NORTH KOREAN NUCLEAR PROLIFERATION AND ORGANIZED CRIMINAL ACTIVITY: A SOCIAL NETWORK APPROACH

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DEDICATION

This work is lovingly dedicated to my dear Kristiana, who has provided me with the support and encouragement that I needed throughout this process. I would also like to dedicate this work to the rest of my family for their continuing support throughout my endeavors.
The North Koreans are coming to the table not for negotiation; they are there for winning, for implementing their strategy. To grant meaningful concessions at such negotiations, or to enact meaningful internal reforms toward democratization, would be tantamount to suicide for the regime.

-- Kim Kwang Jin
ABSTRACT OF THE THESIS

North Korean Nuclear Proliferation and Organized Criminal Activity: A Social Network Approach
by
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Master of Science in Homeland security
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The recent escalation in North Korean aggression has created complications for the international community that requires a fundamentally different approach to the issues facing the Southeast Asian Peninsula. Since the early 1990s, the United States and its allies have attempted to diffuse matters revolving around North Korean nuclear proliferation and illicit activities through a series of measures involving economic incentives, humanitarian assistance, and economic sanctions, all of which have been ineffective. The reasons for this lack of success are twofold in nature. First of all, the economic sanctions fail to address the political, social, and economic issues that allow North Korean criminal activities to thrive in the first place. Secondly, the economic incentives and humanitarian relief packages that do target social and economic issues are eventually pulled because the North Korean government always fails to take the necessary steps towards denuclearization. This is a complicated matter without any easy answers, but that does not mean that the international community should continue to utilize the same ineffective strategies over and over again.

In order to effectively combat the threat presented by North Korea’s transnational criminal activities, there needs to be an understanding of social networks and how the social system of organized crime manifests itself uniquely within North Korean society. The need for new adaptable strategies becomes apparent when tracing the scope of the underworld and upperworld connections that make transnational criminal activity like this possible.
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CHAPTER 1

INTRODUCTION

Over the last six decades, the United States and its allies have struggled to strike a delicate balance in their efforts to move North Korea away from its nuclear proliferation efforts. Whether they are threatened with international sanctions or provided with humanitarian assistance does not seem to make a difference, North Korea continues to pursue its nuclear ambitions and create anxiety for the international community. The turmoil in Southeast Asia has never been as dangerous as it is today. Ever since Kim Jong Un succeeded his father as supreme leader in 2011, North Korea has been combining increasingly threatening rhetoric with the development of a nuclear device.

This thesis will explore how North Korea survives and maintains its nuclear weapons program through the use of bribery, ineffective international restrictions, and illicit activities such as drug manufacturing, arms dealing, and the production of counterfeit currency. Furthermore, this study will demonstrate how the key to understanding and interacting with North Korea will not be through the use of traditional military exercises or diplomatic measures, but through an understanding of criminal networks and how they organize.

There are many factors to consider when discussing transnational criminal activities and how they generate security impacts; some of the most important being the conditions that lead to the establishment of criminal networks and the ones that allow them to operate in the first place. Traditionally, criminal groups have thrived in chaotic regions where the state is vulnerable and lacks control.¹ North Korea however, presents us with a twist on this traditional dynamic. It is indeed a chaotic region, but the government is also completely in control of its territory, ruling over every aspect of society.

When dealing with North Korea, it is necessary to stop thinking of the government in Pyongyang like any other state government. Diplomacy and traditional international relations

don’t work as they do elsewhere because the ruling body is less like a government and more like a mafia regime. This is why it is essential to understand the social network theory and how it applies to organized crime. Through an understanding of this concept, it is easier to see the subtleties and complexities that dictate North Korean policy.

**AN INTRODUCTION TO SOCIAL NETWORKS**

At its most basic level described by Stanley Wasserman and Katherine Faust, social networks are the constantly changing “relational structure of a group or larger social system consisting of the pattern of relationships among the collection of actors.”² This concept can be broken down into several key terms:

- **Actor**- social entities, discrete individual, corporate, or collective social units.³
  - Interdependent, not autonomous units.
  - Ex. People in a group, departments within a corporation, public service agencies in a city, or nation-states in the world system.
- **Group**- the collection of all actors on which ties are to be measured.⁴
  - Consists of a finite set of actors who for conceptual, theoretical, or empirical reasons are treated as a finite set of individuals on which network measurements are made.
- **Subgroup**- any subset of actors and all ties among them.⁵
  - Dyad- pairs of actors and associated ties.
  - Triad- a subset of three actors and the (possible) tie(s) among them.
- **Relational Ties**- links between actors.
  - Creates avenues for the transfer of material and nonmaterial resources between actors.
- **Relation**- the collection of ties of a specific kind among members of a group.

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³ Ibid., 17.

⁴ Ibid., 19.

⁵ Ibid, 19.
When this concept is applied to criminal enterprises, you get the social system of organized crime. Based on his analysis, criminologist Alan Block concluded that the social system of organized crime “refers to the notion that organized crime is recognizable by reciprocal services performed by professional criminals, politicians, and clients. Organized crime is thus understood to lie in the relationships binding members of the underworld to upperworld institutions and individuals.” Even in its reclusive state, it is possible to gain a general understanding of how North Korean criminal apparatuses operate through these principles.

THE KOREAN WORKERS PARTY: RELATIONAL TIES

North Korea is unique with respect to the social system of organized crime because organizations that are often viewed as upperworld institutions elsewhere are actively involved with the activities traditionally associated with the criminal underworld. North Korea is run by a mafia regime masquerading as a legitimate government, so it is often difficult to see where the upperworld institutions end and the criminal organizations begin.

In order to truly understand the social system of organized crime as it relates to North Korea, one only needs to look at the structure of the North Korean Workers Party’s Central Committee. As the governing body responsible for coordinating and deliberating on policy, the Political Bureau in particular provides us with the perfect starting point for looking into the relational ties between North Korea’s ruling elite.

Finding concrete information on ruling class individuals is extremely difficult due to the secretive nature of North Korean society, but there are tiny pieces of information out there about the more prominent members that allow us to establish an overarching trend within the North Korean political system. Even though it is not always the case with members of the ruling class, I found that several members of the Political Bureau (Figure 1) had personal ties to the Kim family, with some of these ties dating back to Japan’s colonial rule of the Korean peninsula (1910-1945).

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Unlike the emphasis on tribal dynamics that we see in the Middle East however, which is primarily based on blood ties, North Korea’s emphasis on lineage is based on a mixture of revolutionary ties to Kim Il Sung as well as blood ties. Choe Ryong Hae’s father, Choe Hyon, for example, belonged to the Soviet 88th Brigade along with Kim Il Sung, fighting against Japanese occupation from the early 1930s all the way through World War II. Choe Yong Rim’s father also took part in Kim Il Sung’s early anti-Japanese guerrilla activities. Men in these positions are often referred to as second or third generation elites because they inherited the power and influence of their relatives who were instrumental in helping Kim Il Sung consolidate his power after establishing the DPRK. Members of the Political Bureau who also belong to the Kim family include Kim Kyong Hui (Kim Jong Un’s aunt), Jang Song Taek (Kim Kyong Hui’s husband), Kang Sok Ju (Kim Jong Il’s cousin), and Ri Yong Mu (married to Kim Jong Il’s aunt). These sets of biological and revolutionary ties are vital to the function of the regime because they strengthen the link between Kim Jong Un and the individuals he needs to help keep him in power. Being at such an early stage in his career when he is still building up his legitimacy, it is crucial for Kim Jong Un to appoint relatives and close family friends that he can count on for political support.
Furthermore, the North Korean political system has been structured to allow Kim Jong Un to operate and wield his influence within every definable branch of government. This trend can be seen in Figure 2, which traces the shared memberships between the major branches of the Korean Workers Party’s Central Committee.

Figure 2. Ties within the KWP central committee.

As Figure 2 illustrates, Kim Jong Un, members of his inner circle, and some of his political appointees hold multiple positions within the Korean Workers Party and government institutions. Eight out of the nineteen current members of the Central Military Commission for instance also belong to the Political Bureau of the Central Committee. Two
of those members, including Kim Jong Un, are part of the Secretariat as well. Even when he is not a member, as is the case with the Control Commission, the position is often occupied by someone like Kim Kuk Tae who is in frequent contact with Kim Jong Un and his loyal officials through their posts in other branches. These connections are not just limited to the Central Committee either. The National Defense Commission for example, which is considered the highest branch in the North Korean government due to its role in crafting both military and nonmilitary policy consists of twelve members including eight (Kim Jong Un, Kim Yon Chung, Oh Kuk Ryol, Jang Song Taek, Pak To Chun, Ju Kyu Chang, Choe Ryong Hae, and Kim Won Hong) who also belong to the main branches of the Central Committee. This cross-pollination between the many structures in the North Korean government is fascinating because it is essentially a double-edged sword for the individual in power. The system allows Kim Jong Un to spread his influence through multiple avenues, but it is also a threat because the same advantages theoretically apply to senior officials holding multiple positions. This dynamic within the government is what makes any hope for reforms through regime change completely unrealistic.

**NEW LEADERSHIP**

Throughout Kim Jong Un’s rise, reports have occasionally surfaced bringing his ability to consolidate power into question, openly wondering whether or not this would result in a power struggle between him and his aunt and uncle. Over a year has passed since he became the supreme leader of North Korea, and at this point, he has followed the blueprint established by his predecessors. Kim Jong Un has made several policy changes here and there, but these have been consistent with past regime changes that have taken place.

Kim Jong Il for instance, was seen as a lightweight before his rise to power due to his lack of military experience. In stark contrast to his father, factions of the military believed that Kim Jong Il would be incapable of ruling and that he would be an ineffective commander in times of crisis. There was even speculation going around prior to Kim Il Sung’s death that Kim Jong Il’s ascension would result in political instability and eventually
The “Military First” policy established by Kim Jong Il during his early reign was a direct response to these thoughts and the perception of him. As the Supreme Commander of the Korean People’s Army, it was essential for Kim Jong Il to elevate the status of the military in North Korean society. He needed to strengthen the wavering support within his own base in order to consolidate his power. Whoever takes on the role of leader in North Korea may have the largest role when it comes to policy decisions, but they are still at the mercy of other institutions within the country.

It is important to remember just how difficult it would be to steer North Korea in a different direction, even if there were hypothetically individuals within the ruling class who saw the importance of a market economy and other meaningful reforms. Totalitarian regimes are often thought of as monolithic entities where everyone is in agreement, but the reality is that there are always factions within the regime with differing points of view vying for power. This is something that Kim Jong Un always keeps in mind. Just like his predecessors and the influential men who surrounded them, Kim Jong Un’s decisions in office revolve around self-preservation. Imagine if he were to reverse the Military First policy that his father had placed such an emphasis on while elevating portions of the civilian economy. This would surely lead to dissatisfaction within the military ranks and possibly lead to an attempted coup by generals or other political opportunists. At this point in his leadership, Kim Jong Un cannot afford to uproot and modify such an influential faction of North Korean society. He has not been in control long enough to fully consolidate his power.

This is not to say that Kim Il Sung is secretly an aspiring reformer who is being held hostage by the North Korean elite. For all we know, Kim Jong Un’s policies might be more severe than Kim Jong Il’s and Kim Il Sung’s, or they might not be. It is simply too early to make assumptions when he has only been in power since December of 2011. After all, Kim Jong Il took control of North Korea in 1994 but he didn’t truly consolidate his power until 1998.

