North Korea: A Month in Review

An analytic look at the main developments of the July 1 and July 31 period

By NK Pro Staff Analysts
North Korea: A Month in Review & What's Ahead
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NK Pro has conducted an in-depth analytic review of news on the peninsula for the period between July 1 and July 31.

In addition to an Executive Summary providing top-line findings, the following review includes detailed analysis on a wide range of other specialist focus areas.

Furthermore, it also includes a look ahead at the five events most likely to create news in August.

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WMD: NORTH KOREA LAUNCHES TWO PROJECTILE SALVOS, UNVEILS NEW-BUILD SUBMARINE

Section by Caroline Kearney and Chad O’Carroll

Only six days apart, North Korea conducted two sets of projectile launches: one involving what appeared to be two short-range ballistic missiles on July 25, and one involving what state media described as a “newly developed large-caliber multiple launch-guided rocket system” on July 31. The DPRK claimed the purpose of the July 25 launch was to send a warning to “south Korean military warmongers” over the scheduled arrival of two additional F-35A stealth fighter jets in July and for planning to hold downscaled U.S.-ROK military exercises in August.

In another related development, North Korean leader Kim Jong Un paid an on-site visit to the construction site of a newly-built military submarine, KCNA said on July 23. Kim reportedly emphasized the submarine’s importance to North Korea’s security and the need to “reliably increase the national defence capability” by developing naval weapons and equipment such as the submarine. This submarine is likely a successor to North Korea’s Sinpo/Gorae-class ballistic missile submarine – the country’s largest yet – and potentially capable of carrying as many as four Pukguksong-1-style ballistic missiles.

RISK: Coming so soon after Kim Jong Un welcomed Donald Trump across the military demarcation line (MDL) last month, recent events indicate that Pyongyang subsequently felt in no mood for the promised working-level talks in July.

From Pyongyang’s perspective, the U.S. and South Korea failed to heed its earlier warnings about going ahead with joint exercises and transferring the pair of F-35As. In this light, a positive reading of recent WMD-related events could be that Kim Jong Un may have felt, for the sake of reciprocity and to placate internal stakeholders, it was vital for North Korea to demonstrate new military capabilities before any working-level talks can subsequently take place. A less likely but more worrying explanation is that Pyongyang may estimate the forthcoming U.S. Presidential election means it has sufficient leverage to genuinely push Washington to cancel delivery of the F-35As and abandon the joint U.S.-ROK military exercises for August.
FOREIGN RELATIONS: DPRK - U.S. WORKING LEVEL TALKS DELAYED, NORTH KOREA CONTACT WITH RUSSIA AND CHINA INCREASES

Section by Caroline Kearney and Chad O'Carroll

While Secretary of State Mike Pompeo initially expressed hope that DPRK-U.S. working level talks would begin mid-July, after few signs of progress throughout the past month it now appears they will have to wait until at least August – or possibly longer. But despite stalemate throughout most of July, a DPRK official reportedly told a U.S. National Security Council official that working-level talks between the two countries could begin soon, according to a Reuters article on July 31. The exchanges suggest working-level talks could theoretically begin shortly, though indicators in July have painted a contradictory picture, especially given the North’s military activities towards the end of the month. And though there was no immediate clarity in July about when working-level talks begin throughout July, Pyongyang’s relations with both Moscow and Beijing nevertheless increased in momentum.

RISK: The North’s reported commitment to a senior NSC official that working-level negotiations could restart very soon supports the thesis that Kim Jong Un felt compelled to approve the projectile launch events and military submarine tour in order to demonstrate reciprocity towards the U.S. and ROK. If this is the case, talks could begin soon and the recent geopolitical turbulence may be viewed in hindsight as an isolated issue. However, the North’s scaling-up of cooperation with both China and Russia – two countries which Pyongyang could rely on to maintain economic development if support from Beijing and Moscow remains forthcoming – may be intended to show the U.S. and South Korea it is not in fact desperate for contact with either of them.

SANCTIONS: DPRK SANCTIONS EVASION REMAINS COMMON DESPITE STRENGTHENED U.S. ENFORCEMENT EFFORTS

Section by Caroline Kearney and Chad O’Carroll

The U.S. Treasury and Justice Departments took action this month against two sets of entities for violating economic sanctions on North Korea. The Treasury Department designated a DPRK national based in Vietnam for his involvement with sanctioned entities and prohibited trade. For its part, the Justice Department charged a Chinese company for “obscuring illicit financial dealings on behalf of sanctioned North Korean entities” who are involved in the production of weapons of mass destruction. Meanwhile, despite efforts by the U.S., South Korea and other countries to crack down on North Korea’s sanctions evasions efforts at sea, satellite imagery suggested DPRK port traffic is busy, undeterred by these efforts.

RISK: June also saw the U.S. Treasury Department, State Department and President Trump take measures to bolster the enforcement of sanctions on North Korea. Two consecutive months of increased efforts by multiple U.S. departments to crack down on sanctions evasion efforts by DPRK-linked entities is likely not a coincidence, coinciding with continued deadlock in nuclear negotiations. The U.S. government’s actions therefore demonstrate it will continue to maintain pressure on Pyongyang and even expand enforcement measures, likely until progress in denuclearization negotiations. Naturally, this means risks for those financially exposed to DPRK-linked persons or entities remains high.

HUMAN SECURITY / HUMAN RIGHTS: NORTH KOREA RELEASES 18 FOREIGN DETAINEES, LIKELY TO REJECT ROK FOOD AID

Section by Caroline Kearney and Chad O’Carroll

During the month of July, North Korea released 18 foreign detainees: a group of sailors who had allegedly entered DPRK waters illegally and an Australian student who had been based at Kim Il Sung University in Pyongyang. Meanwhile, a former detainee released last year amid warming U.S.-DPRK relations told NK News that he spied for the U.S. and South Korea. However, amid reports of severe drought endangering food supplies going forward, North Korea appeared likely to reject Seoul’s proposed shipment of food aid.

