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**ILLICIT ECONOMIC ACTIVITIES OF THE
NORTH KOREAN GOVERNMENT**

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PROCEEDINGS

GREG SCARLATOIU: Well, distinguished ladies and gentlemen, dear friends, delighted to see you. I'm Greg Scarlatoiu, Executive Director of the Committee for Human Rights in North Korea.

I would like to begin by thanking Dr. Richard Bush and the Brookings Institution for so kindly and generously hosting the Committee for Human Rights in Korea not once but two days in a row.

And I'm also very grateful to our colleagues, Kevin Scott, Aileen Chang, and the crew here at Brookings, for the extraordinarily good and hard work they've put into these two programs.

The Committee for Human Rights in North Korea is a research organization tasked to research and publish on the main human rights issues in North Korea. As some or many of you know, we have published a total of 17 -- now 18 -- reports on the critical human rights issues in North Korea.

We are currently in the process of researching the current changes affecting North Korea's domestic and overseas economic activities, and, also, the changes occurring within the leadership of North Korea, and assessing the implications that these changes have for the North Korean human rights situation.

We are certainly aware that, if, as the author of the report will tell you, if, indeed, there appears to be a gap developing between the North Korean regime and North Korean society -- we talk so much about sending more information about the outside world, the corruption of the Kim regime, or the human rights situation of the North Koreans -- if that is the case, we need to be fully aware of that emerging gap.

And, at the same time, we must also be fully aware that the mere presence of Porsche SUVs on the streets of Ashgabat, Turkmenistan, Luanda, Angola, or Moscow, Russia, does not necessarily imply that civil society is being empowered in those countries.

We are extraordinarily grateful to the author of this report, Dr. Sheena Chestnut Greitens, for spending the past year and a half, the past two years, working with the Committee on finalizing this report.

Dr. Greitens is a Nonresident Senior Fellow here at the Center for East Asia Policy Studies at the Brookings Institution, an Academy Scholar at Harvard University's Academy for International and Area Studies, and an Assistant Professor of Political Science at the University of Missouri.

Her research has focused on security studies, authoritarianism, state-society relations, and illicit networks in Asia.

Her writings on East Asia have appeared in numerous academic journals. She is the author of several comprehensive, unclassified studies of North Korea's involvement in illicit activities -- this being the latest one.

She has been cited in testimony to the U.S. Senate, the U.S. House of Representatives, and the National Assembly of South Korea, and she has also appeared on numerous TV/radio stations, and has been extensively quoted in the international press. She holds a PhD from Harvard University, a master of philosophy from Oxford University, where she studied as a Marshall Scholar, and a BA from Stanford University. She has previously held positions at the State Department's policy planning staff, the International Institute for Strategic Studies, and Oxford University Press, and fellowships at the United States Institute of Peace, the University of Virginia's Miller Center, and the Fairbanks Center for Chinese Studies at Harvard University.

Sheena, Dr. Greitens, the floor is yours.

SHEENA CHESTNUT GREITENS: Good afternoon. It's a pleasure to be with you all today for the launch of this report.

It's perhaps particularly appropriate that today is not only tax day, but Kim Il-sung's birthday. And I was reminded earlier this week that not only is it the anniversary of those two particular events, it was also the anniversary of the sinking of the Titanic. There may be some kind of appropriate metaphor for the North Korean economy there, but I will leave it to one of you to figure out exactly what that is.

I want to extend my sincere thanks, as well, to Greg Scarlatoiu and the Board and staff of the Committee for Human Rights in North Korea, for publishing this report, to Richard and to everyone at the Center for East Asia Policy Studies at Brookings, for hosting this event, to Mark and Nick, for their comments today, and to all of you, for taking the time to join us on this horrendously rainy afternoon.

This report outlines the evolution of illicit activities in North Korea, from past to present, and places these activities in the question of how an isolated, sanctioned, and generally economically unsuccessful in North Korea attempts to make money.

We should also acknowledge at the very beginning of this discussion that North Korea is a difficult country to get good information on, and that illicit activities are a topic that is difficult to research and write about, because these activities are, by definition, hidden.

And so I want to begin by talking a little bit about the methodology for the report, and the sources of data, and the approaches that we used to reach the conclusions that I'll discuss today.

The first major source of information for this report is a dataset on seizures

that are related to North Korean illicit activity. We created a dataset of incidents, and for each one, we coded the location of the incident, the product involved, the size or volume of the seizure, the identity and nationality of the people who were apprehended, and other attributes of the event. We then did some pretty basic analysis of the patterns of this activity over time.

It's important to note that the downside of using seizure data is that seizure data represent the interaction of what's actually happening in the world with the law enforcement techniques that we use. And so we rely on what law enforcement catches, and what they choose to make public. So, there can be some gaps there.

Partly to deal with that possibility, we then did an extensive set of interviews with former residents of North Korea. It's probably important to note that the defector testimony and interviews were not used to generate the seizure data. These were separate sources of information.

But what that defector testimony is particularly good at is giving us a sense of the processes that generate the seizure data that we see.

And so if these two sources are consistent, we can have a lot higher confidence that our conclusions are right. If not, they help us figure out the things that we might be missing.

In this case, the evidence was relatively consistent, and paints a clear picture of the evolution of North Korean illicit activity that I'll talk about today.

And I'm happy to answer questions about this, but I do think we try very hard to be transparent about what we know and what we don't know, and I think that's always been one of the strengths of the reports of HRNK. And so I'm happy to answer questions on that later.

This research identified three basic stages of North Korea's involvement in illicit activity. Two of these have been talked about quite a bit before.

The first phase stretched from the mid-1970s to the mid-1990s, when North Korea's primary involvement was in trafficking of illicit products. North Korean officials transported and distributed a range of illicit products that were manufactured by others, and they did so at locations that were determined by the places where North Korea had diplomatic and trade ties. This was a global sort of geographic distribution of these activities.

The second phase ran from the mid-1990s to the mid-2000s. And during this period, it appears that North Korea concentrated on large-scale production of illicit merchandise, while outsourcing distribution to criminal organizations with whom it had ties. Some of these were global, but a lot of them were also regional within Asia Pacific.

What I want to focus on today is the development of a third phase of North Korean involvement in illicit activity that has emerged since 2005. And there's been discussion of a lot of pieces of this phenomenon, this phase, but relatively little that tries to take a comprehensive look at what's going on.

In both cases, the shifts between phases was prompted by changes in law enforcement -- the international community and the United States cracking down on particular activities that it had discovered North Korea was engaged in, which then prompted North Korea to adapt its behavior.