Ultimately, this arrangement creates an extremely unique dynamic for Kim Jong Un and his officials. Even though individuals in these political circles gain prestige and a certain

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degree of influence through the very nature of their high-ranking positions, the reality is that they do not exercise any real power (in the traditional sense) in the grand scheme of things. In other words, they have power but they do not at the same time. They have the ability to maintain the status quo when it comes to the North Korean political structure and society, but they do not have the ability to dictate policy directly. Kim Jong Un has the decision making power within the regime and appoints the members of these governing bodies along with trusted officials like his aunt and uncle. It is important to note however, that there is a purpose behind studying the relationships between these actors even though they do not dictate North Korean policy in any way. What is fascinating about these connections is that they ultimately provide us with a link between the North Korean regime and a vast network of organized criminal activity.

Before jumping into the immediate issues surrounding North Korea’s use of illicit activities however, it is necessary to put my argument in historical context. In order to fully comprehend the mentality that dictates North Korean policy, it is important to take a look back at Kim Il Sung’s rise to power and the founding of the Democratic People’s Republic of Korea (DPRK). Many of the problems and aggressive policies that we currently see can be traced back to the aftermath of the Korean War.
CHAPTER 2

NORTH KOREAN HISTORY: THE EVOLUTION OF SOCIAL NETWORKS

When it comes to North Korean history, I chose to briefly cover two aspects that are still crucial to the existence of the DPRK. The first has to do with the evolution of North Korea’s relational ties through juche, the philosophical driving force and foundation for all of North Korean society. The second focuses on Soviet aid during the Cold War and its impact on the lives of the average citizens once it was pulled. This is important because the eventual fall of the Soviet Union marked a turning point for North Korean society and its links to underground markets that became essential parts of everyday life.

JUCHE

The end of the Korean War marked a turning point for Kim Il Sung and North Korea. Events unfolding abroad such as the attempted removal of Fidel Castro and the new American-backed regime in South Korea made a man in his position nervous. Kim Il Sung saw what was going on around him and rightfully believed that isolating North Korea was the only way to properly shield it from South Korean and Western subversion. It was the only way for him to hold on to power and maintain control.

It was around this time that Kim Il Sung really started advocating the ideology of Juche, meaning self-sufficiency. With juche, Kim Il Sung effectively focused his regime’s narrative on the concept of independence and self-reliance, the idea that North Korean problems can only be solved by North Koreans. This mentality ends up justifying a large portion of the regimes actions throughout the 20th and early 21st century.

The increasing isolation of North Korea during Kim Il Sung’s reign for instance, was not something to dread. Under the concept of juche, North Korea’s increasing isolation was

8 Martin, *Under the Loving Care of the Fatherly Leader*, 483.
something that the average citizen was meant to celebrate. North Koreans were supposed to feel proud about the fact that they were casting negative influences out of their country and shielding themselves from the corruption, debauchery, and self-indulgence associated with the West and Western-influenced countries. Furthermore, North Korean pride was supposed to stem from the fact that they picked themselves up while they were down and were helping to fulfill the promises of Kim Il Sung’s revolution. Aside from the isolation, juche was, and continues to be used to justify the DPRK’s methods of enriching the country, including their illicit activities to a certain extent.

Unlike common acts of self-reliance that make up North Korea’s propaganda campaigns however, the role of juche takes on a more subtle form within the realm of illicit activities and criminal enterprises. There are certain actions such as the production and dealing of methamphetamine (and the high drug addiction rate that it caused within the country) for instance, that the DPRK either condemns in public or refuses to acknowledge. Here is where the effectiveness of juche comes into play for the Kim regime. Even though many of these criminal activities have either been condemned or ignored by the North Korean government, they can still be justified when looking at them from a warped perspective. From this perspective, a low level North Korean diplomat dealing drugs abroad or a farmer growing opium in the fields of Hamgyong is doing exactly what is needed of him in order for the motherland to prosper. It is meant to be seen as a case of citizens uniting for the sake of their country in times of struggle. The same mentality applies to the justification of North Korea’s nuclear weapons program. Nuclear proliferation is essential from this point of view because the government is simply doing what it is needed to counter Western abuses.

The reality is that juche is, and was always meant to be a valuable tool for the ruling class rather than a legitimate ideology. It is difficult for North Korea to make a convincing argument about self-reliance from an outsiders point of view when the country has consistently relied on assistance throughout its entire existence. Beginning with Chinese and Soviet imports during the Cold War and continuing with international humanitarian aid through the natural disasters of the 1990s and 2000s, North Korea’s very survival has depended on help from outsiders. It is important to remember however, that juche is solely made for North Korean consumption, adapting to the needs of the regime whenever it seems necessary.
Although juche did create changes in North Korea’s international relations, the most significant modifications took place within society, forever altering the relationship between the government and its people. Juche essentially tried to strengthen the bonds between the people and the state through the severing of external ties that would otherwise facilitate the transfer of information. The closed off nature of North Korean society that resulted from juche allows the propaganda machine to constantly rewrite history, purging any mention of foreign assistance (Soviet and Chinese) during the Korean War and altering the very nature of the conflict between the North and South. Kim Il Sung (and his successors) knew that the greatest threats to his regime’s survival were internal factors. With juche so deeply ingrained in the public’s consciousness, the North Korean elite attempt to justify their misconduct and oppressive policies to a society that does not know any better.

**Cold War Assistance**

North Korea has a track record of acting against the best interests of the country as a whole for the sake of the few on top dating back to the founding of the country. What we have seen throughout the decades from the stubborn North Korean elite is an unwillingness to adapt to the changing world around them. Part of this has included holding on to the Cold War mentality and policies that were established along with the founding of the country.

Prior to the construction of the demilitarized zone for instance, Kim Il Sung heavily relied on aid from the Soviet Union in order to have the country function on the most basic level. This form of aid did not have anything to do with financial assistance or natural resources, it revolved around manpower. Kim Il Sung’s communist policies during the 1940s led to a mass exodus of Korea’s wealthier and better-educated citizens to the South. Soviet Union officials were then brought in to perform administrative tasks within North Korean because the majority of the remaining North Korean citizens were not qualified to perform the essential functions of a government.\(^9\) Kim Il Sung knowingly made policy decisions that jeopardized his ability to run the country efficiently, but it did not matter because the Soviet Union was acting as a safety net. North Korea knew that the Soviet Union needed to maintain a barrier against Western influences and took advantage of the situation, collecting various

\(^9\) Martin, *Under the Loving Care of the Fatherly Leader*, 57.
forms of aid throughout the decades as a result. This is the beginning of a trend that North Korea has followed throughout its existence.

Even though the Cold War has long since ended with the collapse of the Soviet Union and with communist countries such as China and Vietnam moving away from centrally planned economies towards economic reforms with capitalist market principles, North Korea still chooses to remain stagnant. Communist and former communist countries have moved on, but Kim Jong Un and his cadre continue to dictate policy with an “us versus them” mentality. Why is this? Like juche, the answer simply has to do with power. North Korean leaders are not interested in feeding their people or building an economically strong and prosperous North Korea. They just want to maintain control of their impoverished country no matter what the cost is.

This becomes especially clear when examining the North Korean floods and famine of the mid 1990s. North Korea’s state media has claimed that 250,000 people died during this difficult period that is often referred to as the “Arduous March”. Although the figures vary depending on the source, organizations like the Good Friends charity estimate that up to 3,500,000 North Koreans died from starvation from 1995 to 1999.\(^\text{10}\) Due to the isolated nature of the country, it is difficult to calculate a truly accurate death toll number, but even that proves to be irrelevant at the end of the day. Whether the true figures fall on the higher or lower end of the scale does not change the fact that the famine of the mid 1990s was a catastrophic event for North Koreans that the government refused to respond to. Rather than shift resources towards meaningful agricultural projects or social programs, the North Korean regime chose to emphasize a military buildup that continues today.

In the end, this economic and social devastation, along with the inaction of the North Korean government helped create a new way of life for the average North Korean citizen. With the government firmly in control of the goods and services within the country, the people realized that they were going to need to provide for themselves in order to survive. This mentality already existed, as it did in many Soviet satellites before the 1990s, but it became much more prevalent with the collapse of the Soviet Union. There now existed two

economies within North Korea, the official broken and ineffective economy that is seen on the news, and the underground economy that the North Korean people actually rely on for survival.

In this underground economy, every North Korean became linked to one another through the transfer of goods and services that were needed under the dire circumstances. These links were not just limited to the poorer classes or members of the agricultural sector, even members of the middle classes depended on this system to provide for themselves and their families. Government officials for example, rely on their posts by providing favors in exchange for bribes or material goods. This is most often seen in the retail industry where shopkeepers and street vendors are required to have permits in order to sell certain goods or set up shop in certain locations. Rather than go through the legal channels that consist of a painfully slow bureaucratic process, vendors often choose to go straight to the government officials, quickly trading goods for the necessary permits they need to run their businesses. Vendors in turn, often rely on black markets from China and Russia to provide them with merchandise that would otherwise be legally unobtainable through North Korea’s nonexistent economy. This underground economy further complicates matters from our point of view because it highlights how black markets and organized crime are often a source of good, for lack of a better word. Countless North Koreans have been saved from suffering and starvation through the underworld connections that we often associate as a threat to our national and global security. These underworld connections however, serve a completely different purpose when the North Korean government utilizes them.
CHAPTER 3

NORTH KOREAN ILLICIT ACTIVITIES

Unlike the majority of countries where illicit activities are typically associated with criminal organizations, North Korea provides us with a unique look at a government that is actively involved in an assortment of illegal enterprises ranging from drug trafficking to counterfeiting currency. This chapter is broken down into several sections categorizing that activity. There may be some overlap in the functions of the criminal institutions responsible for these activities, but covering them is essential in order to understand the depth of the government’s involvement. The North Korean regime has denied its involvement in the drug and weapons trade for years, but that seems highly unlikely when looking at the scale of these operations. Once you start peeling back the layers, the connections between North Korean upperworld and underworld institutions become quite clear across the board while tying into the revolutionary clans that are intrinsically connected to the Kim family.

ORIGINS

North Korean involvement in the manufacturing of drugs began with the cultivation of poppies during Kim Il Sung’s reign. During the 1970s, it was decided that collective farms would be used to produce opium in multiple provinces including Hamgyong, Yang-gang, Hoeryong, Musan, and Onsong.11 Keep in mind that this was taking place during the Cold War when North Korea was still receiving aid from the Soviet Union. This wasn’t a phenomenon that began out of desperation or economic need. Kim Il Sung condoned these activities long before the famines or economic free falls of the 1990s.

Drug cultivation did increase during the great famine of the early 1990s, but the profits were certainly not used to alleviate any of the country’s financial difficulties. Rather

than focus on the problems at hand, the DPRK decided to place a greater emphasis on its moneymaking methods. According to the CIA, North Korea has set aside sixteen to twenty seven square miles of land for poppy cultivation. Land and agricultural resources that could be used to feed the starving nation are instead being used produce thirty to forty four tons of opium per year (three to four and a half tons of heroin) with different levels of society being forced to take part in its cultivation. Even students are marched into the poppy fields after school and forced to pick poppies for hours on end. According to State Department estimates, North Korean produced between thirty and forty four metric tons of opium in 1999. North Korea’s other highly profitable illegal activity, such as the production of counterfeit one hundred dollar bills can be traced back to Kim Il Sung’s reign as well.

As is the case with many aspects of North Korean history and daily life in general, it is difficult to say for certain how the DPRK came to possess their intaglio printing presses. It is rumored that they came from an East German factory where they were used primarily to forge fraudulent passports. They made their way into North Korea in 1989, slipping through the cracks during the celebratory atmosphere surrounding the fall of the Berlin Wall. The North Korean government uses the exact same equipment, high tech paper, and Swiss ink that the U.S. Treasury uses, allowing them to create near perfect copies of American currency. Although it is difficult to know for sure how profitable these illicit activities have been, estimates from 2001, show that North Korea made between $500,000,000 and $16,000,000,000 selling illegal drugs, $100,000,000 in counterfeit currency sales, and $580,000,000 in missile exports to the Middle East.