INTER-KOREAN: INTER-KOREAN EXCHANGE REMAINS LOW, DEFECTIONS AND SPIES IN NORTH AND SOUTH

Section by Caroline Kearney and Chad O’Carroll

Despite recently offering significant volumes of rice aid to the North, millions of dollars to UN operations there, and permitting ROK business people goto Kaesong to inspect factories there, the Moon administration have
found themselves in an extremely difficult position vis-a-vis Pyongyang. As such, July saw minimum levels of inter-Korean cooperation amid aggressive messaging from Pyongyang, with North Korean discontent over South Korea’s ongoing compliance with the sanctions regime, the arrival of two stealth fighter jets in the South and upcoming ROK-U.S. military drills. Meanwhile, in two separate events, a South Korean citizen defected to the North and a North Korean citizen was arrested in the South due to spy charges.

LEADERSHIP: DOMESTIC POLITICAL EVENTS, MILITARY ACTIVITIES ARE PREDOMINANT THEMES

Section by Minyoung Lee
Kim Jong Un made eight public appearances in July, five political and three military. Kim’s political activities were in connection with the death anniversary of Kim Il Sung and the “war victory day,” major political events celebrated every year in the North, and the country’s quadrennial local people’s assembly elections. The public profiles of Kim’s sister Kim Yo Jong and First Vice Foreign Minister Choe Son Hui also continued to rise.

ECONOMY: INCREASED PRC-DPRK TOURISM COOPERATION, ECONOMIC DEVELOPMENTS SHOWN IN STATE MEDIA, CURRENCY & ENERGY PRICES FALL

Section by Caroline Kearney and Chad O’Carroll
In July the NK Pro unofficial Euro exchange rate and diesel prices in Pyongyang dropped notably, while Daily NK unofficial rates showed the USD to have decreased to record lows since 2015. Meanwhile, DPRK state media increasingly advertised emerging product ranges online, while North Korea’s constitution formalized the practice of allowing companies to earn profit after meeting the state quota.

MILITARY: NORTH KOREA ELEVATES MILITARY WARNINGS AND HOLDS BILATERAL MILITARY TALKS WITH RUSSIA

Section by Caroline Kearney and Chad O’Carroll
During the month of July, North Korea escalated warnings to the U.S. and ROK about scheduled military exercises to be held in August. Russia also sent a defense delegation to hold talks with the DPRK. Meanwhile, the U.S. Congress began working to finalize a defense bill which has an array of implications for the Korean peninsula.
The DPRK stepped up public announcements of military capabilities and weapons testing in July, allegedly in response to military developments relating to South Korea and the United States (U.S.). Meanwhile, satellite imagery of the Punggye-ri nuclear test site indicated that it appears to remain shut, with only basic maintenance and administrative works continuing.

**North Korea launches two sets of short-range projectile missiles within one week**

Only six days apart, North Korea conducted two sets of projectile launches: one involving what appeared to be two short-range ballistic missiles on July 25, and one involving what state media described as a “newly developed large-caliber multiple launch-guided rocket system” on July 31.

The missiles launched on July 25 were of the KN-23 class – launched on two prior occasions in May 2019 – with an extended trajectory of 600km and apogee of 50km according to the ROK government’s assessment. The DPRK claimed the purpose of the July 25 launch was to send a warning to “south Korean military warmongers” over the scheduled arrival of two additional F-35A stealth fighter jets in July and for planning to hold downscaled U.S.-ROK military exercises in August, a Korean Central News Agency (KCNA) article said on July 26. The second salvo of projectiles on July 31 flew a shorter range of 250km and apogee of 30km, with South Korea initially classifying the event as involving short-range ballistic missiles (The DPRK later said it involved a multiple launch rocket system (MLRS).

The ROK Ministry of National Defense (MND) said the launch of the two missiles on July 25 was considered a “military threat” and jeopardized efforts towards the “alleviation of tensions on the Korean peninsula.” A U.S. State Department spokesperson urged North Korea to refrain from additional launches and expressed the administration’s commitment to diplomatic engagement with Pyongyang during a regular press briefing on July 25.
Kim Jong Un visits “newly-built” submarine, state media says

North Korean leader Kim Jong Un paid an on-site visit to the construction site of a newly-built military submarine, KCNA said on July 23. Kim reportedly emphasized the submarine’s importance to North Korea’s security and the need to “reliably increase the national defence capability” by developing naval weapons and equipment such as the submarine. An NK Pro analyst concluded the submarine is likely a larger successor to North Korea’s Sinpo/Gorae-class ballistic missile submarine – the country’s largest yet – and potentially capable of carrying as many as four Pukguksong-1-style ballistic missiles.

Also noteworthy on the submarine tour was the presence of senior munitions department and defense industry officials accompanying Kim. Their presence builds on indicators over the past several months suggesting that Kim is placing growing importance again on the development of DPRK missile/military capabilities.

Meanwhile, satellite imagery analyzed on NK Pro showed that construction of a new submarine training center at the North’s Sinpo South Shipyard has neared completion in the last two to three months, according to images obtained from Planet Labs on July 19. The progress demonstrates the North’s intention to expand its submarine fleet capabilities and the completion of the facility will increase the training capacity of the personnel on the east coast.

Punggye-ri Nuclear Test Site well maintained but no new activity

Basic upkeep of the grounds of the Punggye-ri nuclear test site as well as movement at a nearby administrative support center are continuing, according to satellite imagery obtained by 38 North on July 6. But the images did not indicate that there was any activity ongoing at the Command Center or test tunnels. The Punggye-ri nuclear test site has been closed since May 2018, when the DPRK closed off entrances to three tunnels with extensive explosive detonations in the presence of over 20 foreign journalists. However, because access to the collapsed tunnel entrances was limited, it has been difficult for outside observers to determine the extent to which the tunnels were destroyed and if they could be restored for future use.
Pyongyang’s decision this month to publicly reveal the ongoing construction of a major new military submarine – followed by two projectile test events within a six day window – signals an abruptly hardening position towards both Washington and Seoul. Consequently, North Korea’s late-July actions and remarks in state media indicate the DPRK intended to escalate pressure on the U.S. and South Korea, express support for internal munitions and military industry stakeholders, but leave the door open to dialogue.

