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CORRUPTION IN NORTH KOREA'S ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

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CONTENTS

	Page
Eberstadt, Dr. Nicholas, Henry Wendt Chair in Political Economy, American Enterprise Institute, Washington, DC	3
Prepared statement	6
Horowitz, Michael J., senior fellow, Hudson Institute, Washington, DC	11
Prepared statement	15

CORRUPTION IN NORTH KOREA'S ECONOMY

THURSDAY, JULY 31, 2003

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN
AND PACIFIC AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:05 p.m. in room SD–106, Dirksen Senate Office Building, Hon. Sam Brownback (chairman of the subcommittee), presiding.

Present: Senator Brownback.

Senator BROWNBACK. I call the hearing to order. Thank you all for joining us today. I just came from the closed portion of this hearing which we had with officials of the Bush administration talking about the topic of this hearing, corruption in the North Korean economy.

They requested that it be in a closed session because much of the information they could not release at this time, even though there have been reports in the public press about a great deal of the illegal activities being conducted by the North Korean Government and a number of press reports recently, a major Wall Street Journal article about divisions within the North Korean Government that actually organize and conduct the illicit activity on behalf of the State. We will talk about that in this session today, the public session of it.

I requested the administration to testify today. They agreed to, but only in a closed session, and that is what we've just conducted, and it has been concluded. I'm hopeful that this information can be released publicly in the near future, so that the world can know the degree of illicit activity being conducted by the North Korean Government as it seeks to use this for its ends as a government. That decision will have to be made by the administration.

It will be my push this fall, when we return to session in September, that we conduct a hearing either at the subcommittee or the full committee level to talk about the degree of illegal activity being conducted by the North Korean State, and that we have an additional hearing with administration witnesses at that time speaking about the degree of activity that they can illuminate then.

As the world celebrates the end of the cold war, North Korea's Government began to worry. The end of Soviet support for the economy was a traumatic event for the leadership in Pyongyang, requiring new sources of revenue for the stubbornly Stalinist State. After a decade of famine and economic mismanagement, North Korea's economy is in dire straits, and many observers openly ques-

tion whether the government can survive, and yet the Kim Dynasty lives on, to the horror of the North Korean people and governments and people around the world.

Considering that North Korea's level of trade with the rest of the world is minimal at best, and that by all accounts the State economy is terribly dysfunctional, how has the regime financially survived to this point? Today's hearing examines the ways in which the elite North Korean leadership sustains its very existence.

I would note that this past Sunday marked the fiftieth anniversary, if you want to call it that, of the armistice agreement in Korea, in North Korea, South Korea, the United States, the U.N. It marked a sharp contrast between the two Koreas, North Korea, a Stalinist country, impoverished, a third of the country being fed by international food donation, South Korea an open society, an open economy, the twelfth largest economy in the world, and these are the same people, one operating in freedom, one operating in oppression.

North Korea has become incredibly good at raising revenue through illegal and corrupt practices. Weapons proliferation, including the sale of missiles and perhaps nuclear technology, can bring vast resources into Pyongyang. Drug trafficking is another lucrative venture. Counterfeiting, and even the sale of prohibited animal products, things like rhinoceros horns, are part of the leadership's drive to financially survive.

Recent reports indicate that striking at these sources of revenue will not be easy. Earlier this month, the Wall Street Journal suggested that a special operation known as Division 39 functions as, "the lifeblood of Kim Jong Il's dictatorship." By combining legitimate businesses with illicit activities, Division 39 may have generated several billion dollars for Pyongyang, money that Kim Jong Il can use to bolster his nuclear weapons program, purchase political loyalty, or underwrite the luxurious lifestyles of the privileged elite.

There are those who believe that this Stalin-style government should be preserved in the interest of regional stability. Clearly, it is in everyone's interest, particularly North Korea's, to avoid hostility on the Korean Peninsula. We cannot, however, escape the conclusion that North Korea will continue to go to great lengths to negate the tremendous pressure exerted upon it by the international community.

Attempts to resolve the nuclear question and other issues will most assuredly fail if they perpetuate Kim's hold on power, and I want to note, as well, again that the North Korean people are the ones who are suffering so much from the continuation of this Kim Jong Il regime, the people. They suffer incredible levels of starvation and deprivation, yet countries in the region too often put concerns for stability ahead of the lives of the beautiful North Korean people, who are our brothers and sisters, created in the image of God, His incredible workmanship, as we are.

Today's hearing is therefore very important, because it is focused on the very thing that underwrite Kim's threats against the United States and the rest of the world and sustain his dictatorship over his own people. Understanding how Kim's regime funds itself will

give us a better assessment of its strength and viability, opening an important window into this very closed nation.

Understanding what's most important to Pyongyang allows us to ensure that the regime feels the heat we seek to place upon it.

Finally, understanding the scope of North Korea's illicit attempts to raise money can point us, along with the countries in the region, to practical ways in which the international community can present a united front against Pyongyang.

The subcommittee has already heard about conditions faced by the average North Korea. Today's hearing extends the study of North Korea with an opposite approach, the pursuits of the highest-ranking officials. I am pleased to receive testimony today from Nicholas Eberstadt from the American Enterprise Institute, who has focused for sometime on this area, the illicit activity by North Korea and by the North Korean regime, and by Mr. Michael Horowitz, a senior fellow at the Hudson Institute, who has been tireless in his work and focus on the issue of what is taking place to the North Korean people, and is well aware as well of some of the activities, the illicit activities of the North Korean Government, and some suggestions I think that he will have for us of what we need to do to move forward to counter what the North Korean Government is doing.

Gentlemen, I'm delighted to have you here today. We have the time to hear your testimony in full. You can summarize whatever you choose to do, but I look forward to your testimony and then questions.

Dr. Eberstadt.

STATEMENT OF DR. NICHOLAS EBERSTADT, HENRY WENDT CHAIR IN POLITICAL ECONOMY, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. EBERSTADT. Mr. Chairman, distinguished guests, it's always an honor to appear before this committee.

Since I have no security clearances, I can offer no analysis of privileged information about North Korea's illicit financial activities. What I thought I would do instead is, so to speak, share with you some of my homework about North Korea's international sources of financing and revenues. With your permission, I'll do so over the next several minutes.

What I offer here in the following four accompanying charts [1] are some estimates of North Korea's international trade patterns. North Korea itself, as you know well, provides no official data on its international trade or financial situation, so these figures, which in the parlance are called "mirror statistics," are reconstructions of North Korea's trade situation based upon the reports of North Korea's trading partners, what those partners repeat about North Korea's purchases and sales of goods and merchandise, summarized on a worldwide basis.

The first figure presented here is a reconstruction of North Korea's commercial merchandise exports over the period from 1989 to 2002. You'll see that North Korea's exports dropped dramatically

[1] The charts can be found beginning on page 6.

after the end of the Soviet era, falling radically into the late 1990s, during the period of intense famine in the DPRK.

There is some indication of an upswing in these legitimate reported commercial merchandise sales by the DPRK since the late 1990s. But if North Korea were a business and we looked at this chart, we would say it has no essentially legitimate means of support. The country selling less than $1 billion worth of commercial goods internationally, on an annual basis. This, for a country of 20-plus million people, works out to less than $50 per citizen per year. For an urbanized, literate, industrialized society, that is an extraordinarily low level of legitimate international exports.