The brilliance of North Korean illicit activities is that they cut through many aspects of the social system of organized crime that are needed by criminal organizations in other regions. Since the upper and underworld institutions are often one in the same, North Korean

12 Hurst, “North Korea,” 35-37.
criminal institutions do not have to worry about paying off corrupt government officials, police officers, or governing bodies within their own borders. Rather than conceal their activities from internal actors who would normally be a part of the equation in other regions, North Korean syndicates can focus more of their resources on the international aspect of their operations. In other words, they do not require the reciprocal services that are needed when Chinese gangs operate within China and so on. When the drugs are grown/synthesized and when the counterfeit dollar bills are printed, they are done so on state run farms and in state run facilities, essentially under the protection of the government. This can be clearly seen through North Korea’s main money making apparatuses.

**PONGHWAJO**

The “Ponghwajo”, known as the “Torch Group” in English, is one of the most prominent drug trafficking apparatuses in the North Korean regime. Although it is not officially part of the North Korean government, it is made up of the children of senior military and party officials. Members of the Ponghwajo use their connections to enrich themselves and the regime. Kim Jong Un was even linked to this group during his father’s reign.\(^{15}\) This of course, remains speculative due to the vague and often conflicting accounts of Kim Jong Un’s early life, but it is entirely possible based on the bonds between high-ranking members of the Korean Workers Party. As Table 1 shows, the Ponghwajo membership provides us with a who’s who list of second and third generation North Korean elite.

Oh Se Won is believed to be leader of this organization, relying on his father’s post to gain access to printing presses and counterfeit bills. In fact, Oh Se Won has been linked to a series of counterfeit bills found in Las Vegas in 2004 and the Pong Su drug case in 2003. It can’t be said with absolute certainty where all of this fraudulent money is being made, but many of the counterfeit bills that were being produced in 2004 were traced back to the Pyongsong Trademark Printing Factory (the national mint in Pyongyang).\(^{16}\) After creating


### Table 1. Known Ponghwajo Membership: Family Connections

<table>
<thead>
<tr>
<th>Member</th>
<th>Family Connection</th>
<th>Connection’s Government Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oh Se Won</td>
<td>Father, General Oh Kuk Ryol</td>
<td>Vice Chairman, National Defense Commission</td>
</tr>
<tr>
<td>Kim Chol Un</td>
<td>Father, Kim Chung Il</td>
<td>Chief of the Office of Secretaries</td>
</tr>
<tr>
<td>Kang Tae Seung</td>
<td>Father, Kang Sok Ju</td>
<td>First Vice Foreign Minister</td>
</tr>
<tr>
<td>Kim Chang Hyok</td>
<td>Father, Kim Chang Sop</td>
<td>Deputy Director, State Security Department</td>
</tr>
<tr>
<td>Kim Chol</td>
<td>Father, General Kim Won Hong</td>
<td>Director, Korean People’s Army Security Command</td>
</tr>
<tr>
<td>Kim Cheol Woong</td>
<td>Father, Kim Choong Il</td>
<td>Former Vice Director, Kim Jong Il’s Secretary’s Office</td>
</tr>
<tr>
<td>Cho Sung Ho</td>
<td>Father, Cho Myeong Rok</td>
<td>Former Vice Chairman, National Defense Commission</td>
</tr>
</tbody>
</table>

Adapted from: Bill Gertz, “North Korea Elite Linked to Crime”; Yong Jae Mok, “North Korea’s ‘Princelings’ Unveiled.”

Fraudulent 100 dollar bills at the Pyongyang Trademark Printing Factory, criminal organizations like the Ponghwajo launder the currency through China and Macao, followed by the rest of Southeast Asia. It is estimated that by the end of this process, these criminal organizations make the regime anywhere from twenty\(^{17}\) to sixty\(^{18}\) legitimate dollars for every one hundred dollar bill of counterfeit currency. The yearly figures from this operation are subject to debate as well. Some estimate that the North Korean government makes roughly $15,000,000 to $20,000,000 a year from counterfeit currency, others estimate that the profits reach several hundred million dollars.\(^{19}\) Like most things North Korean, it is difficult to know for sure.

Even though it has not been officially acknowledged, it is difficult to deny the connections between illicit activities and North Korean government personnel based off of the intelligence that has been gathered. Not only are members related to individuals in the ruling class, it is also believed that many of them hold high posts in the National Security

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\(^{17}\) Yong Jae Mok, “North Korea’s ‘Princelings’ Unveiled.”


\(^{19}\) David Wolman, “How the U.S. Could Pressure North Korea Tomorrow: Quit the $100 bill.”
Agency, General Reconnaissance Bureau, Ministry of the People’s Armed Forces, and the Central Prosecutor’s Office. As previously stated, Kim Jong Un’s past connections to the Ponghwajo provides the ruling party with a direct link to fortunes accumulated through the sale of narcotics and the movement of counterfeit currency. The debate here does not have to do with whether or not there are illegal substances coming out of North Korea, because there clearly are. The main question here is whether or not a government is playing an active role in the narcotics industry while repeatedly denying and condemning it for many years. The answer here is also a resounding yes. The structure of the North Korean government makes it impossible to believe any denial on their part. The majority of high-ranking government officials are linked through personal and historical ties that spread through multiple department and trickle down to smaller institutions. The system was built that way by design in order for everyone to keep tabs on everyone else while allowing the ruler to push through policy swiftly and without opposition. In addition to his friendship with the Supreme Leader, Oh Se Won also happens to be tied to the Kim family dating back to Japanese occupation. As the grandson and grandnephew of revolutionary heroes Oh Jung Sung and Oh Jung Hup, Oh Se Won is the perfect example of how the ties that bond the elite in North Korea’s upperworld institutions branch into the underworld as well.

**DPRK Diplomats**

Just like the Ponghwajo and Office 39, North Korean diplomats play a vital role in acquiring funds for the Kim Dynasty. Ever since the 1970s, there have been numerous recorded instances of diplomats being arrested abroad for engaging in multiple illicit activities. The pattern can be clearly seen in the Table 2.

These are but a small number of cases representing North Korean reliance on the drug trade for revenue. There is an even greater sense of urgency within the North Korean diplomatic community because of the nature of their employment. North Korean embassies were a major casualty of the post Soviet economic decline of the 1990s, shutting down as a cost cutting measure for an increasingly panicked regime.

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20 Mok, “North Korea’s ‘Princelings’ Unveiled.”
<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Crime</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1976</td>
<td>Egypt</td>
<td>Diplomat found with 400kg of hashish(^a)</td>
</tr>
<tr>
<td>July 1994</td>
<td>China</td>
<td>Diplomats smuggling 6kg of DPKR opium into the country through embassy(^{ab})</td>
</tr>
<tr>
<td>August 1994</td>
<td>Russia</td>
<td>DPKR intelligence caught trying to sell heroin to Russian mafia(^a)</td>
</tr>
<tr>
<td>January 1995</td>
<td>Shanghai, China</td>
<td>DPKR nationals (one with diplomatic passport) arrested with 6kg of heroin(^a)</td>
</tr>
<tr>
<td>1997</td>
<td>Japan</td>
<td>North Korean freighter found with $100 million worth of methamphetamine(^c)</td>
</tr>
<tr>
<td>January 1998</td>
<td>Moscow, Russia</td>
<td>Two diplomats found with 35kg of cocaine smuggled through Mexico(^a)</td>
</tr>
<tr>
<td>July 1998</td>
<td>Egypt</td>
<td>Diplomat arrested with 500,000 tablets of rohypnol(^a)</td>
</tr>
<tr>
<td>October 1998</td>
<td>Berlin, Germany</td>
<td>Diplomat found collecting DPKR heroin(^a)</td>
</tr>
<tr>
<td>February 12, 1999</td>
<td>Shenyang, China</td>
<td>Consulate employee caught trying to sell 9kg of opium(^a)</td>
</tr>
<tr>
<td>April 1999</td>
<td>Prague, Czech Republic</td>
<td>Diplomat stationed in Bulgaria caught in airport trying to smuggle 55kg of rohypnol from Bulgaria(^a)</td>
</tr>
<tr>
<td>May 3, 1999</td>
<td>Taiwan</td>
<td>Taiwanese gang arrested trying to smuggle 157kg of DPKR meth(^{ab})</td>
</tr>
<tr>
<td>October 3, 1999</td>
<td>Japan</td>
<td>564kg of DPKR meth seized from Taiwanese vessel “Xin Sheng Ho”(^a)</td>
</tr>
<tr>
<td>February 5, 2000</td>
<td>Japan</td>
<td>250kg of DPKR meth linked to Japanese mafia and Chosen Soren(^a)</td>
</tr>
<tr>
<td>October-November 2001</td>
<td>Philippines</td>
<td>Vessel detained twice by authorities transferring 500 and then 300kg of meth from DPKR ship(^a)</td>
</tr>
<tr>
<td>December 22, 2001</td>
<td>Japan</td>
<td>Patrol boats sink DPKR vessel transporting drugs(^a)</td>
</tr>
<tr>
<td>January 2002</td>
<td>Japan</td>
<td>150kg of meth found on DPKR vessel(^b)</td>
</tr>
<tr>
<td>January 6, 2002</td>
<td>Japan</td>
<td>Chinese boat carrying 150kg of DPKR meth sunk by patrol boats(^a)</td>
</tr>
<tr>
<td>July 2002</td>
<td>Taiwan</td>
<td>79kg of heroin originating from DPKR battleship confiscated from mob(^a)</td>
</tr>
<tr>
<td>April 20, 2003</td>
<td>Australia</td>
<td>Pong Su found with 125kg of heroin(^a)</td>
</tr>
<tr>
<td>June 2004</td>
<td>Egypt</td>
<td>Two diplomats arrested for smuggling 150,000 tablets of Clonazipam(^a)</td>
</tr>
</tbody>
</table>

(table continues)
Table 2. (continued)

| December 2004 | Turkey | Two diplomats to Bulgaria found over half a million captagon tablets. Street value = $7 million |

Illegible text


North Korean embassies were a major casualty of the post Soviet economic decline of the 1990s, shutting down as a cost cutting measure for an increasingly panicked regime. Embassies that were lucky enough to remain open were not only required to accumulate funds for the regime, they were also expected to be financially self-sufficient. As a result, North Korean diplomats are largely responsible for moving narcotics out of the country. They take the drugs that are processed in a facility operated by the People’s Armed Forces Department (and other shell factories) and sell them abroad during their deployments.

This desperate need for profits has also resulted in more unconventional, smaller scale operations.

For example, recent reports suggest that North Korean diplomats have resorted to purchasing massive quantities of tobacco and alcohol from duty free stores. These items are then sold on the regular market and the profits are shipped back home. The same report also mentions an international art forgery ring in which wealthy Chinese customers are deceived into purchasing fake artwork.

OFFICE 39

Unlike the Ponghwajo that is a largely independent group, Office 39 was specifically created by the government for the purpose of bringing in foreign currency by any means necessary. Much like any other North Korean government institution, Office 39 shares

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23 Ibid.
personal links with the Kim family that would make a lack of knowledge of the country’s illegal activities highly questionable. Having been a close friend of Kim Jong Il’s dating back to their time in high school and as students at Kim Il Sung University, Jong Il Chun was appointed chief administrator of Office 39 back in 2010. As the head of the department, Jong Il Chun is responsible for handling the personal finances of the Kim family, taking a portion of Office 39’s earnings and funneling them into their accounts.

