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North Korean Supporters in Japan: Issues for U.S. Policy

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Summary

The Chosen Soren (Chongryun in Korean), a group of pro-Pyongyang ethnic Koreans permanently residing in Japan, has come under heightened scrutiny as U.S. and Japanese policy makers seek new ways to stop North Korea's nuclear weapons program. With the six-party talks currently at a standstill, the United States and its allies are seeking ways to pressure economically and politically the Pyongyang regime to abandon its nuclear weapons program. The Chosen Soren organization has long supported North Korea by facilitating trade, remitting cash donations, establishing personal contacts, and possibly coordinating illicit transfers of narcotics and weapon parts. Japanese officials have recently indicated more willingness to crack down on Chosen Soren's illegal activities. U.S. officials may be prepared to cooperate with Japan in dealing with the organization as part of a broader strategy of influencing North Korean actions.

Congress has been actively engaged in its oversight of the Administration's North Korean policy, including a hearing held by the Financial Management, Budget, and International Security Subcommittee of the Senate Governmental Affairs Committee on May 20, 2003, in which a North Korean defector testified that Chosen Soren had coordinated shipments of missile parts to the regime.

This report provides a background on Chosen Soren and its membership in Japan and explores its relationship with the Japanese government. It goes on to discuss documented links, both legal and illegal, with the North Korean government, including weapons, drugs, and cash transfers. A third section outlines changes to Japan's policy towards Chosen Soren, ranging from taxation policy to shipping surveillance to restructured credit unions. The report concludes with a brief discussion of possible options for Congress and U.S. officials. This report will be updated as necessary.

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North Korean Supporters in Japan: Issues for U.S. Policy

Introduction

The Chosen Soren (Chongryun in Korean), a group of pro-Pyongyang ethnic Koreans permanently residing in Japan, has come under heightened scrutiny as U.S. and Japanese policy makers seek new ways to stop North Korea's nuclear weapons program. With the six-party talks currently at a standstill, the United States and its allies are seeking ways to economically and politically pressure the Pyongyang regime to abandon its nuclear weapons program. The Chosen Soren has long supported North Korea by facilitating trade, remitting cash donations, establishing personal contacts, and possibly coordinating illicit transfers of narcotics and weapon parts. Japanese officials have recently indicated more willingness to crack down on Chosen Soren's illegal activities. U.S. officials may be prepared to cooperate with Japan in dealing with the organization as part of a broader strategy of influencing North Korean actions.

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This report was prepared using exclusively open sources. Members of Congress may benefit from classified briefings from the intelligence community on the extent of Chosen Soren's ties with the North Korean government.

Background

Membership

The Chosen Soren (General Association of Korean Residents in Japan) is a political and social organization made up of ethnic Koreans who have chosen to affiliate themselves with North Korea. Chosen Soren represents a minority of the 640,000 ethnic Koreans in Japan; membership estimates range from 50,000 to

180,000.¹ Established in 1955, the group is made up primarily of descendants of Koreans who moved to Japan as laborers in the 1930s when the Korean peninsula was annexed by Japan. Chosen Soren reportedly administers and finances 140 schools and a university that emphasize Korean language and culture; publishes a newspaper; serves as a confederation for 12 affiliated associations; holds close ties with financial institutions catering exclusively to ethnic Koreans; and acts as an unofficial representative of the North Korean government. Up to 30% of the *pachinko* industry (a popular form of pinball gambling with over 18,000 parlors nationwide) is controlled by ethnic Koreans, many of whom have close ties to Chosen Soren.²

The Chosen Soren has a counterpart in the pro-Seoul Korean organization Mindan (Korean Residents Union in Japan). Both organizations work to promote ethnic Koreans' civil rights in Japan. Members of both are classified as "special permanent residents," but hold official citizenship in North or South Korea. The groups differ in approach: Mindan supports the enfranchisement in Japan of special permanent residents (the designation of most ethnic Koreans) while Chosen Soren advocates a strong national identity with North Korea. Chosen Soren facilitated the repatriation of over 100,000 Korean residents living in Japan to the North and sparred with Mindan in the 1960's, including outbreaks of violence.³ Membership in Mindan now outpaces Chosen Soren about 4 to 1, and the trend over the past few years indicates that ethnic Koreans are increasingly either becoming naturalized Japanese citizens or associating with Mindan.⁴

