

Seoul-Washington Forum

May 1-2, 2006

Panel 2 – The Six-Party Talks: Moving Forward

THE ILLICIT ACTIVITIES OF THE KIM JONG IL REGIME

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Co-hosted by
The Brookings Institution
and
The Sejong Institute

Sponsored by The Korea Foundation

In this paper I try to address the following five key questions:

- I. What is going on and where?
- II. How much is going on?
- III. Who is doing it?
- IV. What was the US Government reaction? – the Illicit Activities Initiative
- V. What are Current US Policy Implications?

Let me start by noting the North Korean government's official position on its relationship to illicit activities and trans-national organized crime. North Korea's official press agency, KCNA, has declared that its government does "not allow such things as bad treatment of the people, counterfeiting and drug trafficking." In another statement, the DPRK asserted, "We had neither counterfeited currency nor gotten involved in any illegal trafficking." On April 19th KCNA went so far as to charge that "forces hostile to the DPRK, including those in the U.S. and Japan, are working hard to fabricate what they call "evidence" and "proofs" by employing every conceivable means and despicable method to brand the DPRK as a "criminal state" and "lawless state" over "human rights abuse", "drug smuggling" and "counterfeit notes."'"

Despite such propagandist denials, the rise of the North Korean criminal state is no secret. Over the last decade and a half, as the industrial economy of Kim Il Song has collapsed, North Korea's government has officially embraced criminal activities as a means of providing financial support for the leadership, many of whom have been personally involved. Hundreds of incidences of criminality by officials, embassies, trading companies, and intelligence officers have been detected around the globe. While most of these have not been given great publicity, enough have to present a picture of a clear trans-national criminal conspiracy.

I. What are they doing and where?

DPRK linked illicit trading networks exist on every continent today – increasingly in partnership with organized crime groups. They are engaged in a remarkably wide range of activities – be it heroin dealing in the Russian Far East or the Australian Southeast; buying and selling cocaine in Latin and South America; distributing genuine-looking counterfeit US currency – so called supernotes – everywhere from Macau and Manila to Lima and London; marketing counterfeit cigarettes from Germany and Greece to India and Indonesia; trafficking methamphetamines in Tokyo and Taipei, conveying African rhino horn and elephant tusks into Southern China and Vietnam for sale; and smuggling or holding humans for prostitution or forced labor in China, Cambodia, and the Middle East. These networks have even been linked in the past to abductions of innocent civilians in Japan, the ROK, Thailand and elsewhere.

North Korean illicit activities also have touched US soil. Four years ago industry sources discovered that North Korean counterfeit cigarettes apparently were coming into the US through Chinese organized crime channels. To document and uncover this network, the FBI and the Secret Service joined together in a brilliantly conceived undercover

investigation, codenamed “Royal Charm.” Royal Charm was centered on a false-front Mafia group in northern New Jersey, somewhat reminiscent of the one on the TV hit, the Sopranos. This front-family had been established in the late 1990s as part of an FBI ruse to penetrate the counterfeit cigarette trade between China and the US, but was expanded rapidly as linkages to the DPRK became apparent (industry sources had discovered that contraband produced in the DPRK was falsely labeled as coming from China and shipped through Chinese ports to escape scrutiny). The criminals on the East Coast were engaged in a partnership with another group on the West Coast, who were targets of a related investigation, “Smoking Dragon.”

Through Royal Charm and Smoking Dragon an expansive network in the US linked to North Korea and Chinese criminal partners was documented. This network, as the unsealed indictments show, was engaged in selling tens of millions of dollars per year of contraband – everything from counterfeit US currency, counterfeit US postage stamps, counterfeit US branded cigarettes and state tax stamps, counterfeit Viagra, ecstasy, methamphetamine, heroin, AK-47s, and even attempting to sell shoulder fired missiles (manpads) and rocket propelled grenades (RPGs) into the US.