Not only is Office 39 vital to the DPRK’s nuclear ambitions, it is also vital to the long-term survival of the Kim Dynasty. Maintaining the loyalty of the North Korean elite extends beyond political favors into the realm of bribery through material goods. One of the main purposes of Office 39 is to acquire luxury goods like iPads, laptops, other high-end electronic products, and automobiles. It is essential for the North Korean regime to keep the political elite happy and Office 39 provides it with the resources to do so. Drug dealing and counterfeit currency is only a portion of the story however, the DPRK’s criminal acts through Office 39 also branch out into smaller scale crimes that help accumulate currency.

The North Korean government, for example, has chosen to take advantage of the misery and suffering that resulted from the Korean War. When military operations ended in 1953, thousands of Koreans were left displaced or separated from their families, ending up in South Korea, China, Japan, and other parts of the globe, including the United States. For years, DPRK officials have preyed on wealthy individuals and families with relatives remaining in North Korea, promising to help them send money back home or to reunify them in exchange for a fee. These transactions are never used for their intended purposes however; they are always siphoned into the current leader’s accounts in order to meet the needs of the financially unstable regime.

During the final years of Kim Jong Il’s reign, Office 39 commissioned graduates from the Korea Computer Center and the Korea Neungnado General Trading Company to hack into South Korea’s online gaming networks. Once they hacked into the servers, they

25 Shin, "North Korea Desperately Collecting Foreign Currency."
26 Ibid.
programmed dozens of unmanned computers to accumulate items and points that could later be sold over the internet to dedicated gamers. South Korean law enforcement estimates that the hackers made about $6 million over the span of two years.\(^{27}\)

One of the most bizarre money making operations revolves around the North Korean government’s involvement with the foodservice industry. Specializing in North Korean cuisine, the DPRK’s chain of Pyongyang restaurants have been located throughout various Asian cities including Phnom Penh (Cambodia), Siem Reap (Cambodia), Jakarta (Indonesia), Vientiane (Laos), Bangkok (Thailand), and Pattaya (Thailand). The one exception to this geographic pattern was a franchise in Osdorp, Amsterdam, Netherlands that has since been closed. The details remain nebulous, but defectors have told similar stories linking these restaurants to dummy corporations established by Office 39 as well as the laundering of profits from North Korea’s numerous illegal activities. Defectors like Kim Myung Ho, for instance, stated that he was required to make annual payments back home ranging from $10,000 to $30,000 during his tenure as one of these restaurant managers.\(^{28}\)

Though not as bizarre as a chain of North Korean restaurants, Office 39 frequently use the same strategy of laundering money through dummy corporations and upperworld institutions that are constantly discovered and sanctioned by the U.S. government.

**North Korean Upperworld Relational Ties**

Among the North Korean companies and organizations listed in OFAC’s (Office of Foreign Assets Control) Specially Designated Nationals List are: Amroggang Development Bank, Bank of East Land, General Bureau of Atomic Energy, Green Pine Associated Corporation, Hesong Trading Corporation, Korea Complex Equipment Import Corporation, Korea Daesong Bank, Korea Daesong General Trading Corporation, Korea Heungjin Trading Company, Korea Hyoksin Trading Corporation, Korea International Chemical Joint Venture Company, Korea Kwangson Banking Corporation, Korea Kwangsong Trading Corporation,

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These organizations are key to our understanding of North Korean criminal activity because their functions help clarify aspects of an incredibly complex operation. Figure 3 is merely a small sample of North Korean relational ties that span across multiple upperworld and underworld institutions in various countries. The North Korean entities are located in the middle of the graph while the foreign connections line the top and bottom.

Table 3 serves as a companion piece for Figure 3, detailing the primary functions of these institutions and the connections that bind them together.

Figure 3 makes the North Korean denial of illicit activities even more improbable when combined with the knowledge of the family ties that bind the government together. Every single North Korean entity within Figure 3’s infrastructure is either directly or indirectly linked to drug dealing, ballistic missile sales, counterfeit currency, money laundering, or nuclear weapons development. Through the connections between institutions, Figure 3 depicts the most dangerous scenario that can arise from a North Korea with nuclear capabilities. The biggest threat from North Korean nuclear proliferation does not come down to the direct use of a nuclear weapon, it comes down to the technology and how it is exchanged along these avenues between different actors. North Korea currently finds itself in the position occupied by Pakistan during the 1990s, exchanging nuclear technology for other goods and services. Unfortunately, these graphs and tables are also an example of how the international community is constantly playing catch up when it comes to combating North Korean criminal entities. Even though compiling data on organizations that pose a threat to our national security is useful in many instances, these shell companies are largely disposable within the grand scheme of North Korean criminal activities.
Figure 3. North Korean organizations: relational ties.
Table 3. North Korean Organizations: Relational Ties

<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Bureau</td>
<td>Highest decision making body in the Korean Workers Party.</td>
</tr>
<tr>
<td>National Defense Commission</td>
<td>In charge of crafting North Korean military and non military policy.</td>
</tr>
</tbody>
</table>
| Second Academy of Natural Sciences                | North Korean national level organization. Researches and develops advanced weapons systems like ballistic missiles and nuclear weapons.  
| Chu Kyu Chang                                     | Alternate member of the Political Bureau. Director of the Munitions Industry Department. Previously in charge of the Second Academy of Natural Sciences and the Second Economic Committee.  
| Pak To Chun                                       | Member of the Political Bureau and National Defense Commission. Secretary of the Munitions Industry Department.  
| Munitions Industry Department                      | Manages weapons production and arms exports in North Korea.                                                                               |
| Tangun Trading Corporation                         | Procures missile technology, equipment, and materials abroad for the Second Academy of Natural Sciences.  
| Second Economic Committee                         | Oversees production of North Korean ballistic missiles. Major arms exporter Directs KOMID.  
| Korea Mining Development Corporation (KOMID)       | North Korea’s primary arms dealer. Exporter of ballistic missile and conventional weapon materials. Sold ballistic missiles to Iran’s Shahid Hemmat Industrial Group.  
| Korea Heungjin Trading Company                     | Procurement arm of KOMID. Has supplied Iran’s Shahid Hemmat Industrial Group with missile related materials.  
| Tanchon Commercial Bank                            | Financial arm of KOMID. Finances sales of ballistic missiles Involved in ballistic missile transactions between KOMID and Shahid Hemmat Industrial Group. Transferred KOMID funds from Burma to China in 2009 through KKBC.  
| Amroggang Development Bank                         | Provides financial services in support of Tanchon Commercial Bank and Korea Hyoksin Trading Corp.  
| Korea Kwangsong Banking Corporation (KKBC)         | Provides financial services in support of Tanchon Commercial Bank and Korea Hyoksin Trading Corp.  
| Korea Ryonbong General Corporation                 | Acquires materials for North Korean defense industries. Supports the government’s military related sales.  
| Korea Hyoksin Trading Corporation                  | Owned by the Korea Ryonbong General Corp. Tried to use KKBC to buy dual use equipment in 2008.  
| Korea Taesong Trading Company                      | Handles KOMID’s dealings with Syria.  
| Reconnaissance General Bureau                       | North Korean intelligence organization. Involved in DPRK’s conventional arms trade.                                                          |

(Table continues)
| **Green Pine Associated Corporation** | Arms manufacturing firm. Responsible for half of North Korean weapons related exports. Exported torpedoes to Iranian defense firms.⁸ |
| **Bank of East Land** | Facilitated financial transactions between Green Pine and Iranian financial institutions like Bank Melli and Bank Sepah. Facilitated transactions for the Reconnaissance Bureau’s weapons program.⁹ |
| **Office 39** | Foreign trade office. Brings in foreign currency through dummy corporations and money laundering. |
| **Korea Daesong Bank** | Owned by Office 39. Facilitates North Korean illegal financing projects.¹ |
| **Korea Daesong General Trading Corporation** | Owned by Office 39. Facilitates foreign transactions for Office 39.¹ |
| **Office 99** | Foreign trade office. Controlled by the Second Economic Committee. Handles a portion of North Korean arms sales. Funnels earnings through Office 39.¹ |
| **Chun Byung Ho** | Runs the Second Economic Committee. Shipped long range missile parts to Islamabad, Pakistan in the 1990’s. Missiles were exchanged for centrifuge equipment (used to produce nuclear fuel).¹ |
| **General Bureau of Atomic Energy (GBAE)** | Manages North Korea’s nuclear weapons program including operations at the Yongbyon Nuclear Research Center and Namchong Trading Corp.¹ |
| **Yongbyon Nuclear Research Center** | Its Fuel Fabrication Facility, 5MWe Experimental Reactor, and Radiological Laboratory have been used to produce weapons grade plutonium.¹ |
| **Ri Hong Sop** | Former director of Yongbyon Nuclear Research Center. Councilor for the GBAE.¹ |
| **Ri Je Son** | Director of GBAE. Responsible for the management of Namchong Trading Corp. and the Yongbyon Nuclear Research Center as well.¹ |
| **Namchong Trading Corporation** | Trading company subordinate to GBAE. Acquires nuclear related materials abroad.¹ |
| **Yun Ho Jin** | Senior official at Namchong Trading Corp. Acquired items needed for North Korea’s uranium enrichment program. Linked to the purchase of materials found in a Syrian nuclear reactor.¹ |

**China**

| **Leader International Trading Limited** | Located in Hong Kong. Facilitated the shipping of machinery to customers on behalf of KOMID and to KOMID representatives outside of North Korea.¹ |
| **Ra Kyong Su** | Tanchon Commercial Bank representative to Beijing.¹ |
| **Kim Kwang Il** | Tanchon Commercial Bank deputy representative to Beijing.¹ |
| **Shenyang Aircraft Industry Company** | Chinese state owned firm. Often used by Yun Ho Jin to conduct business.¹ |

*(table continues)*
<table>
<thead>
<tr>
<th><strong>Table 3. (continued)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Syria</strong></td>
</tr>
<tr>
<td><strong>Commercial Bank of Syria</strong></td>
</tr>
<tr>
<td><strong>Syria’s Scientific Studies and Research Center</strong></td>
</tr>
<tr>
<td><strong>Syriatel</strong></td>
</tr>
<tr>
<td><strong>Lebanon</strong></td>
</tr>
<tr>
<td><strong>Syrian Lebanese Commercial Bank</strong></td>
</tr>
<tr>
<td><strong>Iran</strong></td>
</tr>
<tr>
<td><strong>Shahid Hemmat Industrial Group</strong></td>
</tr>
<tr>
<td><strong>Bank Sepah</strong></td>
</tr>
<tr>
<td><strong>Post Bank of Iran</strong></td>
</tr>
<tr>
<td><strong>Hong Kong Electronics</strong></td>
</tr>
<tr>
<td><strong>Bank Melli</strong></td>
</tr>
<tr>
<td><strong>Germany</strong></td>
</tr>
<tr>
<td><strong>Hans Werner Truppel</strong></td>
</tr>
<tr>
<td><strong>Optronic</strong></td>
</tr>
<tr>
<td><strong>Bek GmbH</strong></td>
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<tr>
<td><strong>Krefal Handels GmbH</strong></td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
</tr>
<tr>
<td><strong>British Aluminum Tubes</strong></td>
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<tr>
<td><strong>Austria</strong></td>
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</tbody>
</table>

(table continues)
<table>
<thead>
<tr>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abdul Qadeer Khan</td>
</tr>
<tr>
<td>Pakistani nuclear scientist. Shipped centrifuge equipment to North</td>
</tr>
<tr>
<td>Korea during the 1990’s in exchange for long range missile materials.</td>
</tr>
</tbody>
</table>


When these companies are discovered and sanctioned economically, they are simply dissolved by Office 39 and replaced with newer corporations serving the same purpose. Bank Sepah is the perfect example of this cycle. When it was no longer able to operate efficiently under the weight of international sanctions, banks like Post Bank of Iran and Export Development Bank of Iran stepped in to fill the void. In other words, these networks and institutions are adaptable under diverse circumstances.