And in the case of the shift around 2005, this also appears to be true. That shift appears to be the product of a couple of different factors.

One is a broader, underlying process of marketization at the ground level in North Korea -- that people have documented in many ways by now, as the breakdown of the public distribution system in the state-owned sector.

As that sector deteriorated after the mid-1990s, citizens were forced to look for ways to support themselves, and a lot of black-market activity developed as a result.

The second factor is the regime's own response to financial pressure that was applied to it -- again, by the United States, by other countries, and by the international financial community, particularly private banks, in 2005/2006.

The third factor that we think may be influencing the development of this phase is a little bit more speculative -- but throughout the development of this activity, it has been fairly closely correlated with the career of Kim Jong-il.

And so it's possible to see these shifts as associated with changes in his role in the management of hard currency-earning operations.

So, this third phase of illicit activity in North Korea -- which emerged after 2005 -- is characterized by a number of different attributes, which are summarized in the report that you have.

The first thing that is immediately apparent from simply putting these incidents on a map is that the geographic distribution has become quite different. So, the seizures that have occurred since 2005 are primarily centered around the Korean Peninsula and Northeastern China.

So, the pattern of incidence has gone from global, to regional, to local. This means that, other than North Korea, China is the country most impacted and most negatively impacted by the development of this third phase of North Korean illicit activity. The pattern of shipments that we are now seeing is smaller. The quality of the product is more varied, and the people involved are different; rather than sort of well-known organized crime figures, there are more ordinary North Koreans and Korean-Chinese who

are participating in these networks.

This third phase is also characterized by a decreased regime monopoly over illicit activities. And it's important, I think, to be precise about what this means, and there's been a lot of debate. And I expect that debate over the state's or the regime's role will continue today.

When I say that there's a decreased regime monopoly, what I mean is not that the state or the regime role is absent, but that private or semiprivate production is now playing a greatly increased role in these activities.

The state-owned sector of the North Korean economy is not gone, but it seems to coexist symbiotically with these ground-up marketization processes that have been described elsewhere.

This third phase is also marked by a relative absence of unclassified evidence of regime control over certain activities.

So, as I mentioned just a minute ago, the balance of evidence before, in phases one and two, pointed pretty clearly to regime direction and sponsorship of these activities, with relatively little room for private enrichment and private activity. There is no question, I think, that the private role in these activities is now much bigger.

At the same time, we do not see a lot of publicly-available evidence on continued production of counterfeit currency, such as super notes, and large-scale, clearly state-sponsored drug shipments.

There are two ways to interpret this -- and, again, I want to be transparent about what we can conclude and what we can't conclude from this.

With respect to the state or the regime's role, it's possible that these activities have stopped. Anecdotal reports and testimony suggests that is not the case.

That raises the second possibility, which is that the regime's involvement in illicit activities has become less visible, rather than less frequent or absent entirely.

And at this point, from the publicly available data that we have, it's very difficult to make a judgment. There appears to be some evidence that both of these are true, but we can't make a firm judgment on which of these is the case.

What we can say is that there is broader participation by a much wider range of members of North Korean society in illicit trade. In previous phases, the people involved in illicit trade were generally elites, and were not located within the territory of the DPRK.

Now ordinary residents who are still living inside DPRK territory

participate in this activity. And I do think that's a major change from before.

This means that these citizens not only have the chance to benefit economically from participating in illicit trade, but, also, that the costs of that illicit activity are becoming much more broadly distributed in North Korean society.

There are increasing reports of drug addiction and health issues that are related to more frequent drug use of various types, and the already woefully inadequate health system inside North Korea appears not only to lack the capacity to deal with these issues, but really not to have been able to even mount an effort, other than to tell people that this criminal activity is bad, because it is unpatriotic, in domestic propaganda campaigns. There has, as far as we can tell, been no sort of public health or adequate public awareness effort to deal with these challenges.

In writing this report, we tried to fit these activities within a sort of broader context, to identify how important they might be to the North Korean regime. There's been a lot of debate on this in previous phases among U.S. government officials and the broader community that's interested in North Korea. And in this report, we looked at eight major sources of hard currency income for the regime and the people of North Korea. These were illicit activities, which I'll talk a little bit more about.

Arms trafficking is the second source, which many of you, no doubt, have read the reports by the U.N. panel of experts or the reports on the recent case in Panama. So, illicit activity and arms trafficking are two cases where the activities that North Korea has engaged in are clearly illicit.

There are, then, other sources of income, which may be sort of a mix of illicit and legal activity. These include things like the Kaesŏng Industrial Complex and inter-Korean trade, trade with other countries -- primarily China, but, also, countries like Brazil, the Netherlands, and other countries in Africa and the Middle East. It includes sources of revenue like tourism. The North Korea state-owned tourism company makes money not only from people paying to enter the country, but for the goods or things that tourists purchase while they're there.

These sources of income include, significantly, the export of laborers, who work in restaurants, who build statues, and who work on construction projects throughout the Middle East and Africa. And this activity in particular is something that appears to have increased sort of around the mid-2000s, perhaps as North Korea was looking for ways to find new sources of income.

This income also includes remittances that are sent to families still in North Korea. These used to primarily come from Japan. The remittances from Japan appear to have declined fairly dramatically, and remittances from defectors who are living in South Korea and other countries have increased.

And, lastly, this includes mechanisms such as what I would call informal

taxation of domestic economic activity. Through mechanisms such as the sale of cellular phone handsets and mobile phone service plans, which allow North Korea to extract money that has come in to ordinary citizens, and move it up to the official or the regime-controlled economy.

We try very hard in the report itself to make a distinction when we discuss each of these sources between activities that provide money directly to the North Korean regime.

Prior to 2005, I would say that "illicit activity" fit squarely in that category. But in recent years, it appears to have moved at least partly to a second category, which is a set of sources of income that go first to the North Korean people inside the territory of North Korea, which the regime then has to find a way of extracting that money from the population. One of the most interesting findings, I think, is that there's more of that second kind of activity taking place than ever before.

So, where does that leave us, in terms of thinking about implications for human rights, for American policy, and for broader approaches to North Korea?

First, I think that understanding where North Korea's hard currency comes from gives us a sense of where and how much leverage the international community may have -- whatever issues it chooses to use that leverage to address. We talk a little bit in the report -- and I'm sure that our economists in the front row will comment on the fact that there is evidence now that the North Korean economy may be doing better -- that it has grown for the past two years, rather than contracted or stayed static, and that it's no longer clear that North Korea is running the deficit that people previously pointed to as evidence of economic desperation.