The investigations culminated in a much publicized event, a “wedding,” in which the supposed daughter of the FBI undercover “mob boss” was to be married on a yacht, the Royal Charm, moored in Atlantic City harbor. Unwittingly, a large number of crooks flew in from across the US and northeast Asia to attend the nuptial celebration. Instead, of riding in their limousines to the imaginary Yacht – they found themselves being taken to the Newark courthouse to be booked. Among them was Jyimin “Jimmy” Horng – who with his accomplice Co Khan, aka “Keith” Tang, apparently had arranged large shipments of DPRK supernote and meth into the US and planned to sell a range of weaponry to the US undercover agents with the help of generals from “two un-named countries.”¹

II. How Much is Going on?

Frequently one gets asked, “how much of this stuff is going on?” Although it is hard to pin down the exact scale of DPRK illicit activity at an unclassified level (and not easy even with classified sources), by going backward through the partner country trade

¹ MACAU, China (UPI) – August 25, 2005 “Two Asian men accused of smuggling weapons and counterfeit bills into the United States laundered \$1.15 million in Macau bank accounts, U.S. investigators said. Co Khanh Tang and Jyimin Horng are among 87 alleged members of a criminal syndicate accused by the U.S. government of smuggling weapons, counterfeit money, drugs and fake cigarettes into the country, the South China Morning Post reported Thursday. Agents arrested 59 people last weekend, most of them in a New Jersey sting operation that lured suspects to a mock wedding party aboard a luxury yacht. Tang and Horng reportedly received \$1.15 million from undercover law enforcement agents in exchange for \$3.35 million of high-quality counterfeit dollars.” The men also received a \$50,000 deposit toward a \$1 million shipment of arms, including 75 anti-tank missiles, 50 rocket-propelled grenade launchers, 1,200 AK-47 assault rifles and various other firearms, the newspaper said. Horng allegedly planned to smuggle the weapons into the United States with the help of two military generals in two unnamed countries. Tang and Horng had payments deposited into a Bank of China account in Macau and an International Bank of Taipei account in Taiwan, the report said. Spokesmen at both banks declined to say whether the accounts had been frozen.”

statistics and drawing on reported law enforcement seizures, we can make a rough guess. Based on these methods, we can surmise that the sum of activity is in the range of \$450-550 million per year.² This may not sound like much, but it could be as much as 35-40% of DPRK exports and a much larger percentage of its total net cash earnings (conventional trade profit margins are low but the margin on illegal businesses is extremely high, frequently over 500%).

The following five areas seem to be most important in terms of income to the leadership:

1. Counterfeit cigarettes

Domestically produced counterfeit cigarettes may now be the largest export, by value, for North Korea, with containerized cargoes frequently coming from the ports of Najin and Nampo for shipment via major ports in China and the ROK throughout the world. Over the last four years, in parallel and in support of the US law enforcement investigations, several leading members of the international cigarette industry commenced their own sophisticated undercover investigation into this trade. Recently a report from this investigation was quoted in the media. The report observes:

“The Democratic People’s Republic of Korea (DPRK) has emerged in the past five years as one of the principal sources of counterfeit international brand cigarettes. Reporting from informants, undercover investigators, and industry insiders indicates that between 10 and 12 factories are – or recently have been – actively producing counterfeit cigarettes in the country. Six of these factories are located in P’yongyang or its suburbs, while as many as six are in or near the Raijin area on the north east coast of the DPRK. We assess that total production from these factories could equal some 41 billion sticks, or four million master cases, annually (see chart)..... The DPRK military and internal security service respectively also reportedly own and run at least two of the factories (Dongyang Cigarette and Linglou Island 888 Cigarette factories....Reporting from [industry] intelligence sources, as well as information generated during the course of conducting controlled buys, indicates that DPRK-origin counterfeits have been selling at between US\$130- to US\$180 per master case [at] a nearby Asian port (Busan, Manila, or Kaohsiung). At these rates, the [North Korean counterfeit

