White Bellflower Project” began in 1992.¹³⁴ In addition, Kim Dok Hong, a defector and senior Workers’ Party official in early 1990’s, says that in fall 1993 Kim visited a farm in Namjak-Ri in northern North Korea and instructed them to begin growing opium.¹³⁵ He cites Central Committee reports which stated that the provinces of South Hamkyung and North Hamkyung were ultimately selected for growing, a claim confirmed by fellow defector Ho Chang Gol, who reported that Pyongyang was covertly running 10 poppy farms making opium to export for currency. According to Ho, “one of these farms is North Hamkyong province on the Russian border.”¹³⁶ The only non-defector report of poppy cultivation comes from an agronomist working on poverty relief for a French Non-Governmental Organization, who reported that he saw large poppy fields on state farms near Pyongyang in September 1999.¹³⁷

Defectors report that North Korea’s worsening economic condition prompted an expansion in the scale of opium growing around 1995.¹³⁸ According to a North Korean defector who lived in North Hamkyung province from January 1996 to August 1997, although opium growing was secretly done in certain areas earlier, the early 1990’s

¹³³ Testimony of a high-ranking North Korean defector before the Senate Governmental Affairs Committee during the hearing, “Drugs, Counterfeits, and Weapons: the North Korean Connection.” 20 May 2003.

¹³⁴ “North Korean Drug Trafficking.” Defense Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹³⁵ Solomon, Jay, and Jason Dean. “Drug Money: Heroin Busts Point to Source of Funds for North Koreans.” *The Wall Street Journal*. 23 April 2003.

¹³⁶ Kaplan, David E. “The Wiseguy Regime.” *US News and World Report*. 15 February 1999. See also Quinn-Judge, Sophie, and Shim Jae Hoon. “Opiate of the Party: North Korea Fuels Opium Boom in Russia.” *Far Eastern Economic Review*. 5 December 1996.

¹³⁷ “Major Incidents of Drug Trafficking by North Koreans.” Drug Enforcement Administration Report. 1998.

¹³⁸ Author’s interview with two former members of the North Korean elite. Seoul, Korea. 5 April 2005. Some defectors, however, place the shift a little later. According to Kim Young Il, the central government ordered in late 1997 for all collective farms to cultivate 10 chungbo (a “Korean land unit equal to approximately 25 acres”) for poppy production. Kim Young Il. “North Korea and Narcotics Trafficking: a view from the inside.” Jamestown Foundation. North Korea Review. 1 March 2004.

brought a public order to develop a new system of growing opium for export.¹³⁹ North Koreans were told to grow opium in order to destroy the imperialists and also make money. Another defector, Yoon Yong Sol, a former North Korean police official, said he was involved in “ordering farmers to switch their fields to poppy cultivation” during the famine, because the central government had told him that they could buy more grain with the drug money than could be grown.¹⁴⁰ The North Korean government, unable to provide rations to the populace, ordered workers to develop opium for export, and promised to return 0.25% of the profits to them to purchase food.¹⁴¹

One defector’s explanation of how the production was managed and channeled sheds some light on a previous point of confusion about how exactly different types of organizations within North Korea were involved in the drug trade.¹⁴² Under the system instituted in the mid-1990’s, each citizen was assigned a quota of foreign currency earnings.¹⁴³ Because groups like farmers and the military had no way of earning sufficient amounts of foreign currency, the collective farms or military organizations would designate a few people to cultivate opium for the group. Thus, all types of citizens became involved in opium production, from farmers to students to the military to policemen like Yoon Yong Sol above.¹⁴⁴ One defector, Park Sung Hak, the leader of the Kim Il Sung Youth Association in early to mid 1990’s, says his group was tasked to oversee cultivation by enforcing local quotas; the opium was then transferred to

¹³⁹ Author’s interview with a North Korean defector. Seoul, Korea. April 2005. Translation by Mr. Park Syung Je. This author believes such an order to resemble the one given to citizens to procure foreign currency in 1974, shortly before North Korea defaulted on its international debts.

¹⁴⁰ Paddock, Richard C. and Barbara Demick. “North Korea’s Growing Drug Trade Seen in Botched Heroin Delivery.” *Los Angeles Times*. 21 May 2003. Yoon also said he made one delivery to the Chinese border.

¹⁴¹ Author’s interview with a North Korean defector. Seoul, Korea. April 2005. Translation by Mr. Park Syung Je.

¹⁴² Unless otherwise cited, information in this paragraph is taken from the author’s interview with a North Korean defector. Seoul, Korea. April 2005. Translation by Mr. Park Syung Je.

¹⁴³ One North Korean defector, Su Jong Ha, confirmed the quota system, adding that it was \$10/year for university teachers. Ginger, mushrooms, silkworm threads, and gold are among the items scavenged for by North Korean citizens to meet such quotas. Anthony. “Kim’s Rackets.” *Time Asia*. 9 June 2003

¹⁴⁴ Defector Ju Song Ha, formerly a school teacher in Chongju in northeastern North Korea, says students worked in the fields to harvest the poppy crop. Spaeth, Anthony. “Kim’s Rackets.” *Time Asia*. 9 June 2003.

government factories to make heroin.¹⁴⁵ This means that knowledge of the opium growing and its destinations is common knowledge among large segments of the North Korean population; when asked if it was kept a secret, North Korean defectors interviewed by this author responded that it was not.¹⁴⁶ They explained that the general activity is common knowledge, although few people other than those directly involved know the details.¹⁴⁷

According to this defector, the process was carefully monitored; collective farms had to find a good location, draw up a plan, and submit their proposal for approval by the Agricultural Committee. Only after it was approved could opium cultivation begin. Agricultural organizations then collected the harvest and gave it to trading companies, who sold it and turned over the profits to organizations of the Central Party Committee.¹⁴⁸ The workers were supposed to be able to write and request their small share of the profits once they were collected, but the defector relating this process could not recall the workers ever receiving their money.¹⁴⁹ Others report that once citizens earned a certain amount, they were permitted to shop at certain stores run by Department No. 5, the subsidiary of Bureau 39 in charge of collecting foreign currency earnings.¹⁵⁰

North Korea appears to have solicited outside advice in order to begin a carefully controlled process of domestic production. Kim Dok Hong claims that he escorted drug lords from Southeast Asia around Pyongyang, specifying that Laotians and Burmese once gave advice on drug production in a meeting held in the office of a North Korean military

¹⁴⁵ Solomon, Jay, and Jason Dean. "Drug Money: Heroin Busts Point to Source of Funds for North Koreans." *The Wall Street Journal*. 23 April 2003.

¹⁴⁶ This is distinct from counterfeiting, which seems to be more tightly controlled and less commonly known.

¹⁴⁷ Author's interviews with North Korean defectors. April 2005.

¹⁴⁸ Although this defector did not mention any of the information in subsequent paragraphs about processing facilities, this author believes this is a reasonable omission given her location and position in North Korea during this time.

¹⁴⁹ Author's interview with a North Korean defector.

¹⁵⁰ Note that reports say the system charges twice: once to get inside the shop, and again to pay for the goods purchased. Spaeth, Anthony. "Kim's Rackets." *Time Asia*. 9 June 2003.

trading company.¹⁵¹ Kim Young Il reports that opium refinement into heroin was supervised by several experts brought from Thailand, and that the plants were guarded by armed agents of the National Security and Intelligence Bureau.¹⁵² According to one North Korea expert, the D.P.R.K. invited Burmese agents to build a factory in North Korea in order to improve the quality of North Korean opium, which was low at that time; they later decided to kick out the Burmese, who were demanding a cut of the profits, and continued to run the factory themselves.¹⁵³

Defector Park Sung Hak offered the names of La Nam Pharmaceutical Company in Chungjin, Man Nyun Pharmaceutical Company in Pyongyang, and Sooncheun Pharmaceutical Co. in southern Pyongyang Province.¹⁵⁴ Kim Young Il confirmed at least one of these locations, saying that the opium was sent to “pharmaceutical plants in the Nanam area of Chungjin City in Hamkyung-Bukdo province.”¹⁵⁵ Defector Ho agreed, saying that “the raw opium [was] turned into a high-quality refined product at a pharmaceutical factory in Chongjin. A pharmacist, Ho explained that the processed opium is exported as a medicine labelled “Roots of the White Bell.” He said the Party used the drug revenue for its expenses.¹⁵⁶

Once produced, other defectors have testified that the Communist Party’s Foreign Currency Earnings Department ordered the drugs to be packed in kilogram-size plastic bags and driven to Japanese ships or another pharmaceutical plant for heroin

¹⁵¹ Solomon, Jay, and Jason Dean. "Drug Money: Heroin Busts Point to Source of Funds for North Koreans." *The Wall Street Journal*. 23 April 2003.

¹⁵² Kim Young Il. "North Korea and Narcotics Trafficking: a view from the inside." Jamestown Foundation. North Korea Review. 1 March 2004.

¹⁵³ Interview with Park Syung Je, Asia Strategy Institute. Seoul, Republic of Korea. 4 April 2005.

¹⁵⁴ Solomon, Jay, and Jason Dean. "Drug Money: Heroin Busts Point to Source of Funds for North Koreans." *The Wall Street Journal*. 23 April 2003.

¹⁵⁵ Kim Young Il. "North Korea and Narcotics Trafficking: a view from the inside." Jamestown Foundation. North Korea Review. 1 March 2004.

¹⁵⁶ Quinn-Judge, Sophie, and Shim Jae Hoon. "Opiate of the Party: North Korea Fuels Opium Boom in Russia." *Far Eastern Economic Review*. 5 December 1996.

manufacture.¹⁵⁷ Two former drivers have reported on the transport of materials from farm to factory to port. One defector, Kim Young Chul, says his military unit produced 3-5 kilograms of heroin a month at a price of about \$3,000 per kilo; after farmers in North Hamkyung and Yanggang provinces extracted the resin, it was processed in a factory and driven to Chongjin, where ships took it out to sea for pickup.¹⁵⁸ According to Yoon, the drugs were then sold by security agency officials at the Chinese border, or shipped to Taiwan, Hong Kong, Macao, and Japan.¹⁵⁹ In one example, narcotics sent to Japan were transported by ship (including the *Man Gyong Bong-92*) for sale to gangs there. According to a former employee of the Worker's Party who claimed to have worked for Bureau 39, approximately five 200-kilogram shipments of narcotics left Wonsan Port in boxes ever year for pickup by criminal groups, who would come on fishing boats to pick up the drugs in North Korean waters.¹⁶⁰

Very little verifiable information is available on the specific internal mechanisms of the organization allegedly controlling both the outflow of drugs and the inflow of associated hard currency. The Defense Department report on North Korean drug trafficking asserts that "Pressed for cash and perceiving its vital national interests at stake, North Korea created Bureau 39 within the ruling Korean Workers' Party Central Party Committee specifically to bring in foreign currency. The office is tasked with facilitating opium cultivation, heroin and methamphetamine production, counterfeiting,

¹⁵⁷ Kaplan, David E. "The Wiseguy Regime." *US News and World Report*. 15 February 1999.

¹⁵⁸ Spaeth, Anthony. "Kim's Rackets." *Time Asia*. 9 June 2003. Bae In-Su, another defector (or possibly the same defector using another name?) has also said that he worked as a driver taking opium and heroin to ports for export. According to the report, "at least twice a month, he would deliver a van full of kilogram-sized opium wrapped in plastic bags to ships at port or to a local pharmaceutical plant that refined it into heroin." "North Korean Drug Trafficking." Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹⁵⁹ Paddock, Richard C. and Barbara Demick. "North Korea's Growing Drug Trade Seen in Botched Heroin Delivery." *Los Angeles Times*. 21 May 2003.

¹⁶⁰ Tetsuya Suetsugu. "Risky Business Leading North Korea to Ruin." *Yomiuri Shimbun*. 22 August 2003.

and smuggling.”¹⁶¹ Others, however, report that Kim Jong Il created Bureau 39 in the 1970’s, either to obtain hard currency as part of the 1974 drive, or with the more personal motivation of financing his rise to power.¹⁶²

According to reports, “Central Committee Bureau 39 of the Korean Workers’ Party is housed in a corner of a six-story, rectangular concrete building within a stiffly guarded Party compound in the heart of Pyongyang. . . headquarters for almost all the North’s foreign-exchange-earning businesses.”¹⁶³ The business goes about this through two channels: a legal front organization named Daesong, and illicit activity. In directing foreign exchange expenditures, the Bureau bases operations on two priorities: procurement of luxury items for Kim to distribute to military and party elites, and overseas procurement of technology and components for missile and WMD programs.¹⁶⁴

Evidence suggests that although multiple entities within the North Korean system appear to participate in the organization and implementation of criminal activity, the coordination of the system – and financial control – is exercised at the top by Bureau 39. Bureau 39, along with Bureaus 35, 38, and 99, exist under the direction of the Central Party Committee,¹⁶⁵ and are the party organs reputed to control Kim Jong Il’s personal finances.¹⁶⁶ According to a study of the North Korean leadership conducted by the Institute for Defense Analyses, criminal activity is most likely controlled by the so-called “Secretariat” of Kim Jong Il, the inner clique of the North Korean leadership bound to the

¹⁶¹ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000. The KWP CPC is one of the main foreign policy-making entities in North Korea. Confirmed by author’s interviews with U.S. government officials.

¹⁶² Spaeth, Anthony. “Kim’s Rackets.” *Time Asia*. 9 June 2003. See also Breen, Michael: Kim Jong Il: North Korea’s Dear Leader. Singapore: John Wiley & Sons (Asia) Pte Ltd. 2004.

¹⁶³ Spaeth, Anthony. “Kim’s Rackets.” *Time Asia*. 9 June 2003.

¹⁶⁴ Nicksch, Larry. “U.S.-Korean Relations: Issues for Congress.” Report for the Congressional Research Service. 22 February 2005.

¹⁶⁵ In a study of the North Korean elite, Soyong Kwon notes that there have been no new members of the Central Committee since 1995, reducing its size (since 54 members have died since then). She notes the decline in State elite but rise in Party and military elite in the 1990’s under Kim Jong Il, as well as the exclusivity and continuity of the elite since 1980. Kwon, Soyong. “North Korean Leadership: Continuity or Change 1980-2004.” Presentation given at Stanford University, Stanford, California. 5 February 2005.

¹⁶⁶ These bureaus are also referred to as “Offices,” including in the study by the Institute for Defense Analyses.

Dear Leader by either family ties or extreme loyalty. The relationship of the different bureaus to each other is unclear from publicly available information, although some sources report that Bureau 99 handles weapons sales and that 35, 38, and 39 may overlap or at least have redundant functions.¹⁶⁷ According to IDA, Bureau 35 is thought to handle weapons and narcotics trafficking, while Bureaus 38 and 39 are responsible for producing hard currency through both legitimate and illicit means.¹⁶⁸ In both defector and government reports, however, Bureau 39 is the most frequently cited center for criminal activity.

Defectors believe these Bureaus to be the essential tool by which Kim Jong Il maintains his power. In fact, one defector claims, “If you cut off Bureau 39, you can kill Kim Jong Il. Kim can’t exist as leader of North Korea without it.”¹⁶⁹ Other U.S. government officials, however, were more cautious in assessing the importance of Bureau 39, at least in terms of its income from criminal activity. One commented, “I think it would be a mistake to assume that if you cut off this activity, the regime would collapse.”¹⁷⁰ Exactly how essential such activity is to the North Korean regime remains unclear from publicly available information, although the funding it provides appears to be significant. The most recent estimate, provided to this author by a U.S. government official, was around \$500 million – roughly equal to the income from arms sales (although this is thought to have declined from \$500 million a few years ago), and between 50-100% of the income provided by North Korea’s legitimate exports.¹⁷¹

¹⁶⁷ A South Korean journalistic expose reported that Bureau 39 exists under Office 35, the former “External Intelligence Investigations Department.” According to the report’s quotation of “an official of the ROK public security organ,” Chogwang (Zokwang) Trading Company is among the other entities run by Office 35. “ROK Monthly Describes DPRK Money-Laundering Operation in Macao.” FBIS. Translated.

¹⁶⁸ Oh Hassig, Kongdan, et al. “North Korean Policy Elites.” Institute for Defense Analyses. June 2004.

¹⁶⁹ Defector Kim Dong Hun, former North Korean business operative. Quoted in Spaeth, Anthony. “Kim’s Rackets.” *Time Asia*. 9 June 2003.

¹⁷⁰ Author’s interview with U.S. government officials. March 2005.

¹⁷¹ Author’s interview with a U.S. government official. March 2005.

When asked directly about Bureau 39, a North Korean diplomat in Hong Kong, Song Il Hyok, acknowledged its existence but declined to comment on its activities.¹⁷² The article containing his reference reported that it runs a slush fund which enables a North Korean “patronage system,” used to buy off key military men and party officials to ensure their allegiance.¹⁷³ The Defense Department Report of 2000 concludes, “The money earned from [illicit] activities is used for things such as buying loyalty from military leaders and the party elite, funding diplomatic missions, and financing national security activity – such as technology and electronic purchases for intelligence and military purposes.”¹⁷⁴ Given the well-documented *songun chongch'i* (“military first”) policy instituted by Kim Jong Il,¹⁷⁵ one can speculate as to whether the money from illicit activity goes to fund its nuclear program.¹⁷⁶ U.S. officials, however, would not draw such a straight line when asked in interviews; they noted that money was fungible but provided no information as to what it was used for once it entered North Korean hands.¹⁷⁷

¹⁷² Solomon, Jay, and Hae Won Choi. "Money Trail: In North Korea, Secret Cash Hoard Props Up Regime." *The Wall Street Journal*. 14 July 2003. See also Solomon, Jay, and Hae Won Choi. "Column One: Shadowy Business Arm Helps Regime Keep Grip on Power in North Korea." *Wall Street Journal Europe*. 14 July 2003. (This article also appeared in *Wall Street Journal Asia* on the same date.)

¹⁷³ Solomon, Jay, and Hae Won Choi. "Money Trail: In North Korea, Secret Cash Hoard Props Up Regime." *The Wall Street Journal*. 14 July 2003. See also Solomon, Jay, and Hae Won Choi. "Column One: Shadowy Business Arm Helps Regime Keep Grip on Power in North Korea." *Wall Street Journal Europe*. 14 July 2003. (This article also appeared in *Wall Street Journal Asia* on the same date.)

¹⁷⁴ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

¹⁷⁵ The significance of the military first policy and its prioritization in terms of resource allocation is discussed in Koh, Byung Chul. “‘Military-First Politics’ and ‘Building a Powerful and Prosperous Nation’ In North Korea.” *Policy Forum Online*. Nautilus Institute. 14 April 2005. Available online at www.nautilus.org/fora/security/0532AKoh.html

¹⁷⁶ Senators and non-governmental witnesses to a Congressional hearing in May 2003 noted this possibility. “Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection.” Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

¹⁷⁷ Author’s interviews with U.S. government officials. March 2005.

Trend Three: Regionalization

In the early years when diplomats were the only North Korean traffickers, the geographic distribution of these places reflected the North Korean diplomatic presence: countries which were either Soviet satellites or which belonged to the Non-Aligned Movement (Egypt, India). In fact, North Korean drug incidents in this period can be fairly closely correlated with the establishment of diplomatic relations. The 1976 diplomatic expulsions from Finland, Norway, and Denmark followed the establishment of diplomatic relations in 1973, while Venezuela established relations in 1974 and caught diplomats with 174 kilograms of opium three years later.¹⁷⁸ This explains at least in part why Hong Kong officials became somewhat nervous at North Korea's opening a mission there, especially given that the first mission chief in Hong Kong, An Jun-gun, had his background in Afghanistan and Cambodia, two countries known for their entrenched involvement in the drug trade.¹⁷⁹

As trading company officials and North Koreans without a clear designation began to be apprehended, their activities were concentrated in the regions around North Korea where the trading presence was easiest to establish in the immediate aftermath of the Cold War: from the Russian Far East down through Northeast Asia to the edges of the Southeast Asian peninsula. The chart below illustrates this shift, taking place around the same time as but slightly earlier than the shift into non-state trafficking:

¹⁷⁸ A discussion of the history of North and South Korean diplomatic relations may be found in Koh, Byung Chol. *The Foreign Policy Systems of North and South Korea*. Berkeley: University of California Press. 1984. pp. 11-13. Koh cites as sources the *Choson Chung'ang yon'gam*, 1980 (Pyongyang: Choseon Chung'ang T'ongsin-sa, 1980); *Kita Chosen Kenkyu*, November 1980; *Nodong Sinmun*, passim.

¹⁷⁹ Schloss, Glenn. "Guard goes up as Mission Arrives." *South China Morning Post*. 21 February 2000.

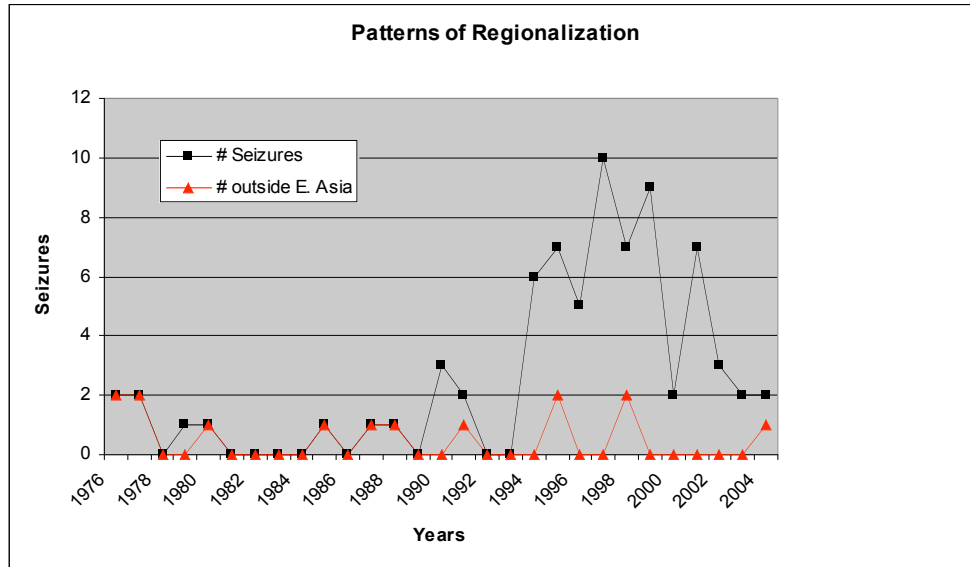


Figure 3: Regionalization

In the above chart, seizures in East Asia include Northeast, Southeast, and Australasia (but not India, or Russia outside of the Russian Far East). The growing gap between the black line and the red reveals the increase in the number of seizures taking place in East Asia after 1994. This is not to say, however, that these were the final destinations of the drugs; indeed, there are reports that these destinations may have been transshipment points for global distribution. In 2000, the Defense Department concluded that many of the drugs turning up in Russia might be part of shipments destined for Europe.¹⁸⁰ By 2004, that market had shifted somewhat, and defector Kim Young Il described the geographic distribution of North Korean involvement as follows:

The principal export market for North Korean narcotics exports is China. North Korean narcotics are sold along the Chinese border for up to \$10,000 per kilogram. Drug smuggling by sea, however, brings a higher price because of the greater risk involved. These drugs are sold for as much as \$15,000 per kilogram. North Korea sells these drugs through the Chinese border to China, Hong Kong, Macau, and Russia. The regime also deals with international drug dealers on the

¹⁸⁰ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

Yellow Sea and the Eastern Sea, whose primary market for the drugs is Japan.¹⁸¹ As might be expected from his description, the regional concentration of criminal activity continued in the late 1990's and even early 2000's, as officials noted in 2003 that most of the trade "seems to be taking place in the triangle of water in the Yellow and East China seas between Japan, Taiwan, and North Korea."¹⁸² As the above chart shows, this is not to say that there was a total disappearance of seizures outside of the region, but that the jump in seizures beginning in 1995-6 was primarily due to increased trafficking in the Asia-Pacific.

