

North Korea's Connection to International Trade in Drugs,
Counterfeiting, and Arms

Testimony of

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Mr. Chairman and distinguished members of the Committee, thank you for inviting me to address the North Korean connection to international trade in drugs, counterfeiting, and arms.

North Korea's exports from legitimate businesses in 2001 totaled just \$650 million, according to *Wall Street Journal* reports of April 23, 2003, citing South Korea's central bank. Income to Pyongyang from illegal drugs in the same year ran between \$500 million and \$1 billion, while missile sales earned Pyongyang about \$560 million in 2001. North Korea is producing some 40 tons of opium a year, according to U.S. Forces Korea officials cited in *The Guardian* on January 20, 2003, and earns some \$100 million a year from counterfeiting currency.¹

Thus, like the regime of Saddam Hussein, the Kim Jong-il regime resembles a cult-based, family-run criminal enterprise rather than a government. And, like the former government of Saddam Hussein, the regime of Kim Jong-il operates with a complete disregard for international law and human life. The famine that Kim Jong-il permitted to continue in North Korea killed as many as 3 million people.²

The disclosures now coming out about the way that Saddam Hussein and the Baath party ran Iraq show us what happens when a criminal gang takes over a nation and turns all of its resources to support the thugs in power. Unrestrained brutality, murder, torture, rape, and plunder were inflicted on the people of Iraq by the family of criminals

¹ Economist Intelligence Unit, "Country Report, 2003."

from Tikrit. Of course, Saddam Hussein and his thugs could get rich and keep the state running because Iraq has so much oil. Kim Jong-il does the same to North Korea while kidnapping people from Japan and South Korea.

North Korea has no oil to export. In fact, it is one of the most repressed economies in the world, according to the *Index of Economic Freedom*, published annually by the *Wall Street Journal* and The Heritage Foundation. North Korea has no viable economy at all, its only major exports being dangerous weapons and dangerous drugs. To maintain himself in power, Kim Jong-il must ensure that the cadre of the Korean Workers Party, the North Korean People's Army, and the People's Security Force—his communist political base—are fed and have heat in the winter. Kim is aided in this goal primarily by the People's Republic of China, the communist leadership of which has vowed not to let North Korea collapse.

North Korea's international behavior and lack of a viable economy present a security dilemma of major consequence for the world. Our attention was most recently focused on the problem of North Korea's criminal behavior by the Australian Navy's apprehension of a North Korean ship carrying 110 pounds of heroin worth \$50 million on April 20 in the Tasman Sea off Australia.³

² Kang Chol-hwan and Pierre Rigoulot, *The Aquariums of Pyongyang* (New York: Basic Books, 2001), p. xiv.

³ *The Wall Street Journal*, April 20, 2003.

There are also persistent stories about North Korean diplomats carrying illegal drugs across borders in diplomatic pouches.⁴ In 1994, China stopped North Korean embassy employees smuggling 6 kilograms of North Korean-grown opium into China. In 1995, officials of the North Korean Ministry of People's Armed Forces were arrested by China. Austin Bay discusses these in a *Washington Times* opinion piece of May 15, 2003. The drugs are deadly, and the way that Pyongyang ships them around the world is but one of the indicators that under Kim Jong-il, North Korea is a rogue state. North Korea's behavior would be much more deadly if, instead of drugs and counterfeit money, Kim Jong-il was shipping weapons-grade nuclear material or nuclear weapons to terrorists and other failed states.

The Drug Trade

North Korea ships drugs everywhere. In my view, in a country where such strict government control is exercised over all aspects of personal and public life, such actions reflect a conscious government policy. The United States Department of State, in its annual *International Narcotics Control Strategy Report*, is reluctant to make that analytical judgment. In 1999, for instance, the State Department wrote that:

There have been regular reports from many official and unofficial sources for at least the last 20–30 years that the Democratic People's Republic of Korea

⁴North Korean Advisory Group, *Report to The Speaker, U.S. House of Representatives* (Washington, D.C.: U.S. Congress, November 1999), p. 39.

encourages illicit opium cultivation and engages in trafficking of opiates and other narcotic drugs.⁵

However, the State Department report goes on to say that “We have not been able to confirm the extent of North Korea’s opium production, though we did receive one eye-witness report of ‘large fields’ of opium growing in North Korea.” The State Department report in 1999 “estimated” that opium production in North Korea was between 30 metric tons and 44 metric tons.⁶

Mr. Chairman, I find this statement shameful. Either American intelligence is inadequate, or the State Department can’t bring itself to make a judgment call. If United States space surveillance assets cannot find and confirm the existence of opium poppies, which are brightly colored, seasonal, and grow above ground, we will never get adequate intelligence on North Korea’s underground missile and nuclear weapons programs.