² In 2003 the DPRK ran a trade deficit of at least \$835 million that if more broadly measured to exclude concessionary trade with the ROK and China probably was more like \$1.2 billion. Even making a very bold estimate for informal remittances and under the table payments for that year, the DPRK probably ran a current account deficit of at least \$500 million. Moreover, North Korea’s accumulated trade deficit with the ROK and China alone since 1990 is over \$10 billion. North Korea has not been able to borrow on international markets since the late 1970s and has at least \$12 billion in unrepaid debt principal outstanding. Yet, it has managed to avoid self-induced hyper-inflation (which should have occurred given the need to reconcile internal and external monetary accounts, even in a communist country). Instead, the street stalls in Pyongyang and other North Korean cities seem to be awash in foreign made cloths, food, and TVs and the quality of life of the elite seems to have improved. Crime apparently is filling a large part of the gap and helping account for the apparent improvements to the standard of living for the elite.

cigarette industry] could generate between US\$520 to US\$720 million in gross revenue annually.”³



North Korea's Counterfeit Cigarette Production Facilities

Estimated Production Volume for DPRK

Factory	Number of Maker	Cigarette per Minute	Cigarette Per Hour (Sticks)	Cigarette Per Day (Sticks)	Cigarette Per Month		Cigarette Per Year	
					Sticks	Master Case	Sticks	Master Case
Rajin Cigarette/Tobacco Company	YJ14 x 2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
	YJ13 x 1	1,600	69,120	1,658,880	49,766,400	4,977	605,491,200	60,549
	Total	5,600	241,920	5,806,080	174,182,400	17,418	2,119,219,200	211,922
San He Bao Shui Joint Venture Company								-
1. Mild Seven Factory ¹	YJ14*2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
2. Marlboro Factory ¹	YJ14*2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
3. Wu's Factory ¹	YJ14*2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
Total	12,000	518,400	12,441,600	373,248,000	37,325	4,541,184,000	454,118	
Shenpeng Cigarette Factory ¹	YJ14 x 2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
Daesong Cigarette Factory					60,000,000	6,000	720,000,000	72,000
Dongyang Cigarette Factory					200,000,000	20,000	2,400,000,000	240,000
Long Cheng Cigarette Factory ¹	YJ14 x 2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
P'yongyang Cigarette Factory					500,000,000	50,000	6,000,000,000	600,000
Jin Hu Rajin Factory ¹	YJ14 x 2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
Tae Dong River Cigarette Factory	Mk9-5 x 3	15,000	648,000	15,552,000	466,560,000	46,656	5,676,480,000	567,648
	Mk9 x 2	8,000	345,600	8,294,400	248,832,000	24,883	3,027,456,000	302,746
	Mk8 x 8	16,000	691,200	16,588,800	497,664,000	49,766	6,054,912,000	605,491
	YJ13 x 8	12,800	552,960	13,271,040	398,131,200	39,813	4,843,929,600	484,393
	Total	51,800	2,237,760	53,706,240	1,611,187,200	161,119	19,602,777,600	1,960,278
Linglou Island 888 Cigarette Factory ¹	YJ14 x 2	4,000	172,800	4,147,200	124,416,000	12,442	1,513,728,000	151,373
Total Production for DPRK					3,416,281,600	341,628	41,438,092,800	4,143,809

2. Weapons:

³ See Coalition of Tobacco Companies Report, “Production of Counterfeit Cigarettes in the Democratic People’s Republic of Korea (DPRK),” June 29, 2005

The government of North Korea and its trading companies remain significant players in the global weapons trade, most importantly in the area of ballistic missiles. In the last decade the DPRK has reportedly sold or marketed missiles to countries ranging from Egypt, Syria, and Yemen to Venezuela, Nigeria, and Burma.⁴

The government of Iran, long the DPRK's best customer for missiles and other weapons, apparently has significantly expanded its ties to North Korea. On December 16, the German newspaper Bild reported that the German National Intelligence Service had recent information that Iran had bought 18 disassembled BM-25 missiles from North Korea – a report later confirmed by German diplomats.⁵ The BM-25 missile is based on the Soviet SS-N-6 ballistic missile and is alleged to be capable of delivering nuclear payloads to almost every Western European capital and to Israel. The sale of the BM-25 to Iran by North Korea represents perhaps the most serious proliferation of a missile to another country ever.