Historic Relations with Japanese Government

Chosen Soren justifies its longstanding existence largely on the discrimination faced by ethnic Koreans in Japan. Although some Korean families have been in Japan for several generations, as special permanent residents they do not have the right to vote, cannot work for the central government, and were required to be fingerprinted as resident aliens until the early 1990's.⁵ Together with the history of Japan's often brutal 35-year colonization of the Korean peninsula (1910-1945), relations between the Korean minority and the Japanese government have always been strained. Japanese political leaders have avoided confrontation with Chosen Soren both out of fear of provoking reaction from Pyongyang and out of a sensitivity to accusations of racial discrimination.⁶ Government agencies also largely ignored

¹"Murder Shines a Light on the Lives of Koreans in Japan," *Washington Post*, June 1, 2000.

²"Pyongyang's Pinball Cash Tails Off," *The Times*, December 30, 2002.

³"Where Koreans Put a Common Culture Before Ideological Differences," *The Observer*, September 4, 2003.

⁴"Japan's Korean Community In Transition," Chung Dae-kyun. *Japan Echo*, Vol. 30, No. 2, April 2003.

⁵"Friends, Koreans, Countrymen," *Economist* Vol. 342, Issue 7991, November 9, 1996.

⁶As an example, in 1974 a Korean resident of Japan attempted to assassinate South Korean President Park Chung Hee, killing his wife instead, but the Japanese government refused to
(continued...)

the money flow from Japan to North Korea, permitted ferry links with little enforcement of safety measures and cargo inspections,⁷ and allowed Chosen Soren to maintain its tax-free diplomatic status for years.⁸

Traditionally Chosen Soren had close ties with the political left in Japan, particularly the Socialist Party. But until very recently, Chosen Soren leadership also enjoyed warm relations with several members of the Liberal Democratic Party. Accusations have arisen regarding Chosen Soren's ties with organized crime in counterfeiting and the drug trade. Some critics suggest that Japanese politicians may intentionally allow cash remittances and contacts between Chosen Soren and North Korea to continue because of the politicians' own involvement with gangster trade. Detractors allege that the interdiction of links with Pyongyang could expose LDP affiliation with the *yakuza* organized crime syndicate.⁹

Chosen Soren's Relationship with Pyongyang

Political Ties

The secretive nature of North Korea makes the extent of political interaction between Chosen Soren and Kim Jong Il's regime difficult to assess. North Korea reportedly sends \$3.6 million a year to Chosen Soren to help administer the Korean schools in Japan.¹⁰ Chosen Soren sends representatives to serve in North Korea's legislature, the Supreme People's Assembly, as well as delegations to major public celebrations, but the extent of leverage and access to policymaking in Pyongyang is not clear. Chosen Soren also reportedly runs a 2,000-member underground network of "study groups," called *gakushu-gumi*, which are affiliated with the North Korea Worker's Party and train members to spy on South Korea and the Japanese military.¹¹ In September 2002, shortly before a diplomatic summit with Japanese Prime Minister Junichiro Koizumi, Kim Jong Il publicly issued a directive to visiting Chosen Soren leader Ho Jong-man, ordering the *gakushu-gumi* to disband in advance of the meeting.¹² Although this indicates direct communication between Kim Jong Il and

⁶(...continued)

pursue a crackdown, citing fears of violating Koreans' civil liberties. From "Responding to Provocations," Victor Cha. *The Japan Times*, April 24, 2003.

⁷*Ibid.*

⁸"North Korea's Threat to the Japan-US Alliance," Nishioka Tsutomu. *Japan Echo*, Vol. 30, No. 2, April 2003.

⁹"Interdiction May Not Just Modify North Korea's Behavior," Mindy Kotler. Policy Forum Online, The Nautilus Institute. June 13, 2003. [http://www.natuius.org/fora/security/0334_Kotler.html, accessed 9/23/03].

¹⁰"Revolution Is Brewing at N. Korean Schools in Japan," *Washington Post*, October 10, 2003.

¹¹"Responding to Provocations," Victor Cha. *The Japan Times*. April 24, 2003.

¹²"North Korean Leader Directs Disbanding of Pro-Pyongyang Study Groups in Japan," (continued...)

the Chosen Soren organization, reports on whether the directive was obeyed are not conclusive.