If so, North Korea's incentive structure has probably changed, and we need to understand that in crafting any policy that we expect to be successful.

The second point that I think this raises -- that should inform our policies -- is that North Korea is highly adaptable. This particular phase of involvement in illicit and other economic activity shows that North Korea has found new sources of income, such as the export of labor and the extraction of hard currency from the domestic economy, and that the geographic distribution of these activities has also changed. Some of these new sources are either legal, or, because they are new, they are not covered by existing sanctions or other legislation that is intended to guide our strategy toward North Korea. And when we think about these economic policies and strategy toward North Korea, I think we need to keep in mind that this is a competitive adaptation process, and that doing fairly aggressive research and investigation to understand what's happening is going to be important if we expect to keep up -- and, again, to affect the incentive structure and the environment in which North Korea operates.

It's also true, as I mentioned earlier, that that adaptability means that it could be easy to miss things -- and, therefore, to miss opportunities to use the leverage that we

may have.

Finally, I think it's important to note that there is less clarity now than previously, in terms of the public evidence on the North Korean regime's role, and that may make the application of certain financial sanctions and measures that were predicated on the evidence of illicit activity that made banks change their risk calculus harder to apply.

These tools may be harder to apply if that threshold is not clearly recognized by the banks in question. It's not just a question of the government or the U.N. making this determination, but it really has to be a consensus in the private sector, as well. And it is, I think, an open question as to whether those financial measures could be applied in the same way as they have been previously.

The recent panel of experts report from the United Nations confirmed, I think, that this is a real issue for guiding policy, and it also noted that we have very little information on North Korean banking and financial flows, and that developing effective measures for the U.N. or for the United States will depend on figuring out how to get better information on that topic.

The final issue, I think, is that there are new human security costs associated with this third phase of illicit activity. And this is particularly important, I think, for thinking about human rights implications of this activity.

As I mentioned earlier, the rise in drug addiction and drug-related health issues appears to not have been matched in North Korea by any effective response by the public health system. And to my knowledge, there is no NGO or international presence that is dealing with drug-related issues in particular.

This is an issue not only, actually, for the citizens of North Korea, but also raises some issues related to treatment and effective provision of services for the defector community in South Korea.

And I'll leave that there for now, but I'm happy to answer more questions about that toward the end.

Finally, I will try to put at least a slightly optimistic note on a set of conclusions that may sound otherwise fairly bleak.

It appears to be true that North Korea has become more dependent economically on extracting revenue from the economic activity of its own citizens. There appears to be a growing symbiosis at multiple levels between economic power that is privately generated and political power within the DPRK -- with each requiring the other to operate.

We shouldn't, I think, overstate the extent to which the regime is dependent

on the economic activities of its own citizens, but this is something that does create a domestic vulnerability for the regime that it appears to have been aware of. And we can talk about how we might know that's the case, and what that suggests, in the discussion that follows.

I think that this raises some interesting questions for U.S. strategy that this report is probably the beginning of trying to answer, rather than sort of the end of the process. North Korea has predicated its existence on imposing isolation and economic hardship on many of its citizens, while having been able to insulate itself from the costs of that activity. And it appears to have gotten harder for them to do that.

There may also now, as we've seen -- because of the development of a market -- have emerged some space -- not a large one, and not a flourishing civil society, necessarily -- but some space between the regime and society, such that we may want to consider whether we could have forms of engagement with the North Korean people, rather than through the regime -- that actually exert pressure on the regime itself, rather than conciliating it.

And I think, again, this is something that we are probably at the very beginning of the process, and that we would all benefit from having much more discussion of the pros and cons of this proposal.

I wanted to conclude by thinking a little bit about -- when we think about overall strategy -- by going back to something that George Kennan, the author of Containment -- the metaphor that he used when he talked about grand strategy. And it may surprise some of you -- at least it did me -- to know that the dominant metaphor that he used in his writing was that of gardening -- which is not very exciting.

But when he talked about strategy, and he talked about affecting world politics, he recognized that the United States often faced limits on the amount that it could force other countries or persuade other countries to change their domestic systems. And given constraints on the United States or the international community's ability, he looked at the process as one of finding ways to create conditions for growth in the right direction. When that came to the Soviet Union, he compared it to a tree that had been bent out of shape and by the pressure of its own internal contradictions, and recognized that the greatest pressure on the system would eventually come from the contradictions that the Soviet Union had created.

I would propose that North Korea has a similar set of internal contradictions that I mentioned earlier. And what we may be seeing is the beginning of a process where the regime and the people inside the regime themselves are forcing some confrontation with these contradictions. If that's true, I think there's the possibility that we're seeing the very, very beginning of an uncertain, long-term, domestically-driven transformation -- but one that is taking place from within. And if there are ways to encourage that or ways to make sure that the United States' role is at least not to get in the way of that, we may have the beginnings, I think, of a potentially transformative strategy.

Again, there's a lot of discussion and work to be done on that, but I'll look forward to the discussion and questions about how that might work.

Thank you.

RICHARD BUSH: Thank you, Sheena, for a great presentation and an agenda for future work. We now have a couple of expert commentaries -- first, from Nick Eberstadt. I'm very jetlagged; sorry, Nick -- and then Marcus Noland, who was with us yesterday.

Nick, if you want to speak from here, that's fine. If you want to speak -- ok -
- the floor is yours.

NICHOLAS EBERSTADT: Well, Richard, thank you very much for inviting me. It's a real pleasure to be here. And it's a special point of pride to be able to salute Dr. Greitens, Professor Greitens, on this report.

As a founding member of HRNK, I am very happy and proud of the research we have helped to disseminate over the past 14 years. We have a roster of star researchers who have written reports for us, and now we are able to add Sheena to this roster. And Sheena is a rising young star, from whom I think you all are going to be hearing for years and years to come. So, kudos.

I thought that the way that I might be able to contribute most to this discussion was from my own sort of nerdy interest in North Korean trade statistics, because the task and the challenge that Dr. Greitens has taken on in this study rings very much a bell with me, because I tried to do something analogous to this about 20 years ago, when I was trying to track the illicit revenues that the DPRK was, at that time, receiving from Japan, from the *Chongryon Chosen Soren* group of general Korean residents in Japan.

The problem was that I didn't have a clicker, and I couldn't go onto the ferries, and, you know, count the suitcases that were going over. So, I had to try to figure out something else to do. And I thought what I'd do is look at trade statistics, and try to look at reports of exports -- of export merchandise from all over the world to DPRK -- imports -- see what sort of a balance of merchandise difference there was there -- and try to decompose the balance of trade deficit to see if it'd be possible to get towards some of these flows.