North Korean diplomats, workers, and officials have been caught selling opiates—including heroin, amphetamines, and ryhopnol (known as the “date rape drug”)—in Japan, China, Russia, Taiwan, Egypt, the Czech Republic, Bulgaria, Taiwan, and South Korea.⁷ Yet in its 2003 *International Narcotics Control Strategy Report*, the Department of State manages to conclude that there is “no to conclusive evidence of illicit opium production in North Korea.”

⁵ Bureau of International Narcotics and Law Enforcement, *International Narcotics Control Strategy Report* (Washington, D.C.: U.S. Department of State, 1999); hereafter cited as *INSCR*.

⁶ *INSCR*, 1999.

⁷ *INSCR*, 1999, 2000, 2001, 2002.

Mr. Chairman, as you may know, from 1988 to 1990, and then again from 1995 to 1997, I was a military attaché at the United States Embassy in China. During that period, I received a number of very credible reports from reliable sources of Chinese nuclear assistance to Pakistan and of the shipment of Chinese missiles and missile technology to Pakistan. Yet the Department of State could not conclusively say that there was such assistance until Pakistan tested its first missile and its nuclear weapons. I am a little skeptical of statements by the Department of State that “evidence is inconclusive.”

In January 2002, Japanese officials seized 150 kilograms of methamphetamine from a North Korean vessel, and in July 2002, Taiwan government officials apprehended 9 men carrying 79 kilograms of Heroin.⁸

Clearly, Mr. Chairman, one way to put some pressure on North Korea is to mount a major international, worldwide diplomatic effort encouraging other countries to pay extra attention to North Korean drug trafficking and to apprehend those North Koreans, including diplomats, military, and government officials who transport and sell drugs. Even China, where the most senior officials of the People’s Liberation Army have said that “China will not permit North Korea to collapse,” is likely to assist in a concerted drug interdiction effort.

Shoring up a Failed Economy with Counterfeit Currency

North Korea's gross domestic product (GDP) in 2001 was US\$15.7 billion. It exported \$826 million in goods and imported \$1,847 billion, leaving it a negative trade balance of -\$1,021 billion.⁹

North Korea has some brown coal but lacks coking coal and has no viable oil and gas deposits. The electric power transmission grid in North Korea loses about 30 percent of the power it transmits. One would think that any available funds would be used to upgrade this electrical transmission capacity. Instead, North Korea invested US\$10 million in an intaglio printing press, the same type used by the United States Bureau of Engraving and Printing.

In 1999, the U.S. Congressional Research Service estimated that Pyongyang was producing and passing in foreign countries US\$15 million a year in counterfeit currency.¹⁰ Pyongyang passes its fake bills everywhere. In April 1998, Russian police arrested a North Korean who was passing US\$30,000 in counterfeit bills.¹¹

Missile Sales

North Korea has exported significant ballistic missile-related equipment, parts, materials, and technical expertise to South America, Africa, the Middle East, South Asia,

8 *INSCR*, 2002.

9 Economist Intelligence Unit, "Country Profile, 2003."

10 *Australian Financial News*, June 17, 2000; *North Korean Advisory Group Final Report*, 1999, p. 38.

11 *INSCR*, 1999.

and North Africa.¹² China has been a close partner of North Korea in missile sales, often teaming with the North when Pyongyang had specific “niche” capabilities sought by other countries.

Pyongyang has made some US\$580 million in missile sales to the Middle East, but there are other regular customers for North Korean missiles.¹³ In 1993, Iran sought to acquire 150 Nodong-1 missiles (a variant of the Russian Scud) and also paid North Korea US\$500 million for further missile development as well as technology for nuclear weapons.¹⁴ In August 1994, according to the publication *Iran Brief*, U.S. reconnaissance satellites captured images of three of these Nodong missiles being assembled 25 miles north of Esfahan, Iran. Zaire also concluded a US\$100 million deal for North Korean missiles in 1994.¹⁵

In 1995, the Central Intelligence Agency confirmed the transfer of a number of Scud transporter-erector-launchers (TELS) to Iran.¹⁶ In one reported deal, Iran proposed to pay for missiles from North Korea with oil. By 1997, China and North Korea were sending a joint team of technicians to Iran to work on the North Korean missile program.¹⁷

12 *Geostrategy Direct*, April 22, 2003, citing a CIA report of April 10, 2003, entitled *North Korea Not Backing off From Missile Exports*.