In a nutshell, the North’s earlier warnings are likely an accurate means to understand what motivated these actions: the DPRK believes South Korea’s introduction of “ultramodern” F-35A aircraft and the forthcoming scaled-back U.S.-ROK drills contravene the spirit of last year’s Pyongyang and Singapore declarations.

Coming so soon after Kim Jong Un welcomed Donald Trump across the military demarcation line (MDL) last month, recent events therefore indicate that Pyongyang felt in no mood for the promised working-level talks in July. With the U.S. and South Korea failing – from the DPRK’s perspective – to heed earlier warnings about the exercises and F-35As, a positive reading could be that Kim Jong Un may have felt, for the sake of reciprocity and to placate internal stakeholders, it was vital for North Korea to demonstrate new military capabilities before any working-level talks can take place. Likely, this is the most probable explanation of the recent flurry of WMD and military-related developments.

A more concerning analysis of recent events, however, is that the DPRK leadership may have unrealistic perceptions of the value Washington and Seoul places in resuming working-level talks. In other words, Pyongyang may have estimated that it has sufficient leverage to genuinely push Washington to cancel the delivery of the F-35As and abandon even the significantly redesigned joint U.S.-ROK military exercises for August. Though Trump is in need of a foreign policy victory, it is unlikely that he would be willing to support changes to both of these issues. One involves the sale of military hardware, something that helps the U.S. economy. The other involves overlooking evidence suggesting that despite the Pyongyang declaration, North Korea has done little to alter its own military drills. Indeed, USFK Commander Robert Abrams said in January that Pyongyang was continuing with its own Winter Training Cycle at a level “consistent with recent years”.

Finally, though Kim Jong Un continues to refrain from testing nuclear weapons or launching long-range ballistic missiles, recent events indicate that there is a possibility that such events could eventually re-emerge. That the submarine shown in July may be capable of fielding nuclear-capable Pukguksong-1 submarine launched ballistic missiles (SLBMs) provides a hint that testing of such capabilities may one day be necessary.
Events in July are an important reminder to business stakeholders of how quickly tensions can rise on the peninsula, despite recent diplomatic developments like June’s Trump-Kim meeting at Panmunjom. If Pyongyang has calculated that the U.S. and ROK’s hopes for diplomatic progress mean it now has the latitude to escalate pressure without fear of consequences, there is a risk that it may push too far and embarrass Washington in a way that crosses a line for Trump. While UN Security Council measures would be the most likely first phase of response to ongoing DPRK missile test events, precedence has shown that these often lead to escalatory tit-for-tat responses from North Korea. If these escalate too far, the general security environment on the peninsula may deteriorate: for example, if the DPRK eventually decides to test intermediate range missiles over a country like Japan – theoretically permissible due to the contradictory wording in Kim Jong Un’s April 2018 self-declared missile and nuclear moratorium – this is likely to significantly anger Trump. And as is currently playing out with U.S.-China trade tariffs, Trump can rapidly change position in ways that are unlikely to be welcomed by his counterpart.

However, one small area of business opportunity could emerge for American military providers as a result of July’s events. Part of the significance of the KN-23 short-range ballistic missile is that it can use its maneuvers for radar evasion and missile defense defeat, according to NK Pro contributing analyst Ankit Panda. As a result, the radar on the Terminal High Altitude Area Defense (THAAD) battery located in South Korea would likely detect an inbound KN-23 later than higher-flying ballistic missiles. This creates a more challenging intercept scenario for THAAD, and as a result, the U.S. and South Korea might choose to place an "additional terminal mode radar to queue THAAD interceptors… that is focused on lower-altitude threats." This would be very costly for the two governments but could provide opportunities for American defense firms such as Lockheed Martin and Raytheon, who provide THAAD and its components.
While U.S. Secretary of State Mike Pompeo initially expressed hope that DPRK-U.S. working level talks would begin mid-July, after few signs of progress throughout the past month it now appears they will have to wait until at least August – or possibly longer.

But despite stalemate throughout most of the past month, a DPRK official reportedly told a U.S. National Security Council official that working-level talks between the two countries could begin soon, according to a Reuters article on July 31. The development followed a meeting between U.S. and North Korean officials held at the Demilitarized Zone (DMZ) the week prior, Reuters said, when a U.S. official “in Asia for unrelated talks” traveled there to deliver photos from Kim Jong Un and Donald Trump’s meeting on June 30. The exchanges indicate working-level talks could theoretically begin shortly, though indicators in July have painted a confusing picture.

On July 15, U.S. Secretary of State Mike Pompeo focused remarks on pressing North Korea to bring “new ideas” to working-level negotiations and reiterated these comments on July 22, saying he hoped North Korea would take a “different position” if talks resumed. On the same day he claimed there was “no dispute” between Pyongyang and Washington over the definition of “denuclearization.” However, he may have unwittingly indicated a perception gap as he emphasized Kim Jong Un’s promise in Singapore to denuclearize “his country.” For its part, DPRK state media in December argued that it would not completely denuclearize until the regional “nuclear threat” from the U.S. is removed.
The month of July saw three sets of developments indicating ongoing diplomatic progress between Moscow and Pyongyang in the wake of Putin’s meeting with Kim earlier this year:

- North Korea focuses on economic exchanges with Russia
  
  The month of July saw three sets of developments indicating ongoing diplomatic progress between Moscow and Pyongyang in the wake of Putin’s meeting with Kim earlier this year:

- Pyongyang’s Vice Minister of External Economic Affairs traveled to Moscow on July 13 and 14 to hold bilateral talks with local counterparts, according to the Russian embassy in Pyongyang. The embassy’s report added that his visit was a follow-up meeting after Russia’s Minister for the Development of the Far East (MDFE) visited North Korea the month prior.

- The DPRK’s Chamber of Commerce visited Buryatia in the Russian Far East on July 25-26 to meet with local entrepreneurs and tour factories, said a press report by the Chamber of Commerce and Industry of Buryatia. The purpose of the visit was to discuss the exchange of goods between the two regions.