Trend Four: Change in Type of Drug

Not only did the location of production, geographic concentration of activity, and method of transportation shift in the early to mid 1990's, the emphasis on what type of drug also began to change. In 1995, approximately 20 tons of ephedrine, the standard precursor to methamphetamine, was detained in the process of being imported from Germany through a Chinese company to North Korea.¹⁸³ Seven months later, the first known seizure of methamphetamine linked to North Korea took place in Pusan, South Korea.¹⁸⁴ Another shipment took place in 1998. In addition to ephedrine imports, U.S. and South Korean officials have also cited concerns that North Korea "may be bypassing the highly regulated market for ephedrine in favor of an alternate technology for a benzene-based product."¹⁸⁵ U.S. officials believe that the shift toward methamphetamine

¹⁸¹ Kim, Young Il. "North Korea and Narcotics Trafficking: a view from the inside." Jamestown Foundation. *North Korea Review*. 1 March 2004.

¹⁸² Yamaguchi, Mari. "North Korea, in search of funds, suspected of plying Japan with illegal stimulants." *Associated Press*. 15 February 2003.

¹⁸³ "Major Incidents of Drug Trafficking by North Koreans." Drug Enforcement Administration Report. 1998.

¹⁸⁴ "Major Incidents of Drug Trafficking by North Koreans." Drug Enforcement Administration Report. 1998.

¹⁸⁵ Author's interviews with U.S. government officials. This was initially reported in Perl, Raphael F. "Drug Trafficking and North Korea: Issues for US Policy." CRS Report for Congress. 5 March 2005.

was prompted by agricultural problems in North Korea during the mid-1990's which impaired opium growing.¹⁸⁶

It is likely, however, that the emergence of a large methamphetamine market in Japan and elsewhere in Asia also played a role.¹⁸⁷ According to the 2004 Japanese National Police White Paper, methamphetamine is the major drug of choice in Japan.¹⁸⁸ Today, Japan has approximately 600,000 addicts, in addition to 1-3 million casual users.¹⁸⁹ An estimated 10-20 tons (9,000 to 18,000 kg) of methamphetamine is imported every year, at prices ranging from \$25,000-\$50,000 per kilogram, meaning that the market value of methamphetamine imports into Japan each year is between \$225-450 million dollars.¹⁹⁰ In South Korea, police say that "North Korean production of inexpensive methamphetamine has contributed to a three-fold drop in the price of the drug."¹⁹¹

The chart below demonstrates the increased role of methamphetamine and other amphetamine-type stimulants (ATS) in North Korean drug trafficking:

¹⁸⁶ Author's interview with U.S. government officials. However, one defector was skeptical of the claim that natural disasters prompted the shift to methamphetamine; she believed that opium growing, typically done in mountainous areas, would have been unaffected by the floods and that North Korea's increasing need for hard currency was a more likely explanation. Author's interview with a North Korean defector, April 2005.

¹⁸⁷ Perl, North Korea Drug Trafficking. CRS Report. 5 March 2005. Another large shipment of ephedrine (2.5 tons), in 1998, was temporarily confiscated in Bangkok, part of an 8-ton shipment. Am working on obtaining from a pharmaceutical lab the ratio of ephedrine input to methamphetamine output.

¹⁸⁸ 2004 Japanese National Police White Paper.

¹⁸⁹ 2004 Japanese National Police White Paper. Casual user is defined by the Japanese government as less than 11 grams per year. Author's interviews with Japanese government officials.

¹⁹⁰ 2004 Japanese National Police White Paper. Confirmed by author's interviews.

¹⁹¹ Pomfret, John. "North Korea's conduit for crime: Cash-poor Pyongyang uses tiny Macau to move its dirty money." *The Washington Post*. 25 April 1999.

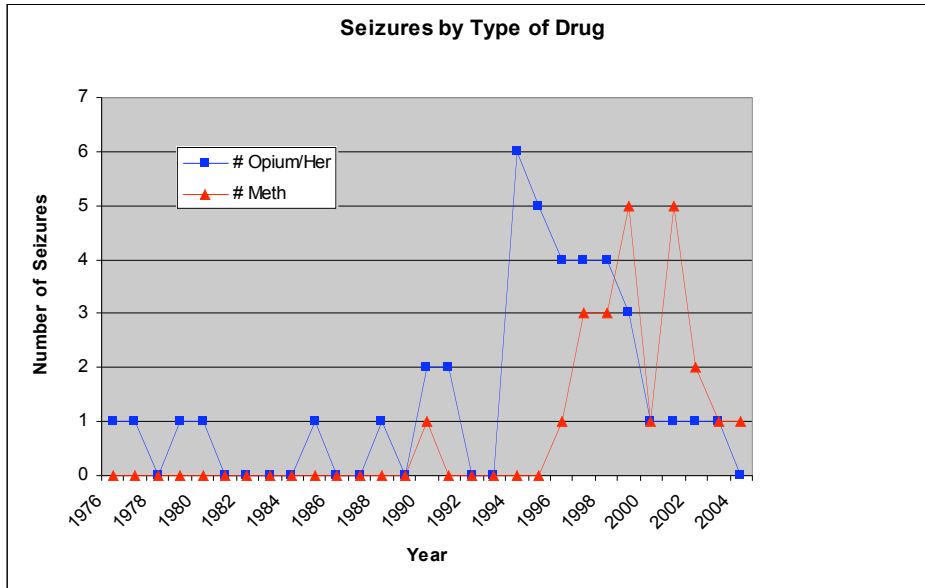


Figure 4: Shift from Opium to Methamphetamine

The blue line, representing opium seizures, remains present at a low level until the mid-1990's, takes a sharp increase in 1994, but declines thereafter. Methamphetamine seizures, on the other hand, do not appear in significant number until the late 1990's.

According to Macao authorities, who have been dealing with methamphetamine (commonly referred to as philopon or hirropon in East Asia) since it first appeared in crime rings in 1995, the crystal quality ruled out many Chinese producers, and pointed the finger at North Korea: “The Macao police point to Chogwang Trading Company as the philopon supplier because the philopon circulated in Macao is in the form of high-density crystals, unlike the crude Chinese-made philopon, and thus is believed to be manufactured in North Korea.”¹⁹²

One Japanese government official characterized the new methamphetamine seizures as having “three common characteristics: the amount was large, the drug’s purity was high, and it was neatly packaged. This implied a big, technically skilled organisation

¹⁹² “ROK Monthly Describes DPRK Money-Laundering Operation in Macao.” *Wolgan Choson*. 1 April 2003. p. 182-204. Translated by FBIS.

with plenty of capital.”¹⁹³ Today, Japanese authorities also say that the methamphetamine believed to originate in North Korea has a different chemical signature from that manufactured in China. North Korean-made methamphetamine contains both a “D-element” and an “L-element” while Chinese-manufactured methamphetamine has only the D-element.¹⁹⁴

South Korean reports from the mid-1990’s confirmed the Macau authorities’ assessment of the quality difference, adding that they believed the drug was “trafficked through an intricate pyramid organization. South Korea is the only country with the technology or manufacturing high-density philopon. We have the information that North Korea lured two South Korean philopon manufacturing technicians to Beijing and dragged them to the North on a Pyongyang-bound train.”¹⁹⁵ (It must be noted that the methamphetamine in Macau linked to North Korea was first described the same year that the first large shipment of ephedrine to North Korea took place in August. It would be naïve to assume, however, that a country with some indigenous medicinal processing facilities for ephedrine and some licit ephedrine imports could not have manufactured methamphetamine before that time.)

Defector Kim Young Il has provided the most specific publicly available data on opium and methamphetamine production and distribution:

North Korea produces about one ton of heroin and methamphetamine (called hirropon in Korea) per month. Heroin is usually packaged in a box containing 330 grams (11.6 ounces) of the drug and is marked with a Thai label.

Methamphetamine is packaged in a box containing one kilogram and typically has no label.¹⁹⁶

¹⁹³ “Observers disagree on how official the North Korean drug trade is.” *Sydney Morning Herald*. 5 May 2003. Available online at www.smh.com.au/articles/2003/05/04/1051987611297.html.

¹⁹⁴ Author’s interview with Japanese government officials.

¹⁹⁵ Insert citation.

¹⁹⁶ Kim, Young Il. “North Korea and Narcotics Trafficking: a view from the inside.” Jamestown Foundation. *North Korea Review*. 1 March 2004.

Today, Japanese authorities note that North Korean-sourced methamphetamine is packaged in one-kilogram bags, well-wrapped in plastic, often two or three times.¹⁹⁷

Conclusions: Explaining the Criminal State

The first conclusion apparent from this data is that number and scale of incidents, duration of criminal activity, and consistent involvement of state personnel/assets make it unlikely that a 3-decade ongoing rogue element within the D.P.R.K. is perpetrating this activity against the totalitarian government's leadership. The scale of the activity, titles and circumstances of individuals involved, patterns in the seizure data, chemical signature information, and defectors' descriptive reports cumulatively argue that it is highly likely that the state is complicit in the activity observed.

This conclusion differs from past assessments of state direction in that it does not rely heavily on blanket assumptions about the perpetually totalitarian nature of the North Korean regime. For one thing, it allows for evolution in the behavior and specifically explains organizational capacities and roles for designated tasks inside the state. By disaggregating the "state," and examining the incentive and resource structures of various organizations, it provides a more nuanced explanation for "state-directed" crime. While it appears to be basically correct that the state, as an aggregate entity, supports or even directs this activity, such a simplified explanation provides no helpful understanding of the activity itself. Instead, this research traces the paths of capital, contacts, and knowledge at a sub-state level and through sub-state organizations' relationships with non-state actors.

The trends explicated earlier in this chapter suggest that the primary North Korean motivation for drug trafficking is financial gain. Were North Korea attempting to undermine the United States through drug smuggling as a form of ideological warfare,

¹⁹⁷ Author's interview with Japanese government officials.

one would expect to see activity directed heavily at the United States and its allies, and not at patrons/allies such as China and Russia. Instead, one observes criminal activity which operates according to the dictates of market logic. North Korean involvement in the drug trade increased rather than decreased after the conclusion of the Agreed Framework because that was the period during which North Korea's economic need had become dire and the emerging market for amphetamine-type stimulants in East Asia offered a high-profit alternative to the more difficult path of reform. It is concentrated in areas where financial benefits are greatest rather than where ideological motivations are strongest; North Korea does not take the step of attempting to export its drugs to the United States, an ideologically justifiable but prohibitively expensive and risky shipping destination. Finally, one must note a pattern of cooperation with criminal organizations who do not share North Korea's communist beliefs – for example, the Japanese yakuza, who are traditionally rightist and strong nationalists.¹⁹⁸ This type of collaboration runs counter to two aspects of North Korean ideology: the *juche* principle of self-reliance, and anti-capitalist exhortations.

The ideological orientation of the North Korean regime, however, probably provides some internal justification for North Korea's actions. Explaining the importance of propaganda in North Korea, defectors say that North Korea uses the behavior to advertise to its people that it is harming the capitalist enemies.¹⁹⁹ Their comments also convey the idea that criminal activity can be justified under the *juche* framework because it is controlled by the North Korean regime, does not require collaboration with official elements of hostile countries, and helps to assure its survival in a hostile world where other communist regimes have crumbled. This same ideology means that in North Korean minds, the idea of "criminal behavior" cannot apply to actions taken by the North

¹⁹⁸ Lintner, Bertil. Blood Brothers: The Criminal Underworld of Asia. New York: Palgrave Macmillan, 2003.

¹⁹⁹ Author's interviews with North Korean defectors. April 2005.

Korean regime, since they are taken in the furtherance of the revolution. In recent years, however, the above evidence strongly suggests a financial motivation which sometimes runs counter to ideological expectations, as discussed above. In the words of one U.S. government official, the attraction of criminality has become a reason, not a support.²⁰⁰

Given that the North Korean state appears to direct this activity for the sake of financial gain, references to the operations of other criminal enterprises may help to elucidate the mechanisms of North Korean involvement. As discussed in Chapter 1, recent analysis of organized crime has helped to shift the understanding of criminal organizations as rigid hierarchical structures to more flexible networks.²⁰¹ What is interesting about the North Korean case is that it contains components of both: the use of a rigid Stalinist system offers some sense of the enduring hierarchy traditionally associated with cartels, while the overlapping lines of command inherent in the Party-state-military multiple-authority structure offer opportunities for flatter, more fluid networks to emerge.

A recent RAND study defines two different types of networks: wheel and chain networks.²⁰² Rather than adhering to the “chain network model,” which is “decentralized and self-organizing, the participation of the North Korean state in transnational organized crime can best be characterized by the wheel network, which is defined by the presence of a core node – in this case the North Korean state, or more specifically, Bureau 39. A core node provides “general direction to the transnational enterprise by coordinating

²⁰⁰ Author’s interview with a U.S. government official. Washington, DC. March 2005.

²⁰¹ Phil Williams reviews the literature on this subject in his chapter “Transnational Organized Crime,” in Arquilla, John, and David Ronfeldt. Networks and Netwars: The Future of Terror, Crime, and Militancy. Santa Monica: RAND Corporation, 2001. Available on the RAND website at www.rand.org/publications/MR/MR1382/

²⁰² Arquilla, John, and David Ronfeldt. Networks and Netwars: The Future of Terror, Crime, and Militancy. Santa Monica: RAND Corporation, 2001. Available on the RAND website at www.rand.org/publications/MR/MR1382/

interaction among a variety of peripheral nodes that perform specific tasks.”²⁰³ As scholar Michael Kenney explains, in Colombian trafficking networks, core nodes are multi-task enterprises which do the following:

They organize transactions among different nodes; they supply money, equipment, and other resources to complete transactions; they provide security and resolve disputes among participants; they arrange financing for multi-ton cocaine shipments from private investors; and they gather intelligence about law enforcement activities.²⁰⁴

Under the DEA definition, the North Korean state seems to have assumed a role most closely approximated by that of “kingpin . . . the head of an international drug trafficking organization or part of a consortium in a source country that is responsible for directing all phases of the unlawful production, transportation, and distribution of bulk quantities of cocaine or heroin, and the organization’s financial operations.”²⁰⁵ In this case, the sub-state Bureau under the Central Party Committee coordinates production by different organizations within the D.P.R.K. government, and arranges for transportation and distribution by external agents (formerly its own diplomats, who have since been replaced by Asian criminal organizations). North Korea differs from Colombia in its involvement in criminal activity; whereas a variety of organizations of varying size and sophistication participated in the exporting of cocaine from Colombia, the North Korean state system (including all related organizations of the Party, military, and government) has a monopoly on the drug business within its borders. In this sense, North Korea is a “directed network,” organized by a group of individuals for a certain purpose.

²⁰³ Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*. Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. “From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs.” *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

²⁰⁴ Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*. Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. “From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs.” *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

²⁰⁵ Drug Enforcement Administration, *U.S. Drug Threat Assessment: 1993* (September 1993): iii. Thanks to Kenney for pointing out this definition.

This assessment may be criticized for representing the North Korean state apparatus as overly monolithic. However, one of the most interesting aspects of this analysis is that it reveals a more textured depiction of the involvement of the North Korean system – not the usual accusations of a monolithic mafia state. Instead, it provides some insight into the way in which different ministries and agencies in North Korea relate to each other, and how they might be coordinated by the top leadership.

While the exact level of state coordination is impossible to know, defector reports and evidence of multiple agencies' involvement in the activity suggest a certain amount of decentralization to various state organs within the North Korean system. The Ministry of Public Security is reported to handle counterfeiting, while a wider range of organizations (including the military and farmers) handle drug production. High-level tasks, such as coordination, financial management, and external liaison/distribution arrangements are handled by organs of the Central Party Committee, such as Bureau 39. Unfortunately, without access to classified information, it is difficult to precisely analyze the internal organizational workings of such activity. To attempt to pinpoint it any further than a rough sketch would overstate the certainty of the publicly available data. This author will confine conclusions to noting that the state, as a collective entity, appears to operate as in a directing role when it comes to criminal activity, and has incentivized various parts of the state apparatus to perpetuate such behavior, even if the precise details of how it has done so remain debatable.

With regard to the hypotheses at the beginning of this thesis, the data on drug trafficking appears to argue for the third or fourth scenario - in which activity is directed by the state, but may be either tightly integrated or organizationally autonomous. The first scenario, a loss of state control, is not plausible because available indicators give no reason to believe the North Korean regime has lost control of military and other key resources. The possibility remains that the state may be tolerating this activity, not

directing it. Indeed, without access to classified information regarding North Korean contact with elements of organized crime, it is extremely difficult to distinguish between a deliberate state policy of outsourcing and parallel development of uncontrolled activity. However, activity as financially lucrative as drug trafficking, with the involvement of high-level officials, is unlikely to be conducted without the North Korean leadership maintaining some sort of check on it. Moreover, available evidence suggests that although there has been some uncontrolled market activity developing inside the D.P.R.K., this activity post-dates the rise in criminal activity by at least five years, and even today remains at a low level. There is no indication that high-level elites would be able to use limited state assets for risky, financially lucrative behavior outside the supervision of the central leadership.²⁰⁶

In addition, the pattern of activity indicates that the D.P.R.K. may be able to calibrate its use of criminal activity in response to its international environment and respond quickly to law enforcement tactics. In drug trafficking, each of the high-seizure years was followed by a relatively low one. Most recently, after a high rate of seizures in 2002 and 2003, North Korean involvement in the drug trade took a steep drop in 2004, with no D.P.R.K.-linked methamphetamine seizures recorded in Japan. While this author cannot discern whether the behavior has been camouflaged, rerouted, or simply terminated, the swiftness of the response implies control by a coordinating entity.²⁰⁷ Furthermore, it undercuts the notion that the D.P.R.K.'s hierarchy results in rigidity and slow decision-making; in this set of behaviors, the coordinating entity has an ability to adapt rapidly to environmental and enforcement pressures.

²⁰⁶ In certain cases, the Ministry of Public Security has been reported to go overseas and fetch misbehaving (as defined by the regime) officials. For example, in March 1999, State Security Department operatives were captured in Bangkok as they sought to covertly arrest and return a D.P.R.K. counselor on charges variously cited as “embezzling government funds, being involved in narcotics trafficking, or attempting to defect.” Bermudez, *The Armed Forces of North Korea*, p. 200.

²⁰⁷ The drug market adapts quickly. The argument here is not that the overall market change implies D.P.R.K. coordination, but that the changes in the D.P.R.K.'s participation in the market imply coordination.

It is true that the possibility of uncontrolled activity cannot be ruled out. However, conceiving of North Korea as a drug kingpin offers a more plausible explanation for the shift to non-state trafficking which appears to be consistent with understandings of the structure and workings of the North Korean state (as well as with defectors' and arrested criminals' statements on the subject). In short, collaboration with criminal organizations offers the North Koreans a way to reduce risk while maintaining a satisfactory level of profit from criminal enterprise.

Principal-agent theory would imply that North Korea would not shift to an agent for whom control is more difficult – as it would be with non-D.P.R.K. criminals – without a good reason for doing so.²⁰⁸ North Korean diplomats, a valuable asset for the North Korean regime, are kept in line through a combination of incentives and coercion.²⁰⁹ Diplomats who are successful are thought to be allowed to live a higher lifestyle only allowed to most privileged members of the North Korean elite: nicer suits, better cars, etc. In addition, families are used as a tool of control; not every diplomat is allowed to bring his or her family out of the country, and it is thought that diplomats compete for the privilege of being allowed to do so. Finally, diplomats are placed under near-constant psychological stress to prove their loyalty to the regime, both while at home and abroad. Controls on personnel physically stationed inside North Korea are generally understood to be even tighter.

Drug kingpins, however, value risk reduction highly, and will adapt, diversify, delegate, compartmentalize and otherwise shield their operations to protect them from

²⁰⁸ The determination of the principal in communist systems is often unclear. While rhetorically the Party claims to be an agent operating the government on behalf of the (principal) people, the precedent in previous literature has been to see the Party as the principal and the government as the agent. (My thanks to Jean Oi for her discussion with me on this matter.) Even this delineation, however, is probably not quite correct for a personalized authoritarian regime such as North Korea's for several reasons, the most important of which is that there is still very little distinction between Party and government, especially at the top - where power is exercised in the authoritarian system. It is far more likely that Kim Jong Il and a key group of supporters are the principal, and that the trend documented in the Appendix is a shift from one agent (the governmental diplomatic corps) to another (elements of organized crime).

²⁰⁹ The following examples taken from conversation with Dr. Kongdan Oh.

detection and interference by law enforcement officials. Disguising input and product appearance, substitution of inputs, relocation of operational facilities, change of delivery vessels and routes, alternative communications strategies, and diversification of money laundering practices are among the adaptations observed. Trafficking practices are particularly prone to adaptation due to their high exposure to hostile law enforcement. As Kenney writes, “to protect the enterprise from penetration by counter-drug enforcement agents and other adversaries, and to limit the damage of infiltration when it does occur, trafficking cells are often isolated form other nodes in the network.”²¹⁰

In North Korea’s case, widespread North Korean involvement in trafficking may have exposed the regime too much to international scrutiny, limiting both their ability to obtain finances for the central state and limiting North Korea’s pursuit of other diplomatic objectives. Thus, it appears that trafficking has been isolated by outsourcing it to other criminal organizations operating in Asia, such as the Japanese yakuza or Triad gangs in China and Taiwan. While this author has been unable to determine the precise level of linkage between the North Korean government and organized criminals, it seems logical to assume that this partnership was arranged by officials somewhere below the kingpin but above the managers of individual cells. This level of operation would have the requisite knowledge and authority to pursue some coordination, while shielding the kingpin from the exposure attendant on tactical-level operational involvement. In this sense, North Korea follows the wheel network model within its borders but adapts its external operations further toward the “chain network” model in order to arrange trafficking and distribution.²¹¹ In other words, the interaction between the North Korean

²¹⁰ Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*. Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. “From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs.” *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

²¹¹ The “chain network” style of operation is defined by “a series of arms-length transactions among independent nodes that often coordinate their activities on an ad hoc basis.” Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*.

criminal activity system and Asian criminal networks is a chain-style link, at least at the trafficking level. (Less is known about the higher levels inside the D.P.R.K. and their contact with organized crime, where the arrangement of deals supposedly takes place.)