**Solutions**

Transnational criminal organizations need to penetrate every level of an infrastructure to run an effective operation of their size. Influencing the business sector isn’t enough. Organized crime groups need to infiltrate government institutions, the financial sector, and facilitators (lawyers, bankers, accountants). They need to maintain some form of control over territory even if they don’t overtly control it physically. Furthermore, they need to establish connections with organizations in diverse markets and regions to maintain this global network. These practices, as Chapter 5 will cover in further detail are also the reason why international sanctions are often meaningless when it comes to stopping transnational crime.

Even seemingly effective methods like increases in law enforcement capabilities and the strengthening of diplomatic ties fail to deal with the problem adequately. U.N. Security Council attempted to strengthen both of these measures through Resolution 2094. Resolution 2094 “Calls upon States to exercise enhanced vigilance over DPRK diplomatic personnel so as to prevent such individuals from contributing to the DPRK’s nuclear or ballistic missiles programs, or other activities prohibited by resolution 1718 (2006), 1874 (2009), 2087 (2013), and this resolution, or to the evasion of measures imposed by resolutions 1718 (2006), 1874 (2009), 2087 (2013), or this resolution”. The problem with this, as is always the case with U.N. resolutions is that it is more of a broad pledge among nations than a concrete course of action. Countries can agree to monitor North Korean diplomatic personnel in public, but it entirely up to them whether they decide to follow through.
There are just so many variables to take into account. Not every country for instance has the resources or law enforcement capabilities needed to continuously monitor the activities of North Korean diplomats and their associates. Corruption, lack of training and resources within the law enforcement community, regional politics, internal politics, and weak government infrastructures are all obstacles that stand in the way of an effective multilateral strategy. This doesn’t mean that the international community should simply give up on monitoring North Korean illicit activities or abandon a law enforcement approach altogether, it just means that there should be realistic expectations for what can be accomplished through these methods. The diplomatic arrests that have taken place are small victories, but they fail to make an impact on the big picture.

As a result of the multiple and often very public arrests like the ones shown in Table 2, the North Korean drug trade has moved even deeper into the shadows than it was before. In the past decade, North Koreans have taken a more hands off approach when it comes to their involvement in the drug trade. They continue to grow and manufacture within their borders, but they mainly rely on their connections abroad to move the product. After trafficking the drugs through a network along the three neighboring Chinese provinces (Liaoning, Jilin, and Heilongjiang), Chinese organizations then move the drugs abroad through their criminal network, primarily through South Korea, Japan, and Australia. Even though law enforcement is a necessary part of the fight, it failed to evolve along with criminal organizations and failed to provide a solution when it comes to dealing with the social, political, and economic conditions that allow these activities to go on. Drugs and other illicit activities will continue to find their way onto the street as long as the demand and necessity exits. We need to recognize that law enforcement can only do so much and that its impact is limited in the grand scheme of these criminal activities. The only way that significant progress will be made is if the networks themselves are destroyed, which is unrealistic because of the fluctuating capabilities within the international coalition.

The DPRK’s illicit activities cannot be countered through traditional means because they serve a larger purpose than just accumulating money (even though that is still important.

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North Korea’s illegal activities are ultimately an important tool that is used to accumulate power on the international level. It is usually assumed that the money coming in from these enterprises ultimately benefits the North Korean nuclear program, which then draws the attention of the international community. The DPRK then leverages this concern over nuclear weapons into a global platform for aggressive North Korean rhetoric. This rhetoric and the occasional erratic acts that accompany it are then used to bring the international community to the bargaining table, where empty promises are exchanged for humanitarian assistance (see Chapter 5). The process than repeats itself every few years.

North Korean defector Kim Kwang Jin put it perfectly when he said that “The North Koreans are coming to the table not for negotiation; they are there for winning, for implementing their strategy. To grant meaningful concessions at such negotiations, or to enact meaningful internal reforms toward democratization, would be tantamount to suicide for the regime.”

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CHAPTER 4

BANKING ISSUES

After discussing the internal apparatuses and methodology used to carry out their criminal activities, it is important to go over the banking issues that play a major role in North Korean operations. After all, the regime would not be able to stockpile funds or get paid without the loopholes and corruption found in many international banks. Although the targeting of banking institutions is often thought of as the most effective method to counter the North Korean threat, the aftermath Banco Delta Asia case proves that that may not be the case.

The U.S. Senate’s Permanent Subcommittee On Investigations hearing on our nations vulnerabilities to money laundering, drug trafficking, and terrorist financing is particularly disturbing. Taking place on July 17, 2012, the hearing primarily emphasized the investigation of HSBC Holdings plc to demonstrate how international banks (including those in the United States) sometimes play a role in global criminal activities.

Like Senator Levin points out in the report, many international banks have U.S. affiliates because they want access to American financial markets and all of the advantages that come with U.S. currency.31 This desire, combined with the lack of proper oversight has created a problem where international banks are opening U.S. dollar accounts for their knowingly corrupt affiliates from countries that are tied to illicit activities. These are the situations where apparatuses like the Office of Foreign Assets Control come into play.

The U.S. Department of Treasury established the Office of Foreign Assets Control (OFAC) specifically to keep terrorist cells and countries like North Korea from gaining access to American financial markets. OFAC has compiled a list of individuals and companies with links to organizations and countries that pose a threat to our national

security, which is then used by the banking sector to screen transactions. Suspicious transactions are then sent through an additional process where they are investigated individually and in greater detail. The problem from the banking perspective is that these additional screening steps significantly delay transactions that would otherwise be approved by U.S. law or block transactions that would be permitted in other jurisdictions. According to the U.S. Senate’s HSBC Case History report, banks try to get around the OFAC screenings by:

- Stripping information from wire transfer documentation to conceal the participation of a prohibited person or country.
- Characterizing a transaction as a transfer between banks in approved jurisdictions, while omitting underlying payment details that would disclose participation of prohibited originator or beneficiary.
- Sending non-U.S. payment messages through a U.S. server whose OFAC filter was not turned on to screen them for terrorists, drug kingpins, or other prohibited persons.

In fact, it was later discovered that 28,000 undisclosed OFAC sensitive transactions worth $19.7 billion went through HSBC’s American subsidiary (HBUS) from 2001 to 2007. 25,000 of those transactions involved Iran while the rest were divided between other countries of interest like North Korea, Burma, Cuba, and Sudan.

When it comes to North Korea specifically, the report found that HSBC Mexico provided nine North Korean customers with U.S. dollar accounts holding more than $46,000 worth of assets. In addition, HSBC Mexico had seven other clients with dollar and peso accounts worth more than $2.3 million.

As of now, criminal penalties for violating OFAC regulations range from $50,000 to $10 million fines and 10 to 30 year prison sentences. Civil penalties result in $250,000 fines.

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32 Carl Levin, “U.S. Senate Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs.”
33 Ibid.
34 Ibid.
35 Ibid.
36 Ibid, 113.
37 Ibid.
or fines that range from double the transaction amount to $1,075,000 per violation. Table 4 provided by the U.S. Permanent Committee on Investigations illustrates how widespread this issue is with banks and their affiliates.

**Table 4. Prosecutions and Legal Actions Related to OFAC Violations**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Date</th>
<th>Fine</th>
<th>Violation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyd’s Bank</td>
<td>January 9, 2009</td>
<td>$217 million</td>
<td>Stripped information from wire transfers from the mid 1990s to 2007</td>
</tr>
<tr>
<td>Australia and New Zealand Bank Group Ltd.</td>
<td>August 24, 2009</td>
<td>$5.75 million</td>
<td>Processed transactions through U.S. correspondent account for Cuba and Sudan from 2004 to 2006</td>
</tr>
<tr>
<td>Credit Suisse Bank</td>
<td>December 16, 2009</td>
<td>$536 million</td>
<td>Altered wire transfer documentation from 1995 to 2006 involving Burma, Cuba, Iran, and Libya</td>
</tr>
<tr>
<td>ABN Amro Bank</td>
<td>May 10, 2010</td>
<td>$500 million</td>
<td>Removed information from 1995-2005 wire transfers for OFAC sanctioned countries</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>August 18, 2010</td>
<td>$298 million</td>
<td>Illegal transactions for Cuba, Iran, Libya, Sudan, and Burma from the mid 1990s to 2006</td>
</tr>
<tr>
<td>ING Bank N.V.</td>
<td>June 12, 2012</td>
<td>$619 million</td>
<td>Processed 20,000 Iranian and Cuban transactions totaling $1.6 billion</td>
</tr>
</tbody>
</table>


The unfortunate reality is that these types of crimes are bound to happen in a global economy. There are simply too many banks and too many employees with conflicting interests to be able to realistically prevent every one of these infractions from taking place through regulations. As I stated earlier, the OFAC screening process is often a source of annoyance for bankers because it delays or completely blocks large transactions that would

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otherwise go through in other jurisdictions. One of the findings during the HSBC case history report was that many of the bankers dodging the OFAC screening process genuinely did not know or realize that they were aiding terrorists groups or individuals with links to criminal activities. They were simply looking at it from a business perspective, hoping to make their clients happy by minimizing obstacles and increasing the speed of their transactions. There is an entire culture of this nature within the banking industry that cannot be completely controlled or reduced through fines or regulations. Even if a country decides to impose such measures independently, it is still connected to an entire network of banks that do not abide by the same rules. It is realistically impossible to create uniform policy for an institution that is made up of countless actors who follow the hundreds of diverse laws and regulations that are outlined by their respective governments.

The most famous response to these questionable banking practices took place when the United States found out that Banco Delta Asia (in Macao) had dealings with the DPRK’s counterfeit operations. Specifically, the U.S. Treasury Department discovered that Banco Delta Asia’s high-ranking officials were knowingly accepting millions of dollars worth of North Korean deposits and transactions that often included counterfeit bank notes. The U.S. Treasury Department took action by preventing American companies and institutions from conducting any further business with Banco Delta Asia. The effects of Treasury Department’s sanctions were reportedly so severe that Macau’s government had to step in and take control of the bank, eventually resulting in the freezing of assets and the dismantling of North Korean accounts.

Legitimate and illegitimate North Korean trade began to decrease soon after these actions were taken in 2005. It has even been mentioned by defectors who claimed that, “the Banco Delta Asia case was a frightening thing for the regime. It was a blow to Kim Jong Il’s personal funding, to the economic sector that is now supporting the regime. And even the national economy, the people’s economy run by the Cabinet, is influenced by this Banco Delta Asia case.”39 Our actions against Banco Delta Asia ended during the Six Party Talks on February 13, 2007 when 25 million dollars in North Korean Banco Delta funds were

39 Rosen, “Isolated Regime.”
unfrozen in exchange for a promise to denuclearize.\textsuperscript{40} Based on the reaction from North Korea during the Six Party Talks and the impact on their economy, it would naturally seem like economic sanctions such as these are the key to neutralizing North Korean illicit activities. The problem with this approach however, has to do with the potential repercussions that would result from the sanctioning of a foreign country’s banking industry on a massive scale.

As well as providing us with a case study of how economic sanctions might work, the Banco Delta case also demonstrates the potential resistance to such actions. It is important to remember that Banco Delta Asia was only one of several banks tied to the initial investigation into North Korean criminal activity. In fact, it was a rather small bank by comparison. According to former National Security Council official Dr. David L. Asher, “Banco Delta was an easy target in the sense that it was not so large that its failure would bring down the financial system.”\textsuperscript{41} Even under these circumstances, China disagreed with U.S. financial sanctions against the bank, arguing that “the U.S. handling of the BDA case should be conducive to the handling of the six-party talks and benefit the stability of the Chinese territory of Macau.”\textsuperscript{42} In these instances, there are simply too many interests at stake to effectively implement financial sanctions. If the Chinese government disapproved of American sanctions against one of their minor banks, one can predict how it would react to actions against a major institution. Whether they’re being complacent or not, it is difficult to imagine that the Chinese government would be receptive to the idea of disrupting its financial system and the interests attached to it for the sake of American interests. In addition to Chinese resistance, targeting banks has the same problem as the fight against illicit activities because the policies always seem to be a step behind. If recent developments are to be believed, sanctions against Chinese banking institutions with North Korean ties will become increasingly ineffective as time goes by.