- A high-level North Korean delegation visited Vladivostok for an economic workshop on June 25-27, NK News learned on July 3. The focus reportedly was to explore the experiences of other nations’ market economic transitions and included a visit to a coal and natural gas-fired power plant among other industrial sites.

- DPRK’s Ministry of People’s Security visits China
  
  A North Korean delegation led by the Ministry of People’s Security (MPS), Councilor Ri Song Chol, visited China on July 9, according to KCNA. It was the first exchange between the two agencies since 2012 and follows the Kim-Xi Pyongyang summit held on June 20-21. During the summit, President Xi said that “China is ready to help the DPRK to solve its own reasonable security and development concerns.” No further information on the meeting was provided, but China’s MPS has developed advanced surveillance systems and integrated new artificial intelligence technologies in recent years, while North Korean universities and companies have been exploring similar technologies and video surveillance equipment appears to be on the rise throughout the country.

  Other noteworthy DPRK-China exchanges in the past month included a visit by North Korea’s Central Court to Beijing on July 15 and visits by the International Department of the Central Committee of the Workers’ Party of Korea to China on July 10 and the Information Department of the Chinese Foreign Ministry to Pyongyang on July 10.
The North’s reportedly explicit statement to a senior NSC official that working-level negotiations could restart very soon supports the thesis that Kim Jong Un felt compelled to approve the projectile launch events and military submarine tour in order to demonstrate reciprocity towards the U.S. and ROK. North Korean media pronouncements which earlier complained of the delivery of “ultramodern” F-35A aircraft to South Korea and the security threat posed by forthcoming U.S.-ROK exercises underscore that Pyongyang likely felt it necessary to conduct its own military actions, even if news suggests it is privately preparing for working-level negotiations with the U.S. at the same time. As a result, there’s a good chance these talks can proceed once the three countries have completed military training exercises for August – assuming things don’t escalate before then.

At the same time, the North’s scaling-up of cooperation with both China and Russia – two countries which Pyongyang could sufficiently rely on to maintain economic development if support from Beijing and Moscow remains forthcoming – may be intended to show the U.S. and South Korea it is not in fact desperate for contact with either of them. To an extent, this gives Pyongyang some leverage should working-level talks eventually rekindle with the U.S., but Chinese and Russian support cannot be counted on should the North’s testing frequency increase in future months.

In isolation, the DPRK’s hint that working-level talks can resume very soon would normally be a positive indicator for members of the business community interested in DPRK-related opportunities. In particular, if talks resume then the prospect for a first-step settlement incorporating an initial round of sanctions relief appears likely, as outlined in the previous edition of “North Korea: A Month in Review”. However, should the international community respond to the flurry of recent DPRK military actions with punitive measures via the UN Security Council in August, the prospect of short-term sanctions relief could become harder to realize. This is because Pyongyang traditionally responds to UNSC measures with angry rhetoric and military actions that can contribute to an escalatory but reciprocal spiral.

Regardless, though, ongoing Chinese and Russian cooperation and exchange suggests that it is likely their economic activities with North Korea will continue in the short-to-medium term. As a result, one promising area for businesses in the Russian far east is the prospect of tourism between the two regions, which was raised at the July 25 - 26 meeting in Buryata. “Leisure and tourism are one of the major areas that have not been touched by sanctions,” Anthony Rinna, an analyst on Russian foreign policy in East Asia for the Sino-NK research group, told NK News.
The month of July saw the publication of a new report which revealed how North Korea may have acquired two armored Mercedes limousines in 2018 and further U.S. efforts to highlight DPRK-linked sanctions violations. Meanwhile, vessel activity in North Korea’s west coast ports remained frequent and DPRK-linked vessels continued to visit South Korean ports.

The Togo-flagged DN5505 – a vessel seized earlier this year by South Korean authorities for allegedly smuggling North Korean coal – was likely responsible for delivering two armoured Mercedes limousines to North Korea, a new investigative report released by C4ADS said on July 16. Citing an analysis of customs, vessel and shipment data, the C4ADS report said the ship docked in South Korea’s port of Busan last September before departing with the limousines, suspecting it may have docked in the Russian far-east where the vehicles could have then been transported to North Korea on Air Koryo cargo flights. The report also showed how North Korea’s networks for acquiring luxury goods often makes use of similar techniques, mechanisms and vectors as acquisition systems in the WMD domain.

Meanwhile, another vessel owned by the same company as the DN5505 – and suspected by the U.S. of engaging in illicit ship-to-ship transfers with DPRK vessels – also appeared to have been seized and then dismantled in South Korea’s Busan port during the past month.

And a North Korean coal trans-shipper was shown by NK Pro’s Ship Tracker to have visited South Korea’s Pohang port earlier in July, its second visit in two months. The Liberia-flagged Great Roc moved North Korean coal several times in 2017, according to a report from the UN Panel of Experts (PoE) published the following year. While mentioned in the PoE report, the Great Roc is not on UN or U.S. blacklists and so has continued to dock in East Asian ports.
The U.S. Treasury and Justice Departments took action in July against two sets of entities for violating economic sanctions on North Korea. The Treasury Department designated a DPRK national in Vietnam for his involvement with sanctioned entities and prohibited trade. In addition, the Justice Department charged a Chinese company, Dandong Hongxiang Industrial Development Co. Ltd. – along with its owner and managers – on July 23 for “obscuring illicit financial dealings on behalf of sanctioned North Korean entities” who are involved in the production of weapons of mass destruction. China’s foreign ministry responded the following day, saying that it opposed “long-arm jurisdiction” and said Chinese judicial departments were handling the matter domestically.

Meanwhile, the U.S. House of Representatives passed two bills in July to bolster sanctions enforcement efforts on Pyongyang. The first, a defense bill passed on July 12, includes an amendment to place secondary sanctions on financial institutions that violate existing sanctions on the DPRK. The second, an intelligence bill passed on July 17, would authorize the production of Congressional reports to document financial services and other support stemming from companies based in Russia, China and Iran to the North Korean government. Both bills will need to be negotiated with the Senate before being passed through both houses.

