

Analytical Essay

NORTH KOREA—STILL AN INTELLIGENCE PROBLEM

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A few years after Kim Jong Un came into office, North Korea is still attracting controversy in the headlines, and political sanctions are still in operation. Despite the harsh measures in place to isolate Pyongyang from sources of money and luxury, the rulers are able to get what they want using front companies or the help of other states. The reasons for this are deeply rooted in the North Korean political structure. A network of high ranking officials, their children, and political minions are grappling for power and wealth. Beside the powerful Kim clan there exist other families in North Korea whose loyalty must be secured with bribes. If the loyalty of the influential families is eroded, the power base of Kim Jong Un is likely to soon diminish. As a result, the North Korean government is searching for sources of money. Illicit drugs may be one solution the ruling regime find attractive to this problem, but there appears to be a twist: struggling ordinary citizens are showing signs that they too are taking part in this illegal enterprise. This is manifested by their willingness to become involved in crime in the same way as the corrupt regime.

Keywords: Bongwhajo, North Korean intelligence, Chinese intelligence, drug trade, organised crime, Princlings, clan structures, intelligence cooperation in East Asia

INTRODUCTION

For several decades, North Korea has been accused of a range of violations regarding international legal norms. In addition to the violations relating to human rights, which are not the subject of this discussion, there are the issues of: drug trafficking, counterfeiting of drugs as well as currency, laundering of money, trafficking of arms, the trade in endangered species, insurance fraud,

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people smuggling, and prostitution. However, there is a distinction that needs to be drawn between crimes committed by the state and those committed by non-state actors. For instance, prison camps, forced starvation, and executions undoubtedly constitute a crime by the state and those responsible for their commission should be tried in the International Criminal Court in The Hague.

Nonetheless, the crimes described in this analytical essay are seen from a different perspective: these are typically developments within the country where only a few who can be classed as privileged because of their position with the regime are able to attain luxury and power. Corruption and nepotism are common features of this system and parallel political orders that have existed in other totalitarian systems, such as the former Soviet Union. In North Korea, one can observe an increasing separation between the corrupt elite and the ordinary people who are forced to go without. In order to survive under this state enforced austerity, ordinary people are also engaging in these corrupt activities. Based on this situation, the conclusion that presents itself is that the population of North Korea is taking a very big risk in operating on the black market, stealing "public property," and smuggling illicit drugs into China (as well as consuming these drugs themselves).

One cannot describe all of the North Korean elite as corrupt or criminal, but the political system produces conditions that are favourable to the growth of corruption, which in turn distances individuals from the "normal" socio-political process that has the hallmarks of a society which embraces high ethical standards. Due to the strict international sanctions imposed on North Korea, it appears to have become a state that has to search for alternative ways to obtain goods and currencies. There is evidence that the ruling elite in North Korea has demonstrated a great desire for luxury goods—so, the use of bribes paves the way for a lifestyle beyond what could normally be afforded while sanctions are in place. Bribes also secure the "loyalty" of other influential families within the country, drawing them together into what could be seen as a "corrupt collective."

In order to maintain their hold on power, the North Korean elite needs a large bureaucratic and military apparatus—North Korea has one of the largest armies in the world—and this organisation needs to be funded. Given the dire financial situation in North Korea, financing a military is not always possible. To cope, the various ministries and government entities are trying to use alternative means within their control to generate profits in order to procure sanctioned goods. By way of example, there are various sanctions which cover

nearly every relevant part of North Korean activities related to their security apparatus, the military, and the lifestyle of the elite. Many aspects are listed by the United Nations, such as the ban on export and import of certain goods and technologies, luxury goods, the embargo on arms and related material, or the freezing of economic resources, funds and financial transfers. These sanctions have not stopped the ruling elite from acquiring luxury goods—this is due to the expanding trade between North Korea and China (see figure 1).

