

## Six Party Talks Resume, No Progress Reported

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**83/751.** At press time, 83 days have passed since North Korea tested a nuclear device on October 9, 2006 and 751 days remain in the Bush Presidency. If the stalemate at the latest round of Six Party Talks is any indication, the North Koreans may be counting.

On December 18, the Six Party Talks resumed in Beijing's Diaoyutai State Guesthouse, breaking on December 22. Meeting for the first time in the Six Party format since November 2005, the parties reported no progress, with the U.S. side describing the North Koreans as unprepared to negotiate and the North Koreans characterizing U.S. demands as excessive. The Talks may resume in January 2007 in Beijing, though no date has been announced. Bilateral discussions between U.S. Treasury officials and North Korean financial experts may be held on a separate track in New York in mid-January 2007.

Whether the Six Party Talks resume in January or not, many analysts contend that the biggest beneficiary of the December session was China. China apparently succeeded both in pressuring North Korea to return to the talks and in getting the U.S. delegation to accept an earlier return date despite North Korea's refusal to give a response to U.S. "Early Harvest" proposals for accelerated denuclearization made to the North Koreans by a U.S. official at the end of November. U.S. officials had previously argued that the Talks should be set up as a mechanism to ensure that the North Koreans provide a definitive response to U.S. denuclearization proposals, not as a sideshow for "financial sanction" negotiations.

According to Christopher R. Hill, Assistant Secretary of State and lead U.S. negotiator at the Six Party Talks, the North Koreans came to the latest round prepared to discuss the \$24 million of North Korean assets frozen by the Macau Banking authorities at Banco Delta Asia, a Macau Bank the U.S. Treasury labeled as a "primary money laundering" concern in September 2005, but not denuclearization. Before departing Beijing, Hill described the DPRK negotiating team led by DPRK Vice Foreign Minister Kim Gye-gwan as having "strict instructions from their capital" that they not engage officially on denuclearization "until they have the BDA issue resolved." North Korean officials rejected suggestions that a lifting of the asset freeze, which they characterize as a U.S. financial sanction or evidence of U.S. "hostile intent," is sufficient to lead to disarmament. In an interview, Kim Gye-gwan told reporters, "The U.S. is trying to win a nuclear freeze at once just by lifting the financial sanctions, but that's not possible."

In Beijing, bilateral talks took place on December 19 and 20 between U.S. Treasury and North Korean officials on steps that North Korea must take in order for the U.S. Treasury to lift its warning notice. Deputy Assistant Secretary of the Treasury for Terrorist Financing and Financial Crimes Daniel Glaser led the U.S. negotiating team, while Oh Gwang-chul headed the DPRK negotiators. Little is known about the content of their discussions, though analysts see attendance by Oh, the North's leading financial expert, as a sign of seriousness on the part of North Korea. Oh is believed to be part of the younger generation of DPRK officials promoted to leadership posts in the late 1990s. He is rumored to have studied in Russia and worked in the Foreign Trade Bank's French office. North Korea-watchers also surmise that he once worked for the DPRK Central Committee Bureau 38, which is charged with managing the regime's foreign exchange holdings.

Banco Delta Asia's law firm Heller Ehrman, a New York based firm with a significant office presence in East Asia, is reported to have sent the U.S. Treasury a letter on October 18, stating that the Macau banking authority "has no plans to return the frozen assets to the North Korean entities." The letter also reportedly states that the "Macau authorities will vigorously defend a suit seeking the return of the frozen funds, but they cannot predict the outcome. Nonetheless, the government anticipates that should any lawsuit commence, a decision is more than a year away. The government of Macau asked that we convey to you that it will keep these funds frozen as long as legally possible," prompting some financial experts to speculate that the United States and North Korea may be working against an artificial deadline, perhaps driven by Macau financial regulations limiting the duration of time that a financial institution can freeze accounts without criminal prosecution. These reports remain unconfirmed, as does a December *Joongan Ilbo* article claiming that \$12 million of the frozen funds originated from Hyundai Asan, the South Korean conglomerate's affiliate for investing in North Korea.

According to Heller Ehrman, a three-person Administrative Committee appointed by Macau has run BDA since September 2005 and has closed all accounts with North Korean or related entities. The Bank has retained Ernst & Young to analyze BDA transactions with North Korean customers and retained Deloitte & Touche to put an anti-laundering regime in place.

Heller has also confirmed that, before September 2005, North Korea sold gold to BDA for hard currency. The *Yomiuri Shimbun* reported in December that North Korea is continuing to sell gold on the international market, exporting \$28 million in gold to Thailand in April and May 2006. The London bullion market relisted the Choson Central Bank, the DPRK's central bank, on May 12, 2006 as a gold trader, after a June 2004 delisting. North Korea is believed to have approximately 1,000 to 2,000 tons of gold reserves.

By yearend, reports also emerged from Vietnam that a Vietnamese bank with ties to Citibank closed out its North Korean accounts. The East Asia Commercial Bank, which previously had served as a "correspondent bank" for remittances to and from North Korea, told North Korean accountholders to close their accounts by December 27. In a letter to the customers informing them that they must shut down their accounts, the Bank cited recent work with Americans "in strategic cooperation" as one of the reasons for the need for the closures. The closeouts occur in the wake of a July 2006 visit to Vietnam by Under Secretary of the Treasury Stuart Levey and a September 2006 visit by Treasury Secretary Henry Paulson, the passage of a bill by the U.S. Congress in December 2006 granting Vietnam most-favored nation trading status, and in the midst of Vietnamese preparations to join the World Trade Organization. East Asia Commercial Bank signed a partnership agreement with Citibank in September 2006.

Based upon the minimal progress made since the Talks began in 2003, most analysts expect little from the next round, with some contending that the Bush Administration is not really paying attention to North Korea due to the war in Iraq and other domestic concerns. Two events occurred at the beginning of the new year that have the potential of having an impact on the Talks. First, North Korean Foreign Minister Paek Nam-sun died at age 78. Although Paek was not seen as having a significant role in relations with the United States or in the development of Six Party Talks strategy, replacing him creates options that could cause changes in the ministry's ranks that deal with both issues. Second, in a Joint New Year Editorial issued by the *Rodong Sinmum*, the *Joson Inmingun*, and the *Chongnyon Jonwi*, Pyongyang called for "waging a dynamic offensive campaign to build a socialist economic power" in addition to strengthening defense capabilities. Some analysts point to the emphasis on economic development as a positive sign that may also affect the manner in which Pyongyang interacts internationally