

NORTH KOREA

Coming In From the Cold?

As the global war against terrorism gains momentum, East Asia's most reclusive state faces some hard decisions: Will it continue to sell ballistic missiles, illegal arms and contraband or will it clean up its act?

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PAK KU PO and his companion would not make it in international business circles. They have no name cards and one of them does not even want to give his name. They claim they know nothing about the place where they are based--"we're just newcomers here"--but promise to be more forthcoming "the next time we meet." Their secretiveness is perhaps understandable as they work for Zokwang Trading, a state-owned North Korean company in Macau, which in the past has been accused of being involved in the distribution of counterfeit money, arms smuggling and terrorist training. North Korea had been accused of state-sponsored terrorism long before Afghanistan decided to give shelter to Osama bin Laden and the seeds of the present conflict in Central Asia were sown.

But now things are supposed to have changed, and Zokwang and other North Korean trading companies--and there are many of them throughout East Asia--claim they are legitimate business operations. Pak, for instance, says that Zokwang is involved mainly in the export of North Korean ginseng to Asian countries, and sweaters and other knitwear to France and Canada. Over the past few years, North Korea has embarked on a vigorous commercial drive across the globe, and, for the first time, it is making serious attempts to attract foreign investment. Is Pyongyang finally turning to capitalism to save the world's last Stalinist state?

The main question is whether this change in attitude will, in the long run, also change North Korea's economy and society--as similar initiatives by the Chinese communists in the late 1970s have begun to transform China. Or will more hard currency in the state's coffers only serve to delay the collapse of one of the world's most atavistic regimes, thus prolonging the suffering of the North Korean people? And have North Korean businesses overseas really become legitimate? Or are they still peddling fake bank notes, drugs and ballistic-missile technology? This is an important issue going forward because the United States has made it clear it will track down all sources of funding for terrorists in future--and now that other sources are drying up, lesser-known alternatives may come into vogue.

There is little doubt that the sale of ballistic-missile technology in violation of the Missile Technology Control Regime and, more generally, the export of weapons to terrorist organizations and the states that harbour them, is far more lucrative than all of Pyongyang's legitimate commercial ventures put together. But it is equally true that

the international war on terrorism will only make such sales more difficult with every passing day.

Ri To Sop, North Korean consul general at the recently established diplomatic mission in Hong Kong, is firm in his assurances. "Our Dear Leader has told us that this is a new millennium, and that we should not do things in the old way. There will be changes. Just wait and see," he says. The "Dear Leader," North Korea's reclusive supremo, Kim Jong Il, visited China in May this year, where his hosts took him to see the stock exchange in Shanghai. In July, he embarked on a 10-day epic train journey through Siberia to Moscow and St. Petersburg, where he visited sites commemorating the 1917 communist revolution, but also held talks with Russia's new, born-again capitalist leadership. The trip was hailed by South Korean Foreign Minister Han Seung Soo: "[This is] a very positive development because it is an indication that North Korea is willing to open up."

The main force behind North Korea's commercial drive is, perhaps not surprisingly, the country's powerful military. In June, a North Korean defector described the North Korean People's Army as the country's biggest "foreign-exchange earner." From early spring this year, servicemen have been made to engage in a variety of export-oriented projects including mushroom harvesting, gold mining, medicinal-herb collection and crab fishing.

The ruling Korean Workers' Party is also reported to be operating more than 40 restaurants in six countries as a means of raising hard currency. The first North Korean eatery opened in Austria as early as in March 1986, but in recent years more have followed in China, Russia and Indonesia. According to South Korean intelligence, North Korea will soon open restaurants also in Bulgaria and Australia.

Even more imaginatively, the Dongkong Foreign Trade Corporation in the Chinese city of Dandong, just across the border from North Korea, acquired in September the exclusive right to sell North Korean medicines in the international market--including a brand called Cheongchun No. 1, which is a home-made North Korean version of Viagra.

EFFORTS PAYING OFF

In Thailand, a North Korean-owned company, Wolmyongsan Progress Joint Venture, has for years been engaged in mining activities near the Burmese border in Kanchanaburi, west of Bangkok, while Kosun Import-Export, which is based in the Thai capital itself, is permitted to trade in rice, rubber, paper, tapioca and clothing. Kosun is located in a discreet office on the top floor of an eight-storey building in a Bangkok suburb. The company is also involved in property, apparently owning the building and renting out flats and office space.

At first glance, it seems that North Korea's dive into the world of capitalism is paying off. North Korea does not release any trade or economic figures, but according to data collected by South Korea's state-run Korea Trade-Investment Promotion Agency, or

Kotra, from the North's main trading partners--China, Japan, Thailand and Hong Kong--its external trade in 2000 jumped by 33.1% to \$1.96 billion from a year earlier. It was the second straight year that North Korea saw its trade volume expand and that, too, at a much higher rate than the modest 2.6% increase in 1999.