Let's now look at figure 2, please if we could.

This figure reconstructs reported imports by North Korea of merchandise from around the world. It follows the same sort of general pattern as figure 1, but at a much higher level. North Korea always seems to buy more merchandise from abroad than it is reported having sold, and now North Korea's level of reported merchandise sales from around the world exceeds $2 billion a year.

If you remember what I said just a moment ago, this discrepancy suggests that there's a big deficit—a big, unexplained balance of trade deficit—for the DPRK, and we can see that in figure 3. Figure 3 represents the unexplained difference between imports and exports for the DPRK on an annual basis from the eighties to the present. You will see this discrepancy amounted to about $600 million in the mid-nineties and late nineties, when the DPRK was in its period of most severe famine. Now that difference has risen to well over a billion dollars, and was probably about $1.2 billion in the year 2002.

This deficit, this difference, is a sum total, and cam be accounted for by a number of different activities. It's explained in part by official aid from other countries, including China, Japan, Russia, the European Union, United States and South Korea.

It is also explained in part by illicit aid. What comes to mind here are the illicit payments by the South Korean Government in 2000 to help to obtain the heralded Pyongyang summit of June 2000, illicit payments which are under investigation by and elicited prosecutions from the South Korean Government.

Counterfeit activities also account for part of this gap. So do the drug trade, and military sales. If North Korea has savings to draw down, these may also be represented here. It's impossible, from looking at this curve, however, to tell just which components are accounted for in different fashions there.

The curve in figure 3 includes support from China, which, of course, we have long heard is a major supporter of the DPRK. But I think it's interesting to take Chinese implicit aid out of the picture and see what's left after that. We do this in figure 4. I think these results are quite interesting.

Look at what happens if we take China out of the picture. North Korea's unexplained extra purchases drop to almost nothing in 1997—which, as you will recall, was the most arduous year of what the North Korean Government officially called the Arduous March. But since 1997, this unexplained extra has risen from about $50 million to over $900 million, almost toward a billion dollars. It's a curve that goes almost straight up from 1997 to 2002.

I would offer four comments in looking at this final graphic, which I think tells us quite a bit about North Korea's external sources of financial support.

First, as of 2002, North Korea seemed to be enjoying a greater inflows of goods than at any time since the collapse of Soviet communism. Second, at least to judge by these data, North Korea has been increasingly successful in acquiring noncommercial sources of funding for its State activities in the recent years. Third, this success has continued into at least the first 2 years of the Bush administration. We do not have figures for 2003 yet, so I can't reconstruct the patterns for the last 7 months.

Finally, these charts suggest that enhanced noncommercial sources of income may be one of the reasons the North Korean system has managed to survive for these last number of years, when it seemed to be under such extraordinary pressure.

I'll stop there. Thank you, sir.

[The submitted charts of Dr. Eberstadt follows:]

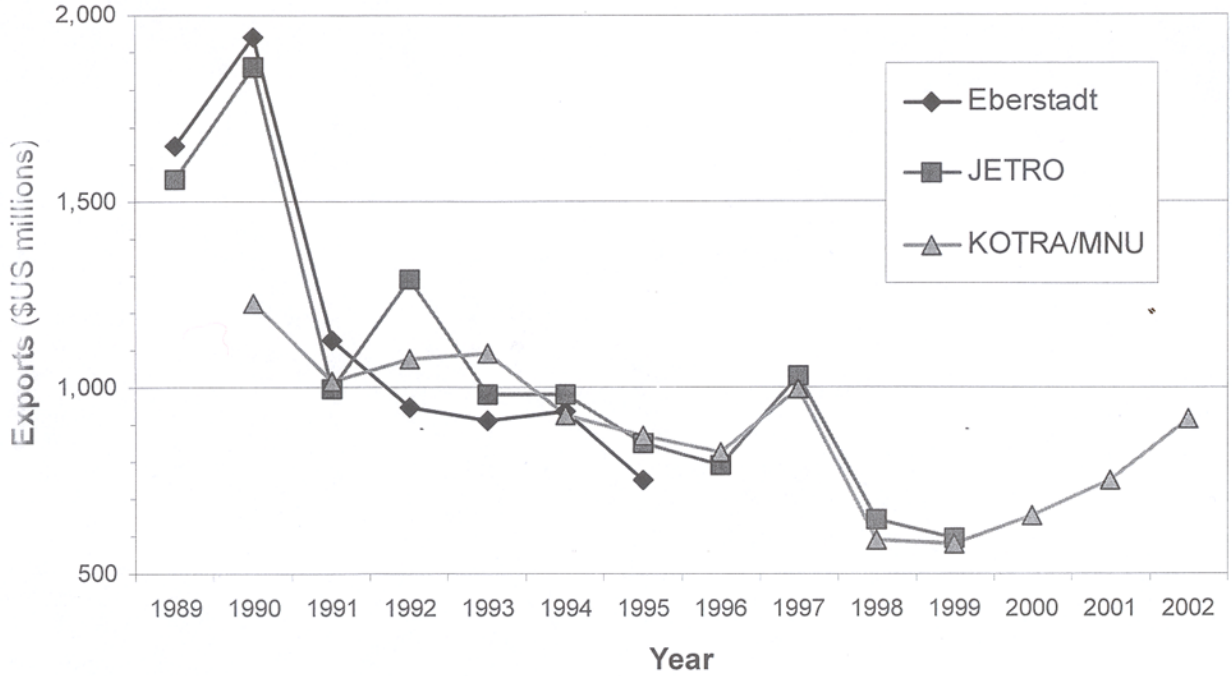
Corruption in North Korea's Economy

Nicholas Eberstadt
Henry Wendt Scholar in Political Economy
American Enterprise Institute

Testimony to:
Subcommittee on East Asian and Pacific Affairs
Committee on Foreign Relations
United States Senate