Finally, the U.S. Treasury Department released an advisory on July 12 to inform financial institutions of the Financial Action Task Force’s (FATF) June 21 public statement. The advisory highlighted the DPRK’s ongoing failure to prevent money laundering and terrorism-funding efforts and encouraged member-states to take countermeasures to protect their financial sectors from involvement in these practices.

Two sets of satellite imagery provided by Planet Labs showed constant and sustained activity at the DPRK’s coal and oil terminals since early 2019 and 2017, respectively. A six-month time lapse from the first half of 2019 showed frequent and continued activity at North Korea’s west coast coal terminals in Nampho and Songim ports. Previous NK Pro analysis of time-lapse images gathered across 2017 and 2018 indicated lulls in vessel traffic through winter months and immediately after the passage of UN resolution 2397. But 2019 imagery found regular traffic at these ports from winter to summer months.

Similarly, Planet Labs imagery compiled over two and a half years showed that the DPRK’s Nampho oil terminal is growing to meet regular and frequent vessel activity. While satellite imagery is not sufficient to determine exact data about the DPRK’s coal and oil trade, it is one piece of the puzzle to contribute to wider evidence that Pyongyang is becoming more sophisticated in its sanctions evasion tactics.
SANCTIONS: WHY IT MATTERS

Government

The previous month of June also saw the U.S. Treasury Department, State Department and President Trump take measures to bolster the enforcement of sanctions on North Korea. Two consecutive months of increased efforts by multiple U.S. departments to crack down on sanctions evasions efforts by DPRK-linked entities is likely not a coincidence, coinciding with continued deadlock in U.S. - DPRK nuclear negotiations. The U.S. government’s actions demonstrate it will continue to maintain pressure on Pyongyang and even expand enforcement measures, likely until denuclearization negotiations make significant progress.

However, even amongst increased sanctions enforcement by the U.S. and other countries, it is evident that North Korea’s sanctions evasion methods continue to become more sophisticated. This is witnessed through the combination of the DPRK’s chronic practice of illicit ship-to-ship transfers, satellite imagery released this month showing frequent activity at DPRK ports, and indications that gasoline supplies in Pyongyang may be stable. But while the U.S. government stands behind its decision to use economic sanctions to pressure the DPRK – and despite sanctions evasion tactics being certainly costly for Pyongyang – it is difficult to determine whether Washington’s approach will be effective in convincing the DPRK to make more concessions at the negotiation table.

Business

Financial institutions that could potentially handle transactions linked to the DPRK should consider paying special attention to the FATF’s public statement and the U.S. Treasury Department’s related advisory. The U.S. first designated the DPRK as a “primary money laundering concern” in 2016 and has since designated or filed complaints against companies based in Singapore, Hong Kong, Russia, China, and others. Should entities or individuals acting on behalf of the DPRK be proven to be linked to money laundering, financing of terrorism and WMD proliferation financing (ML/FT/PF), risks of designation in the current environment evidently remain high.

Because designations result in a loss of access to the U.S. financial system and even from other banking systems around the world – which would be exceptionally cumbersome for larger firms – significant due diligence efforts remain vital. The FATF and Treasury Department advisories and reminders could, however, help cement opportunities for firms that specialize in providing software and advice to financial institutions/companies seeking to avoid risks posed by DPRK actors.
North Korea released 18 foreign detainees, likely to reject ROK food aid

During the month of July, North Korea released 18 foreign detainees, but appeared set to reject a food aid shipment from South Korea. Meanwhile, a former detainee in the DPRK told NK News that he spied for the U.S. and South Korea.

Multiple detained foreigners in North Korea released in July

North Korea released 15 Russian and two South Korean sailors detained in the country on July 27, the Russian embassy in Pyongyang announced a day later. Their release followed two rounds of meetings between the detained sailors and Russian officials, as well as negotiations between DPRK and Russian diplomats. North Korea detained the vessel on July 17 and crew for allegedly “violating the rules of entry and stay in the DPRK territory.” The Russian embassy said they would “continue to clarify the circumstances of the detention of the Russian vessel” shortly after its detention.

In a separate case, Alex Sigley, an Australian student detained in North Korea for over one week, was released on July 4 in good health. Two days after his release, DPRK state media accused Sigley of providing “data and photos he collected and analyzed while combing Pyongyang by making use of the identity card of a foreign student...to NK News and other anti-DPRK media.” Sigley denied the allegations on his Twitter account, saying he is “obviously” not a spy. He went on to confirm an official statement released by NK News that the “only material” he provided to it other media outlets were those articles published publicly.

Meanwhile, following reports that sushi chef Kenji Fujimoto may also have been detained in late June, visitors to his restaurant in Pyongyang confirmed to NK News that he was still serving customers in an article dated July 8. Choson Sinbo, the Tokyo-based pro-DPRK media outlet, also confirmed Fujimoto was alive and continuing to work at his restaurant in Pyongyang in a July 18 article.
The World Food Programme (WFP) confirmed that North Korea likely intends to reject a shipment of 50,000 tons of food aid from the South Korean government, the Ministry of Unification (MOU) said on July 24. The move is reportedly intended as a protest against an upcoming joint U.S.-ROK military exercise, as first reported in local newspaper the Kyunghyang Shinmun. North Korea also responded negatively to Seoul’s donation of $8 million in humanitarian aid last May, describing it as a “deceptive” and “secondary” in repairing inter-Korean relations.

Meanwhile, a severe drought in May resulted in significant damage to this year’s harvest output, the International Federation of Red Cross and Red Crescent Societies (IFRC) warned on July 18. The drought resulted in half of the expected output and destroyed crops that should have been harvested from June to September, according to ICRC. The low-yield harvest this year follows a poor season in 2018 and could worsen the allegedly urgent food situation. The Red Cross is calling for 472,000 Swiss francs “to provide fertilizers, herbicides, irrigation and water and sanitation supplies to improve crop yields and stem the spread of waterborne diseases in the most affected communities in North Phyongan province.”