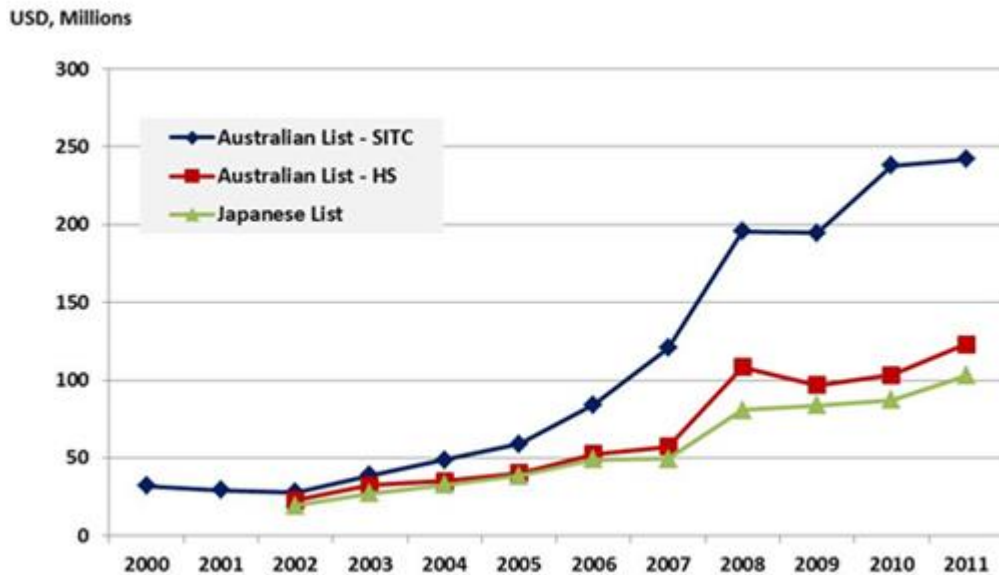


Figure 1 — Chinese Luxury Goods Exported to DPRK (Source UN Comtrade, KOTRA, 2006)

Compared to the luxury trade with the European Union or Russia, one can see in figure 1 that the delivery of luxury goods from China could be considered stable: they can be described as a compensation for the loss in other parts of the world. A recent analysis of the Li Fang Wie (Karl Lee) case shows the system of Chinese front companies that are dealing with North Korea—but only as long as the money flows. So to achieve this “flow,” the North Koreans have resorted to illegal activities because legal methods have been blocked by the international sanctions. The necessary financial transactions cannot be performed without problems because, for instance, opening a bank account on behalf of a North Korea entity is problematic. Thus, the North Korean government has been forced to find alternative ways to transfer funds and to invest.

Kang (2013) writes about the ineffectiveness of sanctions: "However, sanctions are also unlikely to achieve their stated goal of changing North Korean behaviour." In this analytic essay the success or failure of the sanctions is not discussed, but suffice to say that sanctions are coming under increased criticism. In the main, this is because any transaction between North Korea and China regarding luxury goods are not affected.

The key areas that present problems to the international community will be discussed. These issues underscore the need for a new form of cooperation between intelligence agencies. Although it may not always look outward, Western intelligence, as well as some of the most important agencies of East Asia, have a fundamental interest in getting control over the trade in illicit drugs, sensitive technologies, and certain types of intellectual expertise. The tracking of people or materials across borders should no longer be the hurdle that it has been. For example, the lack of surveillance of charter flights across Asia could be a reason for the "seeping" of weapons and ammunition into crisis regions of the world. Even traditional political reservations may not dampen the cooperation of individual North Korean officials. Such discrete guided discussions need further development and the pressure placed on influential members of the elite might yield positive results should they be increased.

CURRENT ISSUES

Two aspects of currency issues will be discussed here—namely the counterfeiting of currencies, and the trade in illicit drugs. The US Secret Service has accused North Korea of being actively engaged in the counterfeiting of high-quality US currency—the so-called *Supernotes*. Different numbers have been cited over the years, but they are rather irrelevant in an international comparison of currency counterfeiting. For instance, the number of investigations carried out in relation to counterfeit currencies in South America are much higher than those that reportedly coming from North Korea. An employee of the US Secret Service said in a statement before the Senate: "During the same timeframe as that of the Supernote investigation, our investigation into counterfeit currency produced in Colombia yielded seizures in excess of \$380 million. The amount seized is also low when compared to the large volume of genuine US currency in circulation worldwide." (Merritt, 2006: 2)

Several states have pointed out that the United States would not provide any evidence for their accusations, which echoes its past claims that were

directed against Hezbollah. In this situation, the main accuser has been a North Korean defector who alleged he had been involved in various frauds. However, in general, the testimony of defectors must be taken cautiously (DeForest and Chanoff, 1990) because until a full counterintelligence evaluation is undertaken, it is difficult to assess the veracity of their stories (Prunckun, 2012).