Cash Remittances

The issue of hard currency flowing into North Korea from Japan has been the subject of extensive debate, both on the question of where the money goes (to individuals or to the regime) and the amount. Before Japan's economic bubble collapsed in the early 1990's, U.S. officials estimated that up to \$1 billion a year could have been transferred to North Korea from Japan, but, by all accounts, that figure has decreased with the economic downturn in Japan and the death of President Kim Il Sung. Most observers now agree with Nicolas Eberstadt's estimation that, even at their peak, remittances generally were below \$100 million annually.¹³ Remittances are passed either in person when Korean residents travel to North Korea or by transfers through financial institutions. According to Japanese Finance Minister Masajuro Shiokawa, at least \$33 million was reported to the government as transferred to the North in fiscal year 2002.¹⁴

Technology Transfers

Some Japanese firms associated with Chosen Soren have been implicated in illegal plans to transfer high-tech equipment to North Korea that could be used to develop the North's nuclear weapons program. Meishin, a Tokyo-based trading company run by members of Chosen Soren, has admitted that it exported three transformers that regulate electrical current, a device that can be used for uranium enrichment as well as missile development, to North Korea via Thailand. The shipment, exported without authorization by Japan's Ministry of Economy, Trade, and Industry, was ordered by the Korea Daesong General Trading Corporation, a company administered by the intelligence unit of the Korean Workers' Party.¹⁵ US reports have singled out Daesong as part of an extensive organization known as Division 39 of the Korean Workers' Party that provides hard currency to Kim Jong Il's regime; some reports value the cash assets of the unit at up to \$5 billion, secreted in banks in Macau and Switzerland.¹⁶

Reportedly, Japan-based firms often go through third countries in their dealings with North Korea. In Meishin's case, the transformers were destined for Pyongyang through Loxley Pacific, a subsidiary of Loxley PCL, one of Thailand's top

¹²(...continued)

BBC Monitoring Asia Pacific, September 2, 2002.

¹³"Financial Transfers from Japan to North Korea: Estimating The Unreported Flows," Nicholas Eberstadt. *Asian Survey* Vol. 36, No. 5, May 1996.

¹⁴"At Least 4 Bn Yen Sent to North Korea from Japan in FY 2002," *Kyodo News*, June 6, 2003.

¹⁵"Japanese Firm Admits to Exporting Nuke-Related Devices to North Korea," *BBC Monitoring International Reports*, July 9, 2003

¹⁶"Curtailling North Korea's Illicit Activities," Balbina Hwang. *Heritage Foundation Reports*, August 26, 2003.

communications companies. Loxley has significant business interests in North Korea as well, holding exclusive 30 year rights to telecommunication services in Rajin-Sonbong, a Special Economic Zone in the North. According to press reports, Loxley Pacific often acts as a middleman between Meishin and Daesong for trade in rubber, sugar, and other products.¹⁷

Chosen Soren has also been involved with at least one other non-ethnic Korean company that sold military technology to North Korea. The Japanese engineering firm Seishin Enterprises was found to have shipped a jet mill, a machine that can be used to grind solid fuel into fine powder for use in missiles, to North Korea in 1994 on board the Mangyongbong ferry and attempted again in May 2003 to export electronic scales that could be used in the production of biological and chemical weapons. A senior member of a science and technology organization affiliated with Chosen Soren reportedly coordinated price negotiations and product specifications for the order.¹⁸ After the Japan Coast Guard exchanged fire with and then sank a North Korean spy ship in December 2001, officials discovered Japanese-made radar and other precision devices in the recovered vessel, raising questions about Japanese firms supplying equipment to the DPRK military.¹⁹

Narcotics and Counterfeiting

North Korean involvement in international drug-trafficking has recently come under increasing scrutiny. In his annual report to Congress on drug-producing nations, President Bush asserted that evidence revealed that “state agents and enterprises” in the North were involved in narcotics trade. State Department officials have testified that Japan is a major recipient of methamphetamines from North Korea, a market that, according to State Department testimony, may have provided up to \$7 billion in cash profit for the regime.²⁰ The Mangyongbong passenger ferry that links Japan and North Korea is suspected of hauling illicit shipments of such drugs. A North Korean escapee told the *Yomiuri* newspaper that he had smuggled narcotics for the regime on the ferry, handing over the goods to members of Chosen Soren, who would then pass the drugs on to Japanese gangsters for sale.²¹ Reported indications of ties between North Korea and the Japanese mafia are on the rise, but documentation of links specifically with Chosen Soren is scant.