I had a handout, which is back there -- I don't know if you all -- yeah, take another one. They're free.

But so I've tried to do this for recent years, for the DPRK. I've made certain adjustments to the export and import numbers that are reported. They are hardly perfect, but they're the best that we have.

The adjustments that I've made are just standard adjustments that are made by, you know, kind of trade nerd guys to account for cargo, and insurance, and freight, as reported -- that sort of stuff -- to try to get towards what the actual revenue flows might be more likely to be like.

So, if you look at these four little cartoons that I have here, these four graphics, you can see a couple of things. And if you don't have them, I'll, you know, read to the blind for you.

When you look at what's reported as merchandise exports from the DPRK, you see what looks to me like a revival of the North Korean economy -- North Korean exports rising from about \$1 billion total around the year 2002 to well over \$3 billion nowadays. And the big play here is the increase in exports to China. I mean, the story of the DKRP's modern life is the story of its entwined relationship with China.

You see the same sort of thing if you look at merchandise imports, and the stuff that's going to North Korea. That more than doubles over this 10-year period. It's now over \$5 billion a year by these estimates, which is way higher than it's ever been before in DPRK history, as far as we can tell from this.

And, again, this is a story of rising imports from China. So, if you could just look at exports and imports, you see something that could be interpreted as economic revival, and it could very definitely be interpreted as closer and closer relationship with China.

The last two slides here, I think, are really the important ones when we're getting at illicit revenues. These look at the balance of trade deficit -- the difference between the stuff that's reported going to North Korea and the stuff that's reported going out of North Korea.

For normal economies, more trade is always maybe better. But North Korea's not been a normal state or a normal economy for a very long time. For the DPRK, one can argue, the most important measure is this one: the size of the balance of trade deficit, the net transfer of resources that seems to be going into North Korea to keep the place going. When that net transfer got down to about \$0.5 billion on this method, the place pulled a famine, you know, back in the 1990s.

So, a lower balance of trade deficit for North Korea is bad, and a bigger one means more resources and is good. And if you look at this, you see that the balance of trade deficit has been bouncing around between three and four times as high as it was during the famine period, but what you see is that South Korea, inter-Korean trade, becomes less and less important in this, if you will, subsidy of the North Korean state. And the balance of trade deficit with China becomes more and more and more important -- and, at least from these numbers, looks to be absolutely determinative.

So, if you look at the last figure here, which tries to look at decomposing the balance of trade deficit, as reported, for the DPRK -- see, back before 2005, in Dr. Greitens's exegesis, the DPRK had a balance of trade deficit, without China, of about \$1 billion a year. It was somehow paying for \$1 billion a year more stuff from the rest of the world than it seemed to have the visible means of support for it, if you will.

But that has been going down and down and down, and then the last couple of years, basically, it stopped. It isn't there at this point.

Now these are hardly perfect figures. There's a lot of problems with mirror statistics, but I would say that this is very suggestive, in a number of ways.

If we begin by believing that the balance of trade deficit with China is a proxy for Chinese economic support overall for DPRK -- and we may argue about that, because it may not be true -- but if it is, then it would seem that the revenue sources, at least as revealed here, from all other sorts of areas -- including from the illicit ones that Sheena has been mentioning -- have also gone down very dramatically.

There are different interpretations that one can make for that. One might say this shows the success of international sanctions and of PSI. One might say that this is showing the diminished involvement on the DPRK side, but what we can certainly say is that it looks as if increased Chinese support for North Korea has been the lifeline that has made this story of improved North Korean trade performance possible -- and it may also be that increased North Korean support from China has made other sorts of illicit activities less desperately important for the regime.

DR. BUSH: Marcus?

MARCUS NOLAND: Well, thank you very much. It is an honor to participate in this event. It's a pleasure to be back at Brookings.

I would particularly like to congratulate the audience. I'm quite shocked at how many people are here today. I had lunch with my wife at the World Bank, at the corner of N and Connecticut. And between N and Connecticut and my office directly across the street, I got completely soaked. Fortunately, I had a complete change of clothes. I actually had a really elegant suit I was going to wear today, but I had a complete change of clothes. And I figured, you know, we were going to have, like, 12 people here. So, I congratulate you for making it to this meeting.

If, 20 years ago, one was asked to discuss the role of illicit activities in financing the North Korean regime, one would have described these activities as significant, rising in importance, and centrally directed. And the report by Sheena Chestnut Greitens's "Illicit: North Korea's Evolving Operations to Earn Hard Currency" suggests that we reappraise each of these conclusions.

North Korea has long engaged in illicit activities of various sorts, including

counterfeiting, smuggling, drug trafficking, insurance fraud, and so on. I believe it is likely that illicit activities account for a declining share of North Korea's trade.

As part of a book that I am coauthoring with Steph Haggard, we have estimated that this share has been drifting down for more than a decade as legitimate trade has expanded and intensified interdiction efforts have crimped criminal activities. And we estimate in recent years, the illicit share of exports was in the range of five to 20 percent, with a central estimate around 10 percent. That may be a little low for 2013 or 2014.

The Syrian Civil War is a good war, and it's likely that North Korea is now making more money off of arms sales than it was before the Syrian Civil War started.

So, these numbers bounce around, and they are, by definition, highly speculative.

A related issue is the degree to which the central authorities control these activities. Some of these activities are almost surely subject to central control. Some are probably conducted by state entities, but without direction from the central authorities -- or, perhaps, without even their specific knowledge. Some of these activities may be conducted by what amount to local criminal gangs, which may include state, military, and party officials as participants. Some of these activities may be organized by Chinese or other foreign gangs with the acquiescence of the North Korean authorities.

Several years ago, for example, there was a crackdown on intellectual property rights theft in China, and it appears that some of the counterfeiting activity moved across the border into North Korea, where control was more lax.

The message is not that we should slack off on our attempts to eradicate these activities; even if they account for a declining share of the North Korean economy, they are still objectionable.

Some of these activities would trigger provisions under legislation currently before Congress -- H.R. 1771, the North Korean Sanctions Enforcement Act, introduced by Congressman Royce, with more than 100 cosponsors, both Democrat and Republican.

It is very wide-ranging legislation. I think it's fair to say we have the principle author in the room. But staffers are not supposed to take credit for these sorts of things; they're supposed to allow the Congressman to take credit. So, we will give credit to Congressman Royce for his able selection of staffers.