Outsourcing offers several advantages for both parties involved in the deal. Traffickers benefit from the unusual assets a state can bring to bear to counteract vulnerabilities particular to a hostile law enforcement environment. Certain bottlenecks created by law enforcement scrutiny of production and transportation, for example, do not exist when the state itself coordinates such activities. Moreover, traffickers who see a need to adapt their tactics may draw on a larger-than-usual array of state resources and technical expertise to increase the sophistication of their countermeasures. Reports that Colombian drug traffickers had begun to construct a 110-foot-long submarine for transporting drugs in the Caribbean suggest the level of sophistication available to well-organized non-state actors;²¹² the resources available to a North Korean “kingpin” with command of the world’s fourth-largest military²¹³ may be logically expected to exceed those of even the most sophisticated Colombian “cartels.”

Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. "From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs." *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

²¹² *CM&*, “El submarino construido en Bogotá contenía tecnología de punta,” (7 September 2000), <http://www.cmi.com.co/2000/Septiembre/Pais2597.html> [Accessed 16 October 2000], Michael Kenney’s translation; Drug Enforcement Administration, Strategic Intelligence Section, *U.S. Drug Threat Assessment: 1993*, DEA-93042 (September 1993): 16-17; National Narcotics Intelligence Consumers Committee, *The NNICC Report 1993: The Supply of Illicit Drugs to the United States*, DEA-94066 (August 1994): 7; *El Tiempo*. “Submarino Made in Faca” (8 September 2000), http://www.eltiempo.com/08-09-2000/judi_0.html [Accessed 10 September 2000]. This incident and these citations come from Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*. Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. "From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs." *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

²¹³ Exceeded in size by the People’s Republic of China, the United States, and India. *The Military Balance 2004-05*. International Institute for Strategic Studies. Oxford: Oxford University Press. 2004. This information is also included in IISS’s *North Korea’s Weapons Programmes: a Net Assessment*. International Institute for Strategic Studies. Houndmills: Palgrave Macmillan. 2004. According to March 2003 Testimony by Commander of U.S. Forces Korea, General Leon LaPorte, however, North Korea is “the fifth-largest active duty military force in the world.” LaPorte, Leon. General, Commander of United Nations Command, United States Combined Forces Command (ROK) and United States Forces Korea. Prepared Statement before the Senate Armed Services Committee. 13 March 2003.

For the North Korean leadership, handing off responsibility to traffickers shields the state from exposure at the riskiest stages of the process – trafficking and distribution – thereby assigning those risks to criminal organizations in other countries. The loosely coupled, potentially redundant nature of criminal networks²¹⁴ make them less vulnerable to specific countries’ law enforcement policies or the changes in international politics, making them a more reliable source of income. In the past, increased attention paid to agents such as diplomats and trading companies likely made those trafficking pipelines too “hot,” limiting those agents’ capacity to perform the contracted tasks. It also enables the regime to keep tighter control of its own officials, and more tightly control their incentives and opportunities. Outside contacts might offer mid- or high-level officials incentives which diverged from those of the top leadership, or given them the chance to build an alternative power base: an unacceptable threat from the perspective of Kim Jong Il. State-run domestic production, therefore, when combined with outsourced trafficking would allow the leadership to maximize the benefits of state involvement while decreasing the risks from sources both external and domestic. In fact, the spike in low-level, unofficial activity in the mid-1990’s followed by a drop in official trafficking suggests that the North Korean regime may in fact have found it necessary to curtail officials’ involvement, allowing external criminal organizations to handle the trafficking and leaving the more easily controllable production processes in the hands of the D.P.R.K. government.

The disadvantage of such collaboration is that it would force the North Korean regime to divide the profits with their partners, decreasing their profit margin per shipment. (It must be noted, therefore, that the increasing size of shipments shown in Figure 1 of this chapter does not accurately represent the increase in profit North Korea

²¹⁴ Williams, Phil. “Transnational Organized Crime.” In Arquilla, John, and David Ronfeldt. *Networks and Netwars: The Future of Terror, Crime, and Militancy*. Santa Monica: RAND Corporation, 2001. Available on the RAND website at <http://www.rand.org/publications/MR/MR1382/>

could expect to reap from stepping up its involvement.) As Kenney notes, however, drug organizations have shown a marked willingness to accept less efficient, more circuitous and increasingly intricate schemes of distribution and finance so long as it ensures market stability and a satisfactory profit margin.²¹⁵

This analysis has been unable to conclusively discern whether the North Korean relationship with organized crime in Asia is one of “wholesaler to retailer” or a partnership, although it appears to be the former. The latter would typically have more even profit-sharing, but would expose the North Koreans to more risk, as well as potential conflicts with local organized crime. Currently Japanese authorities believe that North Korea sells drugs to organized criminal elements at a wholesale price.²¹⁶ This is perhaps confirmed by reports that North Korea charges two different rates for purchase and transportation; a Taiwanese investigation in 1999 revealed that North Korea charged NTD \$150,000 (\$4545 USD) per kilogram plus an extra \$70,000 NTD (\$2121 USD) per kilogram for shipping. The sale price was 330,000 NTD (\$10,000 USD) per kilogram.²¹⁷ In another instance in February 2000, a trading firm based in Japan but headed by an ethnic Korean president remitted 40,000,000 yen (\$381,000) to North Korea as a down payment for 250kg of methamphetamine picked up by a Japanese boat in North Korean waters; the investigation subsequently revealed that North Korea would have charged 2 million yen per kilogram (\$19,050) if they shipped the drugs to Japan, but substantially discounted for a handoff taking place in North Korean waters.²¹⁸

²¹⁵ Kenney, Michael. *From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation*. Manuscript under review at academic publisher. Some of Kenney’s ideas are available in Kenney, Michael. “From Pablo to Osama: Counter-terrorism Lessons from the War on Drugs.” *Survival*, Vol. 45, No. 3 (Autumn 2003): 187-206.

²¹⁶ Author’s interview with Japanese government officials. April 2005.

²¹⁷ “Major Incidents of Drug Trafficking by North Koreans.” Drug Enforcement Administration Report. 1998.

²¹⁸ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment, Appendix B. United States Department of Defense. May 2000.

A lack of detailed knowledge about the relationship between North Korea and criminal organizations, plus the difficulty of assessing what fraction of total shipments are reflected by the seizure data, make it impossible to ascertain with any degree of certainty the extent to which North Korea's income from the drug trade has risen or fallen. As of 2003, analysts were reporting that "the take from North Korea's rackets has doubled in the past four years, to as much as \$500 million annually."²¹⁹ In 2004, however, seizures were down.²²⁰ These seemingly conflicting pieces of information suggest two possible interpretations. First, law enforcement may have been successful in forcing a decrease in the activity. Some U.S. government officials believe that several high-profile incidents, particularly involving the Pong Su in Australia and the sinking of the North Korean spy boat (suspected of running drugs) in Japanese waters in xxx, have forced the North Koreans to lay low on the drug trade for a while.²²¹ A second explanation, however, not mutually exclusive of the first, is that the activity continues but that North Korea has developed countermeasures which allow it to conceal its role. There is some indication that the latter at least is true, in that North Korea has developed new lines of criminal activity, a trend which will be explored further in the next chapter.²²²

²¹⁹ Kaplan, David E. "The Far East Sopranos." US News and World Report. 27 January 2003.

²²⁰ Perl notes this, but concludes that the past decade has seen "an expansion in both the scale and scope" of North Korean criminal activity. Perl, Raphael F. "Drug Trafficking and North Korea: Issues for US Policy." CRS Report for Congress. 5 March 2005.

²²¹ Author's interview with U.S. government officials. Washington, DC. March 2005.

²²² This type of countermeasure, available more to a state than to most drug organizations, might include counterfeit cigarette and pharmaceutical manufacturing. See Chapter 4.

Chapter Four:

North Korean Counterfeiting & Other Criminal Activity

Counterfeiting: An Overview

The North Korean regime has multiple precedents for the use of counterfeiting as a tool of strategic warfare. Greek rulers of the isle of Samos fought the Spartans in 540 B.C. by counterfeiting their currency.²²³ During the American Revolution, the British printed Continental currency. Counterfeiting by both sides in the American Civil War led to an estimate that 1/3 to 1/2 of American currency in circulation was phony – and the founding of today’s Secret Service, who were tasked to investigate false U.S. currency, followed in 1865.²²⁴ During World War I, Britain printed fake imperial German marks, while Hitler made inmates at Sachsenhausen concentration camp near Berlin produce British pounds and American dollars. Under Stalin’s direction during the Cold War, a short-lived operation sought to print counterfeit bills in Weimar, Germany, and distribute them from Harlem.²²⁵ And counterfeiting today is still considered an act of war.

Current counterfeiting operations, however, are less likely to be used by a government as a tool of offensive warfare, and more likely to be perpetrated by organized crime. According to the U.S. Secret Service, today’s counterfeiters show a wide variation in type and sophistication of their operations.²²⁶ Some fake notes, called P-notes, are computer-generated and inkjet-printed. These are relatively easy to identify, often with

²²³ Cooley, John K. “The False-Money Weapon.” *The Christian Science Monitor*. 15 January 2002.

²²⁴ The Revolutionary War counterfeiting was so successful that it is the source of the expression, “Not worth a Continental.” Information taken from the U.S. Secret Service website, Counterfeit Division. <http://www.ustreas.gov/usss/counterfeit.shtml>

²²⁵ Somewhat ironically, the operation failed because of financing problems. As Cooley writes, the people running the operation “didn’t have enough real American dollars to pay off accomplices and otherwise finance the venture.” Cooley, John K. “The False-Money Weapon.” *The Christian Science Monitor*. 15 January 2002.

²²⁶ This and subsequent information taken from author’s interview with a U.S. Secret Service Special Agent. March 2005.

the naked eye. More sophisticated counterfeiters, usually organized crime groups, print their fake notes on offset printers. The notes are therefore easier to get into the banking system, and harder to trace. These are assigned a circular number, a sequential number based on the type of defect.

Today, high-quality counterfeit dollars are thought to be produced in several countries: Iran, Syria, and Russia have been frequently-cited suspects in the past. Nigeria, Colombia, Eastern Europe, and North Korea are also key areas of investigation, although the quality across those locations varies. Estimates that forged bills in the neighborhood of \$10 million per year have made it into the US appeared in a BBC news article last year about the makeover of the dollar.²²⁷ This does not necessarily mean, however, that the majority of counterfeit U.S. dollars circulate within the United States. Of the \$63 million seized worldwide last year, only \$10.7 million of it was confiscated inside the United States.²²⁸ Generally, notes printed outside of the United States differ from those printed inside, because domestic counterfeiters tend to use digital printing and not the traditional offset presses.²²⁹

Counterfeiting: the North Korean connection

In counterfeiting the notes of an adversary, North Korea is unexceptional. Seoul's War Memorial Museum contains D.P.R.K.-manufactured counterfeit South Korean currency from the 1950's. This currency is commonly and uncontroversially explained as

²²⁷ Goffe, Leslie. "Dollar Set for Anti-Forgery Makeover." BBC News, World Edition. 14 June 2002. Available online at <http://news.bbc.co.uk/2/hi/business/2045130.stm>

²²⁸ Townsend, Bruce A., Deputy Assistant Director of the United States Secret Service. "Testimony Before the Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology." United States House of Representatives. 28 April 2004. Around half of it, an estimated \$31 million, was Colombian. Recently, however, high-quality counterfeits have been turning up in Latin America, a 2001 production date and serial number that includes "CB-B2." The Secret Service has stated that it is actively working with the Peruvian government to determine the source of the bills. Faries, Bill. "Made in South America: New Breed of Fake Dollars." *Christian Science Monitor*. 14 April 2005.

²²⁹ Townsend, Bruce A., Deputy Assistant Director of the United States Secret Service. "Testimony Before the Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology." United States House of Representatives. 28 April 2004.

a standard use of counterfeiting as a tool of subversive warfare, as the North Korean government sought to destabilize the Republic of Korea and convert the South to communism during the 1950's and 1960's.²³⁰

The past few decades, however, have raised a phenomenon that requires closer examination: high-quality counterfeiting of U.S. currency. North Korea is suspected of counterfeiting exceptionally good \$100 bills known as "Supernotes" - note family C-14342, according to the U.S. Treasury. As Deputy Assistant Director Bruce Townsend reported in September 2004:

For the past several years, the Secret Service has investigated a family of counterfeit notes which utilizes complex and expensive printing methods such as intaglio and typographic. This family of counterfeit notes is emanating from North Korea. The sophisticated techniques utilized in producing this family of counterfeit US banknotes is evidence of a well-funded, ongoing criminal enterprise, with a significant scientific and technical component.²³¹

Unlike Colombia, which produces a high volume of lower-quality counterfeit dollars, the problem with North Korean counterfeits is their quality: the best in the world. According to one Secret Service agent, of all the counterfeits currently in circulation, "the Supernote gets closest."²³²

Today, the Supernote appears to be concentrated in East Asia and in the Horn of Africa, and has physical characteristics which differentiate it from other counterfeits. As Japanese currency expert Yoshihide Matsumura notes of bills passed by Yoshimi Tanaka, a former Red Army terrorist caught in the mid-1990's with counterfeit bills in Cambodia and Thailand, "These supernotes do not show any of the characteristics of the ones that

²³⁰ For a historian's view, see Cumings, Bruce. Korea's Place in the Sun: a Modern History. New York: Norton & Company. 1997. For a political scientist's take, see Michishita, Narushige. "Calculated Adventurism: North Korea's Military-Diplomatic Campaigns." *Korean Journal of Defense Analysis*. Vol XVI, No. 2, Fall 2004.

²³¹ Bruce Townsend. Remarks to the International Association of Financial Crimes Investigators. 2 September 2004. Chicago, Illinois.

²³² Author's interview with a U.S. Secret Service Special Agent. March 2005.

were made in Iran and Russia.”²³³ Japan calls them “Super K” forgeries. For security reasons, more detailed information on how to distinguish Superdollars from real money is not available.

Intelligence estimates on the scale of income provided by counterfeiting have ranged depending on the year and organization doing the estimates. One source estimates \$15 million in counterfeit dollars per year. Generally, the United States places the number somewhat lower but others have estimated it as higher.²³⁴ Appendix C lists known seizures of counterfeit bills, but due to the fact that most counterfeit bills are only found once they have entered the banking system, the number of large-scale seizures is understandably less than the drug trade, where large-scale shipment and interdiction are more common. At least one researcher questioned the validity of estimates on the volume of Superdollars in circulation, saying, “We have no idea how much they’re counterfeiting, because it’s so good.”²³⁵ He also claimed that U.S. officials understate the scope of counterfeiting problems to minimize fears about currency.²³⁶ One Secret Service agent, however, when asked if this was correct, responded that he did not believe North Korean counterfeiting to be a threat to the economy; he pointed out that counterfeiting typically receives less attention because of the nature of detection procedures and the fact that drugs are just a “sexier” topic to report on. “The impact’s more direct,” he said, “I don’t think it’s necessarily government trying to keep it quiet.”²³⁷

²³³ Moreau, Ron, and Russell Watson. “Is it Real, or Super K?” *Newsweek*. 10 June 1996. p. 42.

²³⁴ Kaplan, David E. “The Wiseguy Regime.” *US News and World Report*. 15 February 1999. For the \$15 million estimate, see “DPRK prints \$15 million in fake dollars.” *Korea Times*. Seoul, 16 November 1998. For a high-end estimate of \$100 million, see testimony by Larry Wortzel in “Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection.” Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

²³⁵ Interview with one U.S. government analyst. March 2005.

²³⁶ A similar point is made, with reference to the redesign of the U.S. currency, in Moreau, Ron, and Russell Watson. “Is it Real, or Super K?” *Newsweek*. 10 June 1996. p. 42.

²³⁷ Author’s interview. 17 March 2005.

According to the Secret Service and press reports, the Supernote was first detected by a bank teller in the Philippines in 1989. However, early reports in media and some government sources seem to have mis-attributed the origin of the Superdollar. As a G.A.O. report notes, the House Republican Research Committee's Task Force on Terrorism and Unconventional Warfare published reports in 1992 and 1994 charging that a "foreign government was producing a very high-quality counterfeit note, commonly referred to as the Superdollar, to support terrorist activities."²³⁸ The Task Force reportedly claimed that the Superdollar was printed on presses owned by a Middle Eastern state, and was "designed for direct infiltration into the U.S. banking system and has become a major instrument in facilitating the flow of military useful nuclear materials and equipment and various weapons systems."²³⁹ A press story from 1994 cited "American intelligence" saying that the Shah obtained American presses in the 1970's and the East German Stasi supplied the engravers. Iran then produced somewhere between \$1-10 billion US, some of which North Korea was supposed to have acquired during a weapons deal.²⁴⁰

A G.A.O. report on counterfeit currency in 1996, however, noted that "the Secret Service expressed its concern over [G.A.O.'s] references" to material drawn from the Task Force report, and that the Treasury Department maintained in certain cases there was no evidence to substantiate the Task Force's allegations, and that in others support for the allegations was "inconclusive."²⁴¹ When asked about the Middle East theory, one Secret Service agent replied that the story was speculation based on a high number of

²³⁸ "Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts." GAO report GGD-96-11. 26 February 1996.

²³⁹ "Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts." GAO report GGD-96-11. 26 February 1996. See also House Republican Research Committee. "Iran, Syria, and the Trail of Counterfeit Dollars." Washington, DC: July 1, 1992. See also House Republican Research Committee. "Update: Iran, Syria and the Trail of the Counterfeit Money." Washington, DC: July 13, 1994.

²⁴⁰ Rufford, Nick, and James Adams. "Iran Linked to Flood of Fake Dollars." *The Sunday Times*. 17 July 1994.

²⁴¹ "Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts." GAO report GGD-96-11. 26 February 1996.

distributions of bills in the Bakaa valley (Iran, Lebanon, etc) and consistent stories from the suspects apprehended. He noted, however, that no plant has ever been found.²⁴² Today, it has been generally accepted in the press and government that the Supernote is believed to originate in North Korea.²⁴³

Several other stories circulate about how North Korea obtained a press that could counterfeit high-quality U.S. dollar bills. Journalists have speculated that perhaps the North Koreans acquired a press sometime during the Cold War. In England in the early 2000's, press accounts on the apprehending of money launderers who had transported and laundered high quality Superdollars, pieced together the following explanation. Official IRA members who ran a small counterfeiting operation out of Dublin in the early 1980's fled to Eastern Europe in collaboration with Communist agents. Increasing cooperation between the United States government and the democratizing Russian government prompted the counterfeiting to shift bases out of Russia, "initially to Denmark and eventually to North Korea. The \$100 bills began turning up around the globe...Former KGB agents who moved into organised crime took over control of the operation and used their networks in Europe and abroad to spread the notes." Meanwhile, "friends in the last remaining communist country, North Korea, were providing the counterfeiters with a foolproof exit route from Russia by using diplomatic bags."²⁴⁴ While the Secret Service did note that the Party distribution network made it easy to move things in and out of Russia, the IRA story remains speculation.

²⁴² Author's interview with a U.S. Secret Service Special Agent. March 2005.

²⁴³ For government references to this, see "Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection." Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003. For press references other than specific citations here, see "What is a Superdollar?" British Broadcasting Corporation. Online. Accessed 19 June 2004. See also *The Superdollar Plot*. BBC documentary. Aired 20 June 2004.

²⁴⁴ Kealy, Willie. "Workers' Party Boss Linked to Counterfeit 'Super Dollars.'" Sunday Independent. 18 August 2002.

Likewise discredited by the Secret Service is a third story, proposed by Raphael Perl at the Congressional Research Service: that the KGB had stolen a press from the U.S. Mint after World War II and passed it on to North Korea. Perl writes that “media reports suggest that when Assistant Secretary of State, James A. Kelly, visited North Korea in October 2002, he asked that the printing of the counterfeit bills be suspended. Some of the bills are reportedly printed on machines stolen by the KGB from the U.S. Mint after WWII and provided to North Korea by the USSR in the late 1980’s.”²⁴⁵ When asked about that possible explanation, however, a Secret Service agent responded that there was “no factual basis to the KGB theft angle that I know.”²⁴⁶

The most plausible explanation currently seems to be that North Korea acquired the presses, commercially available worldwide, in a legitimate manner. Perl also mentions this explanation in his analysis, writing that other counterfeit bills “are believed to be printed on equipment purchased by the DRPK from Europe in the 1990’s.” According to him, the D.P.R.K. purchased from Europe “state of the art equipment designed to detect counterfeiting” in order to ensure quality control.²⁴⁷ And indeed, former head of the Bureau of Engraving and Printing Robert Leuver asserts that “for the past two decades Pyongyang has owned the same model of printing press used by the United States, a Swiss-made Intagliocolor 8. Like the United States, North Korea has sent technicians to Lausanne to be trained on the equipment.”²⁴⁸

Leuver points out, however, that North Korean producers would lack the high-quality paper needed to accurately reproduce US dollars (a 75-25% blend of cotton and linen, with traces of red and blue fibers). As he told *Newsweek* in 1996, \$1 bills would

²⁴⁵ Perl, Raphael F. “Drug Trafficking and North Korea: Issues for US Policy.” CRS Report for Congress. 5 March 2005.

²⁴⁶ Author’s interview with U.S. Secret Service Special Agent. March 2005.

²⁴⁷ Perl, Raphael F. “Drug Trafficking and North Korea: Issues for US Policy.” CRS Report for Congress. 5 March 2005.

²⁴⁸ Moreau, Ron, and Russell Watson. “Is Your Money Real?” *Newsweek*. 10 June 1996.

have to be bleached and reprinted.²⁴⁹ And indeed, one North Korean defector claims that he was ordered to do exactly that. According to Kim Jeong Min, a former high-level intelligence official and a diplomat in Africa for the D.P.R.K., he was ordered to find the same paper used for printing U.S. currency, but couldn't locate it. Instead, he says, "I obtained many \$1 notes and bleached the ink out of them . . . The size of the bill was what mattered, not the denomination."²⁵⁰ The sophistication of North Korean printing techniques has reportedly improved with reverse engineering, however, and it is no longer clear that lower denominations are being bleached and reprinted as \$100 bills.