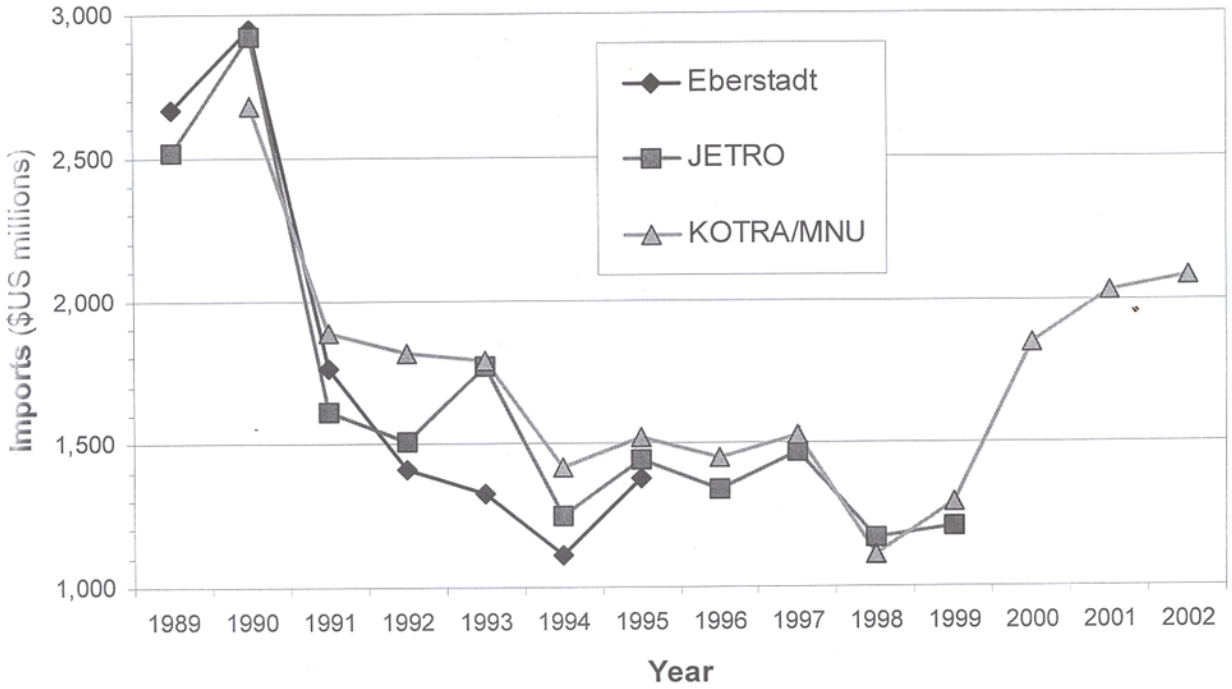
Thursday, July 31, 2003 3:00 PM
106 Dirksen Senate Office Building
Washington, D.C.

FIGURE 1. North Korean Merchandise Exports, 1989-2002



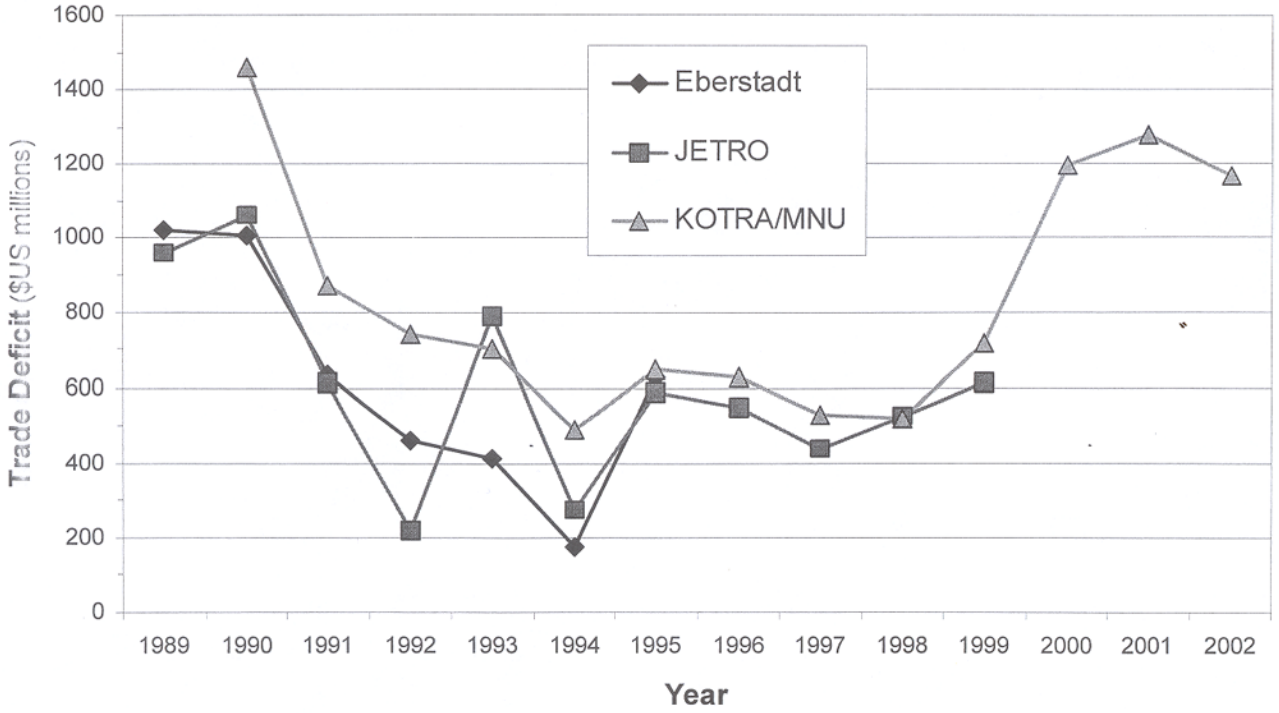
Source: Eberstadt, Nicholas, "Economic Recovery in the DPRK: Status and Prospect," *International Journal of Korean Studies*, IV:1 (Fall/Winter 2000); JETRO; KOTRA; ROK Ministry of Unification (MNU).

FIGURE 2. North Korean Merchandise Imports, 1989-2002



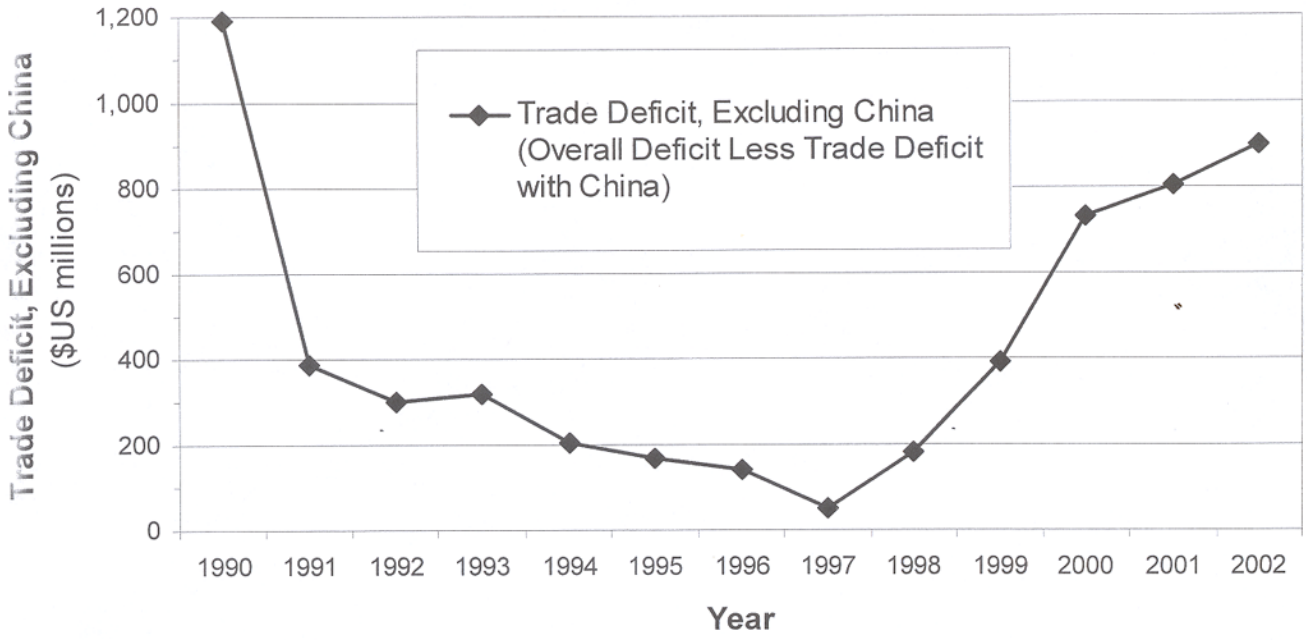
Source: Eberstadt, Nicholas, "Economic Recovery in the DPRK: Status and Prospect," *International Journal of Korean Studies*, IV:1 (Fall/Winter 2000); JETRO; KOTRA; ROK Ministry of Unification (MNU).