Soviet SS-N-6 Ballistic Missile (source: *Janes*)

One wonders why Iran would wish to procure such a provocative and dangerous missile if it did not have weapons to deliver with it. Indeed, if North Korea could successfully export a large number of intermediate range missiles to Iran under the radar screen of our intelligence community and the Proliferation Security Initiative, could it also have exported a nuclear weapon or related technologies without our knowledge? It is hard to believe the DPRK would cross such an obvious red-line and I know of no information that such a WMD sale somehow occurred under our watch. Nonetheless, North Korea's export several years ago of uranium hexafluoride gas (UF6) to Libya, for its incipient highly enriched uranium based nuclear weapons program, indicates that the DPRK may be far more willing to engage in clandestine WMD cooperation than many analysts assess. Moreover, not only is the state of DPRK-Iran relations evolving in a dangerous manner – with both sides heralding their 'eternal friendship and solidarity' in recent statements – specific forms of WMD-related cooperation are emerging in the public eye. For example, on January 25th *Janes Defense Weekly* reported that Iran and North Korea have signed joint-venture contracts in which selected companies are involved in

⁴ <http://www.wisconsinproject.org/countries/nkorea/north-korea-miles.html>

⁵ "Iran's missile tech suppliers named," February 8, 2006, Louis Charbonneau, Reuters

"intensive construction and maintenance work for massive shielding of the tunnels branching to the facilities at Natanz and Isfahan." If the DPRK is ready to help protect Iran's nuclear facilities and sell missiles to deliver Iranian nuclear weapons, I see no reason to think they would not be willing to provide clandestine technical assistance with the Iranian nuclear weapons program itself.⁶

Impeding the formation of a genuine axis of evil, cemented by nuclear and missile cooperation, is an extremely high priority for the Bush Administration. However, the US will need much greater cooperation from China, Russia, and other geographically proximate states to be successful in containing and deterring this proliferation and political threat. The focus of the international community needs to be not just on Iran but also on its key partners, with North Korea at the forefront.

3. Drugs

DPRK state directed narco-trafficking continues as a major income generator, some estimate \$100-200 million per year. Among others, Nanam Pharmaceutical Factory, Manyun Pharmaceutical Factory, and Sujong Joint-venture Trading have been repeatedly implicated by defectors in the ROK press as major producers. If these reports are true, then supposedly legitimate state-run pharmaceutical factories also are being used for the purpose of illicit drug production.⁷

China continues to be the major market for North Korean drugs with the Russian Far East probably coming in second. In China the situation became so bad that in March of 2004 the Vice Minister of the Ministry of Public Security called a highly unusual "press conference" to announce his determination to cut into DPRK drug rings, selling heroin and methamphetamine, in Jilin province on the border with North Korea.

From 1998-2002 Japanese police interdicted nearly 1500 kg of meth that in six separate prosecuted cases was shown to have originated in the DPRK. Nations farther afield, such as Australia, Thailand, the Philippines, Turkey, Bulgaria, and Egypt, among others, have been victims of DPRK narco trafficking in the last few years.

Although the number of reported seizures in Asia has declined dramatically, my guess is that this decline largely reflects the DPRK's adoption of alternative means for bringing drugs into Japan, Korea, and China including, more small boat deliveries and use of

⁶ Undoubtedly, the more North Korea faces financial and political isolation, the more incentive it will have to provide WMD materiel and assistance to a like-minded state like Iran that is willing to give it precious financial support in return and also could be drawn on as an ally in a future crisis. The incentive is increased to the extent the DPRK's own stockpile of weapons grade nuclear materiel expands beyond its immediate needs and it views extending its deterrence abroad as expedient rather than a trigger for a US pre-emptive strike (if it feels confident it could engage in WMD proliferation without detection then it might risk such inherently dangerous proliferation).