Kotra is now actively promoting more trade with North Korea. In April this year, the agency published a fact book on how to do business in the Stalinist state, complete with useful phone numbers in Pyongyang and the complete text, in English, of all new laws relating to foreign trade and investment. South Korea's interest in the development of the impoverished north is understandable. Since South Korean President Kim Dae Jung undertook his historic journey to Pyongyang in June last year, the question of a reunification of the Korean peninsula has become much more urgent--and the South Koreans are painfully aware of the wide income gap between the North and the South.

"Unless we help North Korea develop and strengthen its economy, both countries would collapse if they were reunited," says a South Korean diplomat on condition of anonymity. "The South would not be able to take care of the North. The gap is just too wide today." The cost of reunification was first discussed in South Korea shortly after East and West Germany--at a tremendous price--became one country in 1990. According to Marcus Noland, a researcher at the Institute for International Economics, Washington, South Korea would have to invest as much as \$3.17 trillion in order to avoid an abrupt influx of people to the South and to upgrade living standards in the North--significantly more than West Germany had to pay to raise living standards in East Germany to an acceptable level.

A closer look at Kotra's upbeat trade figures for North Korea also reveals a somewhat less rosy picture. In 2000, North Korea exported \$556 million worth of machinery and chemical goods--while importing \$1.4 billion worth of food, computers and vehicles. The North's perennial trade deficit is expected to worsen this year as the country has to increase imports of rice, corn and other grains. According to the Bank of Korea, North Korea's foreign debt totals \$12.3 billion and Pyongyang's credit rating is the lowest in the world.

There is no doubt that it is the dire straits that North Korea has found itself in which have forced its government to resort to commerce, not any real change of mind in the inviolability of the country's austere socialist system. According to a study by Heather Smith and Yiping Huang of the Australian National University, the present food crisis in North Korea was caused by the disruption in trading ties with former communist allies in the late 1980s. The former Soviet Union ceased providing aid in 1987. More devastatingly, they emphasize, both the former Soviet Union in 1990 and China in 1993 demanded that North Korea pay standard international prices for goods, and that it pay in hard currency rather than through barter trade, as previously had been the case. This affected petroleum imports to the degree that they declined from 506,000 tonnes in 1989 to 30,000 tonnes in 1992.

Subsequently, North Korea embarked on its overseas capitalist ventures. According to a Western diplomat who follows developments in North Korea, the country's embassies abroad were mobilized to raise badly needed foreign exchange. This, he says, was done partly in the name of the diplomats themselves, or through locally established trading companies, which in reality are offshoots of bigger, Pyongyang-based state trading corporations. "Not only do the embassies have to be self-sufficient, they are also expected to send money back to the government in Pyongyang," the diplomat says. "How they raise money is immaterial. It can be by legal or illegal means. And it's often done by abusing diplomatic privileges."

The sad truth is that the North Koreans are desperate and prepared to do anything to make money, and Bangkok seems to be emerging as a centre for many of their activities. Western intelligence officials based in the Thai capital are aware of the import and sale of luxury cars, which are brought in duty-free by North Korean diplomats. Another way of raising money is to insure a cargo consignment at a disproportionate level, and then report the goods lost. "This is usually done through international insurance markets, and there is little the companies can do but to pay up," the diplomat says.

And earlier this year, fake \$100 notes turned up in Bangkok. The police believed that the North Korean embassy was responsible as some of its diplomats were caught trying to deposit the forgeries in local banks. The North Korean diplomats were warned not to try it again. In a more novel enterprise, the North Koreans in Bangkok were reported to be buying second-hand mobile phones--and sending them in diplomatic pouches to Bangladesh, where they were resold to customers who cannot afford new ones.

And even where businesses tend to be more legitimate, North Korea has managed to attract some rather unusual investors. As early as 1991, the North Koreans established a "free economic and trade zone" in Rajin-Sonbong along the Tumen River near the border with China and Russia. Some 746 square kilometres were set aside for "foreign capitalists"--but there have been very few takers apart from pro-Pyongyang ethnic Koreans from Japan, who have invested because of patriotic duty rather than any expectations of quick returns. In fact, there is only one major foreign investor in the entire zone: Hong Kong entrepreneur Albert Yeung Sau Shing, who controls the Emperor Group, which has interests in gold, securities, property and entertainment in Hong Kong and China as well as a banking venture in Cambodia.

In October 1999, Yeung opened the \$180 million Seaview Casino Hotel in Rajin-Sonbong. Although locals are banned from entering the establishment, the Emperor Group is betting that wealthy Chinese and Russians will come there to gamble. The casino has 52 slot machines and 16 gaming tables offering everything from blackjack and baccarat to roulette. In Hong Kong, Yeung is best remembered for his acquittal at his dramatic trial for criminal intimidation in 1995 when all five witnesses called by the prosecution testified that they did not remember anything. Yeung was accused of having kept a former employee prisoner after threatening to

break his leg. Even the victim himself said he could not remember what had happened.