FIGURE 3. North Korean Merchandise Trade Deficit, 1989-2002



Source: Figures 1 and 2

FIGURE 4. North Korea's Merchandise Trade Deficit, 1990-2002, Excluding Trade with China



Source: Figures 1 and 2; PRC General Administration of Customs, *China's Customs Statistics*, various volumes.

Senator BROWNBACK. I look forward to some discussion and questions and ideas with you about the sources of this, and where some of these funds are going.

Mr. Michael Horowitz is a great friend of this committee and has been involved in a number of wonderful activities, I note particularly on the Sudan and on the trafficking in persons. It has been deeply rewarding for me to be joining you on those activities and having some success at having people be more free. We're delighted to have you here today to talk about what we should be doing and the nature of the illicit activity by North Korea.

Mr. Horowitz.

STATEMENT OF MICHAEL J. HOROWITZ, SENIOR FELLOW, HUDSON INSTITUTE, WASHINGTON, DC

Mr. HOROWITZ. Thank you, Senator. It is an honor to testify. It's at hearings like this, somewhat beneath the radar screen of daily press and the screaming front page headlines, that building blocks are created by Congress for real progress, and I'm honored to be part of a hearing that I think has that in mind and has the potential for accomplishing that, because the issue of North Korea is an issue that tests, as no other, American decency, and America's capacity for greatness, and also, perhaps more than any other issue in the world today, it holds with it the peace and security of the world at large. If we do it right, we move forward. If we do it wrong, untold and awful consequences can occur.

There's one particular insight I'd like to offer here about the illegal trade of the Pyongyang regime. You alluded in your opening statement to drug trade and, indeed, we may be pursuing that. I would guess that that's the purpose of the classified hearing. There's obviously trade in missiles and weapons, and maybe weapons of mass destruction.

I had some reason to understand that, when the defector who went by the pseudonym Bok Goo Lee, who testified before Senator Fitzgerald's subcommittee, stayed with us for a week and talked about the extent to which the regime was sending missiles to—sent them. He was part of a delegation that delivered missiles during the gulf war to Saddam Hussein, and so the world generally knows of that, but I want to talk about a third area of export by this unspeakable regime. That's the export of human slaves.

Under the Trafficking Victims' Protection Act, which you were the principal sponsor of, Senator Brownback, the worst countries are put in the so-called Tier 3 category, and the report was just issued by the State Department in June. North Korea was right there in Tier 3 and, to read the report, leading that unsavory list.

There are two categories of human slaves that the regime and the people around the regime export for profit. They break down along gender lines. First are women. Given China's one-child policy, and given the fact that women in North Korea are treated as chattel, women are exported for prostitution purposes and as "wives" in Chinese rural villages.

In my testimony, I've got this testimony of what life is like for women sold to traders from North Korea for a little over $400. They are bought by bachelors and widowers, but $400 is a lot of money in rural China, so the report indicates that in most cases

a few men from the same village have to pool their resources to meet that payment, and quoting from the report, "if five men buy the joint ownership of one woman, the woman is forced to have sex with all five of them by night and take care of all five households and farms by days."

A woman caught and sold to a village becomes an important village property, and so all the villagers keep watch over the woman, making escape impossible. On top of this, marriage between North Korean refugees and Chinese nationals is not recognized in law, meaning that these women have no protection whatsoever.

These are the people that this regime literally exports for these purposes.

And then there's the condition of the men. Beginning some 25 years ago in a deal between the father of the dear leader, Kim Il Sung, and Leonid Brezhnev, deals were made to export slave labor, North Korean men to southeastern Siberia to engage in logging operations. Generally speaking, it's understood that there are 15,000 to 20,000 men in those camps at a time, and as you might imagine, Senator, they are operating in 50-degree-minus temperatures in unheated barracks, often with no windows, with no warm clothes, apart from their families, and under the supervision of North Korean guards.

The report of Agence France Presse is to the effect that much of the proceeds of this labor is used to reduce the trade debt between North Korea and Russia, and is part of barter swaps so that the Russians may ship needed goods and the North Koreans ship male slaves who die and are replaced by other slaves. These men work 16 to 18 hours a day, routinely, under those conditions.

But here is the worst part, Senator, that I think as much as anything gives a picture of what life is like in that lunatic, quintessentially evil regime. There are some men who literally volunteer to go to those slave labor camps, given the nature of conditions inside of North Korea. There are many women, knowing that if they're not exported from inside, stand an even greater risk if they escape to China of being picked up by kidnapers and sold again into the prostitution "wife" and slave trade, and yet they come across the river.

And they don't come, Senator, from all I know, for "economic reasons," they come because they may be Christians and have a Bible, and know that if the Bible is found, they and all their family members go to gulags and often to their death.

They go because they come from sections of North Korea that are out of favor with the regime for some perceived resistance and they know they will be the subject of genocidal starvation campaigns. Andrew Natsios, the USAID Administrator, has written a book about the latest one, where as many as 2 million North Koreans in selected areas were deliberately starved to death by the regime.

And they also come because the human spirit lives, because they want to be free, and they're willing to risk everything. They volunteer to go to these Siberian camps as slave laborers because that, to them, offers more hope than what they have living in North Korea.

Now, one of the reasons I'm quite pleased to be here, Senator, is to indicate publicly and to announce that I am a part of and

speaking for an extraordinary group that has been organizing, and had its first major formal session last week. We call ourselves the North Korea Freedom Coalition. The chair is Sandy Rios, of Concerned Women for America.

The group at its first meeting had over 35 organizations participate. It ranges from the Religious Action Center of Reformed Jews to the National Association of Evangelicals, and here, of particular excitement, we had representatives of the South Korean American communities of both Los Angeles and New York fly to this Washington meeting.

This is a very determined coalition, and as you know, Senator, this cohort of religious groups, modeling themselves in many ways after the great English parliamentary evangelical William Wilberforce, has learned to become a very potent force in passing tough legislation, and they're not going to go away on this issue of North Korea.

The National Association of Evangelicals issued in May a Statement of Principles, where they talked about bringing religious and other sorts of freedom to the world, and their moral obligation to do it, and they said, we must start with Sudan and North Korea, and if we can't bring freedom there, we can't offer hope to many elsewhere, outside of military action, and if we do bring freedom there, trickles and rivers and floods of hope will come to people elsewhere.

So North Korea and human rights in North Korea is the target of this extraordinary group that reaches across political and ideological and geographic boundaries. It's a group that also is now planning to meet with church leaders and human rights leaders in South Korea as well, because many South Koreans are, of course, upset with policies of their government that for a variety of reasons have been indifferent, if not, at times, hostile to the human rights issues in North Korea.