Other defectors have corroborated these reports, although there is less information on the counterfeiting and it appears to be less widely known among North Koreans. There is also some disagreement on the location of the printing and when it began. For example, defector Kang Myong Do, the self-described "son-in-law of North Korea's prime minister," claims that forged currency is printed in downtown Pyongyang in the "101 Liaison Office" in values reaching \$8-10 million per year. According to him, the money is "shipped from the printing plant in black Samsonite briefcases, each containing about 1,000 hundred-dollar bills, which are given to North Korean diplomats for distribution overseas. . . Your loyalty to the Party is measured by the amount of foreign currencies you can get."²⁵¹

Other defectors, however, place the location of the mint at Pyongsan City, in a factory called Print Office 62. They also disagree about when exactly the activity began. Defector Lee, who worked for the Ministry of Public Security, says that ministry built a state mint called "Pyongyang Trademark Printing House" (or No. 62 factory) in Pyongsong, South Pyongan province, in 1981. According to Lee, who defected from a branch of a North Korean trading company in Russia in 1996, about 700 workers produce

²⁴⁹ Moreau, Ron, and Russell Watson. "Is Your Money Real?" *Newsweek*. 10 June 1996.

²⁵⁰ Kaplan, David. "The Wiseguy Regime." *US News and World Report*. 15 February 1999.

²⁵¹ Moreau, Ron, and Russell Watson. "Is Your Money Real?" *Newsweek*. 10 June 1996.

counterfeit dollars under the supervision of Ministry officials.²⁵² Another defector, Kim Hak, reports that he and 30 other scientists made fake notes in 1984 at a mint in Pyongyang, under orders “from the Worker’s Party financial and accounting division.”²⁵³ Others, however, place the activity at Pyongsan much later. When asked about the Secret Service’s statement that they first discovered counterfeit notes believed to emanate from North Korea in 1989, one defector replied that that was impossible. It was not until 1990 that the manager, Hwan Dong-Yan, a colonel in the Public Security Ministry, was assigned to the factory, he said, and in 1989 in building No. 62 the equipment was still being prepared.²⁵⁴

Also unclear is the exact mechanism by which North Korean counterfeits are distributed, and in what quantities. According to one defector, North Korea began using the bills in Russia in 1995-6,²⁵⁵ and other reports suggest that North Korean payments for Middle Eastern weapons technology may include a portion of counterfeit Middle Eastern bills.²⁵⁶ One defector reported that in 1992 a friend who worked for Office 99, the Central Party Committee bureau in charge of weapons sales, told her that whenever they traveled, some part of the money they carried was counterfeit.²⁵⁷ Her report is consistent with that of another defector, who said that “When government officials or diplomats traveled to south-east Asia they distributed the counterfeit notes mixed in with the real one’s [sic], at a ratio of about 50-50.”²⁵⁸ According to another defector, the arrest an agent in Mongolia in 1996 who had previously been arrested in Russia led to the discovery of defects in the counterfeit design, which North Korea then worked to improve. As a reward for

²⁵² “N Korea’s state mint counterfeited dollars, Yonhap says.” Kyodo News Service. 12 January 2000.

²⁵³ Tetsuya Suetsugu. “Risky Business Leading North Korea to Ruin.” *Yomiuri Shimbun*. 22 August 2003. He also reported that the factory had a division for narcotics, and that smuggling stimulants to Japan began in 1998.

²⁵⁴ Author’s interview with two North Korean defectors. 5 April 2005.

²⁵⁵ Author’s interview with two North Korean defectors. 5 April 2005.

²⁵⁶ Perl, Raphael F. “Drug Trafficking and North Korea: Issues for U.S. Policy.” CRS Report for Congress. 5 March 2005.

²⁵⁷ Interview with a North Korean defector. 6 April 2005. Translation by Mr. Park Syung Je.

²⁵⁸ “What is a Superdollar?” British Broadcasting Corporation. Online. Accessed 19 June 2004.

successfully doing so, the plant director was made a Major General and a Hero of the Country in 1998 – an unusual promotion in North Korea.²⁵⁹

According to the Secret Service, the Supernote today shows a “fair number of variations,” although these remain slight and not visible to the naked eye.²⁶⁰ There are reports that North Korea counterfeits the yen and Euro as well, although these have never been confirmed. One defector noted that Kim Jong Il had ordered the counterfeiting of yen, but whether it subsequently happened he was not sure.²⁶¹ Japanese officials, however, say that there have been no recorded seizures of counterfeit yen linked to North Korea.²⁶²

According to investigators of North Korean counterfeiting, some further evidence exists to substantiate the defector reports on production and distribution. Certainly, the number of arrests in the mid-1990’s linking North Korean officials to counterfeit money offers a chain of circumstantial evidence which is consistent with defector reports. Also among the evidence reported but not publicly available is “a purported videotape of the printing plant.”²⁶³ In addition, American officials have stated that they have seen video footage of Kim Jong Nam, the son of Kim Jong Il, using counterfeit dollars in a casino in Macao.²⁶⁴

Macao casinos may have constituted (or may constitute) a key link in the chain of counterfeit distribution, especially given the repeated incidents involving North Korean trading company personnel caught with counterfeit dollar bills. In Macao, Chogwang general manager, Pak Cha-pyong has been indicted on counterfeit charges, while another

²⁵⁹ Author’s interview with two North Korean defectors. 5 April 2005. Translation by Mr. Park Syung Je. According to her, the Yongbyon nuclear site is also controlled by Office 99.

²⁶⁰ Author’s interview with a U.S. Secret Service Special Agent. March 2005.

²⁶¹ He commented, however, that the plant used to make U.S. dollars was also used to print passports.

²⁶² Author’s interviews with Japanese government officials. April 2005.

²⁶³ Macko, Steve. “North Korean Government Deeply Involved in Organized Crime?” ERRI Daily Intelligence Report. Emergency Response and Research Institute. 30 June 1998. Available Online at <http://www.emergency.com/nkoreadg.htm>

²⁶⁴ Kaplan, David E. “The Far East Sopranos.” *US News and World Report*. 27 January 2003.

top official, general president Han Myong-ch'ol, is allegedly linked to Bureau 39. The frequent travel of high-level officials to and from Macau to supervise operations offer an opportunity for North Koreans to take advantage of the high cash turnover in casinos, as does the casino opened by Macao casino king Stanley Ho in Pyongyang.²⁶⁵

Macau's role in another of the episodes in North Korea's effort to procure unconventional sources of finance raises parallel questions about the officials working there. The same Chogwang general manager was reportedly the one who accepted the payment from President Kim Dae Jung for the June 2000 presidential summit; a South Korean investigative news report reported a telephone call to Pyongyang just before the summit reporting that payment had been received.²⁶⁶ Member companies of the Hyundai Group, assisted by the government's Korea Exchange Bank and National Intelligence Service, transferred money to accounts in Macau, Singapore, and Austria which were controlled by Daesong, Bureau 39's front organization. Officials believe the money, which the Kim Dae-Jung government admitted in 2003 totaled \$500 million, went into accounts managed by Bureau 39.²⁶⁷ Experts estimated that these payments made up 30% of North Korea's foreign exchange earnings, and reports of weapons procurement by Daesong banks from 1999 to 2001 raised speculation that the money was being used to fund weapons purchases.²⁶⁸

²⁶⁵ "ROK Monthly Describes DPRK Money-Laundering Operation in Macao." *Wolgan Choson*. 1 April 2003. p. 182-204. Translated by FBIS.

²⁶⁶ "ROK Monthly Describes DPRK Money-Laundering Operation in Macao." *Wolgan Choson*. 1 April 2003. p. 182-204. Translated by FBIS. Note that it is not unusual, according to business partners of the North, to transfer money to a personal account. Lee Jong Keun, who heads LG International Corp's North Korea operations in Seoul, has said that LG bought gold from Pyongyang. (LG and Samsung bought a total of over \$200 million worth.) Lee reported that there had been almost no direct contact and that company "payments were sometimes made into accounts that belonged to individuals, not companies, due to restrictions NK places on its overseas companies' business operations." Solomon, Jay, and Hae Won Choi. "Money Trail: In North Korea, Secret Cash Hoard Props Up Regime." *The Wall Street Journal*. 14 July 2003.

²⁶⁷ Niksch, Larry. "U.S.-Korean relations: Issues for Congress." Report for the Congressional Research Service. 22 February 2005. p. 11-12.

²⁶⁸ Niksch, Larry. "U.S.-Korean relations: Issues for Congress." Report for the Congressional Research Service. 22 February 2005. p. 11-12.

As with the drug smuggling, the United States government has concluded it could not *prove* that North Korea was counterfeiting American bills. Secret Service agent Dennis Lynch said in the mid-1990's, "We have no hard evidence that a counterfeiting plant of high-quality U.S. currency is in North Korea."²⁶⁹ However, investigations over time regarding the Supernote have prompted an increasing consensus and today there is little doubt among officials involved in the issue that North Korea is the source of the bills.

It is important to note that even if North Korea intends this behavior to weaken or threaten the U.S. economy, U.S. government officials deny that the activity has had such an effect. The Secret Service does allow that the high quality of the bills could frighten investors in other countries, explaining that even a seizure of \$100,000, while insignificant in terms of total circulation, could prompt a small country to re-evaluate its American currency holdings for fear a higher proportion of them may turn out to be illegitimate.²⁷⁰ U.S. government officials assert, however, that North Korean counterfeits are "probably not a threat to the economy," and are not believed to be capable of threatening the dollar's stability.²⁷¹ Quality, not quantity, renders the notes a source of concern since the counterfeits are so good as to be undetectable much of the time. But, since the notes even if printed at the highest rate estimated by the South Korean government, represent only a small fraction of the estimated under 1% of circulating currency that is currently counterfeit, itself a small fraction of the \$670 billion total supply.²⁷²

²⁶⁹ Moreau, Ron, and Russell Watson. "Is it Real, or Super K?" *Newsweek*. 10 June 1996.

²⁷⁰ Author's interview with a U.S. Secret Service Special Agent. March 2005.

²⁷¹ Author's interviews with U.S. government officials. March 2005.

²⁷² Townsend, Bruce A., Deputy Assistant Director of the United States Secret Service. "Testimony Before the Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade, and Technology." United States House of Representatives. 28 April 2004.

Other Criminal and Smuggling Activity

In addition to its more well-known involvement in the drug trade and counterfeiting, North Koreans have been implicated for smuggling other contraband items, including pharmaceuticals, endangered species, cigarettes, and cars. Appendix D is a selected compilation of incidents of North Korean illicit smuggling of items other than drugs or counterfeit currency.

In the early 1980's, five North Korean diplomats were forced to leave Africa for their attempts to smuggle rhino horns. The horns were transported from Luzaka to Addis Ababa to South Yemen. From there, they traveled to the consulate in Guangzhou, which ran operations in Macau, Zhuhai, and Hong Kong – not so different, apparently, from the role of trading companies and the Guangzhou consulate in other smuggling activities. This kind of activity has apparently not changed, because in the years since 1996, “at least six North Korean diplomats have been forced to leave Africa after attempts to smuggle elephant tusks and rhinoceros horns.”²⁷³ Defector Kim Jeong Min, who reported on counterfeiting, also claims that he smuggled gems and Western currency out of Africa before his departure in 1988, traveling as often as five times a month. He claims that he made over \$80 million, “both for the regime and for himself.”²⁷⁴ Other counterfeit consumer items have also been reported. In March 1988 two diplomats were found with 12,000 pirated CD's on the Romania-Bulgaria border, allegedly the “third seizure in recent months.”²⁷⁵ A U.S. official traveling in Finland made the allegation that North Korea had been trying to sell pornography there,²⁷⁶ and North Koreans in Southeast Asia have engaged in transporting used cars for sale in other countries. In Thailand, North Korean diplomats bring luxury cars in duty-free and sell them; North Koreans in

²⁷³ “North Korean Drug Trafficking.” Joint Interagency Task Force West Assessment. United States Department of Defense. May 2000.

²⁷⁴ Kaplan, David. “The Wiseguy Regime.” *US News and World Report*. 15 February 1999.

²⁷⁵ “Major Incidents of Drug Trafficking by North Koreans.” Drug Enforcement Administration Report. 1998.

²⁷⁶ “Finns scratch heads over N. Korea porn claim.” Reuters. 10 July 2003.

Bangkok have also reportedly shipped used mobile phones to Bangladesh via diplomatic pouch.²⁷⁷

Given the inconsistency of products involved and the limitation of official North Korean involvement to the diplomatic corps, it appears that these incidents are the result of the continuing policy of self-financing imposed on North Korean embassies by the center. The degree to which they are managed by the top leadership is unknown, but likely lower than the internal criminal operations. In some cases, however, evidence suggests that a coordinating role inside the North Korean regime would be necessary. For example, one U.S. government official discussed reports that North Korea would ship cars normally, but if money got tight, would fill the gas tank with drugs to increase the profit.²⁷⁸ Like the use of cigarettes to ship counterfeit money (mentioned below), this anecdote suggests the possibility that lower-profit, lower-risk activities can be modified to include higher-profit, higher-risk products if the situation warrants.

Pharmaceuticals and Cigarettes: a new direction?

Pharmaceuticals and cigarettes might seem an unlikely pair of sources for foreign earnings, but they are two more counterfeit products currently linked to North Korea.

In September 2001, Dongkong Foreign Trade Corporation near North Korea in Dandong, China, acquired “the exclusive right to sell North Korean medicines in the international market – including a brand called Cheongchun No. 1, which is a homemade North Korean version of Viagra.”²⁷⁹ There is some evidence, however, that licit production of aphrodisiac products may have an illicit counterpart. Last summer in Seoul, a South Korean man was picked up for peddling a counterfeit version of Viagra

²⁷⁷ Lintner, Bertil. "North Korea - Coming in From the Cold." *Far Eastern Economic Review*. 25 October 2001.

²⁷⁸ Author's interview with a U.S. government official. April 2005.

²⁷⁹ Lintner, Bertil. "North Korea - Coming in From the Cold." *Far Eastern Economic Review*. 25 October 2001.

reportedly manufactured in North Korea.²⁸⁰ The four thousand pills in his possession, which were white and round rather than the blue oval pills made by Pfizer, were being sold for 5,000 won per pill (just under \$5 U.S.), rather than 15,000 won for the legitimate price.²⁸¹

Japanese authorities now report that North Korea is involved in counterfeiting Viagra, although the source is difficult to determine as counterfeiting is also common in areas of China, across the border from North Korea. According to Japanese officials, one bottle of 30 tablets costs 100 yuan on the border regions of China (\$12.08 U.S., or about 40 cents per tablet), while in Japan the black market price is 2000 yen: \$18.72 per pill, or \$561.60 per bottle. (The prescription price is 3,000 yen. In the U.S. the average price per pill is \$8-12, according to Pfizer.) The Viagra is reportedly manufactured in Chungjin, found in the border areas, and sells mainly to Hong Kong, Southeast Asia, and the Middle East.²⁸²

While the container is almost indistinguishable from a real one, it does not contain the color-shift Pfizer logo newly installed as part of increased security packaging in 2004.²⁸³ Above the “30 Tablets” marking, the number “NDC 0069-4220-30” is also aligned on the left on the counterfeit bottles, whereas the Pfizer website shows it aligned on the right.²⁸⁴ In comparison to the original medicine, the pills are slightly darker blue than the real ones. (See Appendix E for illustration.)

The incidents in Appendix D also show that several of the most recent seizures involving North Korean diplomats have been pharmaceuticals; two embassy employees smuggling 150,000 Clonazepam tablets in Egypt in June 2004, and Bulgarian embassy

²⁸⁰ Ward, Andrew. “North Korea may have potent new cash raiser.” *Financial Times*. 3 July 2004.

²⁸¹ Shin Eun-jin. “North Korean Viagra?” *Chosun Ilbo*. 1 July 2004. Available online at <http://english.chosun.com/w21data/html/news/200407/200407010043.html>

²⁸² Author’s interview with Japanese government officials. Japanese authorities commented that there was not much of a market for Viagra in Japan.

²⁸³ Given that some old packaging might still be in stock, this is not a guarantee that the Viagra is counterfeit.

²⁸⁴ “Types of Fake Viagra.” Viagra website. www.viagra.com/buyRealViagra/avoidingFakeViagra2.asp

employees arrested in Turkey for carrying over 500,000 captagon tablets, worth an estimated \$7 million.²⁸⁵

Meanwhile, Taiwanese authorities stopped a ship in 1995 and confiscated 20 containers of counterfeit cigarette packaging. According to statements made at the time of seizure, 2 million fake cartons could have been made of popular Japanese and British brands.²⁸⁶ In February 2004, the Singaporean Customs seized a container of counterfeit Marlboro cigarettes coming from Busan, South Korea (and Najin before that).²⁸⁷ A day later, officials in the port at Durban seized more cigarettes worth approximately R10million, origin unstated.²⁸⁸

Japanese authorities say that 1 box of cigarettes sells for anywhere from 2-4.5 yuan in northern China, or 30-45 yuan for a carton.²⁸⁹ Defectors report that among the brands produced in North Korea are Hilton, Dunhill, 555 and Marlboro. The tobacco is reportedly grown in Paektusan area, and produced by Yongsong tobacco factory in Pyongyang, as well as 3 factories in Rajin. The latter two are also counterfeited in China, although defectors say that smokers can tell a difference – the Chinese-made ones taste heavier.²⁹⁰ In addition, there are subtle differences in the packaging; one British-American Tobacco official demonstrated the difference between real Dunhill cigarettes and Chinese counterfeit ones, including hand-glued boxes instead of machine-adhered; subtle differences in the print clarity and color; a lack of sophisticated embossing;

²⁸⁵ International Narcotics Control Strategy Report 2004. U.S. Department of State. March 2005.

²⁸⁶ Bach, William. Congressional Testimony. “Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection.” Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

²⁸⁷ “Singapore Customs Seized One Container of Counterfeit Cigarettes.” Singaporean Customs Press Statement. 24 February 2004.

²⁸⁸ Ibid.

²⁸⁹ Author’s interview with Japanese government officials.

²⁹⁰ Author’s interview with North Korean defectors.

different packing; and less of a charcoal filter in the counterfeits (although the white filter appeared to be nearly identical).²⁹¹

The traffic in cigarettes and pharmaceuticals may be an expanding future direction of North Korean criminal activity. According to Philip Morris International, counterfeit cigarettes cost them an estimated US \$200 million each year, providing ample incentive for a North Korean regime increasingly strapped for hard currency.²⁹² As one tobacco executive commented, less than 20% of the cost of a pack of cigarettes is production and transportation; counterfeiters therefore get not only the 20% profit margin but the 60% of the price that is tax revenue.²⁹³ One tobacco executive recently placed their company's losses to North Korean counterfeiting alone at \$100 million worldwide.²⁹⁴ Depending on the brand counterfeited, one forty-foot container can have a street value exceeding \$1 million.²⁹⁵ And cigarettes may have value to the North Koreans as more than just a money-maker themselves; these numbers understate the value of cigarette smuggling to North Korea, since officials have reported that counterfeit dollars may now be inserted inside cigarettes as a disguised method of shipment.²⁹⁶

Whether this is a permanent future direction for the North Koreans cannot be determined with certainty, but the Secret Service noted that the combination of counterfeit money and cigarettes is a growing trend. Other sources speculated that a counterfeiter who possessed a press capable of counterfeiting dollars would find it relatively easy to print cigarette labels; inputs are also cheaper both in terms of the lower quality of paper used and the ease with which tobacco may be grown or imported (either

²⁹¹ Author's interview with an official at British-American Tobacco.

²⁹² "Counterfeit cigarettes: the global problem and proposed solutions." Philip Morris International Inc. November 2003. Available at www.philipmorrisinternational.com

²⁹³ Author's interview with an official at British American Tobacco.

²⁹⁴ Balfour, Frederik. "Fakes!" *Business Week*. 7 February 2005.

²⁹⁵ Author's interview with a U.S. Secret Service Special Agent. The value, however, depends on the price in the country of destination. One British-American Tobacco official gave a lower number for South Korea, where he said one 40-foot container would have a value of approximately \$675,000.

²⁹⁶ Author's interviews.

legitimately or illicitly). Moreover, this author heard reports, denied by other sources, that once they pass through Seoul, the North Korean shipping label is replaced by a South Korean one once cartons pass through Seoul, making the cigarettes difficult to trace.²⁹⁷

Some readers may question why, with profits in this business so high, North Korea would continue to counterfeit currency at all. While not conclusive, the logical answer is that even if profit margins are lower this activity is still profitable, and a wise businessman will diversify his portfolio between high-return, riskier investments, and more established lower-return investments. The North Korean decision-making process may not duplicate that logic exactly, but the basic idea of diversification stands.

Despite these conclusions, key questions about North Korean counterfeiting – of both dollars and products - undoubtedly remain. It is hoped that pending investigations, some of them currently in the process of adjudication, will shed further light on this subject.²⁹⁸

Interpretations and Implications

The information available on counterfeiting paints a picture, if vague and spotty in certain details, in the same broad strokes used to characterize the drug trafficking: use of diplomats and trading companies followed by attempts to use organized crime as a distribution mechanism; increased regional emphasis commensurate with current North Korean distribution capacities; and potential diversification as North Korea finds it financially profitable.²⁹⁹ Many of the questions about motivations and incentives are as applicable to the counterfeiting record as to that of drug trafficking.

²⁹⁷ Author's interviews with U.S. government officials.

²⁹⁸ Conversations with U.S. government officials led this author to believe that more information on certain operations will become public knowledge later in this calendar year.

²⁹⁹ Asia, for example, holds a huge share of the worldwide cigarette market, and counterfeit cigarettes are especially common there.

Indeed, the state role is probably more strongly implicated by counterfeiting than drug trafficking for several reasons. As with drug smuggling, the assets and personnel involved in counterfeiting and the duration of the activity imply some level of state complicity, as does the high quality of the counterfeit notes. Given the startup costs of this activity and the need to purchase equipment from abroad, it is unlikely that a non-state actor could have started this operation without state knowledge or support. As with drug production and trafficking, it is also unlikely that an authoritarian regime in economic crisis would allow such a profitable business to operate independently for any extended period of time without co-opting it for state use. The use of personnel such as former Red Army terrorist Tanaka, whose behavior would have been closely watched by the regime after his arrival/asylum in North Korea and who was stopped in a diplomatic car with several North Korean diplomats, also argues for state support, if not outright direction of, such activity. Finally, the traditional role counterfeiting has played in state strategy, including that of the Cold War, argues that this would have been a tool traditionally restricted to states.