It's very wide-ranging legislation, but a number of the provisions touch upon the topic of the day. One of the aims of the legislation is to sanction entities, officials, and financial institutions that facilitate proliferation, illicit activities, arms trafficking, imports of luxury goods, severe human rights abuses, cash smuggling, and censorship by the government of North Korea.

On the financial front, the legislation excludes from the U.S. market

counterparties of any North Korean banker entity designated under either the United Nations Security Council resolutions or U.S. executive orders, including specialized financial messaging systems. North Korean banks that are not designated are subject to enhanced due diligence under Section 311 of the Patriot Act, and, by extension, their counterparties are put on notice that they are next in line, so to speak.

Third-country banks that enable North Korean proliferation or arms smuggling, or that fail to comply with terms of U.N. Security Council resolutions can also be sanctioned.

Firms that have any transactions with these sanctioned entities are required to report these transactions to the Security Exchange Commission. The Treasury is encouraged to encourage foreign governments and banks to block funds that are accumulated through misappropriation. State and local governments, including their pension systems, are encouraged to divest from firms having any investment relationship with North Korea while the country is subject to sanctions.

In short, particularly if the President, through executive orders, wants to make it so, this pretty much amounts to a total blockade on U.N. or U.S.-designated bad actors, and, in effect, a market-driven secondary boycott on their counterparties.

Proceeds from penalties of sales of seized assets, et cetera -- if we managed to ever get a hold of the printing presses that are making the super notes -- those go into a North Korean enforcement and humanitarian fund used to support the activities of the existing North Korean Human Rights Act.

Shipping services constitute a second front. Cargo that moves through ports that consistently fail to inspect North Korean cargo, as required by Security Council resolutions will face enhanced inspection requirements at U.S. ports. In other words, anything that has passed through Dandong should expect delays in the U.S.

Humanitarian aid, non-luxury food, agricultural inputs, and medical equipment, so on, are excluded from these provisions, and the President has given a broad waiver of authority.

Finally, the sanctions are to be suspended or terminated when the government of North Korea has met a series of goals. Two of these are particularly relevant to our discussions this afternoon.

One is the verifiably ceased counterfeiting of United States currency, including the surrender or destruction of specialized materials and equipment particularly suitable for counterfeiting -- and taking steps towards financial transparency, to comply with generally accepted protocols to cease and prevent the laundering of monetary instruments.

This legislation, as I said, has more than, I think, 130 cosponsors in the

House of Representatives. It does not have any cosponsor or supporter in the Senate, but that situation could change.

In short, North Korea's continued involvement in a variety of illicit activities is likely to draw increasing scrutiny here in the United States. But we should not make the analytical mistake of believing that shutting down these activities will halt the North Korean nuclear program or bring down the regimes.

The implications that I draw from "Illicit: North Korea's Evolving Operations to Earn Hard Currency" appear to be that the expansion of legitimate trade in recent years has made North Korea less dependent on criminal activities, and less vulnerable to their disruption -- and that part-and-parcel of the marketization and decentralization of the North Korean economy that we have observed over the last two decades is that the state appears to be losing its monopoly over criminal activities, as well.

Again, my congratulations to Sheena Chestnut Greitens for this very informative report, and I look forward to our discussion.

DR. BUSH: Okay. Thank you very much.

Sheena, do you want to comment on anything that Nick or Mark has said?

DR. GREITENS: I think we can go ahead and open it up for questions, and maybe I'll circle back at the end.

DR. BUSH: Okay. The rules are: Wait for the mic, identify yourself, and keep your questions short.

I saw a hand over there.

QUESTION: Hi. My name is Contessa Bourbon, from The New York Times.

I'd like to ask the panelists, how do sanctions or increased sanctions impact the illicit activities or illicit trade in North Korea?

DR. GREITENS: The short answer, I think, is that it depends very much on the type of sanction or financial measure that is being applied. Some of the things that have commonly been referred to as sanctions, I think it's a little bit misleading to term as such.

And those include some of the most effective financial measures that we've seen, such as the Section 311 designation of Banco Delta Asia, in Macao, as an institution of primary money laundering concern.

And the reason that I say that it's a little bit misleading to call that a sanction

is that its effectiveness and its impact depends, actually, on risk judgments that are made by banks, by private banks. And the United States, obviously -- and the Treasury Department -- can influence those risk assessments, but the sort of actual judgment and ability to act on it rests with the bank.

And so I think that those measures are more targeted. They are more narrow in their scope and applicability, because they depend on the presence of some fairly specific activities and a fairly high evidentiary bar that these activities are taking place.

Those financial measures, again, while they tend to have a narrower range of application, seem to be highly effective -- and seem to have been highly effective when they've been applied to North Korea.

There's obviously a much broader range of sanctions. And rather than try to go through each of them and the pros and cons, I'll maybe just stay with the financial measures, because those are the measures that have really been used to target illicit activities.

I don't know if Mark or Nick wanted to add anything.

DR. BUSH: We'll take the two questions here -- first here, in the second row -- and then --

QUESTION: I'm Peter Humphrey. I'm an intel analyst.

The Syrians acquired, essentially, a turnkey nuclear weapon construction project from North Korea -- maybe \$0.5 billion, as a number. So, that's a one-time spike early in the analysis period. That doesn't seem to show up on any of these charts -- or even Dr. Eberstadt's charts. And I'm thinking that Kim Jong-il probably didn't send the check back when the Israelis deconstructed the terms of the deal.

I'm just saying that I think there's a huge chunk of missing data early in the analysis period.

DR. EBERSTADT: Of course. I mean, this is our -- we're using very, very blunt instruments here. This is as good as I think we can get from open sources.

There's another big unknown -- at least to me -- which tracks with Sheena's study and with the stuff that Mark has worked on, as well -- which is the size of the Kim Dynasty's fortune overseas. That's the stock. All of these things that we're thinking about are flows.

If I thought that I knew what the Kim Dynasty's loot bag looked like overseas, I'd have an awful lot better sense of what actually is going on in the illicit commerce. I don't. I wish I knew.

DR. NOLAND: I'd like to add one thing, which is the Converse case. I mean, first of all, we don't know \$0.5 billion, and we don't know what the payment stream is like. Presumably, it was not one check for \$0.5 billion.

But the flipside is also problematic in this area, and I'll give you an example. It appears that in 2002, an employee of the U.S. government -- probably with DIA -- made some kind of statement in Seoul, to the effect that North Korea was earning \$540 million, I believe, in missile sales.

That may have been a true statement at some point in time, but in the absence of any real data, this statement gets repeated like an echo chamber. So, if you read the popular press, North Korea makes \$540 million every year from missile sales.