Now, the key objective of this group, Senator, will be to make sure that the United States and North Korea, as a major component of negotiations between them, in whatever forum, will have on the table as a major issue the issue of human rights, the issue of slavery, the things we're talking about, the criminal activities that Nick talked about by which the regime finances itself.

And I guess the best way to put it is that this coalition is determined that the United States will not be party to exchanging a promise from North Korea not to export its terrorism any more in exchange for a license and a subsidy to commit as much as they want against their own people. That's not honorable, and it won't work, and the regime will continue to be a terrorist threat to everybody so long as it is a terrorist threat to its own people.

We think the time has come for comprehensive human rights legislation. I need not tell you, as the author of the Sudan Peace Act and the Iranian Democracy Act, of the value of legislation of that sort, and the legislation will include a number of features.

One will be a very clear signal to the South Koreans: if you profit, if you do not prosecute and regulate your business entities that profit from the Division 39 trade you talked about, and that source of money that Nick has so graphically described, the United States

will not share the burdens created by the collapse of that bogus economy as it happens, and when it further continues to happen.

This is a very generous people. We're spending $100 billion to bring democracy and hope in Iraq, and we will spend more, and the United States will share the burden with countries like South Korea and Japan, but only so long as they're not actively propping up the regime, and one of the markers will clearly be vigorous, vigorous prosecution of South Korean companies complicity in that Division 39 trade and the illegal trade of weapons and all the other sources of illegal trade that you and Nick have talked about.

There are other things that will be in the legislation. We think that caring about those refugees who are the slaves means supporting refugee camps, providing visas, imposing greater pressure on the U.N. to exercise powers that it has vis-à-vis the Chinese to give the U.N. greater access to and greater ability to protect those poor people who have escaped to China. The U.N. is not doing the job it ought to do, and we will press the South Koreans also to offer safer havens than they now offer precisely as we change our own laws to offer safer havens.

We will be talking about Radio Free Asia and Voice of America broadcasts, support for human rights groups, reports from the CIA of the sort of what they describe to you, more open reports, and also reports on gulags. That, too, is the source of some labor that produces income for the Dear Leader and the gang around him.

We were very pleased to know, and this is a wonderful opportunity, to thank Chairman Lugar for that extraordinary letter he sent to Kofi Annan asking for U.N. reports on the gulag system, and asking Colin Powell to press on the administration's behalf to get the U.N. more engaged in monitoring the gulag system in North Korea.

We think the military option is not necessarily on the table, or credible, or there at this point, but we do think that the way to deal with the issues that your committee has talked about is to take a lesson of history. In 1974, an insecure Communist tyrant threatened and bullied the world with nuclear holocaust unless the United States negotiated with him and guaranteed the security of his borders.

People were after President Nixon to cut a deal with Leonid Brezhnev because gee, we'd all rather be "Red than dead," as the slogan had it at that time. In one of the great acts of history, in one of the shrewdest acts of history, Richard Nixon acceded to that demand for negotiation but said, when we talk to you, Soviet Union, we're going to add another basket of issues to the table, the human rights basket of issues, of family reunification, of freedom of religion, and outside monitoring of your human rights.

Brezhnev thought he could slough that off because he was going to get some recognition of his rights from the United States in treaty form. History knows who swallowed the poison pill.

We know, I think you know, your leadership has indicated, Senator Brownback, that human rights is not some mushy, romantic add-on to foreign policy. Ronald Reagan proved that it was the core of foreign policy, and George Bush, particularly the post 9/11 George Bush, has profoundly understood that.

We think putting those human rights issues on the table in the form particularly of comprehensive legislation this coalition hopes to work with Members of Congress to produce will deal with the issues that have been talked about, because that illicit economy that extracts bribes in order to keep itself in power so that it can enslave its own people is in the end not only an affront to decent humanity, it's a threat to American national security.

American national security has advanced by understanding its close tie to American values. These hearings, I thank you for them, because I think they help spread that message and this economy, as Nick and others have shown, is around only if we appease and bribe it, and there's no need to do that, and we can take aggressive action to stop it.

Thank you very much.

[The prepared statement of Mr. Horowitz follows:]

PREPARED STATEMENT OF MICHAEL J. HOROWITZ, SENIOR FELLOW, HUDSON INSTITUTE, WASHINGTON, DC

Mr. Chairman and Members of the Committee, thank you for inviting me to share information and my views on the issue that will best test America's capacity for decency and greatness—one that may also best determine the world's safety and security.

I'm particularly honored to participate in a hearing designed to expose the most corrupt aspects of North Korea's so-called "economy." A significant purpose of my testimony is to speak of a truly evil income-producing activity in which the Pyongyang regime is actively engaged, beyond its better-known export of missiles and drugs. There's a third export category which is a growing and increasingly important source of cash to Kim Jong Il and the leadership cadres around him: the export of human beings as slaves.

The Trafficking in Persons Office, in its June report issued pursuant to the Trafficking Victims Protection Act, rightly listed North Korea as a so-called Tier 3 country. It did so because of two separate categories of deliberately enslaved North Koreans whom the regime literally "exports": women sold either as prostitutes or "wives" of rural Chinese men; and men "contracted" to work in Siberian logging camps. As to the women, human rights and religious observers have reported that tens of thousands of North Korean women are sold to brothels or to Chinese "snake" traders. Here's a report that appeared in August 2002 in the South Korean magazine Women's News:

> The victims are reported to be sold to old bachelors or widowers in the countryside for 3000 yuan (a little over $400) each and forced into marriage. According to a North Korean women support group, in most cases a few men from the same village pool their money to purchase one woman. If five men buy the joint ownership of one woman, the woman is forced to have sex with all five of them by night and take care of all five households and farms by day. There are cases where brothers buy and share one woman. A woman caught and sold to a village becomes an important village property. And so all the villagers keep watch over the woman, making escape impossible. On top of this, marriage between North Korean refugees and Chinese nationals is not recognized by law, meaning that these women have nowhere to turn to for protection.

Originally reported by Claudia Rosett of the Wall Street Journal, the mistreatment and fate of men sent to Siberian logging camps is equally inhuman. Begun in the mid-sixties as a bargain between the regimes of Leonid Brezhnev and Kim Il Sung, father of North Korea's current "Dear Leader" dictator, the Pyongyang-Moscow labor program is now employed by the North Korean regime in part as a means by which it repays debts to Russia and finances trade barters with that country. North Korean loggers are housed in unheated facilities, often without windows notwithstanding 50 degree below zero temperatures. As reported by Human Rights Watch, men are required to work 16-18 hours a day, given almost no food, are of course wholly separated from their families and have their movements controlled by regime security guards. Other observers have noted that men seeking escape or asylum or even temporary respite from monitoring by their North Korean guards are

routinely tortured and in most cases put to death. Needless to say, tens of thousands of "contract labor" men have died and continue to die in logging camps now estimated to employ no fewer than 15,000-20,000 men.

The above examples of deliberate, for-profit slave trade by the Pyongyang regime is and should be shocking to the conscience of all mankind. But there is an additional fact—even more shocking—that perhaps provides the best indication of what life is like inside the evil, lunatic regime of Kim Jong Il.