¹⁷“Japan Probe Focuses on Exports to North Korea,” *Wall Street Journal*, May 13, 2003.

¹⁸“Seishin Sold Jet Mills to China, India,” *Daily Yomiuri*, June 14, 2003.

¹⁹“METI Busts N. Korea Trader,” *Daily Yomiuri*, May 19, 2003.

²⁰William Bach, director in the Bureau for International Narcotics and Law Enforcement Affairs at the U.S. Department of State, testimony before the Subcommittee on Financial Management, the Budget, and International Security, Committee on Governmental Affairs, U. S. Senate, May 20, 2003, as cited in “Curtailing North Korea’s Illicit Activities,” Balbina Hwang, *Heritage Foundation Reports*, August 26, 2003. Bach did not specify a time frame.

²¹“Testimony on North Korea (Part I): Drugs, Forged Bank Bills Were Smuggled Into Japan,” *Daily Yomiuri*, August 21, 2003.

Changes to Japan's Chosen Soren Policy

The test launch of the Taepodong missile over Japan in August 1998 by North Korea and the admission by Kim Jong Il in September 2002 that North Korea had abducted several Japanese nationals has significantly altered the Japanese government's stance towards Chosen Soren. In the past year, domestic outrage over the abductions and intense media coverage of the return of five abductees has spurred the government to crack down more severely and monitor more closely Chosen Soren's interaction with North Korea. Japanese politicians, responding to public opinion, have become more outspoken in their criticism of Pyongyang and have curtailed existing ties with Chosen Soren. The Japanese government has taken a number of legal steps, either in enforcing previously lax laws or proposing new legislation to stem possible illicit transfers to North Korea.

New Controls on Sea Links with North Korea

Japanese officials have recently imposed and enforced more strict regulations for the North-Korean operated Mangyongbong ferry, which can carry 200 passengers and 1,000 tons of cargo. It has operated for years as the sole link for ethnic Koreans living in Japan with their families in the North, usually making one or two round trips a month.

Following the abduction admission by Kim Jong Il, authorities have taken a harsher line, insisting on thorough safety checks, inspections of the cargo, and strict adherence to regulations on passenger limits. In January 2003, the Mangyongbong suspended its operation for seven months, ostensibly to bolster safety requirements, before resuming service in August. Since then, Japanese officials have delayed departures by citing violations of the Ships Safety Law and the Domestic Animal Infectious Diseases Control Law. Japanese officials have also ordered improvements on 40 of the 50 vessels from North Korea inspected this year. Officials estimate that 1,300 North Korean ships dock at Japanese ports annually. The transport ministry has requested a budget increase for 2004 to improve inspection of foreign vessels.²²

Taxation Policy

Chosen Soren reportedly has not paid local taxes since 1972, when the then Governor of Tokyo declared the organization to be North Korea's de facto representative in Japan, entitling it to diplomatic tax-exempt status. In July 2003, conservative Tokyo Governor Shintaro Ishihara rescinded the status, demanded \$515,000 in annual taxes, and in early September seized three Chosen Soren facilities when organization officials refused to pay. Several other local governments with Chosen Soren chapters are either considering or have already demanded similar tax payments.²³

²²“Bar Suspicious Vessels from Ports,” *Daily Yomiuri* editorial, September 5, 2003.

²³“Tokyo Seizes 3 Chongryun Facilities,” *International Herald Tribune*, September 10, 2003.

Chogin Credit Unions

The failure of several credit associations that cater to pro-Pyongyang residents also has directed attention to the questionable financial operations of Chosen Soren and heightened public anger. In the past several years, most of Japan's *Chogin* (an abbreviation for "Korean bank" in Japanese) credit unions have collapsed, reportedly largely due to illegal remittances to North Korea.²⁴ Once numbering 38, only seven such credit associations remain.²⁵ The banks are accused of allowing Pyongyang sympathizers to use fictitious or borrowed names to create bogus accounts, which were then used to channel cash to North Korea, as well as offering preferential loans to people who donated large amounts to the North Korean cause.²⁶ The banks also lent money in excess of the collateral, which was often land and buildings either owned by or affiliated with Chosen Soren.²⁷ Although the banks are officially independent, the management of many of the credit unions was appointed by Chosen Soren executives, according to media reports.²⁸