Kim Dong-chul, an American citizen imprisoned in North Korea between 2016 and 2018, said he collected sensitive information for U.S. and ROK spy agencies during his prior time in North Korea. In an-depth interview with NK News in July, Kim said he “filmed footage with a watch and used electromagnetic wave wiretapping equipment” to gather information while in the country. He said he was recruited by the U.S. Central Intelligence Agency (CIA) and South Korea’s National Intelligence Service (NIS) for the work, due to his unique position conducting business in the Rason Special Economic Zone (SEZ).
North Korea’s decision to release the 15 Russian and two South Korean sailors in July – as well as Australian student Alek Sigley – suggests that Pyongyang is disinterested in resorting to using detainees as currency to try and extract concessions from adversaries or partners at this time. As such, the prompt release of the sailors will have reassured Moscow amid frequent high-level exchanges between the two countries that the DPRK is both diplomatically flexible and remains interested in increasing economic and military exchanges.

The speed of Sigley’s release, whose Australian passport made him a resident of a close ally of Washington, may have been facilitated in part by Trump’s sudden June 30 meeting with Kim Jong Un. In the wake of that meeting, North Korean authorities may have felt it an inopportune time to hold a detainee from a close ally of the U.S. for an extended period. This may have to a degree also factored into the prompt release of the two South Korean sailors with the Russians: the optics of otherwise keeping a small number of the detainees would have likely only over-complicated issues for Pyongyang.

Events in July suggest that Russians eager to take advantage of warming ties in the wake of the Putin-Kim summit ought not be overly worried of lengthy detention in North Korea. However, the DPRK’s seizure of the Russian vessel provides a reminder that those in the maritime sector should equally not get complacent because of warming relations. Meanwhile, the IFRC’s warning surrounding DPRK drought suggests that companies which can provide fertilizers, herbicides, irrigation and water/sanitation supplies may, as a result of the ICRC’s call for support in North Korea, be eligible to apply for new opportunities.
July saw minimum levels of inter-Korean cooperation amid aggressive messaging from Pyongyang. And in two separate events, a South Korean citizen defected to the North and a North Korean citizen was arrested in the South due to spy charges.

**One meaningful inter-Korean exchange, but many failed efforts by Seoul**

- The only meaningful inter-Korean contact in July came when a North Korean delegation attended a convention on peace and prosperity hosted by a South Korean provincial government and civic group in the Philippines between July 25 - 27. The delegation was led by DPRK senior official Ri Jong Hyok, vice-chairman of the Korea Asia-Pacific Peace Committee (KAPPC).

- South Korea kicked off an initiative on July 11 to list the Demilitarized Zone (DMZ) as a UNESCO World Heritage Site, in hopes that Pyongyang will in future decide to jointly inscribe the site.

- North Korea ignored the South’s invitation to participate in the 18th FINA World Aquatics Championships in Gwangju, South Korea, which began on July 12. And a South Korean table tennis team failed to participate in an international table tennis tournament held in Pyongyang from July 24 - 28. The South Korean table tennis association said it had been difficult this year to coordinate a joint Korean team and cited difficult inter-Korean relations as being the reason it could not go.

- South Korea’s Ministry of the Interior and Safety is commissioning a three-month-long “policy research on ways to revitalize the economy in the border areas in the era of inter-Korean reconciliation and cooperation.” The ministry said the purpose was to “establish a system and prepare for the direction and contents of the project systematically,” according to documents seen by NK News during the first week of July.
DPRK state media presses Seoul to act independently, implement agreements

In multiple state media reports throughout the month of July, Pyongyang called on Seoul to act independently of “outside forces” and called on the South to thoroughly implement its side of inter-Korean agreements. On July 5, Uriminzokkiri said that “allowing for external intervention could turn the declarations agreed to by the North and the South into a piece of paper.” The same newspaper on July 14 referred to South Korea’s “ridiculous claims” that there is a correlation between U.S.-DPRK nuclear negotiations and progress in inter-Korean relations, saying that Seoul should take “bold steps” to improve inter-Korean relations. These comments were in addition to reports on July 24 that Pyongyang would refuse food aid from the South and DPRK state media the same day saying that short-range missile launches were a warning in response to pending downscaled U.S.-ROK military exercises. Meanwhile, the South’s Ministry of Unification said it “will consistently send a message to North Korea for the improvement of inter-Korean relations...and make preparations so as to produce tangible achievements” in a report to the National Assembly on June 30.

South Korean citizen defects, possible North Korean spy arrested in South

South Korean citizen Choi In-guk, son of a former member of the DPRK’s Presidium of Supreme People’s Assembly, defected to North Korea on July 6, according to state media outlet Uriminzokkiri on July 7. Choi was born and raised in the South and his parents defected to the North in 1986. The ROK government said it was investigating the circumstances of Choi’s defection.

Separately, a man who arrived in South Korea in 2018 and had been living there as a Buddhist monk was arrested last month, according to the Korea Herald and CBS No Cut News. On July 25, the ROK’s National Intelligence Service delivered details to the National Assembly’s Intelligence Committee but would not comment to the press. It would mark the first arrest of its kind in South Korea in nine years.
After South Korean President Moon Jae-in’s presence at the impromptu U.S.-DPRK summit on June 30, expectations were raised that inter-Korean relations might rekindle in July. But despite Seoul’s relentless efforts, the DPRK has refused to engage. North Korea continues to point to South Korea’s refusal to launch inter-Korean economic projects – even though they are restricted by UN Security Council economic sanctions – and has over the past two months blamed the freeze on upcoming military exercises with the U.S. and Seoul’s receipt of two new F-35A stealth fighter jets. While U.S.-DPRK working-level negotiations might restart in the coming month or two, Pyongyang will likely continue to place inter-Korean relations on the back burner until it can determine whether considerable progress in negotiations can be achieved with Washington.