In fact, knowing much of the death camp character of Russian logging camps, many men seek to work there as an alternative to continuing life inside North Korea.

In fact, knowing that they risk capture in China either by traffickers who will rape and sell them or by Chinese authorities who will return them to North Korea for certain imprisonment in gulags, many women seek escape to China as an alternative to continuing life inside North Korea.

The reasons why people "choose" Siberian logging/death camps and fugitive lives inside China are not only, not primarily, "economic." North Korean Christians routinely risk their lives to escape North Korea's borders on any terms because they know that discovery of a bible which they or any member of their family may hold in secret will expose all of them to imprisonment and torture. Residents of portions of North Korea thought not to be sufficiently loyal to the regime also routinely risk their lives to escape because they know that the regime will initiate genocidal starvation campaigns on their villages. Others, human beings in the fullest sense of the term, crave basic freedoms and know they will be imprisoned and tortured for manifesting the smallest sign of that desire, and find it preferable to risk their lives to escape.

I also appear before the Committee today, Mr. Chairman, as a representative of an extraordinary group now being formed in the United States: the North Korea Freedom Coalition. Chaired by Concerned Women for America's president, Sandy Rios, who has been to North Korea and the North Korea-China border, this coalition held its opening session last week. More than 35 religious groups pledged their active participation in the coalition, as did—*and this is critical*—representatives of the Korean American communities of the United States.

This coalition, which ranges from the National Association of Evangelicals to the Religious Action Center of Reform Judaism, from Korean American leadership groups of New York to Korean American leadership groups of Los Angeles, has an overarching, strategic public policy goal. It will passionately work to put at the core of U.S. foreign policy towards North Korea a commitment to address and ameliorate the human rights conditions under which those living under the Pyongyang regime must now endure. Put in other terms, the North Korea Freedom Coalition and its members will use every democratic resource at its command to ensure that no agreement with Pyongyang of which the United States is a part purports to exchange promises by Pyongyang not to export its terrorism for licenses and subsidies to the regime to continue practicing terrorism against its own people.

The Coalition also intends to work with church and human rights groups in South Korea to oppose the South Korean government's current unwillingness to seek human rights and democracy for the people of North Korea. In particular, the Coalition intends to do all within its power to broadcast and counter the seeming policy of the South Korean government to *maintain* the Pyongyang regime in power because it fears, based on the experience of West Germany following the collapse of East Germany, that freedom for its North Korean brothers and sisters will impose unduly costly burdens on the South Korean economy.

The Coalition will also focus on the condition of North Korean refugees and would-be defectors and will work to provide safe harbor protection for those starving and vulnerable victims. This will be done through calls to revise U.S. immigration law, through pressures the Coalition intends to place on the United Nations to more aggressively seek access to North Korean refugees in China, and through efforts it intends to make with the South Korean and Chinese governments to ensure fair, safe and legal treatment of North Korean refugees.

The Coalition expects to soon begin active work with Members of Congress to introduce and enact major legislation focused on true Korean Peninsular security and North Korean freedom. As indicated, any such legislation will contain provisions to protect North Korean refugees, and provisions restricting U.S. burden-sharing support for countries impacted by the North Korean economy to those actively committed to promoting North Korean human rights. In addition, the Coalition will support legislation to provide financial support for North Korea human rights organizations and will seek to ensure fulfillment of Chairman Lugar's recent request to Kofi Annan that the U.N. prepare reports on the North Korean gulag system, and will seek to mandate United States intelligence agencies to prepare similar, public reports. The Coalition will seek to expand Radio Free Asia and Voice of America Ko-

rean language broadcasts into North Korea, will seek authorization for the Commission on International Religious Liberty to hold educational hearings on religious persecution in North Korea, and will seek more active United States monitoring of North Korean drug smuggling activities.

But perhaps most of all, the legislation and the Coalition will seek to ensure that no financial aid will be given to the Pyongyang regime under any negotiated agreement to which the United States is a party unless the agreement ensures measurable progress in such areas as family reunification, expanded religious freedom, freedom to migrate by families of persons kidnapped by the North Korean regime, modification of the regime's definitions and prosecutions of "political crimes," active gulag monitoring by outside bodies and monitored assurances that food aid to the regime actually goes to starving people on a needs basis.

The Coalition believes as, from all we know, what President Bush believes: That American interests are best pursued by respect for American values, and that American security in a post-9/11 world is best ensured by the spread of human rights and democracy.

I thank this Committee for holding hearings today based on those principles and thus believe that today's hearings will contribute both to American security and to the amelioration of the inhuman conditions which the current residents of North Korea must now endure.

Senator BROWNBACK. Thank you, Mr. Horowitz, and thank you for the eloquence of your presentation and the passion of your thoughts, too. I want to pursue some discussion of that in the questioning.

Dr. Eberstadt, how long can this regime last without the illicit income?

Let me sharpen the point on that question. You take away, or by international pressure you really try to suffocate off the illegal drug trade, trafficking in persons, weapons trade, counterfeiting, you really focus, and you get the regional community to say, OK, we are going to do everything in our power to stop this illegal trade, and you pressure the Chinese, the Japanese, and really when you look at us about our direct subsidization of the North Korean economy and you say, OK, this can't continue until they reform, so you really go at those two tranches of funds for coming in, how long does the regime last if those sorts of aggressive actions are taken?

Dr. EBERSTADT. Senator, that is an absolutely critical question. Of course, I don't know the exact answer to your question, but I can try to talk to it.

We've learned, in the period since the end of the Soviet era, that the North Korea system is very bad at responding to international market conditions. It's very bad at attempting to earn revenues legally and commercially.

There are plenty of international commercial opportunities for North Korea, Lord knows. There's an enormous international market in OECD countries that doesn't sanction the DPRK the way the United States does, with trillions and trillions of dollars of global purchases from abroad. North Korea's performance has been miserable in those markets.

The reason North Korea has responded so very poorly to those opportunities is that the North Korean leadership views increased interaction with the world economy as a danger, a risk that will lead to destabilization and eventual dissolution of the regime. Pyongyang views the Soviet and the Eastern European Communist experience as suggesting that "ideological and cultural infiltration"

their phrase—would seep in through greater trade and financial contacts with the outside world.

That's why the North Korean regime has been so keen upon what is essentially a policy of military extortion. That way, it could get revenues from abroad and transfer them directly to the bank account without any sort of polluting or poisoning contacts with its own population.

If the North Korea Government does not make major adjustments to increase its own legitimate trade revenues, then a program of reducing international financial aid and illicit sources of funding like drugs and counterfeiting and weapons sales would have an immediate and perhaps very severe impact upon the operations of that State, and I think that it is not fanciful to talk about the possibility of pushing toward an economic collapse of the North Korean system.

Economic collapse is a very fuzzy, elastic sort of word. It can be defined in many different ways. I would offer you one very particular definition for economic collapse. That would be the breakdown of the food system in the country: more particularly, the breakdown of the ordinary division of labor by which ordinary men and women trade their work for food on a national basis. That trade happens in every country under ordinary circumstances, even in countries like Bangladesh or elsewhere where there are hungry people. Those who are hungry simply aren't able to participate in the division of labor as effectively as they should.