And, like I said, the Syrian Civil War's probably been good for business -- you know, just like the Iran-Iraq War was good for business. But those are not permanent, you know, they're not permanent events, either.

And so while it is true that some of this analysis may miss things like selling nuclear reactors to Syria, I would caution you not to believe everything you read in the newspaper, which takes numbers plucked from some point in time, and applies them to situations that are now quite different.

DR. BUSH: Sheena?

DR. GREITENS: Just to add two main points to that. The first is the one that Mark just made, in slightly different language. That arms sales, as with some other forms of illicit activity, are lumpy. And so the year-on-year variation can be extraordinarily high.

That's even more true when you have a regime that is adapting and constantly looking for new sources of activity -- or switching which ones it puts emphasis on, depending on the enforcement environment.

The second point has to do with what seizure data actually tell you. And when you're estimating income from seizure data, you could have sort of perfect data on the amounts that are seized, and analysts would still disagree on what kind of income North Korea was getting. That's true for two reasons.

First, I remember reading at some point -- probably not an authoritative estimate, but at some point during its drug campaigns -- the United States drug war -- the United States government issued an estimate that it thought it was capturing about 10 percent of the drugs coming into United States, crossing the United States border.

They based that on fluctuations in market price that they used to estimate the volume of total drugs that must be available in the market, relative to what they had in terms of seizures. That suggests that seizure data grossly under-represents -- or at least has

the potential to grossly under-represent the overall volume of product that is being moved.

But what often happens in the reports on these incidents is that the sort of street value of these drugs is used to suggest how much money North Korea might be making. And that's not true. North Korea is operating usually as a wholesaler. And there are multiple links in the chain, where the drug is resold for higher and higher value each time, so that each of those middlemen make money.

And there is some good evidence from the interviews I've done on counterfeit currency, resale, and drug resale that North Korea might be making somewhere between -- in the low case, 30 or 40 cents on the dollar for a counterfeit bill -- or sort of a much -- sort of 30 percent of the street value of a drug. Sometimes, it might be as high as 60; it really depends on the structure of the network, and the number of times of resale, and the risk involved -- because a higher risk individual resale leads to a higher price increase.

So, you could have pretty good seizure data, and you would still have analysts who would end up with pretty different estimates of the actual income to North Korea -- because you'd have these two crosscutting trends. You'd have this potential for seizure data to be under-representing the total volume, but the street value is clearly over-representing the income acquired from a particular sale.

And the fact that you have these two trends means that no two people are ever going to agree on exactly how much is -- the sort of total amount that the regime might be making, even from a particular set of activities each year.

DR. BUSH: Okay, right here.

QUESTION: Hi. I'm Brad Harris. I'm an intern at HRNK.

I'm curious -- in the last few years, the regime has put a few economic reforms, especially the 628 economic reforms -- and they've tried to put more emphasis on different special economic zones. Have these reforms had any impact at all on the North Korean economy? Can you comment -- tell us anything about if it's had any impact?

DR. NOLAND: Well, Eric Schmidt, head of Google, one of the world's most dynamic and innovative companies, came to town. Kim Jong-un couldn't find time on the schedule. Dennis Rodman, circus act, came to town, and he had days to party with him.

I would describe North Korean economic policy as flailing. It's just the grab bag. There appears to be no overarching strategy.

As far as I know, the 628 reforms were not actually really implemented. They're sort of a subject of discussion. A lot of people like us got very excited about them, but I don't know a lot about on-the-ground implementation.

Special economic zones -- you know, look, it's a good sign. But we now have a very large corpus of data on special economic zones from around the world. Baseline, if you look at that data -- and this is not talking about North Korea; this is all over the world, globally -- they failed. They generally are not commercially viable.

The reason they're not commercially viable is because the political leadership decided to set up a special economic zone, but it was not actually committed to any of the sort of economic measures that would be necessary to make it work.

When you look at the special economics, one of the key reasons a special economic zone works are twofold -- and they have to do with spillovers or linkages for the rest of the economy.

The first one is if you literally get what economists call backwards and forwards linkages to the rest of the economy. So, do firms operating in special economic zones begin sourcing inputs from indigenous firms?

Second one is a process of technology transfer -- technology defined very broadly, to include management skills. So, does a local hire in some sort of, you know, brake lining factory in an SEZ, work there for a couple years and decide, you know, I could operate a factory, too, and go out, and set up his own factory using the skills that he learned working for the foreign-invested enterprise.

One of the striking things about the case on the Kaesŏng Industrial Complex is the complete and total absence of any of those linkages. When I visited Kaesŏng, I asked repeatedly, "Do you source any materials from the North Korean economy?"

And, finally, somebody from Hyundai Asan said that, yeah, they had bought some gravel from a local quarry that they were using in making a road.

So, you know, would I like to see North Korea succeed? Yes. Would I like to see better economic policies? Yes. Would I like to see reforms? Yes. Will some of these 14 SEZs that they have announced -- will they turn out to be useful, and viable, and working? I hope so.

But I think that a reasonable observer, starting with a baseline of what has been observed across the world, would have to say that the likelihood of that occurring is relatively low.

DR. GREITENS: So, I would add to that. First, I agree entirely that there's a real lack of clarity on how serious the regime might be about some of these economic reforms.

Second, even if they are more serious about it, it's not clear that they're going to work. And I think that's true for a couple of reasons, some of which Mark

mentioned, but some of which are things like the development of the rule of law, and what would make North Korea attractive to a foreign investor?

To get money or investment coming into North Korea, you need to know that you're going to be able to get the profits back out. And in one of the major high-profile cases, the Orascom Telecommunications deal, Orascom hasn't been able to repatriate, to my knowledge, any of the profits. And they've made public complaints to that effect recently.

I also think, you know, people often want to look at and suggest that North Korea may be looking at China as a model for special economic zones and gradual economic development. But there's a very different market opportunity in China than there is in North Korea.

And, again, I think when you're a foreign investor, looking at what makes an investment attractive or desirable, you know, a higher reward and a lower risk is a good bet. And right now, North Korea appears to be high risk, if you look at the Orascom case as a precedent -- and relatively low reward.

And just, again, to confirm what Mark was saying about Kaesŏng -- Kaesŏng is a case where the regime makes money in dollars, and takes a large cut, and then pays its workers in North Korean won. Again, that's just another example of how there really isn't a broader domestic linkage; it's very isolated to a sort of regime-specific form of income. It's really pretty isolated from the rest of the economy.

I would submit that the black market is having a much bigger effect -- a more broadly distributed and integrated effect than what's happening at places like Kaesŏng, and that, unfortunately, the special economic zones -- to the extent that they take off -- would be more likely to look like Kaesŏng than some of this other market activity.