State motivation for counterfeiting may be expected to differ somewhat from that of drug trafficking, given the historic use of currency manipulation as a tool of warfare. Indeed, defectors state that Kim Jong Il intended the counterfeiting to damage the reputation of United States currency, and upset the market, and that awareness of the activity's financial utility followed later. And counterfeiting, in contrast to drug trafficking, shows a pattern of cooperation with external organizations which is more closely correlated to ideological affinity – for example, the involvement of the left-leaning Japanese Red Army terrorist Yoshimi Tanaka in Cambodia, and members of the Worker's Party associated with the Irish Republican Army in the British Superdollar case. Whether these are a case of North Korea taking advantage of historical ties merely because of their logistical convenience, or because of ideological similarities is unclear,

but counterfeiting does show more of an ideological explanation than drug trafficking does.

Although ideology appears to play a stronger role in counterfeiting dollars than in other types of criminal activity, the financial motivation remains applicable. Other defectors state that U.S. currency was originally printed for use in the domestic economy, and that foreign distribution was only allowed once a high standard of quality had been achieved – which argues more in favor of a financial incentive for counterfeit production.³⁰⁰ Speculation that North Korea is counterfeiting other currencies, and the increasing trend toward counterfeit pharmaceuticals and cigarettes, also support the financial motivations argument more than the strategic/ideological explanation. There is little ideological or strategic explanation for why North Korea would choose to counterfeit cigarettes, unless out of a vague desire to harm the health of Western countries. The real market for counterfeit cigarettes, however, is in Asia (especially China and Russia), not the United States - belying the argument that the activity is the product of an ideological agenda of anti-capitalist subversion. Should North Korea be attempting to damage the United States, one would expect to see more drug shipments, counterfeit distribution, and cigarette smuggling into the United States. Assuming a financial motivation, however, the high costs of transport and circumventing enforcement are quickly prohibitive of this option. This is not to say that North Korea tries to avoid activities which are objectionable to the United States and the international community, as the trafficking in counterfeit currency suggests. It is merely to argue that North Korea appears to follow financial logic above all else in conducting its illicit foreign trade. A reasonable amount of risk aversion, common to both business and government, should not invalidate this general conclusion.

³⁰⁰ Author's interviews with North Korean defectors. April 2005.

Domestically, counterfeiting appears to be more closely guarded and more secretive than drug production. The only organizations cited by defectors are the Ministry of Public Security and the bureaus under the Central Party Committee, leading this author to suspect that the activity is more tightly controlled than drug trafficking, which requires a wider array of involvement from various organizations. Externally, the relative scarcity of information on counterfeit bill distribution means that potential areas of overlap with drug trafficking mechanism cannot be systematically confirmed or disproved. Anecdotally, however, both drug trafficking and counterfeit distribution appear to initially have relied on diplomatic distributors, and today both branches of criminal activity are financially managed by Bureau 39. In general, however, counterfeiting seems to have maintained state-agent distribution patterns for longer than drug trafficking, which shifted almost totally to organized crime in the late 1990's. The major exceptions to this statement are the IRA-linked ring discovered in Britain, which worked through the Russian *mafia*, and recent indications that cigarette shipments are being used to transport fake dollars. These incidents may indicate that counterfeiting is following drug trafficking in terms of state efforts to limit the exposure which comes with direct distribution.

Cigarette and pharmaceutical counterfeiting, however, are not so clearly state-controlled. While defectors gave the names of closely controlled production facilities inside North Korea and the high quality of the counterfeits implies a large-scale, higher-technology production process, there is simply not enough information available at this time to provide a detailed assessment of the state's role.

A final conclusion reachable through this chapter's analysis, and even from the above paragraph, is that North Korean involvement in criminal activity appears to be highly adaptable. Chapter Three noted the evolving trends of North Korean engagement in the drug trade, shifting routes and traffickers to avoid detection. This chapter not only

confirms North Korean adaptability within a certain business, but implies that the North Korean system is able to adjust not only by modifying its existing behavior, but by involving itself in new lines of criminal activity as opportunities and constraints warrant. Indeed, the North Korean regime may find it easier both logistically and politically to adapt existing capabilities for criminal ends than relinquish control to cooperative or reformist economic policies – a possibility which will be explored further in the next chapter.

Chapter Five:

Conclusions, Implications, and Policy Recommendations

Introduction

This thesis has attempted to compile and analyze evidence surrounding the involvement of the North Korean government in transnational criminal activity over the period from 1976 to 2004. In doing so, it has explored the state's motivations for engaging in such activity and suggested conclusions about how such activity is structured and managed within the North Korean system. This final chapter will revisit and elaborate on those conclusions, and propose implications on three levels: for policy towards illicit activity, for policy towards the D.P.R.K., and policy toward criminal states more broadly.

Review of Conclusions

This research began with four hypotheses about the nature of North Korean involvement in criminal activity. The hypotheses, laid out in the Introduction, existed along a spectrum of potential government strength, from criminal activity as a result of loss of control of the state to criminal activity as a top-down activity tightly controlled by the upper leadership.

According to the previous chapters, it is highly unlikely that all of the activity discussed has been a result of the loss of state control. This research has demonstrated a thirty-year period during which involvement of certain sets of government officials, often high-ranking diplomatic or Party personnel, and the use of state assets have been repeatedly observed with no known attempt by the D.P.R.K. to curtail such activity.

While the blanket assumption that the totalitarian nature of the North Korean state makes such activity inevitably state-directed has been justifiably criticized, the empirical results of this research reveal sufficient consistency in patterns of state involvement over an extended period of time, casting significant doubt on the hypothesis that criminal activity is the result of the state losing control of its agents. Drug production, drug trafficking, and counterfeiting have drawn on resources and personnel placed in sensitive, closely monitored areas of government, and exist on such a scale as to require coordination and support across different agencies. This evidence, along with the evolution of trafficking affiliated with North Korea, implies continuity elsewhere in the regime – the presence of a core node somewhere inside the D.P.R.K. – which simultaneously maintained and facilitated adaptation of criminal behavior.

A loss of state control is also incongruous with the statements of defectors coming from North Korea, who testify to central commands and closely monitored production processes within North Korea itself. Finally, there is little contextual indication, even in literature on the declining North Korean economy, that the D.P.R.K. leadership has lost a significant amount of control over its elites in any other area of state policy.³⁰¹ Discussions of economic reform which argue for a decrease in state control usually focus on the ground-level measures, such as institution of farmer's markets, and there is yet no indication that such measures are affecting the leadership's provision of goods to its elites. As one U.S. government official noted, extra activity caused by latitude on the fringes should not be equated with a breakdown in the command economy.³⁰²

³⁰¹ The exception to this has surfaced in the past six months, during which there have been recent reports of potential conflict within the leadership. Last year Kim purged brother-in-law Chang Song-taek, one of the most powerful members of the leadership. In addition, reports surfaced of a murder plot in Vienna, involving potential heirs to Kim's role, although the Austrian Foreign Ministry denied the story. Becker, Jasper. "Portrait of a Family at War: Kim Jong Il purges relatives after alleged coup bid." *The Independent*. 29 December 2004. Available online at <http://news.independent.co.uk/world/asia/story.jsp?story=596607>

³⁰² Author's interview with a U.S. government official. April 2005.

The second possibility, that such activity is allowed but not supported or controlled by the state, is also unlikely. First, the involvement of state assets, the high quality of products, and investigations' reports of high-ranking official involvement (such as the head of the Workers' Party International Department and the Party official on board the Pong Su) argue for state support. While agriculture and light industry in North Korea have been given some latitude in obtaining their own materials for production following the 2002 economic reforms, the goods produced through that distribution system are generally low in quality, compared to the state-of-the-art technology required to produce high-quality counterfeit bills or products.³⁰³ Beyond the technical argument, social science research implies that authoritarian leaders are careful to co-opt or eliminate activities and persons capable of forming an independent power base which might threaten the leadership. Available information on North Korea appears to confirm that this is the case in the D.P.R.K.³⁰⁴ There is no evidence suggesting that individuals within the North Korean system have been able to keep the benefits of criminal activity without regulation from above – indeed, the available reports from intelligence agencies and defectors suggest the opposite.³⁰⁵

One variant of the “toleration but not direction” hypothesis is that of a rogue ministry or bureau within the government, operating independently from the rest of the national authority structure. This might best be analogized to the role the Pakistani government claims A.Q. Khan played in Pakistan – that of rogue scientist freelancing out

³⁰³ Ibid.

³⁰⁴ This is one of the reasons (along with allegations of a coup attempt) cited for last year's purging of Chang Song-Taek, Kim Jong Il's brother-in-law.

³⁰⁵ Recall defectors' reports of the quota system, under which their products were collected by Bureau 39, thereby permitting them to obtain benefits from Bureau 39-run stores. In terms of Bureau 39, Kim's money is said to be (among other places) in accounts in Switzerland which are managed by the D.P.R.K.'s ambassador to that country. This author has found no evidence of any individual accounts which were thought to exist without knowledge of the D.P.R.K. regime, although it cannot be concluded from this that no such account exists. Author's interview with two members of the North Korean elite who worked at an embassy. April 2005. Translated by Mr. Park Syung Je. See also Oh Hassig, Kongdan, et al. “North Korean Policy Elites.” Institute for Defense Analyses. June 2004.

of his nuclear laboratory without state knowledge or consent.³⁰⁶ As one U.S. official pointed out, such an organizational entity would find it harder to exist in the D.P.R.K. than in Pakistan because North Korean geography, regime continuity, and resource constraints leave less opportunity for unchecked individual or organizational latitude.³⁰⁷ The above paragraphs seem to confirm that this argument holds. Perhaps more importantly, though, citations of multiple agencies within North Korea also appear to rule out the idea that a single actor or single organizational entity inside the state operated this activity for thirty years without state knowledge. The sub-state entity most likely to be capable of such freelancing, based on the seizure records, is Bureau 39 of the Central Party Committee, but by all accounts this entity is among the most closely connected to the leadership and the least likely to run such operations without the consent of the leadership.

In fact, separating drug trafficking into three periods – low-level diplomatic incidents, direct distribution by various officials, and outsourcing – suggests that the regime may have in fact had to redefine its involvement to minimize the problems associated with such “corruption.” The high number of state-trafficked seizures in the mid-1990’s, followed by a period of outsourcing and reported expanded production in recent years, suggests that the North Korean regime found the direct distribution scheme of the mid-1990’s too difficult to regulate, and moved to establish a system whereby such

³⁰⁶ Sorting out the actual relationship between A.Q. Khan and the Pakistani government, however, appears to be considerably more complicated than that, and many experts believe Khan was operating with the blessing, even support, of the Pakistani government. See Frantz, Douglas. “Pakistan’s Role in Scientist’s Nuclear Trafficking Debated.” *Los Angeles Times*. 16 May 2005. The article reads, “To outside nuclear experts, it defies logic that a scientist as prominent and privy to secrets as Khan could travel freely, operate outside security restrictions and ship sensitive technology overseas for years without attracting official scrutiny,” and cites as evidence statements made by Michael May, former director of Lawrence Livermore National Laboratories, saying that it was “simply impossible” for Khan to have done what he did without cooperation from people outside his laboratory.

³⁰⁷ Author’s interview with a U.S. government official. March 2005. This is not to say that organizations do not have some autonomy, simply that the autonomy they do have has been created within a set of incentives which serves the state – an idea which will be discussed in more detail in the following paragraphs.

activity was more tightly monitored and controlled. The result was a series of large-scale shipments sourced to North Korea but trafficked by Asian organized crime.

The continued presence of diplomatic trafficking and the emergence of some low-level cross-border trade between China and North Korea is the most compelling evidence for the hypothesis of corruption and low-level trade. This thesis does not reject that argument. Rather, it concludes that such a hypothesis is insufficient explanation for the sum of observed behaviors, which include not only cross-border trade, but maritime smuggling in closely patrolled waters and a thirty-year record of diplomatic and trading company trafficking involvement. Furthermore, that hypothesis is unable to address defector reports, explain the existence of high-quality North Korean counterfeiting, or satisfactorily explain investigations which mention high-level contact between the North Korean regime and organized crime. This research, therefore, suggests a more comprehensive explanation for the cumulative record of D.P.R.K. involvement: that of an organized system of state production. Diplomatic trafficking and cross-border trade should be seen as evidence which complements and adds nuance to this conclusion rather than contradicting it.

As discussed in Chapter Three, diplomatic trafficking can be explained by the self-financing policy first imposed on the embassies in the 1970's. As North Korea's economic situation worsened, organizations within the state appear to have been given requirements for hard currency procurement similar to the "self-financing" requirements of the embassies. The system by which these organizations procure funds, however, is one with strict limits, made possible by the coordination of the Central Party Committee. Cross-border activity as it arose in the mid-1990's is likely a case of involved individuals "skimming off" state systems of organized production, rather than a case of individual operating against the wishes of the North Korean regime. As mentioned above, a system which allowed for too much "skimming" – the one which led to small-scale seizures in

Russia and China in the mid-1990's – appears to have been curtailed in favor of a more centralized system, which allowed for 1) controlled production within the state and 2) outsourcing of distribution to limit the development of individual motives and profit opportunities which differed from the interests of the state.

Both defector statements and empirical evidence from seizures and investigations suggest that criminal activity has been systematically overlaid across the organizational structure of the North Korean state, and has become entrenched as a key functional mechanism of the state apparatus. The Ministry of Public Security handles counterfeiting,³⁰⁸ while a variety of organizations hold diversified roles in drug production; most of the distribution arrangements and financial management operations are handled by the offices of the Central Party Committee. This description suggests that the regime has organized a wide range of organizations into a cohesive criminal apparatus and provided them with incentives to systematically pursue a diversified range of criminal activity.

Between the third and fourth hypotheses about state direction – the first of state policy tightly controlled by the top leadership, and the second of a system supported by the state but exhibiting a certain amount of organizational autonomy – this author is unable to reliably differentiate. The ability to discern what precise balance exists between dispersal of responsibility among different organizations and centralized control exercised by the top leadership appears to hinge on the role played by the organs of the Central Party Committee and their relationship to the top leadership. Available information suggests that this Bureau, which reportedly handles all of Kim Jong Il's personal funds, is closely tied to the leadership, more in line with the fourth hypothesis. Other reports about the self-financing requirements on organizations suggest more

³⁰⁸ Internal security functions are handled by both the Ministry of Public Security and the Ministry of State Security. Bermudez, Joseph. *The Armed Forces of North Korea*. London: I.B. Tauris Publishers. 2001. According to South Korea's National Intelligence Service, the Ministry of State Security is directly responsible to Kim Jong Il.

departmental or ministerial autonomy than one would expect under a highly centralized system. The degree to which the very top leadership controls Bureau 39's activity, and how much influence the Bureau exerts elsewhere in the state apparatus, cannot be precisely and conclusively determined from this research, although evidence tends toward a more centralized system.

The pursuit of criminal activity in the North Korean system appears to serve both an ideological and a material function for the D.P.R.K. leadership, but evidence indicates that in recent years the financial benefits have become the ascendant motive. For the last five to ten years, income from illicit activities has been in the range of hundreds of millions of dollars, an amount which evidence suggests may be equivalent to North Korea's income from arms sales and at times as much as half the country's income from licit exports. While the exact extent to which the D.P.R.K. leadership depends on this activity for survival remains unclear, it can safely be concluded that the D.P.R.K. regime's use of criminal activity has been underestimated in the past. Thus, this thesis calls for major changes in the methods which have heretofore been used to study the North Korean economy. Past studies, which either contain outdated assessments of illicit revenues or significantly underestimate their importance, must be revised to take into account these large and evolving "black" economic activities.

One further area of significance highlighted in this study is that D.P.R.K. involvement in criminal activity combines the coordination and resources of a state structure with the high degree of flexibility and adaptability characteristic of modern transnational networks.³⁰⁹ North Korea has continued its involvement in criminal activity over 30 years and major changes in the international system, has switched products, agents, suppliers, and distribution routes – but it has not ceased its involvement in

³⁰⁹ While Stalinist-style command systems are generally thought to be more rigid, Commander of U.S. Forces Korea has testified to the D.P.R.K.'s military adaptability as well. LaPorte, Leon. General, Commander of United Nations Command, United States Combined Forces Command (ROK) and United States Forces Korea. "Prepared Statement before the Senate Armed Services Committee." 13 March 2003.

criminal activity. As a result, that activity today appears to be deeply embedded within the structure of the North Korean system. The overlapping authority structure of the communist-based D.P.R.K. facilitates networking and obscures organizational roles from outside scrutiny, while the participation of criminal organizations lowers state exposure in their illicit activities to a level of “plausible deniability.” Moreover, state sponsorship greatly enhances the resilience and adaptability of the criminal network, while links to various criminal organizations facilitate the adaptability of the state. In short, the linkage between the D.P.R.K.’s triple hierarchies of Party, State, and Military and the transnational network of Asian organized crime results in a dangerous synergy of capabilities for both sides.

Countering Illicit Activity

As discussed in previous chapters, the D.P.R.K.’s ability to finance its economy through illicit activity is heavily dependent on the availability of countermeasures and choice of response by United States and Asian law enforcement organizations. With that observation in mind, this thesis offers several recommendations for effective countermeasures addressing North Korean criminal activity.

It should be noted that at the most basic level, criminal activity is a law enforcement issue typically handled by interdiction on the part of domestic police agencies and prosecution through national court systems. Counterfeiting United States currency violates Article I, Section 8 of the United States Constitution, which grants the right to print currency to the United States Congress,³¹⁰ while drug trafficking by any individual or entity violates the national laws of most countries. In addition, according to one U.S. government official, diplomatic trafficking is a violation of Article 35 of the

³¹⁰ The Secret Service’s authority to investigate counterfeiting is given in Title 18 of the United States Code, Section 3056.

Vienna Convention on Consular Relations.³¹¹ In this author's interviews, numerous U.S. government officials stressed that the illegality of the activity is the premise upon which efforts to counteract such activities is based.

The validity of this premise notwithstanding, it is unlikely that a domestic, case-by-case law enforcement approach will be capable of countering a regime that has elevated criminal activity to the level of state policy. Absent some deliberate, coordinated policy on the part of the United States and allies in response, a case-by-case, interdict-and-prosecute approach left up to the disaggregated efforts of the Japanese, Taiwanese, Chinese, Russian, South Korean, Philippine and Australian domestic authorities will likely leave too many holes.³¹² Among other reasons, the potential for those same channels to be used for nuclear export (explored in more detail in the following pages), makes this a risk the United States should be unwilling to accept. As the authors of a recent RAND study suggest, it takes a network to defeat a network, and the most successful operations are likely to be "innovative law enforcement structures," particularly transnational joint task forces, which will be best able to overcome bureaucratic unwillingness to share information, interagency rivalries, and coordination problems.³¹³

It must be acknowledged that lessons based on past law enforcement attempts to curtail the activities of transnational criminal organizations have limited value because the state structure in which North Korean criminal activity is embedded affords it a level of protection unusual to criminal organizations. For example, network theory literature implies that North Korea would be vulnerable to a direct attack on the network core or

³¹¹ Author's interview with a U.S. government official. The Vienna Convention on Consular Relations is available from the United Nations Website at <http://www.un.org/law/ilc/texts/consul.htm>.

³¹² Indeed, students of transnational networks note that such organizations deliberately exploit the gaps between domestic systems to facilitate their activities.

³¹³ Arquilla, John, and David Ronfeldt. Networks and Netwars: The Future of Terror, Crime, and Militancy. Santa Monica: RAND Corporation, 2001. Available on the RAND website at <http://www.rand.org/publications/MR/MR1382/>

kingpin (the so-called “head-hunting approach”). Acting on this conclusion, however, is simply not feasible given that the core is protected by one of the world’s largest militaries and probably a nuclear arsenal. Tactical reasons involving the difficulty of infiltration render another of the suggestions, internal disruption of the North Korean apparatus, equally infeasible.

Nevertheless, network theory does offer some guidance in effective strategies for countering transnational criminal organizations. First, policymakers should at an early stage make a strategic decision identifying the key aims of the policy. As Williams writes, “in attacking networks, it is vitally important to determine the major objectives: Are they to destroy the network, simply to degrade its capacity to carry out criminal actions, or to detach the network from its support apparatus in the licit world?”³¹⁴ Criminal activity, with its high degree of adaptability, will inevitably involve a near-constant and rapid shift in focus and tactics in order to keep up with the networks. Distinguishing this from “mission creep” will be vitally important so that priorities can be managed and resources properly allocated. Because aspects of the North Korean situation discussed above make total elimination of the network unlikely, policy should focus on degrading the network’s capacity or detaching its support apparatus.

For example, Phil Williams suggests targeting “critical nodes” which have a high level of importance and a low level of redundancy.³¹⁵ In the North Korean case, the critical nodes most vulnerable to disruption will probably be located at the intersection between North Korea and criminal organizations. Severing these connections will at best discontinue North Korea’s ability to collect income from its illicit activities, or at minimum significantly raise the cost and risk to North Korea if it continues to pursue

³¹⁴ Williams, Phil. “Transnational Criminal Networks.” In Arquilla, John, and David Ronfeldt. Networks and Netwars: The Future of Terror, Crime, and Militancy. Santa Monica: RAND Corporation, 2001. Available on the RAND website at <http://www.rand.org/publications/MR/MR1382/> p. 91.

³¹⁵ Williams p. 92. Cites Sparrow, “Network Vulnerabilities and Strategic Intelligence in Law Enforcement.” *International Journal of Intelligence and Counterintelligence*, Vol. 5 No. 3, Fall 1991.

such activity. Finding critical nodes vulnerable to attack, however, will require concerted and sustained intelligence collection and analysis directed toward criminal activity. This may be difficult when so much of U.S. and other states' policymakers' focus on North Korea is limited to its nuclear program and military posture. The United States and its allies must decide which countries and what agencies are responsible for tracking and disrupting critical nodes.

Intelligence collection and analysis are not the only area in which North Korean criminal activity is likely to be assigned a low priority. Logistical and personnel support are additional areas of potential weakness. The South Florida Task Force countering Colombian cocaine trafficking, for example, was placed under the control of the Vice President (George H.W. Bush) and supplied with massive resources, including around 300 officials, Department of Defense maritime and air assets, intelligence and surveillance technology, etc.³¹⁶ By comparison, as of 2001, the CIA reportedly had only one person tracking North Korean finances. This suggests that while law enforcement efforts can achieve success when given large amounts of resources, the likelihood that North Korean criminal activity will be granted such resources, given political and budgetary constraints, is fairly low.

Criminal Activity and North Korea Policy

One of the most common concerns in the debate about the North Korean nuclear program is that North Korea might be willing to export nuclear material to other unsavory buyers.³¹⁷ Indeed, the D.P.R.K.'s supposed willingness to act as a global "nuclear Wal-

³¹⁶ Kenney, Michael. From Pablo to Osama: Trafficking and Terrorist Networks, Government Bureaucracies, and Competitive Adaptation. Manuscript under review at academic publisher.