There were a few instances in the 20th century where an economic collapse of the sort that I just described actually took place. There was an economic collapse in Japan in the months before the end of World War II. There was an economic collapse, a breakdown of the division of labor and the food system, in Nazi Germany in the months before the Nazi defeat.

One of the things that happens when you have a breakdown of that sort, a breakdown of the national food system,is a massive deurbanization of the population. As might be imagined: the society breaks into individual family units, and these millions of family units move from cities to countryside in a desperate hunt for food.

Japan did not reattain its 1944 urbanization level until the mid-fifties, just to give an indication of how far its economy collapsed at the end of the war.

I think it is certainly plausible to talk about bringing sufficient economic pressure on the very unusual and distorted DPRK economy, sufficient pressure to force it to this kind of economic collapse. What we would have to recognize, I think, is an economic collapse would also entail some very, very big humanitarian risks of the sorts that we saw in end-of-war Germany, end-of-war Japan, with a major movement of desperate peoples out of the cities looking for shelter and sustenance.

Senator BROWNBACK. A huge responsibility, to address those humanitarian needs.

Mr. Horowitz.

Mr. HOROWITZ. I have a somewhat different perspective on that question, Senator. In fact, we noted that the regime has of late talked about, made some stabs at introducing market reforms at some risk, because the economy has been so unproductive and be-

cause of their fear that despite all their gulags things might be getting out of control.

My understanding, from talking to human rights groups, from talking to people who have returned, from talking to defectors and others, is that the reason the regime announced these market reforms, which pose risk to the control of this Stalinist regime, had nothing to do with feeding people. They're perfectly happy to have mass elements of the population starve.

It was a sign of the beginning of a loss of control and a loss of capacity to exercise terror over the 100,000 or so middle-level participants in its arms industry over the generals and, if not the generals, surely the colonels within their military regime. They were becoming unhappy and dissatisfied and there was less of a capacity to terrify them, and so the regime felt, in order to hold on to that group of people, that it needed to do something, anything to provide more material goods than the regime was capable of providing from whatever sources of income it had.

Now, that was a powerful signal of vulnerability on the part of the regime, and a powerful indication that that implosion scenario that Nick had described need not take place. It could be a lot closer to the East European, the Soviet Union implosion.

That's not to say it won't have horrific consequences. It's not to say that there won't be burdens and adjustments that won't be necessary, but not the sort of mass starvation that Nick is talking about, because I think the regime is capable of collapse as we get a critical mass of refugees willing to come out, and just to take that community of what one would otherwise call middle class, but the apparats of the regime on whom the regime relies to hold its power, one of the things that our coalition has talked about is taking a hard look at the so-called S–2 visa provision in the immigration law.

There is a provision that offers access to the United States to people with information about terrorist activities. Tragically, mistakenly—nobody has looked at it, perhaps, in the way it ought to have been looked at post 9/11—there's a cap of 200 people. Well, we ought to increase that cap to 5,000, and we ought to make explicit that we would also welcome people with information about weapons of mass destruction programs. That would be an invitation for those apparats, knowing that they would have safe harbor in the United States, to begin an implosion scenario that would not be as dire for the people of North Korea as the one that Nick has talked about.

So I keep coming back to this refugee issue and a safer harbor for refugees as a means of sending signals to the North Koreans, and as a means of moving toward a Soviet Union-style implosion. I think that's a credible scenario if we do it right.

Senator BROWNBACK. Dr. Eberstadt, and I would note, too, that the numbers that I've seen is that about a third of the North Korean population is currently being fed by international food donations. That's the best estimate. Would you agree or disagree with that?

Dr. EBERSTADT. Sir, up until the end of last year, beginning of this year, those were the same numbers that I've seen. They're not

being fed entirely, exclusively by the World Food Program and other sources, but part of their diet includes those groups.

Senator BROWNBACK. One of your charts points to 1997, and I take it from your testimony you're suggesting that that really was a turning point for the Kim Jong Il regime to start aggressively engaging in the illicit income source. Am I interpreting that correctly and, if so, what were the key areas that they really stepped up after 1997?

Dr. EBERSTADT. Yes, 1997 and 1998 are described by North Korean statements as being the "turning point" for their regime, for their system, a transition they describe as moving from "Arduous March" to the phase they now describe themselves as being in. They describe that current phase as being the building of a "strong and prosperous State"—a strong and prosperous socialist State.

When they talk about what it means to be a "strong and prosperous State," they further explain by saying that the road to prosperity leads from the barrel of a gun. This is, I suppose, a very beautiful way of describing the process of international military extortion.

A number of different programs came together in that period between 1997 and 1998. One of them was signified in 1998 by Kim Jong Il's officially acceding to the highest living post of State. You know that the highest post of State is actually held by Kim Il Sung, the "eternal President" who has been dead for the past 9 years. But with the accession to the highest living post of State, and with South Korea's advent of the Kim Dae Jung "sunshine policy," possibilities for international financial aid improved very greatly for the DPRK.

On the one hand, South Korea, and then the Clinton administration, and then the Japanese Government began to subsidize the DPRK through official flows of financial aid, above board and on the table, paid for by taxpayers. From the Western standpoint, thjis was part of the engagement process, or the "sunshine policy." In effect, engagement policy meant subsidizing the North Korean State through taxpayer funds. That's what the engagement policy has been.

But there were also illicit revenue-enhancing activities, as you indicated. There seems to have been, during this period of time, a determination to ramp up international military sales and military exports by the DPRK. There seems to have been an explicit effort to ramp up international counterfeiting activities—and likewise an attempt to ramp up the sale and commerce in amphetamines and narcotics.

I only learn about those illicit activities as a newspaper reader. I have no privileged sources of information. Yet newspaper accounts are completely consistent with the proposition that the North Korean Government put an extra emphasis upon these efforts, and they seem to have been successful. As far as I can tell from my own research in trade statistics, inflows of merchandise and goods to North Korea seem essentially to have doubled between 1997/98 and 2002. By all appearances, it's been a very effective program.

Senator BROWNBACK. And this is what Kim Jung Il has used to keep himself in power and the people around him somewhat satis-

fied, and to continue to fund a weapons of mass destruction development program?

Dr. EBERSTADT. Absolutely. This is what it means, in North Korean terms, to be a "strong and prosperous State."

Senator BROWNBACK. Mr. Horowitz, I've worked with the coalition that you've talked about that's put forward the North Korean Freedom Coalition, successfully passing the Sudan Peace Act, the sex trafficking bill—this has been a wonderful heart of gold coalition, and one that's always very strategically minded, too, about getting ultimately the legislation on through, so I'm very heartened about the design of what you're putting forward in the suggestions.

Let me pose to you, what I see taking place here is, right now we've got a focus primarily on weapons of mass destruction, nuclear weapon development by North Korea, and that's everybody's intense focus at this point in time, but really what we need to do in dealing with this regime, and it is a Stalinist regime, and it has a horrific record in every count virtually that you can put forward, is to widen the discussion substantially.

It needs to not only be about weapons of mass destruction, it needs to also be about all this illicit trade, counterfeiting, drug-running, trafficking in persons, sex trafficking, and shutting that down, and it also has to have human rights as a core issue on this because of how horrifically the people are being treated, and that combination of a negotiation would lead to powerful addressing of key topics and fundamental shifts in this regime, and positive directions on the Korean Peninsula.