DR. EBERSTADT: One more point to make on this: The North Korean regime has avoided reforms so far; has not reformed so far -- not because they forgot about it, because they somehow overlooked it for the last 60 years.

There is a deep logic to the behavior of the North Korean regime. And what Mark and other economists will describe as backwards and forward linkages in potential projects or other operations are described by the DPRK officialdom as ideological and cultural poisoning.

Google -- you'll see their description of how regimes like the Soviet Union come down. And it all starts out with little things like joint ventures, and cultural exchanges, and things like that. So, there's a reason these things haven't happened so far.

And it's very important -- and, alas, among people who write about North Korea in the press and elsewhere -- not always done -- to make the conceptual distinction between economic changes on the one hand, regime-directed reforms on the other, and

systemic decay. Systemic decay gets you economic change, too.

DR. BUSH: A question in the back?

QUESTION: Daniel Long, from the RFK Center.

Thank you very much, Dr. Greitens, for your insightful study. You mentioned that, since 2005 and the third phase, that North Korea's illicit economy has had the grayest and most negative impact on China. I haven't been able to read the study yet, so I was wondering if you could elaborate on what the negative impact is, and then how China considers -- if I can ask you to speculate a little bit -- how China considers this negative impact in their calculus of continuing to harbor North Korea.

The panelists also mentioned that there was an increase in Chinese exports to North Korea. So, given that beneficial relationship, how do we start thinking about leveraging the illicit activities, to maybe partition the relationship?

DR. GREITENS: Thanks.

When I talk about that, I'm talking primarily about the impact of the cross-border drug trade. And that's something that Chinese scholars who were based in the Northeast, and who work on drug issues in China -- as well as officials -- have been pretty vocal about the developments -- particularly of a methamphetamine problem in the Northeastern provinces.

That said, this is clearly a politically sensitive issue, and you see that reflected in the press reports on incidents to do with the cross-border illicit drug trade, where, when seizures are made, they're often explained as a foreigner named Kim was picked up for trafficking methamphetamine in Dandong or in Yanji.

And the implication is usually clear by inference or by the name of the person. But there is a sort of elliptical way of often referring to it.

That said, I think that China's very clear -- a sort of increase in trade and economic support for North Korea has also been paired, since right around 2005 -- or a little bit later; maybe 2008 -- with a pretty clear law enforcement campaign against drug smuggling networks in that area.

And if you want to chat afterwards, I can give you some of the references for media articles that have appeared in the Chinese press. This is all fairly public. This is something that the campaign itself has been very transparent, even if the references to -- the source of the problem has been a little bit elliptical.

DR. NOLAND: Can I add something to that? I mean, you said something about leveraging this, you know, in China or something.

First of all, I had to get Greg Scarlatoiu to tell me what the cover was. I guess I'm hopelessly naïve. That is crystal meth. Apparently, that is a large component of this illicit activity across the Chinese border.

DR. BUSH: How did Greg know?

DR. NOLAND: Well, you'll have to ask him. He chose the photo, probably.

Look, we have a booming, legitimate trade with Mexico. We also have a booming drugs trade with Mexico. If somebody came to the United States and said, you know, "You guys have a lot of drugs trade with Mexico. Why don't we shut down the Mexican border?" there would probably be some objections from the U.S. Chamber of Commerce.

So, yes, there is this problem. My sense is, the Chinese are not happy about North Koreans shipping crystal meth to China. But I don't think they're also going to cut off all the coal imports, or all the imports of minerals, or stop selling cheap consumer electronics to the North Koreans because of it.

DR. BUSH: Okay -- question right here? Wait for the mic, please -- or speak loudly.

QUESTION: Good afternoon. I'm Joshua Stanton. My question is about linguistics, because it appears that economists and lawyers have different definitions of "illicit activities." So, I hear you addressing that 10 percent of North Korea's national income that is traceable to illicit activity.

I wonder if one of you -- and perhaps this would be Sheena -- would expand on things like the restaurant business that North Korea has overseas, or the construction of monuments -- which the panel of experts report sort of casts suspicion on, as maybe being a front for money laundering -- and give us a rough idea of whether that adds another five percent or another 10 percent -- because lawyers, when they talk about illegal activity, they also talked about comingling. The essence of money laundering is that you mix illegal money with fronts that are ostensibly legal things.

So, do you have any general sense of what additional percentage is added by ostensibly legal fronts?

DR. GREITENS: That's a great question. And we went through the various iterations of the report, this was something that we talked a lot about and debated. We decided to, in the report, define it relatively narrowly, in part to avoid criticism that we were counting things as illicit that shouldn't be counted, and that, therefore, we were somehow exaggerating in order to sensationalize the problem. I don't think it needs sensationalization.

I agree with you, that there's a real question as to the extent to which legitimate operations may be used for this comingling process. And my understanding is that once a particular bank account receives an illicitly gained deposit that all of the money in that account, therefore, becomes tainted as a result.

The problem I think, is that, so far, we don't have clear evidence that restaurants or the statue-building business has received these illicit funds.

And so at least that's sort of a speculation too far, in terms of what I'm willing to say that you should include all or part of these activities. Absent that evidence, I just don't know that there's any way that you can make sort of percentage adjustments using that.

I will also say I think, you know, the panel of experts work has been very helpful, in that I think it points to some similar conclusions about areas that we don't know much about, particularly banking.

When I read the mission or the mandate of the panel, it is limited to proliferation, because proliferation now -- sort of according to U.N. resolution and the resulting set of domestic legislation in various countries has become illegal.

But I think my understanding is that the mandate for the panel is limited to investigating cases that are related to proliferation.

And so I think, then, there is a real missing area, where we don't have information on activities and banking that is illicit, but the piece that's not directed at proliferation. I just think there's an investigative gap there.

That's probably an unsatisfying answer, but it's the most accurate one I think I can give.

DR. BUSH: Other comments from economists, as opposed to lawyers?

Okay, right here.

QUESTION: Thank you. I'm Gerald Chandler. I'd like to ask some questions about cell phones that are -- you emphasize in your report the economic aspect. But how about the -- let me just call it the breakdown of the regime.

Are there forces there that have made the government reluctantly agree to have greater communication among citizens? Does that indicate that people in North Korea know more about what's going on outside, and say, "If they can have them, why can't we?"

And can you use China as a model of this. As far as I can tell, over the last 20 years, the amount of publicly tolerated dissented has gone up and up. They're not

democratic yet, but they do tolerate more dissent. Is that going to happen in Korea?