With Pyongyang’s recent rejection of a large donation of South Korean rice aid also taking place in July, it appears that Seoul’s efforts to placate the North will remain unwelcome for some time. In a nutshell, North Korea’s current position suggests it will only be interested in what South Korea has to say or offer if Seoul becomes clearly interested in breaking ranks from the U.S. to engage in rapprochement against Washington’s interest. For Pyongyang, examples might include the ROK unilaterally calling off forthcoming exercises with the U.S. or taking major actions that undermine UN sanctions. Any such ‘rogue’ ROK behavior would appear extremely unlikely in the short to medium term, however, especially when Seoul may be hoping for protection from Washington in its worsening diplomatic spat with Tokyo.

The current inter-Korean situation is bleak for South Korean businesses interested in North Korea-related opportunities. While last year dozens of chaebol and large South Korean firms created North Korea task forces and research teams to identify opportunities in the wake of the Panmunjom and Singapore summits, for over a year now there has been practically little they can do. For now it seems that businesses in the ROK will have to wait for significant progress to be realized in the DPRK-U.S. relationship before there is any real chance of inter-Korean relations improving in meaningful ways.

The good news for businesses is that, despite increased military activities and aggressive rhetoric from the North, some recent indicators suggest that U.S.-North Korea working-level talks could begin in the forthcoming weeks or months ahead. And as explained in the last edition of “North Korea: A Month in Review,” if working-level talks resume there is a much greater chance of successful outcomes than Hanoi – which could help build opportunities for inter-Korean economic engagement.

However, as mentioned in the WMD section of this month’s report, if Pyongyang miscalculates in its efforts to express displeasure at South Korea’s acquisition of F35As and forthcoming U.S.-ROK military exercises, it could destabilize American interest in seeking working-level talks at this time.
Kim Jong Un made eight public appearances in July, five political and three military. Kim’s political activities were in connection with the death anniversary of Kim Il Sung and the “war victory day,” major political events celebrated every year in the North, and the country’s quadrennial local people’s assembly elections. The leader made three military appearances, two of which were guidance of weapon launches, in just over a week.

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**Kim Jong Un takes part in key domestic political events**

Kim’s participation in domestic political events in July was in line with past precedent. He visited the Kumsusan Palace of the Sun and attended a national memorial meeting to observe the 25th death anniversary of Kim Il Sung. Kim has visited the Kumsusan Palace of the Sun every year since 2013 to pay his respects in observance of his grandfather’s death anniversary. Kim also attended a national memorial meeting in July 2014, the last time the North observed this event with a national meeting.

As in 2015, the leader took part in the quadrennial local people’s assembly elections on July 21. He voted in an electoral district and a sub-electoral district in South Hamgyong Province. Kim visited the Fatherland’s Liberation War Martyrs Cemetery and attended a National Symphony Orchestra concert marking the 66th anniversary of North Korea’s “victory” in the Korean War. Kim typically takes part in “war victory day” celebrations, visiting the martyrs cemetery every year since 2017.
Kim toured a “newly built submarine” (presumably July 22), and guided the “power-demonstration fire” of a new-type tactical guided weapon and the “first test-fire” of a “newly developed large-caliber multiple launch-guided rocket system” on July 25 and 31, respectively. Jo Yong Won, first vice director of the party’s Organization and Guidance Department; the leadership of the party’s Munitions Department; and Jang Chang Ha and Jon Il Ho, leading cadres in the defense science sector, appeared with the leader at all these three events.

This spate of military activities in the course of 10 days -- the first such time after the North's shift from byungjin to an economy-focused policy in April 2018 -- followed a trail of signals over the past few months that seemed to suggest the North's rising interest in bolstering its weapons programs. For example, Kim and munitions-related officials visited five munitions factories in two days in late May and early June.

Kim Yo Jong and Choe Son Hui were spotted on the first row of the rostrum at the national memorial marking Kim Il Sung’s 25th anniversary. It appeared to be the first time Kim Yo Jong sat on the front row of the leadership rostrum at a national meeting; it was also Choe’s second observed appearance on the rostrum at a national event, after a national meeting in late June that was related to the State Affairs Commission, of which she is a member. The first row of the rostrum is typically reserved for the DPRK’s high-level officials, and it is therefore usually a good indicator of one’s standing in the leadership hierarchy.

Although Kim Yo Jong sat only four places from the leader at the meeting, she was listed 21st out of 30 officials, among party Political Bureau (PB) alternate members. When there is a discrepancy between one’s placement in the physical leadership line-up and the listing of attending officials, the general rule of thumb is to give priority to the listing.

In that vein, Kim Yo Jong’s seat on the rostrum was much higher than her actual position in the DPRK leadership hierarchy. One possible explanation for her prominent placement on the rostrum at this Kim Il Sung-related event is emphasis of her hereditary connection to Kim Il Sung – an unprecedented gesture that is in and of itself significant. Kim’s placement on the listing of attending officials seems to suggest that she may have regained her PB alternate member title, probably after the Chinese president’s visit to Pyongyang, in which she played a prominent role. Kim seems to have lost that title at the party plenum in April, and she had not been reinstated to the PB as of June 20, when Xi took photos with the PB leadership.
North Korea likely will continue to reveal “new” weapons and carry out weapons tests for the time being, as the U.S.-ROK joint military exercises are likely to proceed as scheduled. State media readout on Kim’s guidance of the July 25 missile launches indicated that it would continue to develop, test, and deploy new weapons. Pyongyang, however, has moderated the level and tone of its criticism of the U.S. even while escalating pressure and thus likely will not renegade on Kim Jong Un’s moratorium on ICBM and nuclear tests until the end of this year.

Kim Jong Un’s increased attention to the military and munitions industry builds on an uptick in his military activities over the past few months, including his guidance of missile launches in May. Kim’s military appearances in July are in response to U.S.-ROK joint military drills scheduled to begin on August 5 and follow DPRK foreign ministry pronouncements on July 16, which tied the resumption of DPRK-U.S. working-level talks to the suspension of the drills and warned of the drills’ consequences for broader DPRK-U.S. diplomacy.

The North’s shift also reflects a hardening line conveyed by three rare, authoritative North Korean party daily articles published between mid-May and mid-July that seemed to give primacy to domestic resilience and principles over flexibility and diplomacy. These articles unanimously took a hard line against foreign elements and emphasized the importance of “self-reliance” and independence, two even mentioning “war deterrent,” a euphemism for missiles and nuclear weapons that remained largely absent from state media after Kim’s policy shift away from byungjin.