⁷ Something that would help explain the exceptional purity of narcotics emanating from the DPRK, such as the heroin captured from the North Korea, Pong Su, or the methamphetamines seized in Japan.

Chinese triads, Russian Mafia, and Korean gangs as well as human “mules” to smuggle material on or inside their person. A final, important reason we have seen less high profile seizures is that they have shifted business lines. The key new aspect of drug trafficking is the counterfeit pharmaceutical area, where margins are even higher than in normal drug trafficking. According to industry sources, this is a multi-billion dollar global business, overall, and we have found it to be one the North Koreans, in partnership with Chinese gangs, have targeted aggressively.

4. Production and international distribution of counterfeit currency

Under International Law, counterfeiting another nation’s currency is an act of *causus belli*, an act of economic war. North Korea has been counterfeiting the dollar, and possibly other currencies of importance as well, the entire time it has been on the international engagement bandwagon since the late 1980s. What does this say about the regime’s intentions?

As the August 8, 2005 DOJ indictment of Sean Garland and other members of the Official IRA for their partnership in the criminal distribution of counterfeit US currency reads: “Beginning in or about 1989, and continuing throughout the period of this Indictment, a type of high-quality counterfeit \$100 FRNs began to be detected in circulation around the world. Their high quality made it particularly difficult for them to be detected as counterfeit by untrained persons. The United States Secret Service initially designated these counterfeit notes as “C-14342” and they came to be known as “Supernote” or “Superdollar.” Quantities of the Supernote were manufactured in, and under the auspices of the government of, the Democratic People’s Republic of Korea (“North Korea”). Individuals, including North Korean nationals acting as ostensible government officials, engaged in the worldwide transportation, delivery, and sale of quantities of Supernotes.”

The Royal Charm and Smoking Dragon indictments revealed a willingness to sell millions of dollars in DPRK supernotes into the US by Asian organized criminals linked to the North Korea government. Whether this was a deliberate act of policy decided in Pyongyang or just business among crooks is hard to tell, but it seems unusual that according to the public indictment the cost of the counterfeit notes was less than 40 cents per dollar. This price was far below the market value associated previously with the counterfeit supernotes which, given their ability to be circulated without ready detection by the naked eye, can demand a very high mark-up. One wonders how supernotes at such a low price could be sold, unless the notes were coming from a high source inside the country in question that wanted to see them marketed into the US.

The Secret Service has detected roughly \$50 million of these supernotes in the last sixteen years. Some argue that this shows that the impact of North Korean counterfeiting of the dollar is just a drop in the bucket. Let me argue against this view. First, although supernotes definitely can be detected, the notes are of such high grade that they often circulate as “genuine” currency. Largely this is because they are primarily distributed in the economies of Asia, the former Soviet Union, Africa, and the Americas where the

dollar functions as a parallel currency and major money center banks that process currency with technologies capable of detecting the counterfeit notes are few. Another reason for the low amount of detected circulation is that the banks themselves only lose money if they allow the notes to be turned over for processing back to the US. They receive no compensation for being honest. If they unwittingly accept supernote deposits, bank tellers and bankers may well recirculate them along with genuine currency in order to escape taking a loss. They can do this successfully because to almost everyone the notes appear genuine and can be passed as “real.” Thus, for these reasons there could be a lot more of the notes out there than we can document.



The relatively sophisticated shipping methods for transporting supernotes uncovered in the FBI-USSS Royal Charm/Smoking Dragon investigations also helps show why so few of the notes are seized before being distributed. The above pictures, reproduced from a Taiwanese newspaper article illuminate how they move the notes around, falsely manifesting the cargo as a non-dutiable item (in this case as “toys”), falsifying port of origin information (to indicate a port in Northern China instead of in the DPRK), and cleverly concealing the contraband.