The banks began failing as their nonperforming loans increased, necessitating the infusion of public funds to protect ordinary depositors. Japan's Financial Services Agency authorized the transfer of the operations of several failed credit unions to four new lenders with the stipulation that the unions sever ties with Chosen Soren.²⁹ More than \$3.3 billion in public funds was pumped into the replacement credit unions in 2002 alone, prompting an outcry from the public as the abduction issue heightened tension with North Korea. A group of legislators forced government banking regulators to insist on the appointment of a Japanese national as the credit union president after revelations that the former president had earlier served as a Chosen Soren executive.³⁰ Japan's major newspapers have published strident editorials calling on financial authorities to closely scrutinize the new union's links with Chosen Soren officials to ensure independence from the organization.³¹

²⁴"Credit Unions Must Correct Past Shady Practices," *Asahi Shimbun* editorial, August 14, 2002.

²⁵"Hana Credit Union on Notice," *Daily Yomiuri* editorial, December 19, 2002.

²⁶"North Korea's Threat to the Japan-US Alliance," Nishioka Tsutomu. *Japan Echo*, Vol. 30, No. 2, April 2003.

²⁷"Credit Unions in Japan Suspected of Illegal Remittances To N. Korea," *Agence France Presse*, August 29, 1999.

²⁸"Chogin-Chongryon Ties Said Tight," *Daily Yomiuri*, November 30, 2001 and "Chogin Tokyo 'Hid Chongryon Ties' Credit Union Allegedly Granted New Loans to Help Problem Debtors," *Daily Yomiuri*, November 20, 2001.

²⁹"Four Lenders to Take Over Chogin Banking Operations," *The Japan Times*, March 21, 2002.

³⁰"Government to Put 410 Billion Yen in Successor of Pro-North Korea Lenders," *Kyodo News*, December 17, 2002.

³¹"Credit Unions Must Correct Past Shady Practices," *Asahi Shimbun* editorial, August 14, 2002 and "Hana Credit Union On Notice," *Daily Yomiuri* editorial, December 19, 2002.

U.S. Policy Options and Considerations

Because of the anti-North Korean climate in Japan following the abduction admission and North Korean missile tests, Japan's actions over the past several months suggest an increased willingness to confront Chosen Soren, which would be in line with previous U.S. proposals for Japan to choke off funds to North Korea. Japanese measures to promote this goal might include continued close surveillance of the restructured banks serving Chosen Soren members, a re-invigoration of efforts to regulate the flow of pachinko profits, and more robust enforcement of export controls on vessels bound to or originating from North Korea. Some observers have suggested that the United States press Japan to cut off all official trade (about \$400 million in 2001) with North Korea, much of which is facilitated by Chosen Soren.³² Japan has already relaxed its sanctions criteria by citing the Foreign Exchange and Foreign Trade Control Law, which permits the government to impose sanctions in order to preserve peace, instead of requiring a United Nations Security Council resolution.³³ Overall reform and increased transparency of Japan's financial institutions could also prove helpful in following the money trail to Pyongyang.

Congress and the Administration may pursue multilateral efforts as well. The Bush Administration recently has promoted cooperative measures with allies to pressure North Korea, such as the 11-country Proliferation Security Initiative (PSI) charged with interdicting vessels suspected of carrying illicit cargo. Such efforts to crack down on international drug and weapons trafficking may reveal more illicit ties between Chosen Soren members and North Korea, which could trigger additional punitive actions. Options involving third parties include asking Thailand to eliminate technology transfers to North Korea that are reported to have transited through its territory or asking Austria and Macau to curtail bank transfers that often pass through their financial institutions.³⁴

³²Trade figures from Japan Statistical Yearbook 2003. Management and Coordination Agency, Japan Statistics Bureau, Tokyo.

³³"Sanctions On North Korea Eyed Over Missile Launches," *Japan Policy and Politics*, March 17, 2003.

³⁴"Money Trail: In North Korea, Secret Cash Hoard Props Up Regime — Defectors, Intelligence Sources Say Division 39 Provides Billions to Kim Jong Il — Ginseng and Counterfeit Bills," *Wall Street Journal*, July 14, 2003.