13 *The Yomiuri Shimbun*, May 12, 2003.

14 *U.S. News and World Report*, March 29, 1993, p. 18; *The Washington Times*, March 19, 1993, p. A2.

15 *Le Point*, January 28, 1995, p. 19.

16 *Defense Week*, May 1, 1995, p. 1.

17 *The Washington Times*, November 23, 1997, pp. 1, 5.

There was also a set of barter arrangements between North Korea and Syria for missiles. Syria reportedly shipped Soviet SS-21 short-range ballistic missiles to North Korea, which Pyongyang planned to reverse engineer and use to improve the accuracy of the Scud missile.¹⁸

The United States government believes that Pakistan's Ghauri missile (1,500-kilometer range) was based on technology and help provided by North Korea. In the case of Pakistan, from the late 1980s, China supplied nuclear-related technology and M-11 missiles while North Korea helped by providing expertise in the manufacture of the Ghauri, another class of missile.¹⁹ The Ghauri is a liquid-fueled version of the Nodong missile.²⁰ In 1998, India stopped and detained a North Korean ship at Kandia that contained 148 crates of blueprints, machinery, and parts for ballistic missile production on the way to Pakistan.²¹

As the world saw in December 2002, when the Spanish Navy intercepted a North Korean ship carrying parts for a dozen Scud missiles on the way to Yemen, the missile export problem can be particularly vexing. Compliance with the multilateral Missile Technology Control Regime is voluntary, and the sale of these missiles does not violate

¹⁸ *Janes International Defense Review*, February 1997, pp. 1–4.

¹⁹ The M-11, or Dong Feng-11, has a range of between 280 and 400 kilometers and can carry a warhead of between 500 and 800 kilograms. It exceeds the 500kg/300km limitations of the Missile Technology Control Regime (MTCR). China is not a signatory to the MTCR but Chinese officials have made statements that China would “act responsibly” within the limits of the MTCR. The early Pakistan version of the M-11 is known as the Hatf 4 and the Shaheen 1. The Ghauri 1 and 2 are believed to be developed from the North Korean Nodong missile. The Ghauri has a range of about 1300 kilometers (but a more advanced version may have a 2000 km range). It can carry a nuclear warhead of 1200 kg with an explosive force of 30 to 40 kilotons. Duncan Lennox, ed., *Jane's Strategic Weapon Systems*, Issue 32 (Alexandria, VA: Jane's Information Group, 2000), pp. 40-41, 115-117.

²⁰ *The New York Times*, April 4, 1998.

²¹ *The Times of India*, July 5, 1999.

international law. Some have suggested the general quarantine of North Korean airspace and territorial seas to inspect ships and aircraft departing North Korea. I will discuss this option later in this testimony.

Japan and South Korea

Japan's market in drugs is estimated at \$9.3 billion annually, with Japanese citizens consuming some 20 metric tons of amphetamine-type stimulants a year.²² Meanwhile, pro-Pyongyang ethnic North Koreans living in Japan have sent hundreds of millions of dollars a year to North Korea, according to the Economist Intelligence Unit in its 2003 report. In April 2002, Ashikaga Bank, the only Japanese bank that dealt with North Korean counterparts, suspended this trade with North Korea. Japan's 18,000 Pachinko gambling parlors, some 30 percent of which are owned by ethnic North Koreans, bring in annual sales of \$280 billion a year. Some of this money is also funneled into North Korea, although Japan is now tightening up on that practice.²³

Prime Minister Koizumi's September 2002 trip to North Korea put on the table for the North a potential \$8 billion–\$10 billion in reparations for Japan's actions in World War II. The fact that Kim Jong-il lied about his secret nuclear program and the fact that he held hostage the families of the Japanese he abducted years earlier are clear examples of how, when offered the opportunity to get out of the business of drugs, counterfeiting, and missile sales, North Korea makes the wrong choices.

²² INSCR, 2000; see also *The Seattle Times*, March 11, 2003.

²³ *The Washington Post*, June 7, 1996.