\textsuperscript{40} Gertz, “North Korea Elite Linked to Crime.”


According to Stanton Nuclear Security Fellow Dr. John Park, the North Korean regime has adapted to economic sanctions like the ones that arose after the Banco Delta Asia investigation. Rather than tie their funds up in international banks and risk losing them through sanctions, North Korea has started conducting transactions through the multiple trade companies and dummy corporations it has established in China. Since these transactions are done in cash, North Korea has found a way to effectively shield its finances from international pressures. We can continue to place economic sanctions on banking institutions across China and the rest of Asia, but they might just be more trouble than they’re worth. These actions will continue to create distance between us and the major power in the region while being ineffective against the intended target because North Korea will continue to move more and more of its resources through its multiple trade companies.

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CHAPTER 5

THE FLAWS IN PREVIOUS NUCLEAR DETERRENTS

Like every international crisis in modern history, opinions have always differed on how to effectively handle North Korea’s hostile activities. One argument that has remained consistent throughout the decades however, has to do with the use of sanctions and humanitarian assistance as nuclear deterrents. Chapter 5 is essentially broken up into two halves exploring both the pros and cons of each approach through an examination of the policies and historical examples. In addition, this chapter will explore how hostile or virtually nonexistent traditional relational ties between North Korea and world powers like the United States have essentially created newer unconventional ties between them that solely benefit North Korea.

While exploring the advantages and disadvantages of each approach, it is important to remember that criminal organizations are so connected to their communities that international sanctions are largely ineffective. This is because the majority of the efforts to eradicate organized crime ignore the social, political, and economic dynamics that create these corrupt institutions. Criminal organizations can be taken out of the equation, but they will just be replaced by other organizations as long as the underlying societal issues remain. Residents of vulnerable and impoverished countries often rely on the revenue from illicit cross-border activities to provide them with a small amount of economic stability. The governments in these countries know this as well. They choose to ignore the illicit activity going on within their borders because it is one of their few sources for economic stability.

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45 Jeffrey McIlwain, “Organized Crime and Irregular Warfare” (lecture, San Diego State University, San Diego, CA, 2009), 83.

46 Mandel, *Dark Logic*, 171.

resuscitation. Curbing transnational criminal activity remains tricky because international law is usually playing catch up and it requires the cooperation of governments and institutions that have already been compromised. It truly is a situation where the state and non-state actors need one another to survive.  

**HUMANITARIAN ASSISTANCE**

The role of international aid within North Korea remains a complicated diplomatic issue for the United States. As is the case with many North Korean predicaments, this one can be traced back to the early nineties when the country was crumbling due to a lack of Soviet funding, massive food shortages, and disastrous floods. The issue’s complexity is also tied to the questions of morality that are inherently linked to the use of humanitarian assistance as a nuclear deterrent. In addition, the issues with humanitarian assistance truly display the seemingly unwinnable nature of this global conflict. As opposed to sanctions, which fail to get to the root of the societal problems at hand, humanitarian assistance plans are often used in an attempt to confront the social, political, and economic troubles that have plagued North Korea since the end of the Cold War. Out of a population of 24,720,407, 49 it is estimated that 2.8 million North Koreans are in need of constant food assistance while malnourishment has resulted in the stunted growth of one fourth of the child population. 50 Even under these dire circumstances, the problem faced by the international community is that North Korea has been less than receptive towards the terms and conditions for humanitarian assistance on multiple occasions.

The United States has labeled North Korea “a country that has repeatedly provided support for acts of international terrorism,” 51 which has limited our foreign aid to humanitarian assistance. Even with this limited scope of assistance, American efforts to help

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North Koreans without benefitting the regime appear to be futile. North Korea’s starving population does not even benefit from the collection of humanitarian assistance on many occasions because they are not a priority to the men in power. They are only minimally important because the regime needs them in order to collect humanitarian assistance based on false pretenses.

As mentioned above, deception plays a major role in North Korea’s collection of humanitarian assistance. According to defectors who are aware of the situation, when UN monitors and NGO’s (non governmental organizations) first deliver their supplies, they are falsely led to believe that the packages will make it directly to people in need. The reality is that the packages are then diverted and distributed to members of the military, elite, and local officials. Ordinary citizens collect the supplies that remain (if there are any left) after this process has been carried out.  

In short, the U.S. and its allies have been indirectly funding the North Korean nuclear weapons program through the shipment of humanitarian assistance. Every crate that the regime receives reduces the amount that it has to spend out of pocket to keep the military and the elite happy, allowing the earnings from weapon and drug sales to go directly towards the nuclear weapons program. History has shown that Pyongyang can rarely be persuaded by sanctions or economic incentives, at least not for long. The United States only has to look back at the North Korean nuclear proliferation debacles of the 1990s to see this.

The Nuclear Non-Proliferation Treaty & the Agreed Framework

Suspicions about North Korea’s nuclear weapons program initially arose during the International Atomic Energy Agency’s inspections in May of 1992. Coming across inconsistencies between their findings on the ground and the plutonium quantities outlined in North Korea’s report, the IAEA asked the North Korean government for an opportunity to inspect two additional suspected nuclear storage sites, they refused. North Korea responded to the IAEA’s increasing pressure by withdrawing from the Nuclear Non Proliferation Treaty

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52 Martin, *Under the Loving Care of the Fatherly Leader*, 566.
on March 12th, 1993. This decision was reversed in June of the same year.53

The Agreed Framework between the U.S. and DPRK of the following year continued to display this pattern of erratic North Korean actions even with the incentives that were being offered. Under the U.S.-DPRK Agreed Framework, the United States agreed to provide the DPRK with aid in an attempt to dismantle its nuclear reactors and normalize relations with the country. The main provisions of the agreement included the replacement of North Korea’s graphite-moderated reactors with light water reactors (which are less susceptible to nuclear proliferation) capable of generating 2,000 mega-watts of electricity.54 Along with the light water reactors, the United States agreed to supply the DPRK with 500,000 tons of heavy oil annually until 2003 (estimated light water completion date) in order to offset the loss of energy caused by the deactivation of their nuclear reactors.55 Furthermore, the Agreed Framework gave the IAEA permission to monitor the suspension of graphite-moderated reactors and disposal of nuclear materials. Even with all of these incentives however, the DPRK continued to act as it did under the NPT. Throughout the rest of the 1990s and early 2000s, North Korea undermined the goals of the Agreed Framework while still collecting the aid and resources provided by the international community.

South Korea’s Sunshine Policy

North Korea’s refusal to cooperate in exchange for aid becomes especially clear when looking at North and South Korean relations from 1998 to 2008. While it can be argued that the United States’ limited assistance over the years has lacked the scale to promote any changes in North Korea, the same cannot be said about South Korean humanitarian assistance, which deliberately targeted the economic problems of the struggling country. After his election in 1998, president Kim Dae Jong implemented what would be known as South Korea’s Sunshine Policy. This piece of foreign policy was crafted around the belief that any future (substantial) reforms in North Korea could only be achieved through the use


55 Ibid.
of economic cooperation and an increase in political communication, not military force or economic pressure. Under this policy, the South Korean government agreed to separate its economic and political policies towards the North, making economics the priority.

With political tensions taking a back seat, the South Korean government greatly expanded the scope of its economic programs with the North. Humanitarian food aid would no longer be limited to periodic shipments, it would be tied to South Korean agricultural programs designed to increase food production in the North. Furthermore, the South decided to modify its economic policies in order to increase the private sectors investments in the North. There was also a promise on the South’s part to build a light water reactor in exchange for an immediate halt to North Korea’s nuclear program. Despite the optimism surrounding these actions, the Sunshine Policy was destined to fail from the get go due to some fundamental flaws with its execution.

Before going any further, it is important to remember that the Sunshine Policy included three conditions of agreement. First of all, South Korea refused to tolerate any armed provocations from the North. Secondly, the South promised not to make any attempts to absorb the North. The final agreement was that South Korea would make an effort to reconcile with the North and increase cooperation between the two countries. Throughout the decade of the Sunshine Policy, North Korea did everything in its power to undermine the principles that this policy was based on. At the same time, South Korea made the critical error of rarely enforcing the conditions it had outlined back in 1998.

Even when taking the state sponsored drug dealing, arms dealing, and counterfeit currency mentioned in previous sections out of the equation, North Korea was still guilty of multiple acts of aggression and violations that were tolerated by South Korea (Table 5).

That doesn’t mean that the South Korean government was silent on all of these matters, it just means that the responses were mainly limited to verbal condemnations and the diplomatic rhetoric that is commonly associated with these international incidents. South Korea failed to act in a significant manner when violations to the Sunshine Policy occurred.

When the Sunshine Policy was initially proposed, the goal was to establish a relationship between the two Koreas that would allow decisions to be made based on reciprocal actions. South Korea would offer humanitarian existence in exchange for

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 17, 1998</td>
<td>NK spy submarine spotted two kilometers off the coat of Yosu, South Korea. Vessel was eventually sunken by SK forces.</td>
</tr>
<tr>
<td>June 15, 1999</td>
<td>NK vessels cross the Northern Limit Line into SK territory. Both sides exchange firepower. 30 NK sailors died. Known as the Battle of Yeonpyeong.</td>
</tr>
<tr>
<td>June 29, 2002</td>
<td>NK patrol boats once again cross the Northern Limit Line into SK territory, leading to an exchange of firepower. 13 NK sailors and 4 SK sailors died. Known as the Second Battle of Yeonpyeong.</td>
</tr>
<tr>
<td>December, 2002</td>
<td>NK reactivates the Yongbyon nuclear reactor after removing IAEA inspectors.</td>
</tr>
<tr>
<td>January, 2003</td>
<td>NK withdraws from the Nuclear Non-Proliferation Treaty.</td>
</tr>
<tr>
<td>July, 2003</td>
<td>NK states that it has enough plutonium to make 6 nuclear bombs.</td>
</tr>
<tr>
<td>July 5, 2006</td>
<td>NK test fires Taepodong, Scud-C, and Rodong missiles. They all land in the Sea of Japan.</td>
</tr>
<tr>
<td>October 9, 2006</td>
<td>NK conducted an underground nuclear weapons test in the Kilju mountain region, North Hamhong Province.</td>
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</tbody>
</table>


concessions from the North and so on. This aspect of the deal fell apart rather quickly however. North Korea proved to be rather inflexible when the time came to make concessions.

Rather than withdraw humanitarian aid or restrict the policies that finally allowed private enterprises to invest in the North, South Korea continued to provide the DPRK with support and resources without asking for any concessions in return, hoping that it would lead to economic reforms and a peaceful coexistence in the long run. The bottom line is that South Korea continued to pay Kim Jong Il’s regime while it knowingly built ballistic missiles, activated nuclear reactors, engaged in firefights along the border, and dealt drugs around the globe. It is true that the South finally decided to suspend humanitarian aid to the North after
the underground nuclear weapons test in 2006, but there were many overt acts of aggression that took place up to that point. The Sunshine Policy frequently proved that it wasn’t an effective method to get North Korea to abandon its hostile policies. It remains a great cautionary tale for American policies moving forward. By 2008, South Korea had poured 4.5 billion dollars\textsuperscript{56} into a North Korea that remains as threatening, if not, more threatening than it was before.