In the same year, Macau gambling tycoon Stanley Ho also opened a casino in North Korea, but in the capital itself. Ho's \$30 million Casino Pyongyang is located in the Yanggakdo Hotel, where his partner is Macau businessman Wong Sing-wa. His company, the Talented Dragon Investment Firm, in 1990 became Pyongyang's unofficial consulate in Macau with authority to issue North Korean visas.

Wong, who has interests in several Macau casinos, made headlines in early 1998, when a Lisbon-based weekly newspaper, the Independent, protested over his presence in a delegation from Macau that was being received by the Portuguese president. The paper cited a Macau official as saying that Wong had "no criminal record, but we have registered information that links him to organized crime" in Macau.

With such business partners, it is obvious that the North Koreans have a long way to go before they acquire a better understanding of how capitalism really works. Nor has North Korea, despite its efforts, managed to attract a large number of new investors. In July this year, a delegation of representatives from 17 Hong Kong companies went to North Korea on a trip initiated by the new consulate in the special administrative region. But though they showed some interest, no commitments were made.

LITTLE BUSINESS INTEREST

In October, the Singapore Confederation of Industry sent a 25-member delegation to North Korea to look into business opportunities, but little investment is expected from there as well. In recent years, only one Singapore company, Maxgro Holdings, has concluded a joint-venture agreement with North Korea. Maxgro intends to plant 80 million paulownia trees on 20,000 hectares of state-owned land and the project is meant to produce wood for furniture, veneers and musical instruments. But at a value of only \$23 million, it is hardly going to turn things around in North Korea.

And, as the fake dollars in circulation in Bangkok show, old habits die hard. In fact, North Korea's main export item remains ballistic-missile technology. There are especially two North Korean companies that have attracted the attention of Western diplomats: the Changgwang Sinyong Corporation and the Lyongaksan General Trading Company.

In the 1990s, Changgwang was sanctioned by the U.S. government for exporting ballistic-missile technology to Pakistan. In July this year, Changgwang was once again sanctioned by Washington, this time for providing Iran with the same technology. According to Western diplomats, Lyongaksan, which like Changgwang is controlled by the North Korean military, sends people under commercial cover to countries such as Syria and Libya, where they in reality sell weapons systems. According to a report which the Seoul-based Korean Institute for Defence Analyses released in April, North Korea has exported at least 540 missiles to Libya, Iraq and other Middle East countries since 1985.

Libya recently bought 50 Rodong-1 missiles with a range of 1,000 kilometres. Cash-starved North Korea has not hesitated to sell weapons to whoever wants to buy them, including terrorist groups. A video of an attack last year by the Liberation Tigers of Tamil Eelam on a Sri Lankan navy vessel shows speedboats which appeared to be of North Korean origin. The rebels also appeared to be using a North Korean variant of the Russian 107 millimetre Katysha rocket launcher. And in late 1990, North Korea sold Burma 20 million rounds of 7.62 millimetre rifle ammunition, which intelligence sources say ended up in the hands of the United Wa State Army, a drug-trafficking group which is active in the Burmese sector of the golden triangle.

While the world is focusing on the terrorist threat from Afghanistan, North Korea's potential for mischief has been almost overlooked. But in testimony on April 17 this year, Deputy CIA Director John E. McLaughlin warned: "North Korea's challenge to regional and global security is magnified by two . . . factors . . . first the North's pursuit of weapons of mass destruction and long-range missiles, and its readiness--and eagerness--to become missile salesman to the world. And second, the economic and humanitarian disaster that has afflicted the people of the North--a catastrophe whose effects will endure for generations, no matter how the Korean situation finally plays out."

Unlike North Korea's more mainstream trading companies, its sale of ballistic-missile technology and military hardware raises millions of dollars, which--minus commissions for the North Korean "businessmen" in the field--flow back into Pyongyang's coffers. "There is no evidence to suggest that this money is used to put food upon the tables of North Korea's starving people," quips a Western diplomat.

North Korea, which depends on international aid to feed its people, has imported \$340 million worth of military hardware over the past decade, according to South Korean security officials. This may be less in absolute terms than what South Korea spends on its military. But the much-poorer North spends 14.3% of the country's GDP on its military compared to the 3.1% spent by the South.

So, for the time being, missiles rather than mushrooms make up the backbone of the North Korea's exports. If some capitalist seeds have been sown during the present drive to shore up the economy, it will take some time for a new business mentality to emerge. Kim Jong Il, it seems, is not yet about to become another Deng Xiaoping.

But in a world ever more concerned with the spread of biological, chemical and nuclear weapons, states that are known, or suspected, to possess them will find themselves facing intense scrutiny--if not outright isolation. North Korea, thus, has very good reason to come in from the cold.