A Ray of Good News on South Korean–North Korean Economic Cooperation

There are over 450 small and medium-size South Korean enterprises doing business in North Korea, from what I was told last year in Seoul by members of President Kim Dae-jung’s administration. For the most part, these companies manufacture textiles, shoes, clothing, and light industrial goods in the North, usually in Kaesong or around Pyongyang, and ship them by sea to South Korea for sale. This is one of the most successful features—perhaps the *only* successful feature—of the “Sunshine Policy.” This commerce moves by sea through the port of Nampo, on North Korea’s west coast. North Korean officials have explored with American and European companies creating a container facility at Nampo to speed shipping and improve commerce.

Think of the implications of this commerce: Hundreds of South Korean small businessmen are looking communist Korean Workers Party officials in the eye on a regular basis and explaining profit and loss. The small and medium-size enterprises are successful in their ventures; they are not engaged in some major “Potemkin Village” tour scheme like the Kungang Mountain tour program. And hundreds, if not thousands, of North Korean workers are taught about productivity, profit, and loss; they learn the rules of the marketplace.

When American President Lines executives sit down with communist Korean Workers Party officials to talk about making the deliveries under the World Food

Program more efficient, they explain why there is no economic incentive for their shipping line to pay for turning Nampo into a container facility. Thus, officials in Kim Jong-il's government are taught about economies of scale and cash flow in the shipping industry.

These cases fascinate me because they indicate that there is some tension inside the North Korean government about reform. Clearly, somewhere in the North Korean government and communist party there are officials who understand what a market economy would mean for North Korea, and they do not fear a market economy.

But if North Korea entered the world economy, the thugs who are in a position to do violence to other people—the military, the intelligence services, and the security services—would lose much of their power. North Korea's GDP in 2001 was \$15.7 billion; the South's GDP at the same time was \$635.9 billion. It should be clear that if this were only about prosperity, North Korea would reform its system. However, it is about power and control, not prosperity.

The Viability of Military Action, Economic Sanctions, and Quarantine

An outright U.S. attack on North Korean missile facilities, nuclear facilities, or conventional forces is within the military capability of the United States; and it is an option that must always be available to the President. However, given the close proximity of some 20 million of South Korea's 42 million people to the Demilitarized Zone where

North Korea may have some 12,000 artillery pieces, such an action would exact a high cost in innocent civilian lives. It is estimated that based on the tremendous military might poised across the misnamed Demilitarized Zone, a million might be killed in just the opening days of a new war on the Korean peninsula between North and South Korea. Moreover, given U.S force dispositions in Japan, any attack on North Korea might well stimulate a response by Pyongyang on Japanese soil. Therefore, in my view, the close nature of the United States alliances with South Korea and Japan, respectively, means that these two nations must be consulted about any American military action toward North Korea.

China supplies between 70 percent and 88 percent of North Korea's fuel needs and some 30 percent to 40 percent of North Korea's food needs.²⁴ Although the PRC government is said to have cut off fuel shipments to North Korea through the cross-border pipeline as a means to pressure Pyongyang into multilateral discussions among the United States, China, and North Korea, Beijing did not do so for long. Supposedly, there was a three-day "shut down" of oil transmission for technical reasons.

As I said earlier in this testimony, Mr. Chairman, the communist party leadership of the People's Republic of China has made a decision that it will not let the regime of Kim Jong-il collapse, and stopping food and fuel shipments to North Korea might bring about that collapse. This position by Beijing has been a steadfast one for 53 years, when China came to the assistance of North Korea in the Korean War.

²⁴ Figures cited often vary. I have used the higher end provided by former South Korean Defense Minister General Lee Jun.

China is also not much help in restraining North Korea's missile and nuclear exports. I believe that, regardless of the diplomatic rhetoric from Beijing, China continues to support the proliferation of missiles and nuclear weapons to its allies. The basic policy of the Chinese Communist Party Politburo Standing Committee and its Central Military Commission since the mid-1950s has been that China should strive to break up what it characterizes as the "super-power" monopoly on such weapons. These policies undermine the security of the United States, frustrate or render ineffective American national security policies with respect to non-proliferation, and increase China's influence with a number of the "rogue states" around the world. Gaining China's full cooperation in restraining North Korea's behavior is difficult.