Mr. HOROWITZ. Well, of course, I agree, and I think Nick's comments here about this ramp-up of resources to the regime precisely in concert with so-called engagement policies that subsidized and legitimized the regime in the hope that they could get them to make promises on weapons of mass destruction tells so much of the story.

It's our money, it's in some measure Japan's money, and it's very particularly South Korea's money that has kept the regime propped up, and that's what we've got to focus on, Senator. I talked about the refugees as one key to this process in human rights, but I think it's important also to talk about the South Korean Government.

A very wise observer of this part of the world asks senior officials in South Korea the following question: If you found out next week that the regime was about to implode beyond the ash can of history, as the Soviet Union was, you knew there was a week to go, would you start celebrating and preparing for it, or would you get to work with everything you had to prop the regime up for yet more time?

Tragically, it often appears that the answer is the latter, and ironically, that sort of answer is pursued by people from the perversely named Ministry of Unification. It's anything but unification that the South Korean Government appears to want.

Now, they have some reason for it. They've looked at what happened to the West German economy when East Germany collapsed, and they know, rightly so, that the condition of the people and the North Korean economy is such that the devastation and the dislocations will be even worse, but what that comes to on the part of the Government of South Korea is not worthy of a great nation,

because what they're really saying is, let my uncles and cousins and brothers and sisters and fathers and mothers starve to death, because it would be too expensive for me if they were freed.

It's also not practical for them to do it, because they are not going to hold back that tide, and this coalition is determined to see that they don't hold back that tide and, as I've indicated, this coalition is willing to tell the South Koreans a generous American people, with church lobbies and human rights lobbies and South Korean lobbies talking to Congress and talking to a President who would be receptive, would be willing to share any burden with South Korea to accommodate the people of North Korea, but this coalition has also sent out a signal that if you're out there busily at work propping up this regime, providing those ramp-up funds that Nick has talked about, you're going to be on your own when that collapse takes place.

I've tried to describe this misguided policy to South Korean officials as not only immoral, but the hundred trillion won mistake. So yes, I think that if we can put greater pressure on the South Koreans to begin prosecuting their companies that do illicit trade with this Division 39, if they send clear signals through prosecutions of the people who gave the bribes to North Korea, if they make clear that even food aid—and there's great debate over whether we should stop food aid, unless we have assurances that it's not siphoned off in significant part by the regime but if the South Korean Government were to go more aggressively in seeking assurances about the distribution of that food, if, heaven only hopes, the President of South Korea, instead of trying to prop up the Pyongyang regime were to give a speech saying our object for our brothers and sisters is that they should enjoy the same blessings of democracy that have served us so well, I think we'd begin to see the end of that story as well.

It is South Korean fear of what would happen to their economy, it is the fact that the South Korean politicians have been able to get Nobel prizes for sunshine policies designed, at root, to keep Pyongyang in power and to bribe them. We've got to strip that mask away and begin working with South Korean church people and South Korean human rights people and South Korean parliamentarians. I think that, too, is another avenue to ending the crisis that we confront, and doing so on a nonmilitary basis.

Dr. EBERSTADT. May I say a word on that topic? I endorse and amplify what Mike just said. And I think that in the future sometime, when historians look back on the current crisis in the Korean Peninsula, one of the things which will look most striking and perhaps most perverse that two successive Presidents of South Korea were champions of human rights—one a winner, you mentioned, of the Nobel peace prize, the second a human rights activist and lawyer—and that these two government nevertheless studiously disregarded the humanitarian and human rights tragedy that was befalling their compatriots north of the DMZ.

This is not just a perverse situation. In some sense, one can argue, it is an unconstitutional situation for the ROK democracy, because in Article 3 of the ROK Constitution it very specifically states that any person who lives on the Korean Peninsula qualifies as an ROK citizen, with the rights and protections that that con-

stitution guarantees. That person merely need raise his or her hand to be guaranteed their South Korean citizenship, and the South Korean supreme court has gone through a number of cases, including cases adjudicating the status of ethnic Koreans from China, to say yes, indeed, such persons, ethnic Koreans, qualify for the right of return to the ROK.

Since 1998, the South Korean Government has been looking as hard as it can the other way, trying not to offer the constitutional guarantees to these unfortunates who have crossed the border into China, much less offer these rights to people who are living in the northern half of the peninsula.

Senator BROWNBACK. I know from what both of you speak. I've had a number of meetings myself with South Korean officials, and it's been really quite disappointing. I met with the President, President Roh, right after his inauguration and briefly discussed it and got a fairly ambivalent comment back from a human rights lawyer whose idol is Abraham Lincoln, so I sent him a big picture of Abraham Lincoln and reminded him of what Lincoln was interested in, and freedom.

I spoke with the President, President Bush last night at some length about North Korea, and he brought up the topic, and he's deeply committed to a strong U.S. stance in that region and toward North Korea, and he understands and feels very strongly about the plight of the North Korean people as being one of the most horrific situations, probably the worst human rights situation inflicted directly by a government anywhere in the world, and that's some pretty tough competition. Consider the Sudan and some other places that are in there, which, some are pretty close, in the same league, but this is a situation that should not be tolerated, and it's grown increasingly worse.

Mr. Horowitz.

Mr. HOROWITZ. I just wanted to say, I've been, and Nick has been, and you have made implicitly and in our case explicitly critical comments of the South Korean Government. I think it's important to put it in another light, in a more positive light. South Korea is one of the miracles of the world. Here is a people that created this extraordinary economy by diligence of hard work and a measure of faith.

When we look at poverty around the world, whether in Africa or anywhere else, we need to look at South Korea. What an extraordinary country it is, and South Korea rightly wants to join the circle of great nations. This is a block. This stands in the way of doing it. Saying that you're willing for your own brothers to starve because it might cost you too much money if they were free, it's not worthy of the South Korean people, and I think we in the United States need to send some signals to them saying, join us in the push for human rights, and a generous American people will share that burden.

Yes, it will be tough on your economy if this regime implodes in some sort of way, but we can have interim governments so that they don't have to be integrated into one single government, as happened in East Germany, and there could be a phase-in process for that happening, and most of all, we will be generous, as an American people, to bring that freedom to the people of North

Korea and to allow your economy to sustain the difficult burdens and adjustments that will be entailed.

But you've got to join us in fighting, in speaking out for democracy and human rights there, and for goodness sake, you cannot be any more in the position of subsidizing this regime to a degree that keeps it afloat, and keeps it going and pays for its gulags and pays for its oppression.

So I want to appeal to the greatness of the South Korean people and to the greatness of its potential, because these policies are just so inconsistent with everything I know and feel about South Korea and the South Korean people.

Senator BROWNBACK. Yes, they are.

I would note that I think everyone would agree that ultimately the natural state of the Korean Peninsula as one whole, free, open society, I mean, ultimately that that's where this would head at this point in time.

Thank you both for joining us. It's been a very enlightening hearing, and particularly with the nature of the North Korean economy and the suggestions of the legislation coming forward, and the types of legislative solutions that could be most helpful to the Korean people, North Korean people, and also to resolving this ultimate situation.

Thank you very much for joining us. This hearing is adjourned.

[Whereupon, at 4:07 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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