The Swiss Federal Criminal Police in its *Falschgeld Lagebericht* (Counterfeit currency report) 2004–2005 described accusations of counterfeit currency production as largely unverifiable on technical grounds. According to anonymous intelligence sources who spoke to IHS Jane's, North Korea has also not yet managed to acquire the technology needed to produce high-quality counterfeit currency. (Blancke, 2104)

Although in the past North Korean officials with counterfeit currency have been repeatedly observed while operating abroad, this could be explained by the fact that North Korean officials are often not sufficiently paid and therefore tend to do business in a legal gray zone in order to increase their income. Moreover, there appears to be some expectation on them to send funds and gifts to the ruling family in North Korea.

Nevertheless, it could be argued that it is a criminal act without mitigation because of the difference that lies between private actors who commit such an act and those done by and for the state under some form of duress. For intelligence agencies and security police, this presents a special problem: North Korean criminal activity can be protected by that nation's global security apparatus (Blancke, 2009). As an example, state resources, such as vessels or aircraft can be used, or perpetrators can smuggle currency inside diplomatic bags. Evidence is sketchy, but if more complex intelligence analysis was carried out, a clearer picture of the extent of these covert activities might emerge. Nonetheless, forged currency is not the central issue—the transfer of funds and their uncontrollable disappearance in the global financial system is a bigger area of concern.

Even though it is difficult to prevent the transfer of monies internationally, it is nevertheless important to intelligence operations to be able to understand the logistics that support these activities—Who is involved in the transferred money and where does it end up? Do these funds contribute to political benefits and for whom? Can it lead to political destabilisation?

To date penalties and warnings by various world governments have not discourage these large monetary transfers by North Korea. These alternative options appear to allow North Korea to transfer funds, to speculate with it on world markets, and to invest and re-invest. Pontell, Fang, and Geis (2014) said:

The PRC government has banned state workers from traveling to Macau in an effort to prevent potential embezzlement and squandering of public funds. In 2007, the mainland government reiterated its ban, calling gambling by officials ‘malpractice’ and declaring that ‘swift action and severe punishment’ would be taken against malefactors. Despite such government warnings, one researcher at Beijing University estimates that officials gamble up to 600 billion Yuan in public money every year in Hong Kong, Vietnam, Laos and North Korea as well as Macau.

In addition, the transfer of funds can be carried out anonymously, and techniques for obfuscation can also be used by the North Koreans. (Kim Jong-un’s, 2013) It is possible, for example, to make a money transfer via mobile telephone (cell phone) across multiple middlemen to North Korea. (Plaza, 2011) However, other possibilities exist for the North Korean government to participate in the international financial market. Companies can be established in China that profitably sell North Korean products abroad. Likewise, there are several Chinese firms, or networks of Chinese firms, that are said to be active in North Korea—there finances remain largely closed to Western intelligence agencies. (The 88 Queensway, 2009)

DRUG TRAFFICKING

Another important issue that is relevant to the regional security situation between China and North Korea is the illicit drug trade across their common border. For years the problem of North Korea drug trafficking has reflected the changing demands in the region. In particular, the drugs seized at by China at it border suggests a sizable demand for illicit pharmaceuticals in that country. In addition, there are reports that suggest that precursor chemicals are stopped at the border as well as very pure synthetic drugs.

According to the finding of previous studies, the source of these drugs appear to originate from North Korean pharmaceutical laboratories, however finding hard evidence of this direct link is difficult because of the secrecy surrounding the trade. A recent case has highlighted the global dimensions that demonstrate the drug connection to North Korea. It involves the smuggling of

methamphetamine that was more than 99% purity, produced in North Korea, and smuggled internationally by different actors who were from various countries. Drug production is not unknown in North Korea, but presently it is particularly difficult to establish whether the individuals within the general criminal population are behind the production of these drugs, or if it is state, or some combination of both in collusion.