³¹⁷ These fears are usually based on the conclusion that for a non-state actor, assembling a full nuclear program using either uranium or plutonium would prove, in the words of one political scientist, "an almost insurmountable obstacle for terrorist organizations without state sanctuary and support." Thus, the conclusion runs, "buying fissile material in the black market is a more attractive option." Quotations taken

Mart” often seems to be taken for granted.³¹⁸ Former Secretary of Defense William J. Perry has argued that “Given North Korea’s record as a proliferators of ballistic missiles, and given their desperate economic situation, we must assume that some of the products of this nuclear program would be for sale to the highest bidders, not excluding terrorist groups.”³¹⁹ In testimony to the Senate in May 2003, Robert Gallucci referred to “the possibility that North Korea might export and sell this fissile material to terrorists” the “overriding priority” of the United States.³²⁰ In a joint piece in the March/April edition of *Foreign Affairs*, Robert Gallucci and Mitchell Reiss write that “To focus solely on the more visible plutonium program would mean turning a blind eye to a parallel program that has the potential to provide North Korea with a covert, steady supply of fissile material for the fabrication of nuclear weapons or export to terrorist groups.”³²¹ Rather than continuing along the lines of the above broadly-sketched assumption, this research has suggested some further clarification about North Korean intentions and capabilities regarding nuclear smuggling.

Unfortunately for the United States, this research confirms that should North Korea decide to export a nuclear warhead or material, they have already established potential channels and modes of operation for maritime or land transport. While North

from Allison, Graham. *Nuclear Terrorism: the Ultimate Preventable Catastrophe*. New York: Times Books. 2004.

³¹⁸ The Wal-mart analogy was originally used by Mohamed El-Baradei to describe the A.Q. Khan network’s role in the global black market for nuclear material. See Landler, Mark, and David Sanger. “Pakistan Chief Says It Appears Scientists Sold Nuclear Data.” *New York Times*. 24 January 2004.

³¹⁹ Perry, William J. “Crisis on the Korean Peninsula: Implications for U.S. Policy in Northeast Asia.” Remarks delivered at the Center for International Security, Stanford University, Stanford, California on 4 January 2003, and at the Brookings Institution, Washington, D.C., on 24 January 2003. This possibility was also mentioned in Perry, William J., and Ashton B. Carter. “The Crisis Last Time.” *The New York Times*. 19 January 2003.

³²⁰ Gallucci, Robert L. Congressional testimony. Included in “Drugs, Counterfeiting, and Weapons Proliferation: the North Korean Connection.” Complete Transcript. Hearing before the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs of the U.S. Senate. 108th Congress. 20 May 2003.

³²¹ Reiss, Mitchell B., and Robert Gallucci. “Red-Handed.” *Foreign Affairs*. March/April 2005. In this article, Reiss and Gallucci respond to allegations by Selig Harrison questioning the credibility of the evidence regarding North Korean nuclear activity. Harrison, Selig. “Did North Korea Cheat?” *Foreign Affairs*. January/February 2005.

Korean borders remain tightly controlled for outsiders trying to enter the D.P.R.K., should the North Korean leadership choose to export a small amount of material, it could do so via the largely uncontrolled land border with China; via a small fishing boat, not all of which are currently tracked; or via aircraft, which one Japanese expert suggested that would be a less risky and therefore more likely method.³²²

The current United States administration appears to believe that D.P.R.K.-linked criminal networks may already be multi-use. Former U.S. Undersecretary of State for Nonproliferation and International Security John Bolton has testified, “As we close off proliferation networks, we inevitably will intercept related criminal activity and overlapping smuggling rings.”³²³ While one must be hesitant to extrapolate from drug smuggling to nuclear smuggling too directly, there is some evidence to indicate that this view is correct. The CIA reported that over the last six months of 2001, “the North has been seeking centrifuge-related materials in large quantities to support a uranium enrichment program. It also obtained equipment suitable for use in uranium feed and withdrawal systems.”³²⁴ By June 2002, a senior intelligence official reported that a National Intelligence Estimate on North Korea conclude that the D.P.R.K. had switched its attention from R&D efforts to actual purchases of “materials to construct a gas centrifuge facility to enrich uranium.”³²⁵ Among these was the reported payment of \$75 million by North Korea to Pakistan’s Khan Research Laboratories (KRL), which handled uranium enrichment. According to the Congressional Research Service, “a number of

³²² Author’s interview. April 2005.

³²³ Bolton, John. “U.S. Efforts to Stop the Spread of Weapons of Mass Destruction.” Testimony before the House International Relations Committee. Washington, DC. 4 June 2003.

³²⁴ CIA report quoted in Pincus, Walter. “N. Korea’s Nuclear Plans Were No Secret; U.S. Stayed Quiet as It Built Support on Iraq.” *Washington Post*. 1 February 2003.

³²⁵ Pincus, Walter. “N. Korea’s Nuclear Plans Were No Secret; U.S. Stayed Quiet as It Built Support on Iraq.” *Washington Post*. 1 February 2003. Note that this is Pincus’ description, not a quote from the NIE.

press reports described the specific role of the Daesong banks from 1999 to 2003 in purchases of components that could be used in an HEU program.”³²⁶

Among these were specific incidents involving ethnic Koreans in Japan. In 2003, Japanese authorities blocked the sale to Daesong of three power-control devices from Meishin, a trading company run by the Chosen Soren, pro-D.P.R.K. Korean residents of Japan. Japanese authorities said could be used for uranium enrichment or missile launch devices.³²⁷ Other incidents have focused attention on Japanese exports of military-related technology to North Korea as well.³²⁸

Bolton’s conclusion is that this co-incidence of criminality and weapons procurement indicates the importance of interdiction efforts. This research, however, highlights the *shortcomings* of interdiction in attending to such overlap. The multi-use nature of these networks suggests that weapons smuggling may share many of the problems stemming from drug and other contraband smuggling, and may be similarly difficult to address.

A number of studies have noted the vulnerability of the United States to unconventional delivery of nuclear weapons or material. In testimony to the Senate Governmental Affairs Committee in 2002, CIA Strategic and Nuclear Programs officer Robert Walpole testified, “We assess that the United States territory is more likely to be attacked with these materials from non-missile delivery means -- most likely from terrorists -- than by missiles, primarily because non-missile delivery means are less

³²⁶ Nicksch, Larry. “U.S.-Korean Relations: Issues for Congress.” Report for the Congressional Research Service. 22 February 2005.

³²⁷ “Japanese Firm Admits to Exporting Nuke-Related Devices to North Korea.” *BBC Monitoring International Reports*. 9 July 2003. See also Solomon, Jay, and Hae Won Choi. “Money Trail: In North Korea, Secret Cash Hoard Props Up Regime.” *The Wall Street Journal*. 14 July 2003. See also Sakamaki, Sachiko, and Doug Struck. “Japan Cracks Down on Firms Tied to N. Korea.” *Washington Post*. 22 May 2003.

³²⁸ Seishin Enterprises sold a jet mill, used in missile fuel production, to North Korea in 1994 aboard the Chosen Soren Mangyongbong ferry. Additionally, the spy ship sunk in 2001 carried Japanese-made devices. “Seishin Sold Jet Mills to India, China.” *Daily Yomiuri*. 14 June 2003. “Meti Busts N. Korea Trader.” *Daily Yomiuri*. 19 May 2003. These citations taken from Chanlett-Avery, Emma. “North Korean Supporters in Japan: Issues for U.S. Policy.” CRS Report for Congress. 7 November 2003.

costly, easier to acquire, more reliable and accurate. They can also be used without attribution.”³²⁹ In his recent book, Nuclear Terrorism, political scientist Graham Allison recounts an incident in which depleted uranium was shipped from Jakarta to a warehouse one mile from the Los Angeles Convention Center without detection. Brian Ross, the ABC investigative reporter who designed the test to see how easily terrorists could smuggle nuclear weapons, “intentionally avoided sophisticated smuggling techniques” such as those used by drug traffickers. While Undersecretary of Homeland Defense for Border and Transportation Security Asa Hutchinson insisted that the cargo container had been identified, inspected, and pronounced non-dangerous, Allison’s recounting of the incident calls the reliability of the scanning techniques used into serious question.³³⁰ And his further observations on the lack of monitoring for maritime and overland borders, coupled with evidence about the ease with which illicit drugs and human traffic enters the United States each year, establish the vulnerability of the United States to unconventional nuclear delivery through the same modes used by North Koreans to transport drugs, counterfeit currency, and contraband items.

It should be noted here that the United States homeland is not the only target of vulnerability to unconventional delivery. U.S. interests would be adversely impacted by a nuclear detonation at any number of targets within the Asia-Pacific: its bases in Japan and South Korea, for example, or within an Asian city where such a detonation would have a profound impact on the global economy. Although these targets admittedly lack the symbolic impact of a detonation in an American city, they may be easy enough to reach and important enough to U.S. interest to remain a source of concern. Analysts generally believe that unconventional delivery, rather than ballistic missile systems, would be the

³²⁹ Walpole, Robert. Congressional testimony. “CIA National Intelligence Estimate of Foreign Missile Development and Ballistic Missile Threats Through 2015.” Hearing of the International Security, Proliferation, and Federal Services Subcommittee of the Senate Governmental Affairs Committee. 11 March 2002.

³³⁰ Allison, Graham. Nuclear Terrorism: the Ultimate Preventable Catastrophe. New York: Times Books. 2004. pp. 104-107.

delivery method of choice against U.S. assets and other regional targets. As Joseph Bermudez, Jr. noted in Planning the Unthinkable, the D.P.R.K. possesses the ability to deliver not only nuclear, but chemical and biological weapons using “unconventional delivery methods.” In particular, he notes, “The DPRK possesses one of the world’s largest special operations forces and has demonstrated its ability to employ small units throughout the world by using its merchant fleet as a covert means of transportation.”³³¹

Beyond delivery to the United States, North Korean smuggling abilities raise wider questions for the future of global nonproliferation policy. A recent article by Chaim Braun and Chris Chyba raises the issue of “second-tier proliferation,” whereby developing states with less-than-mature technical capabilities “trade among themselves to bolster one another’s nuclear and strategic weapons efforts.”³³² While Braun and Chyba discuss the role of state-to-state transfers and “private sector supplier networks” in facilitating this process, this research implies a third, equally dangerous intersection which has emerged to have the potential to support covert nuclear transfers: transnational criminal networks, especially those with core nodes inside states. In the case of North Korea, the state direction of the criminal network is especially dangerous, and there are indications that the D.P.R.K. may have investigated using these networks to procure components for its weapons programs. The front companies that Braun and Chyba mention should be a source of concern therefore, not just for their links to each other, but because of their potential connections to criminal organizations. These capabilities are far from well-understood, and further research is necessary to determine how the links between second-tier proliferation and criminal organizations currently operate.

³³¹ Bermudez, Joseph Jr. “The Democratic People’s Republic of Korea and Unconventional Weapons.” In Lavoy, Peter R., Scott D. Sagan, and James J. Wirtz. Planning the Unthinkable: how new powers will use nuclear, biological, and chemical weapons. Ithaca: Cornell University Press. 2000.

³³² Braun, Chaim, and Christopher Chyba. “Proliferation Rings: New Challenges to the Nuclear Nonproliferation Regime.” *International Security*. Vol 29(2): Fall 2004.

As stated earlier, it is dangerous to assume that North Korea will traffic nuclear material as lightly as it traffics narcotics. So far, the regime has shown at least a modicum of risk aversion in its pursuit of criminal activity, eschewing high-visibility means of transport and distribution. Logic suggests that nuclear material, an extremely sensitive issue with more potential than crime to impact regime survival, will likewise be pursued with the same, or even a greater, level of caution.

However, this research suggests substantial reason other than the above assumption to worry about the risk of nuclear transfer from North Korea. As noted previously, North Korea has shown no aversion to working with criminal groups thus far once it decides that such cooperation is in its interest. But more importantly, North Korea's leadership has been inconsistent in its own position on the likelihood of nuclear transfer. In May 2004, Kim Yong-nam, deputy to Kim Jong Il, reportedly told Selig Harrison, "We make a clear distinction between missiles and nuclear material. We're entitled to sell missiles to earn foreign exchange. But in regard to nuclear materials, our policy past, present, and future is that we would never allow such transfers to al-Qaeda or anyone else. Never." In another interview, foreign minister Paik Nam-soon states, "We denounce al-Qaeda, we oppose all forms of terrorism, and we will never transfer our nuclear material to others. Our nuclear program is solely for our self-defence."³³³

On a later visit, however, Harrison reported that Kim Gye-Gwan, the North Korean Vice Foreign Minister, said "'The United States should consider the danger that we could transfer nuclear weapons to terrorists, that we have the ability to do so.'" While Kim said the regime had no current plans to conduct such a transfer, they could not rule it out "if the United States drives [them] into a corner."³³⁴ Indeed, U.S. officials have

³³³ Mallet, Victor. "N Korea offers U.S. pledge on arms." *Financial Times*. 4 May 2004. See also Harrison, Selig. "Inside North Korea: leaders open to ending nuclear crisis." *Financial Times*. 4 May 2004.

³³⁴ "N. Korea Warns of Nuke Proliferation Possibility: U.S. Scholar." *Kyodo News*. 9 April 2005. Available online at <http://home.kyodo.co.jp/all/display.jsp?an=20050410002>

already raised the concern that North Korea sold uranium hexafluoride to Libya,³³⁵ although it appears that the D.P.R.K. is not the only possible source.³³⁶

Based on North Korea's statements and past history, United States and global leaders should not rule out the possibility of North Korea transferring nuclear material to other states or non-state actors. Based on the regime's past behavior, though, it can assume that North Korea will make such a decision with a certain amount of caution. This caution could take two forms: it could alter the D.P.R.K.'s calculations about *whether* they are willing to transfer, or it could make them more cautious in *how* potential transfers could be conducted. Both approaches have a precedent in D.P.R.K. pursuit of criminal activity.

These decisions are not isolated. The North Korean regime's assessment of the likelihood of successful disguise of a transfer is one of the key factors cited by officials in assessing the conditions under which North Korea would transfer a weapon. The others were the amount of nuclear material available, and the availability of a buyer who would pay the D.P.R.K.'s high price.³³⁷ In their minds, given enough nuclear material, the D.P.R.K. would simply balance the potential gains from the sale with the potential risks of discovery in making its decision.

This research suggests that policymakers are correct to assume that it will be such a cost-benefit calculation rather than any general normative aversion to terrorism or criminal activity that will determine the D.P.R.K.'s decision. Given the difficulty of extrapolating from criminal activity to nuclear smuggling, however, further research is

³³⁵ Sanger, David E., and William J. Broad. "Tests Said to Tie Deal on Uranium to North Korea." *New York Times*. 2 February 2005.

³³⁶ Kessler, Glenn, and Dafna Linzer. "Nuclear Evidence Could Point to Pakistan." *Washington Post*. 3 February 2005.

³³⁷ A 2003 assessment by the Bureau of Intelligence and Research (INR) in the State Department reportedly concluded that North Korea would be more likely to export nuclear material as more plutonium is produced. Pyongyang would be "most likely to export nuclear material if it has more fissile material than it believes it needs for deterrent purposes and if it perceives little risk" of such a transaction being detected. Kerr, Paul. "U.S. Pushes to Restart North Korea Talks." *Arms Control Today*. May 2005. Available online at http://www.armscontrol.org/act/2005_05/NK_Talks.asp

needed to determine the conditions making a transfer more and less likely. For example, although agreement existed among policymakers that a threshold amount of nuclear material would have to be present for the D.P.R.K. to be willing to put some of it up for sale, officials differed on what amount that would be. In general, however, their consensus that there was a baseline argues for the urgency of nonproliferation objectives. Since the likelihood of a transfer increases as North Korea's stockpile of material and/or weapons grows, the potential harvesting of plutonium suggested in recent news articles is doubly troubling. Not only does it increase North Korea's arsenal, but it will also increase North Korea's willingness to export that material to others.

For that reason, policymakers must consider all ways to alter the D.P.R.K.'s cost-benefit analysis vis-à-vis nuclear transfer. These might include clearly stating that the transfer of nuclear material is a "red line"; making a strong case that the D.P.R.K. would be unable to conduct such a transfer undetected; and weakening buyers' desire to purchase a nuclear weapon from North Korea. The latter of these is too complicated to be discussed in depth here, touching as it does on a comprehensive framework for United States' nonproliferation policy. Despite that, this author wanted to raise the point, as it may be dissuading buyers, or lowering the price they are willing to pay, which in the end prevents a nuclear transfer.³³⁸

Policymakers must also consider the argument, however, that curtailing the North Korean regime's other illicit income may in fact make them more desperate to obtain hard currency through a nuclear sale, and that the goal should be to reduce North Korea's sense of economic desperation. If money is why the D.P.R.K. runs this activity, this arguments suggests, why not propose to the leadership that they cease criminal activity in exchange for economic assistance by the United States or its allies?

³³⁸ This is in the case of state-to-state transfer, and might apply differently to terrorist organizations such as al-Qaeda.

The counterarguments to this suggestion of a direct trade are several-fold. First, the political feasibility of paying North Korea for behavior which is understood by all parties to be illegal is highly questionable. As former Secretary of Defense William J. Perry noted in his 1998 review of the Clinton administration's North Korea policy, "the United States will not offer North Korea tangible 'rewards' for appropriate security behavior; doing so would both transgress principles the United States values and open us up to further blackmail."³³⁹ For the reasons he states, few if any American administrations would be willing to pay North Korea to cease its sponsorship of drug trafficking and currency counterfeiting.

Second, the North Korean regime is unlikely to see such a trade as attractive. It would require North Korea to confirm government sponsorship, something that the regime so far has vehemently denied. And the regime is unlikely to see such a political agreement as a reliable source of income. As this research has shown, the increase in criminal activity took place immediately following the signing of the Agreed Framework, suggesting that the promises of economic aid offered in the Framework were either insufficient or unreliable. The D.P.R.K.'s history of economic reform suggests that North Korea prefers to finance its hard currency needs via illicit activity, or through one-of-a-kind economic projects, such as the Mt. Kumgang tourist visits, which can be isolated from the rest of the North Korean economy.^{340 341}

³³⁹ Quoted in Perry, William J. "Crisis on the Korean Peninsula: Implications for U.S. Policy in Northeast Asia." Remarks delivered at the Center for International Security, Stanford University, Stanford, California on 4 January 2003, and at the Brookings Institution, Washington, D.C., on 24 January 2003.

³⁴⁰ Noland, Marcus. *Avoiding the Apocalypse*. Washington, DC: Institute for International Economics. 2000. Indeed, there are implications, although no concrete proof, that criminal activity was a component of North Korea's plans for economic reform. In developing its first Special Administrative Region at Sinuiju, North Korea chose as the chief executive Yang Bin. Yang, ranked as the second wealthiest man in China by Forbes magazine in 2001, was detained soon after the announcement and formally charged by Shenyang authorities in December 2002 for economic crimes including fraudulent investment schemes and contracts, bribery, and illegal occupation of farmland. "Chinese Police Formally Arrest Tycoon Yang Bin." Asian Economic News. 2 December 2002. Available online at www.findarticles.com/p/articles/mi_m0WDP/is_2002_Dec_2/ai_94754544. In July 2003, he was sentenced to 18 years in prison and fined 2.3 million yuan (US\$ 277,100).

On the North Korean side, the same logic may apply to the current nuclear negotiations. U.S. officials have argued that the 6-party process should give North Korea an option for engagement and economic assistance, however unpalatable, that will prevent the level of desperation commensurate with a nuclear transfer. Other scholars have suggested that offering North Korea a way to repair its broken economy, or simply supplying economic aid, will bring North Korea to the negotiating table.³⁴² This research suggests, however, that past and current understanding of the economic incentive structure facing North Korea is incomplete, and must be revised to take criminal activity into account. It also suggests that commonly enumerated forms of economic leverage over the D.P.R.K. are more limited than might be supposed.

As discussed above, the D.P.R.K.'s ability to finance a large portion of its hard currency needs through illicit activity lowers the incentive for North Korea to pursue either legitimate means of finance (e.g. economic reform) or political engagement with the international community (i.e. negotiation). Criminal activity, which benefits the leadership and requires no reform or compromise with other governments, is consistent with the historic North Korean tendency to pursue such arrangements. Thus policymakers must at least consider the possibility that only economic benefits which minimize the need for reform will appeal to the North Korean leadership, and even those measures' desirability will be muted in the presence of continued income from illicit activity.³⁴³

³⁴¹ The July 2002 market reforms, a possible exception to this trend, have had limited success. Scholars such as Kang suggest that these reforms signal a willingness to change on the part of the North Korean leadership, but the history of the D.P.R.K.'s criminal activity suggests, rather, that these are a tactical adjustment. One U.S. official called them a "safety valve." Cha, Victor, and David Kang. Nuclear North Korea: a debate on engagement strategies. New York: Columbia University Press, 2003. Also author's interview, April 2005.

³⁴² For example, Mike O'Hanlon and Mike Mochizuki suggest a "grand bargain" including substantial conventional force reductions and gradually disbursed, monitored development aid, arguing that these will offer North Korean leaders the opportunity to pursue economic reform. O'Hanlon, Michael, and Mike Mochizuki. Crisis on the Korean Peninsula: How to Deal with a Nuclear North Korea. Washington: Brookings Institution and McGraw-Hill. 2003.

³⁴³ For an overview of past U.S. aid to North Korea, see Manyin, Mark E. "U.S. Assistance to North Korea: Fact Sheet." CRS Report for Congress. RL21834. 4 May 2004. See also Manyin, Mark E. "North Korea Aid." Congressional Research Service. Updated 10 February 2004. See also Hanrahan, Charles E.

This thesis does not provide any more optimistic predictions, however, for the success of coercive economic measures.³⁴⁴ Through its diversification of criminal activity, North Korea has developed a resilient and flexible form of finance on which official sanctions will have little effect. Therefore, economic sanctions or other coercive measures will also be limited in their effect unless they are revised to take into account North Korean illicit sources of finance. This does not mean that economic incentives or sanctions should be removed from the discussion, but policymakers should be realistic about their intended effect, and should be aware of the relationship between the licit and illicit parts of the North Korean economy.

The present administration is, as far as this author can discern, the first to understand the scale and significance of North Korean involvement in criminal activity, and to mount a coordinated strategy to counteract it. Under the Illicit Activities Initiative run by the Department of State, the United States began to gather information and coordinate activities to counter North Korea's pursuit of illicit revenue.³⁴⁵ U.S. government officials interviewed by this author differed slightly in their explanations of the role the Initiative plays in North Korea policy. One said, "I don't know if I would characterize it as part of the policy. It could be an instrument of policy. It's an intelligence project exercised to learn as much as we can about this activity. But the policy has been clearly stated: to end North Korea's weapons programs through

"Agricultural Export and Food Aid Programs." Congressional Research Service. CRS Issue Brief for Congress. IB98006. Updated 3 May 2004.