Finally, let me briefly comment on the impact of the circulation of supernotes on confidence in the dollar. Thankfully the appearance of what at most is several hundred millions of dollars in supernotes has not had a major impact on the strong confidence that people have in the hundreds of billions of genuine dollars in circulation globally. Nonetheless, the impact is hardly insignificant. First, a little supernote can go a long way toward causing instability. In the summer of 2004, a significant sum of supernotes – in the millions – was circulated by a criminal gang in Taiwan. As the notes were detected, confusion set in among summer travelers who had exchanged Taiwan dollars for tens of millions of US dollars. The Central Bank of Taiwan decided to put out a warning advising that counterfeit notes of extraordinary quality were circulating and that people in possession of CB-series US \$100 bills should have them checked for authenticity at banks. This caused a panic as people rushed to turn in several hundred million dollars in a rush – it was a localized “run” on the dollar. I can’t get into details but this was not the first such instance (although perhaps the most alarming). Second, it was just announced that the US Treasury next year will begin circulating new \$100 bills, incorporating sophisticated and costly new anti-counterfeiting features. The new \$100 bills are part of the second major redesign of our currency since 1996. The cost of printing and introducing the new notes (and withdrawing the old ones) will be large, hundreds of millions of dollars, potentially. As in 1996, there is only one major reason for the new redesign: North Korean counterfeiting. Thus, in the end, America will be incurring many hundreds – not tens – of millions, of dollars in costs and damages as a result of North Korea’s counterfeiting of the dollar.

5. Smuggling sanctioned items, including conflict diamonds, rhino horn and ivory, and endangered species, utilizing official diplomatic means

This is one of the most outrageous and unacceptable of the DPRK’s criminal acts, absolutely contravening international laws, including the Convention on International Trade in Endangered Species of Wild Fauna and Flora. There are numerous notorious examples to cite. 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. This kind of activity has apparently not changed. As Stanford researcher, Sheena Chestnut, noted in a 2005 thesis, 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.” Ivory seizures directly linked to North Korean officials amounted to 689 kg in Kenya in 1999; 537 kg in Moscow in 1999; and 576 kg in France in 1998. I don’t have more recent data I can share publicly but I don’t think they have given up on the illicit ivory trade.

III. Who is doing it?

For many years key organizations that support the North Korean leadership have been linked by defectors to the production and distribution of illicit items. These include

numerous state trading companies, the Military Security Command,⁸ the Central Bank, Office 35 (the main intelligence service), Office 39 (in charge of managing leadership finances),⁹ and the Operations Department of the Korean Worker's Party, which is alleged to play a central role in abductions, covert action, and espionage as well as serving as elite bodyguards.¹⁰ I can't really comment on who does what without getting into classified territory. However, it should be obvious that numerous parts of the North Korean government are involved.

Senior North Koreans abroad, even members of Kim Jong Il's family and inner circle, have been caught distributing counterfeit US currency and other illegal items on many occasions. The large number of incidences of official North Koreans being caught committing crimes is not surprising. North Korea is perhaps the only country in the world whose embassies and overseas personnel are expected to contribute income to the "Party Center," not rely on central government funds for their operations. Such repeated illicit actions from diplomatic premises amount to a serial violation of both articles 31 and 41 of the Vienna conventions on Diplomatic Relations, which respectively convey that A. commercial, and most certainly, criminal activities for profit shall not be conducted by accredited diplomats or via accredited facilities and B. mandate that officials posted abroad must obey the laws of the nation to which they are posted. The DPRK routinely pays no attention to either critical provision of the Vienna conventions.

IV. America's response: the Illicit Activities Initiative

Three years ago Assistant Secretary Kelly and Deputy Secretary Armitage asked me to put together an initiative to counter North Korean illicit activities. This decision was born out of a comprehensive review of North Korea's economy that had been conducted over the previous year – a project that had identified an alarming build-up in trans-national criminal dealings by the DPRK in the previous decade. In March 2003 State requested that DOJ look into the issue of North Korean criminal violations of US law. DOJ appointed a highly capable senior prosecutor, Suzanne Hayden, who was charged with pursuing the evidence trail wherever it might lead.