One such defendant who was detained in connection to a case of drug smuggling responded to a question by an undercover agent of the DEA, if they could visit the labs in North Korea:

No, we can't get go to North Korea . . . We take it out. If we don't talk Korean language, they'll have suspicions. And the NK government already burned all the labs. Only our labs are not closed . . . To show Americans that they are not selling it any more, they burned it. Then they transfer to another base. (US Indictment, 2013)

Although a simple statement by this defendant, the inferences show a complex case—beside North Korea there is the involvement of many other parties in drug trafficking, including a Triad from Hong Kong, an Outlaw Motorcycle Gang in Thailand, and various assassins in the form of former military snipers from various countries. (Manhattan US Attorney, November 2013)

DISCUSSION

So it may not be surprising that Western and even Asian intelligence agencies are confronted with different developments:

1. Ordinary people of North Korea are producing drugs and trafficking them in order to provide a somewhat better standard of living. This, in turn, encourages corruption.
2. For the same reason, some elements of North Korean state entities are involved in the trade. This also favours corruption.
3. Drug trafficking is highly likely to be protected by North Korean security authorities, and this is being done through professional criminal enterprises. This state-based protection allows this criminal activity to enjoy safety afforded by North Korean counterintelligence operations.
4. Parts of the North Korean elite are most likely involved in the drug trade and it is almost certain that they are involved in other criminal activities. With the profits they earn they can establish a luxurious life, buy

proliferation-sensitive goods and bribe influential family clans in North Korea to secure their loyalty.

4. Drugs from North Korea are sold abroad, which brings all of the well established negative societal effects of drug abuse, especially in parts of the region that borders China.

5 In addition to individuals, organised crime organisations are most certainly involved in the drug trade. Groups from Hong Kong, China, Japan, South Korea, Eastern Europe, the Golden Triangle, and probably from the Balkans as well as South America have substantial human, financial and logistical resources. In the future—especially after the much speculated collapse of North Korea—there could be a global struggle for domination of this profitable illicit market.

These factors call for improved cooperation between Western and Asian intelligence agencies and counterintelligence police (see Walsh, 2011). A political solution seems hardly possible in the current situation. Individual South American governments are seeking dialogue with drug cartels. This could be seen as a capitulation of power to organised crime.

There is little doubt that these cartels will continue seek the profits of the past, and therefore any political solution would seem to be a contradiction in goals. North Korean officials and networks are not likely to give up their sources of revenue because that would mean a loss of wealth and as a consequence, a decline in power. The future of illicit wealth for North Korean elites will be realised only in cooperation with other international actors—who in turn are operating in parallel with the legitimate global economy. In the context of drug trafficking, this provides a challenge for the Western world. (US Department of Justice, 2007)

It is suggested that it is the job of Western intelligence agencies to identify those North Korean officials who are looking for policy reforms within North Korea. But these intelligence operations need to be conducted carefully because these reformers hold a key to the only real hope for change in North Korea. The network of corrupt officials, the Princeling, and the so called Bonghwajo network, must be intensively analysed, and then neutralised. (Rank, 2012) It could be argued that Western intelligence has given too little attention to the Bonghwajo structure because its international activities considerable:

Like 'Crown Prince Party, or The Princelings,' a group of the children of prominent and influential senior communist officials in China, Bonghwajo is comprised of children of ranking officials of the North Korean Workers' Party, military and senior members of its Cabinet. Due to their parent's influence, the children reportedly landed jobs at powerful organisations and are earning money through illegal activities such as counterfeiting and narcotics trafficking." (N. Korea's Bonghwajo, 2011)

Having said that, the analysis of this network will be extremely difficult, but there is anecdotal evidence that this is beginning. Early results show that its members are privileged: they can travel, set up businesses, establish international contacts, and send their children to prestigious schools. It is not suggested that all of the members are criminals and it is through these that open up opportunities for intelligence agencies to establish informal channels into the regime. On the one hand, as with the communist dictatorships of the former Eastern Bloc, some open-minded North Korea individuals are likely to exist and start pushing for reforms. On the other hand, one can also assume that other individuals take advantage of the opportunities they have and transfer money abroad or participate in sanctioned activities.