³⁴⁴ For an overview of current U.S. sanctions against North Korea, see Rennack, Diane E. "North Korea: Economic Sanctions." Congressional Research Service. RL31696. 24 January 2003. See also Rennack, Diane E. "Economic Sanctions and Incentives." Congressional Research Service. Updated 27 February 2004. See also "Overview of State-Sponsored Terrorism." In *Patterns of Global Terrorism*. U.S. Department of State. 30 April 2001.

³⁴⁵ The Illicit Activities Initiative was mentioned by then-Assistant Secretary of State for East Asian and Pacific Affairs James Kelly, who said, "To address trade in counterfeit currency and illicit narcotics, we are developing an Illicit Activities Initiative in cooperation with a number of other nations." Kelly, James A. Testimony before the Asia and the Pacific Subcommittee of the House International Relations Committee. 2 June 2004. The Initiative is also mentioned in a 2003 New York Times article, which described it as "a quiet crackdown by many nations against the North's narcotics trade, counterfeiting, money laundering, and other efforts to earn hard currency." Weisman, Steven R. "U.S. to Send Signal to North Koreans in Naval Exercise." *New York Times*. 18 August 2003.

multilateral diplomacy.”³⁴⁶ Another official noted that operationally, the initiative and the nuclear negotiations are not related: the U.S. government would pursue counterfeiters and drug traffickers even if the nuclear problem was solved tomorrow. Conceptually, however, this official noted that the link between the issues exists in so far as the administration believes that, if the revenues coming from illicit activity can be halted while options for legitimate commerce are presented through negotiation, negotiation will become more desirable to North Korea.³⁴⁷

There are reports that the Bush administration is seeking to expand its scrutiny and interdiction of North Korea, as negotiations appear to have stalled and concerns mount that North Korea is preparing for further weapons development or a test. On April 25, the *New York Times* reported that the administration is debating whether to seek a U.N. resolution enabling the interception of ships moving in and out of North Korean waters. In addition to policing North Korea’s maritime borders, the Times reported, several American and Asian officials said that “the main purpose would be to give China political cover to police its border with North Korea, the country's lifeline for food and oil. That border is now largely open for shipments of arms, drugs and counterfeit currencies, North Korea's main source of hard currency.”³⁴⁸

Convincing China to crack down on North Korean illicit activity, although attractive in theory, poses several more complicated questions in practice. The first is whether the Chinese central government, even if it agrees to more stringent patrolling, will be able to enforce its agreement. The United States has so far had limited success in addressing the problem of intellectual property rights in China, and would need to do so if it is to curtail the apparent shift to cigarette and pharmaceutical counterfeiting on the part of North Korea.

³⁴⁶ Author’s interview with a U.S. government official. March 2005.

³⁴⁷ Author’s interview with a U.S. government official. March 2005.

³⁴⁸ Sanger, David. “White House May Go to U.N. Over North Korean Shipments.” *New York Times*. 25 April 2005.

It does not appear, however, that the current administration has fully internalized awareness of North Korean criminal activity and altered its understanding of the incentive structure to be reflected in U.S. policy toward negotiations. For a crackdown on illicit activity to have the effect that officials say they desire on the North Korean incentive structure, it must go hand in hand with a decline in aid from other countries. Although Japan has restricted remittances and tightened shipping controls (thereby reducing trade with North Korea)³⁴⁹, aid and trade from South Korea and China have *increased* in the past two years. The result has been to offset Japan's decrease and the constriction of illicit activity.³⁵⁰ Any attempt to put economic pressure on North Korea must make sure it clearly coordinates measures to address both the legitimate and illicit economy, otherwise the resources put into each will only counteract the other. So far the administration's left hand appears not to have known what the right hand was doing, with the result that efforts on both the diplomatic front and measures to curtail illicit activity have had less effect than if applied in a coordinated fashion.

There are two important potential objections to the argument laid out in the above paragraph. Cutting legitimate aid to North Korea may very well increase their reliance on illicit activity. In this case, the goals of cutting down on illicit activity and altering the incentive structure for North Korea are partially in conflict. However, this tension would be partially ameliorated if aid from China and South Korea were conditioned on certain behaviors (such as participation in the 6-party process), rather than unconditional aid as is currently being given. Structured this way, aid could work *with* pressure on illicit activity

³⁴⁹ "Remittance Law Reinterpreted: Cash transfers to Pyongyang may be suspended as deterrent." *Yoimiuri Shimbun*. 19 May 2003. See also "Money Transfer to N Korea from Japan Tumbles in FY03." *Nihon Keizai Shimbun, Inc.* 12 February 2005. Available from *Nikkei Net Interactive*, www.nni.nikkei.co.jp/cgi-bin/print.cgi. For

³⁵⁰ Faiola, Anthony. "Despite U.S. Attempts, N. Korea Anything But Isolated." *Washington Post*. 12 May 2005. p. 18. According to the article, "North Korea's foreign trade increased 22 percent in two years, from \$2.9 billion in 2002 to \$3.55 billion in 2004; these levels are the highest since 1991." In terms of aid, China's oil shipments to North Korea have reportedly increased 20% in the first quarter of 2005 compared to the same period last year. Kahn, Joseph, and David E. Sanger. "China Rules Out Using Sanctions on North Korea." *New York Times*. 11 May 2005.

to encourage economic development and/or negotiation, rather than merely countering U.S. attempts at constriction. Second, some have suggested that were China to cut aid to North Korea, it would lose the leverage it currently has over North Korean behavior. While it is currently believed that China is pressuring North Korea not to test a nuclear weapon, China's "leverage" has not been successful in coercing North Korea's return to the talks. This suggests that China's ability to influence North Korea is either restrained by their desire to maintain the regime's stability, or less powerful than many American policymakers suggest. In short, worries about China losing leverage are beside the point if Chinese leaders are unwilling or unable to exercise that leverage in a manner compatible with U.S. interests.

Even if a coordinated, complete effort is made to alter North Korea's incentive structure and convince it to negotiate, this is no guarantee that negotiations will be successful. North Korea's deliberate, long-term pursuit of criminal activity indicates that international norms regarding legality and, more broadly, desirable state behavior are less relevant to North Korea than might otherwise be expected. Indeed, it appears that normative judgments upon the D.P.R.K. which are not linked to any more substantive threats or inducements have little effect upon North Korean behavior. It is sometimes stated that North Korea desires the approval of the international community, or slightly more concretely, political normalization.³⁵¹ Unfortunately, this author can find little ground to substantiate that assessment unless international approval and normalization are linked to more tangible penalties or benefits which directly affect the D.P.R.K. leadership.

Hawks in Washington have sometimes cited North Korea's appalling behavior to suggest that the regime cannot or should not be negotiated with. Instead, they push for

³⁵¹ Author's interviews with South Korean experts. April 2005. See also Sigal, Leon. "North Korea is No Iraq: Pyongyang's Negotiating Strategy." *Nautilus Institute Foreign Policy Forum Online*. 23 December 2003. Available online at www.nautilus.org/fora/security/0227A_Siga.htm

strategies to undermine North Korea and move toward regime change. The entrenchment of criminal activity does seem to imply what one former U.S. official calls a “monumental cynicism” on the part of the D.P.R.K. toward international norms and the validity of international agreements. This has two implications. First, it reinforces the need for stringent verification measures as a part of any agreement concluded. Second, it suggests that agreements should be structured so that if the D.P.R.K. walks out or cheats after a few years, the resources and effort put into such an agreement will not have been totally wasted.

The information on criminal activity does not, however, lend credence to the argument that the D.P.R.K. does not deserve negotiation because it is irrational. In fact, D.P.R.K. behavior when it comes to criminal activity follows a discernible logic, creating the patterns described in previous pages. And as far as international norms are concerned, this research reveals an almost-contradictory attitude on the part of North Korea. On one hand, it operates in perpetual violation of international norms and conventions on criminal activity, but on the other it cares enough about international censure to mask its involvement and issue fervent denials. Whether this concern is a result of North Korea’s inherent respect for the will of the international community, or a pragmatic recognition of the market dynamics and political consequences involved, it remains that the D.P.R.K.’s criminal activity operates within certain rational limitations. It suggests an understanding of the tradeoffs involved in criminal activity and a desire to avoid certain penalties; this awareness can and should be exploited in negotiations rather than ignored.³⁵²

³⁵² Further information on negotiating with North Korea is contained in several studies. See Snyder, Scott. Negotiating on the Edge: North Korean Negotiating Behavior. Washington: United States Institute of Peace. 1999. See also Sigal, Leon. Disarming Strangers: Nuclear Diplomacy with North Korea. Princeton: Princeton University Press. 1998. See also Downs, Chuck. Over the Line: North Korea’s Negotiating Strategy. Washington: The AEI Press. 1999. For a detailed account of the 1993-4 crisis and negotiations, see Wit, Joel S., Daniel B. Poneman, and Robert Gallucci. Going Critical: The First North Korean Nuclear Crisis. Washington: Brookings Institution Press. 2004.

On a pragmatic note, this research suggests that while negotiation is more difficult than sometimes understood, so too would be the possibility of provoking a “regime collapse,” the desired policy prescription of some hawks in the policymaking community. The regime’s ability to draw on unconventional methods of finance to sustain itself, and to adapt such behavior in the face of supposedly robust “containment” measures, should add a degree of skepticism to the views of those who believe that the United States could induce a North Korean collapse.

Beyond North Korea: Examining Criminal States

In the words of one U.S. government official, the use of criminal activity by the D.P.R.K. government appears to be “without historical precedent.”³⁵³ Although various ministries and sub-state entities have been found to engage in illicit behavior before, it has been in cases of civil war,³⁵⁴ corruption,³⁵⁵ or bureaucratic freelancing.³⁵⁶ At the very least, state criminality has been predicated on assumptions about weak state institutions³⁵⁷ and often the state’s lack of a monopoly on force – the latter of which seems to be

³⁵³ Author’s interview with a U.S. government official. March 2005.

³⁵⁴ Andreas, Peter. “Clandestine Political Economy in War and Peace in Bosnia.” *International Studies Quarterly* 48: 29-51. 2004.

³⁵⁵ David Kang. Crony Capitalism: Corruption and Development in South Korea and the Philippines. New York: Cambridge University Press. 2002. More recently, two incidents have highlighted the problems with corruption as it relates to cocaine trafficking into the United States. In the first incident, five American soldiers were arrested last week on charges of smuggling cocaine on U.S. military aircraft from Colombia, while two Green Berets were arrested for allegedly selling ammunition to what the *Miami Herald* characterized as “right-wing death squads.” In the second incident, an FBI-led task force caught 16 suspects who used government positions (reportedly including the U.S. Army, the Arizona Army National Guard, the U.S. Bureau of Prisons, the Arizona Department of Corrections, the local police department in Nogales, Ariz., and the immigration and naturalization service) to smuggle cocaine from Mexico. See Housego, Kim. “Ambassador Asked to Appear Before Congress.” *Miami Herald*. 12 May 2005. See also Vartabedian, Ralph. “U.S. Soldiers, Law Officers Snared in Border Drug Sting.” *Los Angeles Times*. 13 May 2005.

³⁵⁶ Mulvenon, James. Soldiers of fortune : the rise and fall of the Chinese military-business complex, 1978-1998. Armonk: M.E. Sharpe. 2001. See also Cheung, Tai Ming. China’s Entrepreneurial Army. Oxford: Oxford University Press. 2001. According to the Pakistani government, the role of A.Q. Khan and KRL research laboratories is another such example, although most experts contend that this is unlikely. Powell, Bill, and Tim McGirk. “The Man Who Sold the Bomb.” *Time*. 14 February 2005. pp. 22-31.

³⁵⁷ Discussed at length in Fukuyama, Francis. State-Building: Governance and World Order in the 21st Century. Ithaca: Cornell University Press. 2004.

patently untrue in the case of North Korea.³⁵⁸ This author has been unable to find another state in which criminal activity – or any transnational network – has been so deliberately, systematically, and carefully embedded into the incentive structure of a modern state system. What are the implications for the existence of a criminal state?

As a result of the former consistency of correlation between state weakness and criminal activity, such activity has been *a priori* considered antithetical to rather than compatible with the interests of the modern sovereign state.³⁵⁹ North Korea calls into question the veracity of this assumption and the conclusion that criminality is the natural result of weak state function. The D.P.R.K., a strong state which exercises both domestic and international legal sovereignty, has appropriated tools and functions not normally employed by states. It has deliberately drawn on transnational networks to do the work most difficult for its state apparatus to pursue, while limiting the interaction of the transnational network with its domestic power structure. Inside North Korea, this arrangement appears to have bypassed many of the problems and internal disruptions which arise from the penetration of transnational networks into a state structure.³⁶⁰ In the international environment, it suggests that the use of transnational organizations may have the effect of enabling a state to survive beyond the means of its own domestic capabilities, and project influence disproportionate to its otherwise weak national power.

³⁵⁸ Even Bruce Cumings, who generally takes a more nuanced and sympathetic approach to North Korea, begins his most recent book with a discussion of North Korea as a “garrison state.” Cumings, Bruce. North Korea: Another Country. New York: The New Press. 2004.

³⁵⁹ As Stephen Krasner writes, “Sovereignty failures may also present problems in the area of transnational criminality.” Drug trafficking, human trafficking, and humanitarian crises are all a result of the failure of domestic sovereignty, not a deliberate choice by a national authority structure capable of exercising domestic, Westphalian/Vatellian, and international legal sovereignty effectively. Krasner, Stephen D. “Sharing Sovereignty: New Institutions for Collapsed and Failing States.” *International Security* 29(2): pp. 85-120. Fall 2004.

³⁶⁰ At least so far. Whether North Korea will be able to maintain such an advantageous separation of transnational crime from its domestic politics remains to be seen, and is in part dependent on the way the activity has been structured inside the D.P.R.K. A system which relies on organizational autonomy may disintegrate faster than one which is highly centralized.

The North Korean case therefore calls for a reconceptualization of the relationship between nation-states and criminalization, as well as between nation-states and transnational illicit activity more broadly. Rather than conceiving of the phenomenon as the result of internal state vulnerability, scholars might consider examining transnational activity as a tool for overcoming *external* state weakness. Policies toward failed states, which generally seek to strengthen state institutions, are clearly inappropriate. Some other method must be devised to deal with state-sponsored criminal activity. The North Korean case suggests that advice on such an approach may be found by integrating the literature on asymmetric conflict and bargaining to that of criminal organizations.

To apply the above literature and develop this approach, future research should pursue a more thorough comparison of the way in which the North Korean system has embedded criminal activity to other cases where the state uses criminality. Rather than depicting state weakness as the necessary precondition for the emergence of transnational organized crime, attention should be paid to intentional employment of criminal transnational organizations as a tool of regime maintenance for strong or autocratic regimes, as well as to transnational networks' ability to find and draw on resources made available by the presence of state sponsorship. Understanding North Korea's place in the process of state development and resource extraction may shed light on cases as diverse as Burma, Mexico, certain African countries, or even Japan, where the close or symbiotic relationship between government and crime has been repeatedly noted.³⁶¹ In a world where governance problems abound and transnational networks are being newly recognized as a security threat, more research must be done to satisfactorily understand the full range of environments where such linkages can be made, and the implications of this variation for policy design.

³⁶¹ In Japan, for example, the LDP enlisted some 28,000 yakuza to provide security for President Eisenhower's visit. See Lintner, Bertil. Blood Brothers: The Criminal Underworld of Asia. New York: Palgrave Macmillan, 2003.

Appendix A: Timeline³⁶²

- 1950** In June, North Korean invasion begins Korean War.
- 1953** Armistice signed in July halting Korean War.
- 1954** North Korean troops reportedly establish Biological and Chemical Weapons teams.
- 1955** Kim Il Sung proclaims Juche (self-reliance) as the guiding principle of North Korean politics and culture.
- 1956** Juche is applied to the North Korean economy.
- 1957** Chollima campaign manpower mobilization campaign is launched.
- 1958** North Korean agents hijack a South Korean airliner en route from Pusan to Seoul.
- 1959** The Soviet Union and North Korea sign a nuclear cooperation agreement.
- 1961** In July, Soviet Union and North Korea sign Treaty of Friendship, Cooperation, and Mutual Assistance committing each to the defense of the other. Followed five days later by a Treaty of Friendship, Cooperation, and Mutual Assistance with the People's Republic of China.
- 1967** North Korea extends its deadline on 1961 7-Year Plan, which outside analysts interpret as a failure to meet targets set in the plan.
- 1968** 31-member North Korean commando team stages an unsuccessful raid on South Korea's Blue House. Two days later, North Korean forces seize the American vessel *Pueblo* in international waters.
- 1969** In April, a U.S. Navy reconnaissance plane is shot down by North Koreans. In December, North Korea hijacks a South Korean airliner en route from Kangnung to Seoul.
- 1970** In March, North Korea provides sanctuary to 9 members of the Japanese Red Army, who hijacked a Japanese airliner to Pyongyang.
- 1971** In January, North Korea stages an unsuccessful attempt to hijack a Korean Airline plane en route from Seoul to Sokcho. Red Cross talks are held between the two

³⁶² Sources: Noland, Oh and Hassig, Oberdorfer, Cumings, Nanto, [North Korea's Weapons Programmes](#), Nuclear Threat Initiative website.

Koreas.

- 1972** North and South Korea sign a joint communiqué agreeing to achieve unification through independent efforts, peaceful means, and national unity.
- 1973** International oil shock, prices skyrocket. North Korea terminates dialogue with South Korea.
- 1974** In August, an assassination attempt on President Park Chung Hee by a man linked to a pro-North Korea group in Japan leaves Park's wife and one other civilian dead. In November, the first infiltration tunnel under DMZ is discovered. Sometime this year, a foreign currency earning campaign is launched by the regime.
- 1975** The North Korean government becomes the first (only) communist government to default on its international debt. It requests money from pro-D.P.R.K. groups in Japan. That year it also joins the Non-Aligned Movement (NAM) in August. In March, the second infiltration tunnel under the DMZ is discovered.
- 1976** In August, North Korean soldiers attack a contingent of Americans trimming a tree in the D.M.Z.
- 1977** President Carter announces his intention to withdraw U.S. troops from Korea.
- 1978** South Korean film-director and his actress wife are kidnapped from Hong Kong and taken to Pyongyang. A third North Korean infiltration tunnel is discovered under the D.M.Z., with the capacity to transport 30,000 armed men with light artillery per hour.
- 1980** U.S. detects construction of a 5MW(e) reactor at Yongbyon.
- 1981** North Korean agents hire two Canadians for \$600,000 to assassinate President Chun Doo Hwan, during a visit in July 1982 to the Philippines. The suspects testify in Canadian court in 1984 and are convicted and sentenced to 1-2 years.
- 1983** In October, a North Korean commando team executes a bombing in Rangoon in October that kills 17 senior South Korean cabinet members and government officials. Japan applies sanctions over the terrorism instigation. In response, North Korea stops payment on its debt.
- 1984** Almost all foreign debt payments halt at \$5.2 billion. The Foreign Joint Venture Law is promulgated. Construction of a 50MW(e) reactor begins.
- 1985** China's trade with South Korea surpasses its trade with the North. Japan lifts sanctions imposed in 1983. North Korea accedes to Non-Proliferation Treaty.

- 1986** Another debt rescheduling fails and Western creditors declare it in default; they seek to seizure North Korean assets. The kidnapped film couple from South Korea escapes from Vienna. An explosion at Kimpo International Airport attributed to North Korean agents kills 5. Construction begins on the 5MW(e) reactor (plutonium).
- 1987** A bomb planted by North Korean agents leads to the explosion of a Korean Airlines flight, killing 20 crew and 95 passengers en route from Baghdad to Seoul. North Korea accedes to the Biological Weapons Convention.
- 1988** The State Council reportedly debates ways to solve the country's economic difficulties. The Olympics are held in Seoul, and both China and Russia participate. The U.S. places North Korea on the State Sponsors of Terrorism list.
- 1989** Sometime this year or in 1990, North Korea shuts down its 5MW(e) reactor to remove damaged fuel rods. Estimates of reprocessing lead to U.S. intelligence estimates that North Korea possesses the material for 1-2 nuclear weapons. Construction of a 200 MW(e) reactor begins.
- 1990** In March, the fourth infiltration tunnel under the D.M.Z. is discovered. In September, the U.S.S.R. and South Korea normalize relations. In November, the Soviet Union ends barter trade agreements with its allies, announcing that it will switch to a hard currency basis in 1991. Russia also demands debt repayment valued at \$4.6 billion.
- 1991** China announces that trade with North Korea will move to a cash basis at world prices starting in 1993. A foreign economic trade zone opens in December in Najin-Songbong. Japan and North Korea begin government-to-government discussions to explore diplomatic relations. In September, the U.S. announces the removal of all land- and sea-based tactical nuclear weapons from overseas locations, including South Korea. In December, North Korea signs the Basic Agreement and Joint Declaration of a Nuclear Free Korean Peninsula with South Korea.
- 1992** China normalizes relations with South Korea. Talks with the U.S. begin on the nuclear issue. North Korea signs a full-scope safeguards agreement and I.A.E.A. inspections begin. U.S. and South Korea suspend Team Spirit exercises, but announce their resumption as bilateral talks stall and U.S. detects efforts to conceal underground waste sites. Talks with Japan break off in November. In October, South Korea uncovers a 400-member spy ring in Seoul directed by a Party official. North Korea issues new currency to eliminate currency overhang and reduce profits from black marketeering, and passes foreign investment laws.
- 1993** U.S.-ROK Team Spirit Exercises resume. I.A.E.A. requests special inspects, then gives North Korea a one-month deadline. In March, North Korea announces its

intent to withdraw from the N.P.T. and is reported to the United Nations Security Council. In May, North Korea tests a No-Dong missile. First floods damage crops.