Although it is not identical to the relief packages that have been offered by governments and NGO’s in the past, the Sunshine Policy adequately demonstrates the inherent problems that the United States and its allies face when providing North Korea with humanitarian assistance. The mentality behind policies such as these mistakenly enforce the belief that North Korea will eventually become economically stable to the point where it will no longer have to rely on a nuclear weapons programs, arms sales, or aggressive tactics to make its way in the world. North Korea has frequently relied on foreign aid and humanitarian assistance in the past without making any long-term concessions. It has consistently collected the spoils of these diplomatic negotiations and allocated more resources to the nuclear weapons program.

**SANCTIONS**

Like humanitarian assistance, sanctions present the United States with a diplomatic quandary. On one hand, it can be argued that economic sanctions further exacerbate the issues revolving around North Korean illegal activities. After all, the entire purpose of these operations is to earn money, something that is naturally hindered by the use of sanctions. The regime might become more hostile as a result and dedicate itself even further to the creation of a nuclear weapon. On the other hand, loosening the noose around North Korea’s neck doesn’t guarantee an end to these nefarious money making schemes or the North Korean nuclear weapons program, plenty of examples of that have been seen in the previous section.

Sanctions have been imposed on North Korea off and on during the decades in an effort to keep them from pursuing their nuclear weapons program. However, just like the

issues plaguing human assistance programs, sanctions are often ineffective even with the best intentions. One of the latest round of sanctions came in 2006 and 2009 as North Korea escalated its nuclear testing.

The United Nations Security Council Resolution 1718 was designed to deter North Korean proliferation of chemical, biological, and nuclear weapons through a series of measures and sanctions adopted by the member states. Although the resolution seems to cover its bases by prohibiting the shipping of battle tanks, armored combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters, missiles, and materials that can be used to build a nuclear, chemical, or biological weapons, it is severely flawed when it comes to shipment of luxury items.

Unlike the sections focusing on the restrictions on military-grade weaponry and nuclear weapons, which are expanded upon through examples and additional documents, the section prohibiting the transfer of luxury items is limited to the words “luxury goods.” The resolution never expands on those words or provides a list of items that are considered to be luxury goods.

The entire function of these resolution are broken if the participating countries are individually allowed to decide what counts as a luxury item. China in particular did not have the same standards for luxury items as the United States, South Korea, Japan, and the Europeans. Based on their exports, the Chinese didn’t believe that cell phones, iPods, laptops, tobacco, and cars counted as luxury items. The purpose of these sanctions is to put pressure on the regime to abandon its nuclear weapons program, but they can continue to fund their program and buy the loyalty of the military and elite as long as they continue to receive luxury goods. These resolutions are pointless in many ways because they can be so easily undermined by their own provisions.

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58 Ibid.
It does not matter if Resolution 1718 prevents the sale or transfer of military-grade weaponry or weapons of mass destruction down to the tiniest detail because the restrictions on luxury items remain as vague as the other provisions remain specific. North Korea can just as easily buy these materials from non-member states after they acquire luxury goods from China. The U.N. Security Council has failed to make significant changes since 2006 even though North Korean aggression has greatly escalated.

As a response to the DPRK’s February 12, 2013 nuclear test and increasingly aggressive rhetoric, The U.N. Security Council yet again agreed to a new round of sanctions against North Korea. Unfortunately, Resolution 2094 continues to suffer from flaws on the luxury goods front. Under Resolution 2094’s Annex IV, luxury goods are broken down into two categories, jewelry and transportation items. Jewelry is considered a luxury if it has pearls, gems, precious and semi-precious stones (including diamonds, sapphires, rubies, and emeralds), or if it’s jewelry made of precious metal or metal clad with precious metal.60 As for the transportation items, they are considered luxuries if they are yachts, luxury automobiles (and motor vehicles), automobiles and other vehicles used to transport people (other than public transport), station wagons, and race cars.61 Even though it’s better than not having a list, the U.N. Security Council’s list of luxury items pales in comparison to some of the lists released by individual countries. Table 6 provides a comparison of a handful of these lists organized by country and luxury good category.

The Table 6 establishes what a comprehensive list of banned luxury items should look like. The lists complied by the United States, the European Union, Japan, and Australia can be broken down into a minimum of fourteen categories. China on the other hand, either doesn’t have a list of banned luxury items or has not made it public. It is because of this that the United Nations Security Council can barely agree on two categories, which still seems rather useless. Even North Korea knows that these sanctions are largely ineffective. They frequently complain about sanctions on the international stage and go as far as to call them

61 Ibid.
<table>
<thead>
<tr>
<th>Category</th>
<th>United States</th>
<th>European Union</th>
<th>Japan</th>
<th>Australia</th>
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<tr>
<td>Animals</td>
<td>Pure-bred horses</td>
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<td>Food</td>
<td>Caviar, caviar</td>
<td>High quality</td>
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<td>substitutes, truffles</td>
<td>beef, fatty</td>
<td>crustaceans</td>
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<td>(and preparations</td>
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<td>substitutes</td>
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<td>invertebrates</td>
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<td>Beverages</td>
<td>Alcoholic beverages</td>
<td>High quality</td>
<td>Liquor</td>
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<td>(all kinds)</td>
<td>(all kinds)</td>
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<td>liquor)</td>
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<td>Cosmetics</td>
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<td>and make-up products</td>
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<td>Accessories</td>
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<td>and travel goods,</td>
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<td>goods, apparel</td>
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<td>precious metal or of</td>
<td>handbags and</td>
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<td>and clothing</td>
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<td>metal clad with</td>
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<td>(leather travel goods,</td>
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<td>vanity cases,</td>
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<td>camera cases,</td>
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<td></td>
<td>handbags, wallets,</td>
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<td></td>
<td>silk scarves</td>
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<tr>
<td>Clothing</td>
<td>Apparel and fashion</td>
<td>High quality</td>
<td>Fur products</td>
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<td></td>
<td>items (leather</td>
<td>garments, clothing</td>
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<td>articles, silk articles,</td>
<td>accessories, shoes</td>
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<td>artificial furs)</td>
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(table continues)
### Table 6. (continued)

<table>
<thead>
<tr>
<th>Decorative Pieces</th>
<th>Decorative items (rugs, tapestries, tableware of porcelain or bone china, items of lead crystal), works of art (including paintings, original sculptures and statuary), antiques (more than 100 years old), collectible items, rare coins and stamps, fountain pens</th>
<th>Hand-knotted carpets, hand-woven rugs, tapestries, luxury clocks (and their parts), works of art, collectors’ pieces and antiques</th>
<th>Carpets, art objects</th>
<th>Works of art (all), fountain pens, clocks, carpets, precious metals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jewelry</td>
<td>Jewelry with pearls, gems, precious stones, semi-precious stones (including diamonds, sapphires, rubies, and emeralds), jewelry of precious metal, metal clad with precious metal</td>
<td>Pearls, precious stones, semi-precious stones, articles of pearls, gold jewelry, silversmith articles of jewelry</td>
<td>Jewelry</td>
<td>Silver, gold, precious and semi-precious stones (including diamonds and pearls)</td>
</tr>
<tr>
<td>Currency</td>
<td>Coins, bank notes</td>
<td>---</td>
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</tr>
<tr>
<td>Kitchenware</td>
<td>Cutlery of precious metal or plated or clad with precious metal, high quality tableware (of porcelain, china, stone), earthenware, fine pottery, high quality lead crystal glassware</td>
<td>---</td>
<td>Drinking glasses (lead crystal)</td>
<td>---</td>
</tr>
</tbody>
</table>

*(table continues)*
### Table 6. (continued)

| Electronics | Electronic items (flat-screen, plasma, or LCD panel televisions or other video monitors or receivers, including high definition televisions, any television larger than 29 inches, DVD players, personal digital assistants (PDAs), personal digital music players, computer laptops) | High end electronic items for domestic use, high end electrical/electronic or optical apparatus for recording and reproducing sound and images | Cameras, audio devices, video devices, movie software, music software | Consumer electronics (televisions, videos, DVD players, PDAs, laptops, MP3 players- and any other relevant exports), photographic equipment, electronic entertainment/software |
| Vehicles | Yachts, other aquatic recreational vehicles (such as personal watercraft), luxury automobiles (and motor vehicles), automobiles and other motor vehicles to transport people (other than public transport), station wagons, racing cars, snowmobiles, motorcycles, personal transportation devices (stand-up motorized scooters) | Luxury vehicles for the transport of persons on earth, air or sea, as well as their accessories and spare parts | Cars, motorcycles, motorboats, yachts | Automobiles and other vehicles to transport people, yachts and pleasure craft |

(table continues)
| Recreational Activities | Musical instruments, recreational sports equipment | High quality musical instruments, articles and equipment for skiing, golf, diving, water sports, articles and equipment for billiards, automatic bowling, casino games, games operated by coins or banknotes | Sports equipment |

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declarations of war, but they know deep down that the system is broken. Based on the table, North Korea can still get away with importing countless luxury items from the categories listed above.

The U.N. Security Council should be commended for taking the first steps in creating a list of luxury materials, but it still remains rather pointless in the state that it’s in. The gradual inclusion of a list of luxury items is a step in the right direction, but it is clear that there needs to be a level of compatibility between U.N. member states when they impose these sanctions.

In order for any actions against North Korea to truly be effective, there will need to be legitimate coordination between nations on their foreign policy fronts. The many United Nations Security Council Resolutions that have been passed over the years are examples of resolutions that sound constructive when described in a general overview, but are truly
ineffective when going into the details. The same can be said about the use of humanitarian assistance. Both of these strategies will continue to be completely useless as long as individual countries continue to undermine the international community’s efforts.
CHAPTER 6

THE CHINA PROBLEM

As I mentioned in the previous chapter, China is crucial to improving many of the problems on the Southeast Asian peninsula. There are countless solutions that have been proposed in order to deal with North Korean illicit activities and unpredictable acts of aggression, but China is always the final obstacle that remains. China’s position as North Korea’s last ally, as well as our own arduous relationship with the country further complicates an already complex issue. This is why it is important to explore the North Korean issue from the Chinese perspective. It is easy to simply label China an obstructor on a global scale, but it is quite another to actually look at the relationship between the two countries.

China may be legitimately tired of supporting North Korea or dealing with the drug trade along the border (as they say publicly), but they definitely see it as a better situation than the alternative. This is the reason why the Chinese sell oil to the North Koreans at discounted prices. This is why they ship a few hundred thousand tons of grain to them every single year and downplay their role in the drug trade. When looking at the relational ties between these two actors, it is easy to see why the Chinese perspective differs so greatly from that of the Western world.

There is not an aspect of this relationship that is not beneficial to both China and North Korea. North Korea gives China full access to its natural resources including coal and magnesium while Chinese companies are even given access to the North Korean population as a cheap source of labor. In return, the Chinese pay the North Korean regime in American dollars while they pay their people with their worthless currency. This is the country that

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did not even acknowledge North Korean drug dealing until 2004, even with all of the evidence and diplomatic connections that had been uncovered. Up until that point in time, the Chinese government referred to North Korean drug dealing as “trafficking from an unidentified overseas country.”  

Coming up with any solutions that are beneficial to both China and the United States strategically is extremely difficult.

Looking at the issue from a Chinese perspective, it is easy to see why they continue to allocate time, money, and resources to The Hermit Kingdom. The existence of North Korea makes sense to China both economically and strategically. As long as the Korean peninsula remains divided, China will have a strategic buffer that will keep it further out of the reach of Western influences. In addition to the buffer zone, China remains invested in North Korea out of fear of what would happen if the country collapsed.