Additionally, Western intelligence agencies would benefit from developing scenarios that include a change in attitude of China towards North Korea: drug trafficking, among other undesirable activities in the border region, represents an increasing provocation for China. Although many Chinese benefit from cheap North Korean labor, the unpredictable activities of North Korean criminals could affect this. (Cathcart, 2012) Social, and thus political, stability in this region is at risk if future international criminal enterprises should gain influence. China is unlikely to accept this. (Zhang, 2010) The Chinese population has an interest in ensuring that the economic development in the border region is undisturbed. (Moore, 2008)

The Chinese intelligence services and police have acted against illicit drug trafficking in recent years, and have publicly expressed their anger:

Affected by the decrease in the output of drugs from the 'golden triangle' area, enormous changes have taken place in the structure of the world drugs market, and international drug trafficking forces have stepped up their infiltration and development in the Sino-DPRK border areas... Tempted by exorbitant profits, persons participating in trans-border drug trafficking in the Sino-DPRK border areas have become increasingly complicated. They

include not only persons in inland areas, border inhabitants, jobless persons, and persons released from prison after serving their sentences but also persons living on the frontiers outside China and persons without nationality; not only full-time organizers but also temporarily hired ‘gangsters’... Some drug crimes carry the nature of criminal syndicates or are committed in collusion with underworld and evil forces, thus causing extremely great danger. What merits attention is that following the increase in the number of the DPRK individuals who illegally enter or stay in China or are illegally employed in the Sino-DPRK border areas, drug-trafficking cases committed by such individuals are increasing. (Lijun, 2009)

The substantial military and intelligence cooperation between China and North Korea may potentially decrease in the near future, even if there are still networks between both countries, which have their roots in the past. (Blancke and Rosenke, 2011)

Despite all the negative experiences and forecasts of the past, a few developments must be taken into account. This includes the fact that there is hardly any solid evidence of involvement of the North Korean government in the drug trade at the present. It is very unlikely that these activities remain unnoticed in a totalitarian surveillance state. One must therefore assume an implicit acceptance by the responsible authorities.

As in the case of forged currency, the involvement of North Korea in the global illicit drug production is estimated to be very low. (Sovacool, 2009) However, this does not alter its illegality and the negative impact on the security situation. Incidentally, the vast majority of drug trafficking can be attributed to the deplorable living conditions many North Koreans have to suffer. (UN, 2013) Hunger, isolation, labor camps, and total government control are common facts that lead to the erosion of ethical values within any society. It is a further tragedy that there is evidence of a growing illicit drug problem following revelations by a number of North Korean refugees who have made new homes in South Korea:

The report sent to Rep. Park Joo-sun's office revealed that 297 defectors have been incarcerated from 2009 through August of this year. Of the total, 65, or roughly 22 percent, broke the law by using outlawed substances . . . ‘There have been reports of wide spread substance abuse in the North and the high numbers among escapees seem to reflect this,’ an

aide to the lawmaker said. He said there is a need to strengthen programs to help escapees overcome such addictions. (Drug use leading, 2014)

In recent times, South Korean intelligence services have been accumulating evidence that alleges North Korean refugees have actually been drug traffickers who were arrested by the Chinese or North Korean police. They were then given a choice: either be sent to a labour camp or infiltrate the North Korean community of refugees in South Korea. Strategic intelligence studies on these social issues are important in order to be able to forecast the likelihood of stability within North Korea.

CONCLUSIONS

Although it might appear somewhat contradictory, North Korea continues to be a stable state whose collapse has not occurred despite numerous predictions. Rather, it looks like the current government and the economic situation have been consolidated. Despite numerous sanctions, economic performance and trade with other countries, especially China, is increasing. Sanctions cannot be completely implemented and there are always new ways for North Korean companies to circumvent them.

Should other states agree to maintain the much debated sanctions into the future, then it is up to Western and Asian intelligence agencies to keep a keen focus on individual North Korean actors and their illicit networks. New intelligence methods need to be established in order to understand this opposing force—a nation that consists of different clandestine networks, actors, interests, and even ethnicities and cultures. The focus on prominent individuals may be misguided. In the past, there was intense attention placed on Pablo Escobar as a person, without paying attention to his network. Only when intelligence agencies infiltrated and analysed the network were they able to neutralise Escobar. This same method calls out to be applied to North Korea. Subject experts might explore a merging in perhaps in a special international intelligence fusion center. As long as bureaucratic barriers stand in the way there will be no long-term success.

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