- 1994** In June, North Korea unloads the 5 MW(e) reactor. Kim Il Sung dies in July, the day that the North Koreans and the United States reach a compromise in the form of the Agreed Framework (signed in October). Yeltsin announces that the mutual defense treaty committing Russia to the D.P.R.K.'s defense will be revised.
- 1995** KEDO is established, and the Light-Water Reactor supply agreement is concluded. Natural disasters, famine, and food shortages occur. North Korea requests food assistance from the international community. Mutual defense treaty with Russia lapses. By this time, No-dong missile exports to Iran have begun.
- 1996** In September, a submarine incident occurs involving 26 North Korean infiltrators. In October, a South Korean diplomat is murdered in Vladivostok, allegedly by North Korea.
- 1997** Abduction issue emerges prominently in Japan-D.R.P.K. relations. In February, two days after defection of high-level official Hwang Jang-Yop, hit men believed to be North Korean agents assassinate the Kim Jong Il's former wife's nephew, who had defected in 1982. In November, a six-member North Korean spy ring is uncovered in Seoul. President Kim Dae Jung elected for a five-year term and announces his "sunshine policy" toward the D.P.R.K. This is the time when a deal between Pakistan and North Korea, ostensibly missiles for uranium enrichment assistance, was concluded.
- 1998** The Ministry of Foreign Trade is established, reportedly to increase control over foreign trade. The number of trade organizations is reduced from approximately 100 to approximately 30. People's markets are also reined in. In August, North Korea conducts test firing of the medium-range Taepo-dong 1 missile over Japan. Discussions begin with South Korea's Hyundai company over the Mt. Kumgang tourist project. Kumchang-ni site is reported as potential nuclear facility. In November, former Secretary of Defense William Perry begins a comprehensive review of U.S. policy towards North Korea.
- 1999** Kim Jong Il reportedly tells Choch'ongnyon to be less of a North Korean mouthpiece and more of an intermediary. Kumchang-ni, when searched, appears to be empty. Pyongyang agrees to a missile test moratorium.
- 2000** In March, North Korea rejects a US request that it stop providing shelter to the Red Army terrorists from Japan. North Korea signs a Treaty of Friendship (without security guarantees) with Russia. In June, Kim Jong Il and Kim Dae Jung hold a summit in Pyongyang. In October, U.S. Secretary of State Madeleine Albright visits Pyongyang, and the U.S. and D.P.R.K. issue a joint statement agreeing to oppose all forms of terrorism. Conversations occur over a missile

agreement.

- 2001** In January, President George W. Bush takes office and begins a policy review. In March, Kim Dae Jung visits Washington. In a June policy review, the United States commits itself to continuing the Agreed Framework, but states that negotiations should pursue a “broad agenda.”
- 2002** Clash between North and South Korea’s naval forces prompts delay in James Kelly’s visit and discussion of a “bold approach.” In September, during Koizumi’s visit to Pyongyang, North Korea admits to and apologizes for kidnapping 11 Japanese citizens in the 1970’s and 1980’s. In October, James Kelly goes to Pyongyang, and the current nuclear standoff begins. In November, fuel oil shipments are suspended. In December, a North Korean ship en route to Yemen is stopped bearing Scud missiles, then released. In December, North Korea unfreezes its 5MW(e) reactor and resumes construction on the larger reactors, removes I.A.E.A. surveillance cameras and seals, expels inspectors, and announces intent to resume reprocessing. North Korea institutes some market-based economic reform measures.
- 2003** On January 10, North Korea announces its withdrawal from the NPT. In February, the I.A.E.A. refers North Korea to the United Nations Security Council. On Feb. 24, just before the inauguration of President Roh Moo Hyun, North Korea test-fires a short-range antiship missile into the Sea of Japan. It does the same on March 10. Also in March, North Korean fighters harass a U.S. reconnaissance plane in international waters. In April, Three-Party talks are held in Beijing. On May 31, the United States announces the Proliferation Security Initiative. North Korea nullifies the North-South DeNuclearization Declaration. Six-Party talks are held in Beijing in August. In October, North Korea announces it has completed reprocessing
- 2004** Nuclear standoff continues. Two more rounds of Six-Party talks are held, with no successful agreement.
- 2005** In February, North Korea announces that it has manufactured nuclear weapons. In April, it shuts down the 5 MW(e) reactor and declares that it will extract the spent fuel. In May, U.S. intelligence agencies debate signs that North Korea may be preparing for a nuclear test.

Appendix B: Incidents of North Korean Involvement in Drug Smuggling

Date	Location	N. Koreans involved	Others involved	Drug type	Amt	Origin/ Notes	Source
1976	Scandinavia: Norway, Denmark, Finland, one more	Diplomats (17: 2 ambassadors, entire Norwegian embassy staff)	.	narcotics, cigarettes, alcohol	.	.	Kaplan
1976 May	Egypt	Diplomat	.	hashish	400 kg (880 lbs)	.	DEA; JIATFW; CRS
1977 Jan	Venezuela	Diplomats (3)	.	opium	174 kg	.	DEA; JIATFW
1977 May	India	Diplomat (Ambassador's secretary)	.	marijuana	15 kg	.	DEA
1979 Nov	Laos	Diplomat	.	heroin	15 kg	.	DEA; JIATFW
1980 Feb	Egypt	Diplomats (2)	.	heroin	400 g	.	DEA; JIATFW
1985 Oct	East Germany	Diplomat	.	heroin, morphine	150 bags (heroin) 150 kg morphine	.	DEA; JIATFW
1987 Mar	Nepal	Diplomats	ties to Indian national	cocaine	75 g	Discrepancy	DEA says 75g; JIATFW says 75kg
1988 Jan	New York	North Koreans in Macau	Hong Kong drug traffickers	heroin	1-200 lbs	No NK production yet	Dobson
1990 Mar	Maritime Indonesia	NK-registered vessel Aeun Chung Ryon	.	marijuana	.	.	DEA; JIATFW
1990 Sept	Japan	NK Resident aliens (2)	Japanese national	ephedrine, morphine mixtures	1.5 kg (ephedrine) 11 kg (morphine mix)	smuggled 85-6	DEA; JIATFW
1990 "late"	Russia	Lumberjacks from Hamhung City assigned to Forestry Mission	.	opium	1 kg	.	DEA; JIATFW
1991 March	Sweden	Diplomat (assigned to Czech Republic) and wife	.	heroin	2 kg	.	DEA; JIATFW

1991 Dec	Japan	Intelligence Officers (3) and merchant ship Man-gyongbong-Ho	.	morphine, opium	13.3 kg (morphine) 10 kg (opium)	.	DEA; JIATFW
1994 Feb.	South Korea	officials in Pyongyang	SK criminal and Asia Sharon crime ring; other SE Asian crime rings	heroin	100 kg	took place Apr. 1992- Nov. 1993	Dobson
1994 June	Russian-Korean border near Khasan, in Vladivostok	N. Koreans involved in joint venture: 1 in Social Security Ministry; 1 son of high-ranking official. Identified as Intel agents	involved in Russian-NK joint venture Moonlit	heroin	8.25 kg; reported access to metric tons more	for \$250,000. JIATFW says they were identified as Intel.	DEA; JIATFW
1994	Russia	State security agents (2)	.	heroin	18 pounds, (1st install for over 2 tons, 8 tons available)	Same as June incident? Unclear	Kaplan
1994 July	Russia	A North Korean - shoes	.	opium	200 g	.	DEA; JIATFW
1994 July	Shanghai, China	Embassy in China, Meaning trading company employee, accountant at Amur River National Development General Bureau (Shanghai branch)	.	opium	6 kg	.	DEA; JIATFW
1994 Aug	Russian Far East	Intelligence agent	Russian mafia	heroin	.	.	DEA; JIATFW
1994 "during"	China	State Security Department agents	.	opium and other drugs	.	.	DEA; JIATFW
1995 Jan	Shanghai, China	2 N Koreans: 1 w/dipl. passport was exec of Macao-based trading house run by Ministry of People's Armed Forces"	.	opium	6 kg	.	DEA; JIATFW
1995 Feb	Russia - Vladivostok	Non-diplomats (2)	.	heroin	8 kg	1st of 2.2 ton shipment	DEA; JIATFW
1995 July	Zambia	Diplomat	.	cocaine	2.4 kg	.	DEA; JIATFW

1995 July	Yonkil airport, China	North Koreans (several) - 1 agent of National Security and Intelligence Bureau	.	heroin	500g	Discrepancy	DEA/JIATFW say 500g; Kim YI says 500kg. JIATFW says "Public Security Ministry"
1995 Aug	Ethiopia	North Korean	.	cocaine	.	.	DEA; JIATFW
1995 Aug	Macao/Hong Kong	Eunhong trading company official	opium ring	opium	.	.	DEA; JIATFW
1995 "during"	Jilin province, China	Unknown	.	opium	10 incidents	.	DEA; JIATFW
1995 Aug	<i>import</i>	.	<i>From Germany through Chinese company</i>	<i>ephedrine</i>	<i>20 tons</i>	<i>Estimated 1.5 tons for medicinal use; rest for illicit meth production</i>	<i>DEA; JIATFW</i>
1996 Mar	Pusan, SK	Merchant vessel Choyang Land; NK consulate employee in Shenyang implicated	3 SK citizens	meth (Crystal)	6.3 kg	.	DEA; JIATFW
1996 Sept.	Artyem, industrial town N of Vladivostok, Russia	Agricultural- production workers (2)	.	opium	over 2 kg	.	Quinn-Judge
1996 Nov	Slavyanka, a Far Eastern settlement	Timber industry worker	.	opium (raw)	30 kg	Kim YI says "Hassan station, lumberjack, 22kg opium"	Quinn-Judge
1996 Nov	Vladivostok, Russia	Diplomat	.	opium	22 kg	Discrepancy - may be same as above	DEA; JIATFW says "KN cit identified as intel officer, timber ministry agent, forestry dept agent, diplomat"
1996 "during"	Russia	Diplomats, trade mission staff	.	opium	100 kg	.	JIATFW

1997 Apr	Hosojima port, Hyga City, Japan	Freighter Ji Song No.2 from Nampo; 3 subjects had ties to gov/mil	2 ethnic Korean residents operating trading co. Suspected yakuza involvement.	meth	60 kg	.	DEA; JIATFW
1997 May	Laos	Diplomat	.	unknown		.	DEA; JIATFW
1997 May	Koning province, China	8 North Koreans	.	heroin	900 g	.	DEA; JIATFW
1997 May	Dandung City, China	Businessman	.	meth	900 kg	.	Hwang, cites Gallucci testimony. Jamestown
1997 July	Havarovsk, Russia	Lumberjack	.	opium	5 kg	.	Hwang, cites Gallucci testimony. Kim YI
1997 Aug	Laos	Diplomat	.	unknown		.	JIATFW
1997 Sept	Partizansk, 100 km E of Vladivostok	a North Korean	.	opium	45 g	.	DEA; JIATFW
1997 Oct.	South Korea	NK source	SK drug ring	.	.	.	JIATFW
1997 Dec.	South Korea	NK source	SK drug ring members	meth	2.6 kg	.	JIATFW
1997 Dec.	Russia	NK citizens (2)	.	heroin	8 kg	.	JIATFW
1998 Jan	<i>import (from India - Bangkok)</i>	.	.	<i>ephedrine</i>	<i>2.5 tons (part of 8-ton shipment)</i>	<i>impounded for technical violation of notification on controlled substance, released Aug. 98</i>	<i>DEA; JIATFW</i>
1998 Jan	Sheremetevo Int'l Airport in Moscow, Russia	Diplomats (2)	smuggled through Mexico	cocaine	35 kg (77 lbs)	.	DEA; JIATFW
1998 Apr	Japan - maritime? Not sure	Freighter	.	meth	58.6 kg	.	CRS
1998 Summer	Russia	NK citizens (2)	.	opium	3 kg	.	JIATFW

1998 Aug	Japan - off Kochi prefecture	Ship	2 yakusa, Korean resident of China	meth	200 kg of 300 kg shipment	transported on NK vessel from Hungnam, transferred at sea to J fishing vessel Tamur Maru	DEA; JIATFW
1998 Sept.	South Korea	.	9 South Koreans	opium (raw)	218 g	NK-produced	DEA; JIATFW
1998 Sept.	China-DPRK border	NK soldiers (2)	.	heroin, meth	10 kg heroin, 5 kg. meth	.	DEA
1998 Oct	Berlin, Germany	Deputy ambassador	.	heroin	.	tied to weapons	DEA; JIATFW
1999 Jan	Khabarovsk, Russia	NK laborer	.	opium	1kg	.	DEA; JIATFW
1999 Feb	Seoul, SK	2 people	.	meth	600 g	Source NK. 40g seized; 600g imported; 2kg bought in China	DEA; JIATFW
1999 Feb	China	NK Consulate employee	accomplice hired to sell	opium	9 kg	Discrepancy - DEA says Shenyang in 1998 Dec. CRS dates 12 Feb. 1999. Are these different incidents? Unlikely.	JIATFW; CRS
1999 April 3	Sakaiminato City, Tottori prefecture	.	Chinese- flagged vessel Lin Yan Leng 2; 2 ethnic Korean yakuza members and ethnic Korean captain, SK organized crime figure, crew. Suspected brokers were J. organized crime.	meth	100 kg	Concealed in shellfish bags, origin NK. Chinese vessel pick up in NK, port call in SK where contacted SK crime figure to arrange delivery. Driver arrested delivering 1kg, ship search revealed 99 more.	DEA; JIATFW. Pomfret dated April 13, cited as 220 pounds arrived from Hungnam.

1999 April	Japan	.	.	meth	300 kg	Same chemical makeup as other NK-related seizures. 19 kg discovered on beach in Kyushu on 5th April. Later linked to 180 kg. recovered from car in Kyoto in June.	JIATFW
1999 May 3	Taiwan	picked up in NK waters	4 "members of a Taiwanese drug organization" T. vessel Pei Dao 1	meth	157 kg	First believed NK source; later thought China. Sea transfer off NK coast.	DEA; JIATFW
1999 July	Tolmachevo airport, Novosibirsk, Russia	NK citizens (2)	.	heroin	2 kg.	.	DEA
1999 July	Maritime Kray, Nakhodka, Russia	NK businessmen (2) at NK trading company "Zenko-20"	.	.	opium	Russian authorities believed trading company acted as transshipment point	DEA
1999 Oct 3	Kurose Beach, Kagoshima Prefecture, southern Kyushu, Japan	.	Taiwanese ship Xin Sheng Ho; Taiwanese, HK Chinese, and Japanese arrested. Sale to J. organized crime.	meth	565 kg	part of 1999 total; J and HK say source NK; T says Ch. Crew said they got it from NK boat off Nampo	DEA (says 616kg); JIATFW says 565

2000 Feb	Yunostu, Japan	picked up in NK waters	Japanese ship Eifuku Maru; 4 J. individuals arrested	meth	250 kg	NK source. NK drug dealers and Kansai-based Yakuza met overseas to smuggle; ethnic Korean pres of trading firm acted as go-between and supervised transfer off Wonsan. Remittance from trading co. of \$381,000 as down payment.	JIATFW
2000 Dec	Taiwan	.	.	heroin	134 kg	origin - NK	Hwang, cites INCSR 2000
2001 Feb	Japan	Ship	Yakusa and Chosen Soren trading co.	amphetamine-type stimulant	250 kg	Discrepancy - date	Hwang, cites 2000 INCSR; Perl dates Feb. 5, 2000
2001 Apr	Taiwan	.	.	meth	65.6 and 42 kg	origin - NK	Hwang, cites 2002 INCSR
2001 May	?	.	ethnic Korean w. Chinese citizenship	meth	30 kg	origin NK	Hwang, cites 2002 INCSR
2001 summer	"triangle of water in the Yellow and East China seas between Japan, Taiwan, and North Korea"	linked to NK	smuggling ring	heroin	70 kg (154 lbs)	.	Yamaguchi
2001 Oct/Nov	Filipino territorial waters	Contact w. NK ship	Unknown nationality ship detained	meth	800	2 incidents: 500 + 300 kg	CRS
2001 Nov	Pusan, SK	.	Chinese ship ChuXing (see June 2003)	meth	91 kg	container from Najin	INCSR
2001 Dec 22	Japan? - maritime	NK vessel - photo'd in 1998 bringing drugs in	sank	Unknown	amt unknown	.	CRS

2002 Jan 6	Japanese territorial waters off coast of Fukuoka	Officials involved in transfer at sea W of Pyongyang	Chinese ship	meth	150 kg	.	Hwang, cites 2002 INCSR, CRS
2002 June/Jul	Taiwan	.	9 men - local crime group	heroin	79 kg (200 in last 4 months)	.	CRS, Hwang, cites 2003 INCSR. Solomon and Dean list 174 pounds (bricks) at Shen Au port
2002 Nov/Dec	Japan	.		meth	500 pounds	Origin NK	CRS
2003 Apr 20	maritime, near Australia	Cargo ship; Political Secretary of CWP	2 Malaysians, 1 Singaporean, 1 Chinese in Australia	heroin	125 kg	Double UOGlobe brand produced in Myanmar. Source debated.	INCSR 2004; CRS
2003 June	Pusan, SK	.	Chinese vessel ChuXing (Nov. 01)	meth	50 kg	stopped in Najin; origin China	INCSR?
2004 Feb.	Seoul, SK	.	17 South Koreans; Chinese ring distributed	meth	5.4 kg	Origin NK	"17 Arrested for Smuggling NK Drug"
2004 Mar 1	Jilin province, China (borders NK)	North Koreans	.	Unknown	.	Origin NK	Muramatsu

Appendix C: Incidents of North Korean Involvement in Counterfeiting

Date	Location	Type/Amount	Persons Implicated	Notes	Source
1989	Philippines	.	.	.	USSS
1994 July	Macau	Macau USD180,000; Hong Kong - USD250,000	5 total; 2 w. Diplomatic passports; Zokwang Trading Co. and one more trading co.; NK trade mission at consulate in Guangzhou and trade mission in Zhuhai also involved	.	Rufford and Adams, MacPherson
	Japan	USD	4 Japanese businessmen; said they got \$ from major bank in Zhuhai	.	MacPherson
1996 July	Thailand/Cambodia (Stopped at Vietnamese border)	USD \$100 bills, \$200,000 (1,238 \$100 bills in office)	former member of Japanese Red Army Yoshimi Tanaka, traveling on DPRK diplomatic passport with 2 diplomats in NK car	business partner also arrested in Thailand for passing fake currency	DEA; CRS
1996 Dec.	Mongolia	\$110,000 in counterfeit bills	Embassy employees (2)	Counterfeits identical to those found in Chogwang Trading Co.	JIATFW; ROK Monthly
1997 Feb	Moscow, Russia	USD \$100,000	3rd Secretary of Embassy	.	DEA; CRS
1998 April	Russia	USD 30,000	Trade attache Kil Chae- kyong, Deputy Director for Int'l Dept of KWP; believed attached to Bureau 39 and personal secretary in charge of secret funds for Kim Jong Il.	Had been diplomat assigned to Sweden in 1976, expelled for illegal activity	DEA
1998 late Dec	Macau	USD 100,000	Senior Zokwang Trading Co. executive	.	Pomfret
1999 Jan	Macau	USD 400,000	Zokwang Trading Co. officials	.	Pomfret
1999 March	branch of NK Bank of Trade in Zhuhai	USD 120,000	Diplomatic courier	.	.
2000 May	German- Czech border	USD 250,000	.	.	Kealy

2000 June	Britain	27m GBP or \$27m	former KGB agent; Official IRA man; 2 more English criminals. Sean Garland, Worker's Party boss	May be biggest of case in history. OIRA-E. Europe story: CF may have moved out of Russia to Denmark and then NK. (Some presses found in Ireland for smaller bills.)	Superdollar Plot; Kealy
2004 July	Guam	unknown amount	"network"	also cigarettes, pharmaceuticals	Balfour
2004	Shanghai, China	unknown	.	.	.

Appendix D: Other Illicit Smuggling by North Koreans

Date	DPRK Involvement	Location(s)	Product/Quantity	Notes	Source
early 1980's	Diplomats (5)	Zimbabwe to Zambia	rhino horns	.	Dobson
1980's (left 1988)	Defector Kim Jeong Min: diplomat	Africa	gems and Western currency (French francs, US dollars, and S African diamonds)	Claims cleared \$80mil profit	Kaplan
1986	Commercial Attache Kim Tae-song	Harare to Pyongyang	40 kg. rhino horn; then bought 30 kg more	.	Dobson
1987	Kim Min-san	Africa/N. Yemen	"large amount" of rhino horn	.	Dobson
1988	Lim Tae-dok	Africa, Addis Ababa, Yemeni official	rhino horn	.	Dobson
1988	Chong In-song, 3rd Secretary at Harare embassy	Harare, Mozambique	rhino horn	"attempted to recruit, arm, and finance 8-man team to poach in Mozambique in 1988." Also believed to have gotten 10 horns from a Nat'l Park official.	Dobson
1993	Diplomat Pak Su-yong	Zimbabwe	ivory and rhino horn	wholesale for about \$15,000/kg. Deported but believed to continue trading in Lusaka	Dobson
1995	Cargo destined for NK	Taiwan	Cigarette packaging - 20 ship containers; enough for 2 mil cartons of J/Br brands	Connection to SE Asian crime syndicate. Alleged retail value of US \$1billion.	DEA; Macko
Since 1996	Diplomats (at least 6)	Africa	elephant tusks and rhino horns	.	JIATFW
1998 Mar	Diplomats (2)	Romania	12,000 pirated CD's	third seizure "in recent months"	DEA

1998 Jan	Diplomat (2?) stationed in Syria	Egypt	500,000 tablets Rohypnol	"believed to be the largest rohypnol seizure ever"	DEA; JIATFW says July
1999 April	Diplomat stationed in Bulgaria	Prague airport, Czech Republic	55 kg Rohypnol	shipped from Sofia by an NK embassy official	DEA
1999 April (?)	Diplomat's wife stationed in Nigeria	traveling from Lagos to Beijing, stopped in Moscow	85 elephant tusks (over .5 tons)	.	DEA
2004 June	Diplomats (2)	Egypt	150,000 tablets Clonazepam	.	INCSR
2004 July 2	a South Korean. Source NK.	Seoul, SK	Viagra (fake)	.	Ward
2004 Dec	Diplomats (2) based in Bulgaria	Turkey	500,000 narcotic pills (Fenethylamine, aka Captagon)	Estimated street value over \$7 million	Ser
2004 July	network?	Guam, maybe others	cigarettes and pharmaceuticals	.	CRS
2004	Cargo from Najin	Singapore, Durban port	cigarettes	.	Singapore Customs

Appendix E: Photographs



Figure 5: The *Pong Su*

Source: "Observers Disagree on How Official North Korean Drug Trade Is." *Sydney Morning Herald*. 5 May 2003.



Figure 6: Heroin Attributed to the *Pong Su*

Source: Australian Federal Police. "Extra 75kg of heroin linked to Pong Su." Australian Federal Police Media Release. 27 May 2003. Online at www.afp.gov.au/afp/page/Media/2003/0527pongsu.htm



Figure 7: Australian Authorities Escort a Man off the Captured *Pong Su*, April 2003

Source: Stevens, Rick. In Conford, Philip, and Bonnie Malkin. "Seized: Ship They Hunted for Days." *Sydney Morning Herald*. 21 April 2003.



Figure 8: *Pong Su* Crewmembers at Melbourne Airport After Capture

Source: South, Jason. In Berry, Jamie. "Sailors Face Long Wait for Their Day in Court." *The Age*. 24 April 2003.



Figure 9: Comparison of Counterfeit and Real Viagra Labels

Source: “Types of Fake Viagra.” Viagra website.
www.viagra.com/buyRealViagra/avoidingFakeViagra2.asp



Figure 10: North Korean Counterfeit Viagra

Source: Author’s collection

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