An air and sea quarantine of North Korea, or the inspection of all shipping out of North Korea, would be a difficult task to sustain. Such a quarantine would be an act of war, requiring the consent of Japan and South Korea since those two nations, our allies, would be most immediately threatened by a North Korean response. Where would the United States force a North Korean aircraft to land? Ships can be stopped at sea, but aircraft cannot be stopped in flight.

Practically speaking, though, no effective quarantine or inspection regime would be possible without the full cooperation of China and Russia. North Korea could simply opt to move its missiles, components, or experts through either or both of those two countries if China and Russia agreed to facilitate North Korean exports. While the

United States may be able to secure the cooperation of Russia and China in stopping North Korea's illegal drugs from moving across their borders, I believe that China would not be a reliable partner in ending North Korea's missile and arms proliferation.

Policy Recommendations

The patient, firm, and principled position of the Bush Administration is about right in my view. The United States should not pay blackmail to drug runners, counterfeiters, and the exporters of nuclear material and missiles. Any progress with North Korea and any economic assistance or help with the problem of electrical power must be predicated on the verifiable end of North Korea's nuclear program.

It is now clear that Kim Jong-il has not kept the agreements he made with South Korean president Kim Dae-jung during their summit in Pyongyang. Apparently, that summit was secured with the secret payment of US\$500 million to Kim Jong-il before he would meet with South Korea's president. We all must stop paying blackmail.

I do not believe that the negotiating position of the United States is advanced by direct, high-level bilateral talks between the United States and North Korea. Such an approach only marginalizes South Korea and Japan, which are American allies and are directly involved in the outcome of the security dilemma on the Korean Peninsula. Furthermore, the United States should maintain its dignity when it negotiates. The U.S.

Secretary of State has no place putting wreathes at the statue of Kim Il-sung and should not be doing the Macarena or the “Wave” in some stadium in Pyongyang.

Instead, we should:

- Work with the intelligence, customs, and law enforcement agencies of other countries, particularly those neighboring North Korea, to crack down on drug shipments. This improves the national security of all the countries that face the threat of dangerous illegal drugs.
- United States diplomats should stress that North Korea’s drug trade is not an independent operation by a few criminals, but a controlled action by the Kim Jong-il regime.
- The sponsoring governments, to ensure that neither drugs nor counterfeit money pass out of North Korea through those embassies, must carefully monitor foreign diplomats in Pyongyang. North Korean diplomats abroad also must be carefully monitored.
- Just as we have done in the war on terrorism, the United States should work with international agencies and foreign governments to crack down on financial institutions that support North Korea’s criminal activities, especially drug trafficking.

- Japan has some US\$240 million in legal trade with North Korea. Legal trade should be the only way that North Korea can earn money, but if Pyongyang persists in illegal activities and refuses to return the families of the Japanese abducted by Kim Jong-il, U.S. public diplomacy should work to convince the Japanese people to cut off this trade.
- The United States must maintain a strong military presence in the Asia–Pacific region and be prepared to win any fight the North Koreans start.
- Additional ballistic missile defenses should be deployed in the region immediately, and missile defense research and development should be a priority for the United States and Japan.
- Negotiations with North Korea must be multilateral. The United States is not alone in facing North Korea.
- Any economic assistance to North Korea must be predicated on the verifiable end to its nuclear programs.

Conclusions

The senior leaders of the Chinese Communist Party continue to support the negotiating position of North Korea in dealings with the United States. Both Pyongyang and Beijing insist that the only way to resolve the diplomatic and security dilemma is direct negotiations between the United States and North Korea. Seoul vacillates, privately seeking direct U.S.–North Korean talks. The United States cannot accept a nuclear North Korea.

I believe that bilateral negotiations are a mistake. Any solution to the nuclear program in North Korea must be multilateral. The same is true for addressing North Korea's economic problems. North Korea must make its own decisions about its nuclear program. United States diplomacy should be aimed at increasing the economic and political pressure on Pyongyang while the U.S. and allies maintain a strong military posture. If Pyongyang verifiably ends its programs, economic aid will follow.

North Korea is a vexing security challenge, but Pyongyang does not have the financial resources of Iran or Iraq. Without China's fuel and food aid, North Korea might be more willing to change the terms for diplomacy. As dangerous as North Korea is, however, it is a nation that has been essentially deterred since 1953 by a strong alliance between the United States and South Korea, by the U.S.–Japan alliance, and by a powerful U.S. military capability. The United States should not waver on any of these.