DR. GREITENS: I think that there's potential for the introduction of cell phones to be a positive force in North Korea society -- not least, actually, because it facilitates the development of a quasi-national marketplace, but, also, because it allows people to talk to their families, and sort of help facilitate communication.

But I think that communication can also be leveraged by the North Korean regime. And when we talk about the development of technology, there is, I think, a tendency to view it as something that empowers citizens, and not to look at the converse -- which is the ways that it can empower a nondemocratic regime, as well.

And that can happen, I think, in two ways. For example, technology the world over is used by governments for surveillance purposes. And we certainly assume, and we know a little bit about how that process works in North Korea, but I think there's no question that, along with the increased ability to communicate, there's probably some increase in government's ability to track communications.

And there's also sort of an increased ability to use technology to disseminate North Korea's own propaganda and its own story to its citizens. North Koreans who have cell phones get daily propaganda texts.

And both of these are also true in the Chinese case, where surveillance and sort of positive activism on the part of various pieces of the Chinese official apparatus make use of technology, as well.

So, I think there's some potential there, but I, myself, I'm actually fairly skeptical of the ability of technology to have this transformative impact -- particularly when it's done in ways that are so tightly controlled and introduced by the regime.

I would, in North Korea's case, say that part of what happened is that the introduction of cell phones was, again, a sort of response to the development of an informal or unofficial cell phone network across the Chinese border, which the regime did not have control, and that, actually, what's happened in many ways is that the regime has substituted a cell phone network that it does control, that it can monitor and it can access, for the one that it previously wasn't able to.

And to me, that's actually probably not necessarily a balance that works in favor of citizen empowerment.

DR. NOLAND: Can I follow onto that -- because I think that last point is absolutely critical.

Everything we know -- or we think we know -- suggests that the regime is intensifying the crackdown on use of cell phones that operate on the Chinese network. That they see as a threat, and they are employing all sorts of technology, all sorts of secret

police to try to root out the use of cell phones that operate on the Chinese network.

The internal network potentially has this kind of, you know, washing machine information circulation function. I personally believe that if there had not been a significant number of cell phones internally when they had the failed missile launch in February 2012, they would not have announced it.

The problem is, they had brought in all the foreigners. The missile launch failed. All the foreign news bureaus -- BBC, CNN, Al Jazeera -- everybody was calling their reporters. So, word was getting out within North Korea that the launch had failed. Once that information is in the system, now that local cell phone network becomes a mechanism for propagating it.

Final point: You know, my training is in economics, not in engineering. But my understanding is that we have a number of technologies, some of which were developed in Iraq and Afghanistan -- some not -- that would increasingly allow us to actually broadcast into the smartphones that are being operated in North Korea. And I think we should take advantage of that.

I would not start out with propaganda. I would start out with something useful, like weather reports, crop reports, information on prices for commodities in various locations in the country -- all the things that, you know, basically, poor people with cell phones elsewhere in the world find really useful.

And then once we get them hooked, I mean, then we can send the propaganda in.

DR. BUSH: You've been very patient.

QUESTION: Thank you. Hi -- Claudia Rosett.

Question for Sheena, but then all of you on the data: It's 1976 to 2005 -- or '06, in some cases. Is that driven by an inflexion point you found in continuous data, or by when you were able to get a window on it?

And could I ask all of you, are there political inflexion points, domestic or foreign, that seem to drive what you're seeing in the shifts of illicit activity?

In other words, 2005 -- what happened?

DR. GREITENS: So, there is a clear break in the seizure data around 2005, 2006. It's not a sort of black-to-white shift; it's a shift in the shades of gray, in terms of the seizure data. So, you see some cases that are after 2005 or '06 that are more typical of the 1995 to 2005 period.

The case that's pending in New York, I think, would be one of those. But

that case is the exception after 2005, rather than the rule.

And the pattern really becomes one of these small-scale seizures by sort of more ordinary people across the Korean-Chinese border -- sometimes with involvement in resale to South Korea or Japan.

So, there is an empirical break in the data -- which was surprising, actually. I think when we started this project, we didn't necessarily expect to find that there was this qualitatively different phase of activity, and that was very interesting.

I mentioned at the very beginning that I think there are three possible factors that contributed to that. One is a long-term process in which there was not necessarily a discontinuity in 2005. It's the sort of gradual accumulation of market processes and marketization at the ground level -- the growth of the black market -- again, the accumulation of that process inside North Korea.

Where there was a pretty clear discontinuity was in the enforcement environment. Over the course of 2005-2006, the United States government had a series of actions, as you probably know, that were designed to target North Korean sources of illicit finance.

That included the most high-profile ones -- the designation of Banco Delta Asia as a money-laundering concern, Section 311 of the Patriot Act. But it also included things like Operations Royal Charm and Smoking Dragon in California and New Jersey that shut down networks that were, in some cases, bringing illicit products made in North Korea into the United States, and the indictment of Seán Garland, a member of the official IRA, for running a counterfeit distribution ring in Europe. It distributed the North Korean super notes.

You had three fairly closely linked different incidents, combined with a campaign, I would say, by Treasury officials Daniel Glaser and Stuart Levey, going around, making banks aware of the risks of doing business with North Korea in the aftermath especially of Banco Delta Asia. And that sent a pretty clear message.

And every indication we have is that that policy measure has been the single most effective thing -- or the single most response-producing thing that the United States has done in a long time, in terms of getting the attention of the North Korean leadership.

The other thing that I mentioned briefly earlier is the possibility that some of this is related to a change in Kim Jong-il's role. Again, this is speculative, but this activity, in sort of the first phase, is correlated with his rise to power. We have some suggestions that he pioneered some of these hard currency-earning operations as a way of accumulating funds for, for example, the glorification of his father, for particularly significant anniversaries.

The sort of middle phase obviously correlates with his assumption of formal

power, and then there is, I think, an open question about -- we don't have any evidence necessarily to suggest this, but it does kind of lead to some speculation that perhaps a shift that took place in the latter half of the 2000s could be related to changes in his role in the management of hard currency-earning operations, especially as his health declined.

Again, I don't have any inside information that would confirm that that's taking place, but it seems at least possible and worth mentioning.

DR. BUSH: Well, we've come to the end of our time. I'd like to commend the Committee on Human Rights in North Korea for sponsoring research that is objective, methodologically sound, and forces us to examine the assumptions of policy. That's a very useful service.

I'd like to thank Mark and Nick for participating today. Nick mentioned that Sheena is a rising star. I think you now understand why that is true. And please join me in thanking her.

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