In April 2003 we launched an inter-agency effort under the auspice of the East Asia PCC. This became known as the Illicit Activities Initiative (IAI). To oversee the IAI and provide policy planning support for the Six Party Talks, in the summer of 2003 the

⁸ "Military Security Command (Bowe Saryongboo) and drug trade," Back to Pyongyang.org, http://www.backtopyongyang.org/North_Korean_drug_trade.html The article states: "According to Kim Duk Hong who defected to South Korea in 1997, his former interpreter, Yu Chul, went to work for Ri Young Man who headed the 7-men export unit for the bureau in charge of drug trade within North Korea's Military Security Command. Ri Young Man is a son of Ri Geun Mo, a former premier and, later, a party secretary of North Hamgyong Province. They export heroin that is produced within the Military Security Command hierarchy and by the Ranam Pharmaceutical Mfg. Plant. Sujong Trading Co. under this Command superficially deals in Kangwon-do spring water and used Japanese cars, but is highly suspected to be involved in drug deals as it is headed by someone who used to sell illegal drugs in Macao before."

⁹ See Sheena Chestnut, "The "Sopranos State"? North Korean Involvement in Criminal Activity and Implications for International Security," <http://www.nautilus.org/napsnet/sr/2006/0605Chestnut.pdf>

¹⁰ The Secretive Operations Department of the Workers' Party, February 6, 2002, <http://www.chosun.com/w21data/html/news/200202/200202060227.html>

Department established the North Korea Working Group, under the Office of the Deputy Secretary. I was appointed as special coordinator and William Newcomb, a senior Asia economic analyst in the Intelligence and Research Bureau, was made my Deputy. We operated out of an office on the 7th floor and had the authority to represent the Department at meetings related to our work at the NSC, which eventually established a special inter-agency coordinating committee that I co-chaired.

I want to underline that the IAI was never designed as a substitute for diplomacy. Assistant Secretary Kelly and I considered our work in the Six Party Talks, in which I participated as his advisor, to be of paramount importance. We felt that the US needed a strong two-track policy, with both tracks directed toward creating the grounds for a normalized relationship with the DPRK. On track one we needed an empowered negotiator, equipped with a broad series of transformational incentives to push the denuclearization process forward in concert with the other parties. On track two we needed a process that would hold the North Koreans to a normal standard of behavior in the international community by enforcing our laws while also guarding our flank more effectively against the growing threat of weapons proliferation.

The IAI eventually came to involve 14 different US government Departments and Agencies and well over a hundred policy officials, intelligence analysts, and law enforcement officers. We had superb inter-agency cooperation and strong support from our leadership, all the way up to President Bush. This was a major team effort. Although I may have been the quarterback, the coaches and players deserve most of the credit. Between the spring of 2003-and summer of 2005 we briefed and enlisted the cooperation of around 15 different governments and international organizations. We developed a range of sophisticated policy options and plans, including the careful use of the USA Patriot Act and other tools to cut off North Korea's access to its network of illicit banking partners around the world. We instigated and coordinated the interdiction of contraband internationally and helped to shut down front companies and illicit trading networks. We also worked assiduously to provide support to our US law enforcement brethren. As noted before, the IAI spawned multiple large-scale US international criminal investigations. These involved the US Secret Service, Federal Bureau of Investigation, DEA, ICE, and ATF and many foreign partners. The results of these investigations for the most part have yet to see the light of day but I am confident that when they emerge, the allegations of state-led North Korean criminal activity will be more than fully born out.

US Policy Implications:

Let me close with a review of five implications for current US policy.