North Korea has a population of 24,589,122 people (based off of July 2012 estimates) with a gross domestic product per capita of $1,800 (based off of 2011 estimates, ranks 197th out of 228 countries listed in the CIA World Factbook). China, on the other hand, has a gross domestic product per capita of $9,100 (ranked 118th out of 228) while North Korea’s other immediate neighbor, South Korea has a gross domestic product per capita of $32,400 (ranked 40th out of 228). The economic disparities between the three countries are just as astonishing in other sectors.

Based on the information provided in Table 7, it isn’t difficult to imagine the chaos that would ensue with the collapse of North Korea. The standard of living is significantly higher on both sides of the DPRK border, which would end up creating an unimaginable refugee problem for China and South Korea. The fear from China’s perspective is that the refugee problem would eventually lead to unnecessary financial issues, wiping out decades of hard work and economic growth.

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During these conflicts with North Korea, China has generally tried to walk a fine line, not wanting to anger North Korea on one side or the rest of the international community on the other. This tightrope walk has inevitably led to frustration between the United States and its allies, a feeling that is justified in many ways. As the previous section on sanctions and food aid has shown, Chinese policies have often subverted international resolutions looking to make a significant impact on the DPRK. Although this has been the case for decades, there should be a certain degree of patience when it comes to China’s role going forward. After all, these UN resolutions are only between willing participants in the international community, meaning that North Korea still has plenty of options when it comes to operating with countries that are not bound by any agreement. China’s relationship with North Korea differs vastly from the United States’, but that doesn’t mean that the Chinese government is willing to tolerate North Korean saber rattling unconditionally. The last thing that China wants to see is conflict or any form of chaos unfolding on its borders.

As a global power, the United States should do what it can to persuade and influence other nations to adopt a similar perspective on North Korea, but it also has to recognize that there are limitations to this power. We already have delicate diplomatic relationships with...
countries like Russia and China that are constantly tested by accusations of cyber espionage and unbalanced trade issues. If we want to heal our relationship with China and work more closely, we can only exert so much pressure before we overstep our boundaries. China knows that it doesn’t have anything to gain from North Korea’s current course of action and will ultimately implement policies that are in the country’s best interest. In the end, China isn’t looking out for North Korea, the United States, or any other nation. China is looking out for China, and that may not necessarily be a bad thing when it comes to American interests on this issue. Based on recent events and the growing tensions on the peninsula, it seems like Chinese and American interests share more in common than they ever had before. Back in May for example, the Bank of China made a move by shutting down North Korea’s Foreign Trade Bank accounts and transactions, falling in line with the economic sanctions that have been carried out by many Western nations. This doesn’t necessarily mean that China will take any significant steps in inflicting damage to the North Korean regime, it might just mean that the influential country will do enough to diffuse the heightened tension that currently surrounds this conflict. It would be ideal for China to pressure North Korea into abandoning its nuclear ambitions, but any duress on our part would be ineffective or create the opposite effect. There isn’t a guarantee that China is going to change its role on the Southeast Asian stage, but we shouldn't assume that the country’s relationship with North Korea will continue to be business as usual either.

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CHAPTER 7

THE INFORMATION BATTLE

As of now, the most realistic approach to destabilizing the North Korean regime revolves around introducing the average North Korean citizen to the outside world. One only has to look at the fall of the Soviet Union to see the power of information and broadcasting. There were certainly many factors that led to the Soviet Union’s decline, but it can’t be denied that the open nature (when compared to North Korea) of that society played a major role. Whether they were exposed to Western culture through international broadcasts or through products sold on the black market, the people knew that there was another way of life and other political systems that resonated with them. The same could be said of the most recent conflicts that have taken place in Egypt, Libya, and Syria. Though not inherently closed off in the same way as North Korea, citizens of these countries were still severely restricted by regimes and dictators committing numerous human rights violations. Modern technology such as smart phones and social media became valuable assets during these revolutions, making it easier for citizens to mobilize and report/take footage of government abuses.

Much like the countries in the Arab Spring, it is difficult for North Korean opposition groups and independent voices to communicate or get their messages across on a massive scale. The Korean Workers’ Party is firmly in control of the Korean Central Broadcasting Station, which serves as a mouthpiece for the Kim regime. Programming only focuses on international issues affecting the regime (after being distorted through the propaganda machine) and on praise for the North Korean leadership. The programming never focuses on domestic problems such as food shortages or the struggling economy, anything that casts the regime in an unfavorable light is prohibited. The narrow scope in North Korea’s broadcasting schedule also makes it difficult for the average citizen to gather information on the outside world. Furthermore, televisions and radios sold in North Korea are limited to broadcasting the state operated channels and frequencies that are pre-tuned on each device. The DPRK
even resorts to jamming television and radio frequencies coming in from China and South Korea. North Korea’s internet presence is even more limited.

Only members of the North Korean elite have access to the internet through foreign servers that are linked via satellite and heavily monitored.\(^{70}\) Outside of the very top of the regime, internet access is limited to a nationwide intranet network reserved for government officials and academics that have been granted permission.\(^{71}\) This unparalleled level of isolation creates a unique set of challenges for North Korea in the modern age.

It is worth noting that the use of modern technology is slowly but surely making an impact on North Korean society. The biggest change could be seen in April of 2012 when North Korea’s long-range rocket (launched in honor of Kim Il Sung’s 100\(^{th}\) birthday) broke up in mid-flight over the Pacific Ocean. Rather than deny the failure like they have with previous launches, the increased media access forced the government to admit to the rocket catastrophe on state television.\(^{72}\) This is a method of undermining the regime that the United States and its allies should continue to explore. It is an extremely slow strategy that will most likely take decades to show results, but there isn’t a reason why it should not be attempted in conjunction with foreign policy.

The black market has helped undermine government sanctions for decades, why not take advantage of it while simultaneously shutting it down? There is an amoral quality to organized crime that allows it to be used for good as well as evil. Whether it be smuggling North Koreans out of the country or providing the populace with external information, something positive might as well come out of it while it exists.

The flow of information in and out of the country has already become increasingly difficult to control in recent years because illegal Chinese cell phones, flash drives, and DVDs keep making their way across the border.\(^{73}\) Up until this point, the United States has

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\(^{71}\) Ibid.


funded Radio Free Asia broadcasts from South Korea, but the North Korean government
constantly jams that signal. New technologies allow us to get around this obstacle and wage a
long-term information battle in this constantly changing landscape. There has already been a
minor impact in Southeast Asia even though these new information battles are still in their
infancy.

Two years ago, China’s minister of public security flew to North Korea in order to
discuss the growing instability and public protests in the Middle East because both China and
North Korea were nervous about the possibility of an Asian Spring taking place in their
countries.74 In fact, 200 North Korean employees stationed in Libya during the fall of
Gaddhafi were banned from returning home because of their perceived risk to the
government.75 The fear of external influences is so strong that the regime would rather exile
hundreds of its own people than let word of the Libyan revolt reach home.

According to Bradley K. Martin’s interviews with North Korea’s younger defectors,
the belief in the DPRK’s propaganda machine is largely contained to older citizens who
either lived through or grew up in the aftermath of the revolution. Kang Chul Hwan for
instance, informed Martin how most university students have gradually begun to harbor anti-
regime sentiments. “Just by watching as China has changed to a free-market system they can
see that people are living better. And look how well the Japanese live. University students
believe that if the regime stays in power, it will be the downfall of North Korea.”76

The makeup of North Korean society is gradually leaving the regime at a
disadvantage. Based on the latest information, 22 percent of the North Korean population is
0-14 years of age, 16.5 percent is 15-24 years of age, 44 percent is 25-54 years of age, and
the remaining 17.5 percent are 55 or older.77 This makes 33 the current median age78 within
the country, leaving the government with a potential demographics issue. There are clearly

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74 BBC News, “North Korea, China Trade Tips on Democracy Protests - South Paper,” BBC Monitoring

75 Yonhap News Agency, “North Koreans in Libya Banned from Returning Home,” Yonhap News Agency,

76 Martin, Under the Loving Care of the Fatherly Leader, 602.


78 Ibid.
members of the 44 percent that believe in the government propaganda, but it is encouraging
to see that the largest segment of the population is made up of younger, independent thinkers.

There is an opportunity here for nations to expand the exposure of information to
every demographic. It is important to emphasize that the information that is being released
shouldn’t just concentrate on combating Kim Jong Un’s propaganda. There should be a
steady flow of information that includes important global issues but also seemingly minor or
irrelevant pieces that emphasize the arts and cultural expression. Just like the information
making its way into Eastern Europe during the Cold War, North Koreans also need to be
exposed to the arts and different ways of life without a slant or bias in one direction or
another. They will only know what a free society is truly like if they have access to varied
forms of information, including reports that highlight the successes and failures of the outside
world. This isn’t to say however that a propaganda war is no longer necessary. Information
specifically aimed at the regime remains vital because North Korea is so deeply entrenched
in Kim Il Sung’s teachings and personality cult.

It has recently been discovered for example, that Kim Jong-un’s maternal grandfather
worked for the Japanese military, technically making him an "enemy of the state" in his own
country. Kim Il Sung own law passed in 1972 stated that, "enemies of class, whoever they
are, their seed must be eliminated through three generations." The very existence of their
current ruler goes against the doctrines and ideology of the Eternal President of the Republic/
“Great Leader.” It will take some time but sincere support for the current regime will
gradually erode if the people are continuously exposed to information that challenges the
state media and provides them with a window to the outside world. In addition, the presence
of new technology in North Korea can only be seen as a positive, even if the flow of
information does not lead to the downfall of the regime. There might come a time in the
future when the North Korean populace will no longer be able to contain their discontent
with their country’s leadership. Cell phones and other methods of communication will allow
them to organize in a way that they never could before.

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79 Mark Willacy, “Kim Jong-un’s Grandfather was Japanese Collaborator,” Australian Broadcasting
CHAPTER 8

CONCLUSION

As is the case with many aspects of life within the DPRK, North Korean criminology remains an enigma for those looking to curb the country’s role in transnational criminal activity. Due to the isolated nature of the regime, the battle against North Korean illicit activities has been a radical departure for the United States and its allies. Traditional approaches such as sanctions and humanitarian assistance have not worked for several reasons. Humanitarian assistance has been ineffective because North Korea has refused to abide by any of the provisions that have been agreed on by the international community. Meanwhile, economic sanctions have been ineffective because they fail to target the social, political, and economic issues that allow black markets to thrive within the country. The international community cannot expect different results when it comes to North Korean nuclear proliferation as long as they continue to rely on these two strategies exclusively.

In order to fully comprehend the scale and complexity of these criminal operations, one needs to look at the social system of organized crime as it applies to North Korea. Even though North Korea remains unique because its upperworld and underworld institutions are often one in the same, the social network approach shows us how North Korean syndicates rely on legitimate institutions as much as they rely on criminal enterprises. North Korea would not be conducting business on the black market successfully without the reciprocal services provided by upperworld businesses, banking institutions, and politicians abroad. It is through the relational ties between these actors that the true potential of the North Korean threat comes across. The greatest threat from nuclear proliferation on the Asian peninsula does not solely come down to North Korea’s intentions to launch a nuclear weapon, it also comes down to how these capabilities and technology will be utilized within the country’s criminal networks, potentially spreading to interested parties beyond Iran and Syria. This threat to national and global security makes it crucial for the United States and the international community to try a different approach when it comes to dealing with North Korea. It is important to remember that social networks are in a constant state of change,
evolving and adapting as global dynamics and other external forces shift around them. The international community must be willing to adapt its policies in a similar fashion if it wants to make a significant impact on global security issues effectively. Without this willingness to evolve and greater compatibility on policy, North Korea will continue to find ways to survive and inflict damage beyond the Southeast Asian Peninsula.
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