First: law enforcement efforts and diplomatic outreach under the Illicit Activities Initiative need to be continued. I am very pleased that the work I started continues and I have great confidence in my former colleagues' determination to press on, both on the diplomatic and law enforcement tracks. Nonetheless, strong inter-agency coordination, calibration, and, most importantly, leadership are essential. Management structures for

coordination need to be centralized, not dispersed, and those in charge need to be sufficiently highly placed and properly empowered to do their jobs effectively.

Second: we all need to better guard our flanks against the DPRK proliferation threat. As I have recommended on previous occasions, we need to take more aggressive protective measures, including enhancing the PSI to ensure that no North Korean flagged or leased vessels can travel far outside their waters without inspection and adopting a coherent disruption strategy against their proliferation trading company networks. In addition, there are several thousand containers each year coming out of North Korea from its two main container cargo ports: Najin on the east coast and Nampo on the west coast. To get into the international maritime transport system, they have to go through friendly ports, typically Pusan in the ROK and Shanghai, Hong Kong, and Dalian in China. Only some of these containers are subject to inspection in the ROK (although the ROK is making improvements) and none that I am aware are inspected in China. All first-receiving ports of conveyance for DPRK cargoes need to be held responsible for inspecting containers to ensure that the DPRK does not ship WMD or contraband into the international system.

Third: law enforcement and counter-proliferation are not inherently antithetical to a diplomatic engagement strategy. In this regard, let me note that there likely will be no diplomatic progress if the DPRK's incentive structure does not change. Those who support the positive forces of "sunshine" (engagement) should understand that to the extent the DPRK leadership can rely on a "moonshine economy" it will have little to no incentive to embrace reform. Thus while for the US and other partner states law enforcement and diplomacy are on separate tracks, aggressive law enforcement clearly supports the goal of influencing the DPRK leadership to make a positive strategic choice by making its current criminal framework unsustainable.

Fourth: Change needs to begin in Pyongyang, much more than in Washington. It's in North Korea's objective interest to shift directions. Despite its profitability, crime and WMD proliferation are not a rational or sustainable basis for the DPRK's long-term survival; nor is nuclear coercion—as Secretary Powell used to tell us "they can't eat nukes." The DPRK needs to engage in what it calls a "bold switchover"—away from nukes, crime, and repression as the pillars of the regime. Likewise it must abandon a bankrupt ideological concept of *Juche* (or self-reliance) and an Army-first state policy that is draining the economy dry. Instead, like China in the late 1970s and Vietnam in the late 1980s, North Korea must turn toward denuclearization, demobilization of the army, and economic and gradual political opening, in turn normalizing not just its relations but also its approach to the international community.

Fifth and finally: the members of the Six Party Talks - America included - need to offer to help North Korea transform. As with the case of Libya, we'll need to provide a clear roadmap of how this process will proceed, including the provision of large-scale economic support to rebuild and redirect North Korea's economy. The President has called on North Korea's leadership to make a positive strategic choice and offered a "bold approach" for transforming relations with the North. In 2004-2005 the North Korea Working Group at State developed a sophisticated and comprehensive plan for helping

North Korea structurally change in the context of implementing denuclearization and normalization steps with us and the other members of the 6-Party Talks. This plan is not about buying them off, it would entail projects aimed at fundamentally redirecting their economic and political system away from communism toward capitalism (as a conservative who wants to end the Cold War in East Asia I have no problem with that). Furthermore, this strategy would address the *needs* of their people (i.e. civilian industry/jobs/human rights), not the "wants" of their communist leaders (cash pay-offs/control). As Secretary Rice has said, "it's North Korea's choice to be isolated. If they stop engaging in hostile acts and start cooperating they will reap the benefits of engagement."

Some may see the US "sunshine and stick" policy today as a "high stakes poker game" that has sidelined all possibility for progress in the Six Party Talks. However, I believe it's a pretty shrewd betting strategy and feel that the DPRK will come back to the table. As we deal with the real North Korea, rather than the one we wish existed, I have confidence that the grounds exist for deep, sweeping, and serious progress in our relations with the DPRK and, in turn, its government's relations with its people and the outside world.