The economy appears to remain the primary focus for the North Korean leadership, despite the uptick in the country’s military activities. The party daily, for example, frequently carries reports on the front page on the progress made in major economic construction sites, including Samjiyon County.

It is highly unlikely that Kim Jong Un will go back on his moratorium on ICBM and nuclear tests this year. That said, Pyongyang and Washington continue to differ on the concept of denuclearization and the denuclearization process. If DPRK-U.S. talks fail to make progress to Kim’s satisfaction by the end of this year, the North could shift away from the current economy-focused policy and further escalate tensions starting in 2020, when the year-end deadline Kim Jong Un has set will have come to an end.
In July the NK Pro unofficial Euro exchange rate and diesel prices in Pyongyang dropped notably, while Daily NK unofficial rates showed the USD to have decreased to record lows since 2015. Meanwhile, DPRK state media increasingly advertised emerging product ranges online, while North Korea’s constitution formalized the practice of allowing companies to earn profit after meeting the state quota.

Further events in July underscored that Chinese tourism interest in the DPRK continues to grow sharply.

Firstly, North Korea indicated it is planning a range of measures to boost tourism to the country and hopes to attract more Chinese investors to help in the process, a senior official in the industry told Chinese state media. In a July 24 interview, National Tourism Administration (NTA) Director for the Department of Promotion Kim Chun Hui was quoted as having said that the DPRK “welcomes Chinese entrepreneurs to invest in hotels, tourist attractions, and infrastructure.” Admitting that infrastructure is an area in need of improvement, Kim added that the government “will provide various preferential measures for Chinese investors,” Kim told the Xinhua News Agency in an interview in Pyongyang. Current UN sanctions on North Korea, however, prohibit Chinese citizens and others from engaging in activities likely required to carry out such investments, including bulk cash transfers, working with DPRK banks, and setting up “joint ventures or cooperative entities.”

Secondly, it was confirmed on July 24 that North Korean national airline Air Koryo will from August begin operating a twice-weekly flight between the DPRK capital and the Chinese city state of Macau. Air Koryo’s new route will reportedly last from August 2 to October 26, after which its approval will need to be renewed. Earlier in the month, a travel company told NK News that Air Koryo would once again offer direct Pyongyang-Dalian service from July 19, with schedule expanding to four times a week from August 19: Mondays, Wednesdays, Thursdays and Saturdays.

Signs of further China-DPRK cooperation in the tourist sector

North Korean men near Wonsan pier | Picture: NK Pro
The developments follow Xi Jinping's June summit with Kim Jong Un, where a vague pledge was revealed in state media to "expand pragmatic cooperation and bring greater benefits to the people of the two countries."

### Economic developments shown in state media

July saw a number of new DPRK products and services emerge in official state media. Externally-focused media outlet *Meari* advertised a new online store for its “Pomhyanggi” (scent of spring) cosmetics brand on July 10. The website lists the price of cosmetics, company contact numbers and store locations. However, *Maeri’s* information does not provide instructions on how customers may purchase the products.

Meanwhile, the DPRK also announced the release of a new English-language website for Pyongyang’s first insurance and reinsurance broker, via state media outlet *Naenara* on July 5. The English version is likely an attempt to attract foreign companies and investment, also representing a sign of the increasing complexity and competition in the insurance sector.

In addition, *DP RK Today* released an unusually modern promotional video advertising the health benefits and “superior quality” of O-il company’s drink products, which include sports beverages and nutritional drinks aimed at women and children. O-il, a DPRK company, has had an extensive presence at recent trade fairs in North Korea and appears to be pioneering a number of modern marketing and advertisement techniques there. There is likely both a sizeable market for these types of drinks as well as potential competition – probably from imports – according to NK Pro contributing analyst Peter Ward.

### Currency and energy prices fall, but higher food prices stable

July saw a number of notable decreases in data regularly tracked by NK Pro. Firstly, the unofficial exchange rate of the Euro to the Won decreased sharply this month to its lowest value since October 2017, nearly matching the USD exchange rate.

Secondly, unofficial market data tracked by the *Daily NK* saw nationwide exchange rates drop below the 8,000 KPW/1USD mark for the first time since their records began in 2015.

Thirdly, diesel prices in Pyongyang dropped to their lowest cost since October 2018 and are now marginally lower than throughout most of 2017. This is likely due to stable supply as a result of some official trade, their domestic supply produced at Pongwha refinery, as well as illicit ship-to-ship transfers at sea. The volume of oil products shipped from China and Russia to North Korea in May fell slightly compared to April’s data, according to *Beijing* and *Moscow*’s reported figures to the UN this month.
Increasing food scarcity had been widely expected after UN reports and DPRK state media following February 2019 warned of pending shortages. It’s possible, therefore, that these cereal imports may be helping mitigate food shortages to an extent. Indeed, while June saw a sharp rise in the market price of rice corn, as tracked by Daily NK, food prices in July remained stable in comparison.

Meanwhile, data released in July indicated that Chinese cereal exports to North Korea significantly increased in May to reach $5.6 million, a rise of nearly $2 million from April. This follows a gradual increase of Pyongyang’s imports from Beijing over the first quarter of 2019, coinciding with Moscow’s shipment of cereals valued at $2 million in April and Seoul’s seemingly failed attempt to deliver 50,000 tons of domestic rice to the DPRK through the World Food Programme (WFP).
While details about what, exactly, was agreed during Kim Jong Un’s multiple summit meetings with Xi Jinping has remained conspicuously absent, evidence since late Spring 2018 has suggested Chinese agreement to significantly increase tourism to North Korea was likely one key aspect. Not only have there been recurring news developments about new aviation routes to be introduced between the two countries, but tourist numbers continue to reach new peaks according to anecdotal information collected by NK News, especially in the wake of Xi Jinping’s visit to Pyongyang in June. Should tour numbers have now reached the hundreds of thousands per year, as they currently appear to be, it is likely that North Korea’s state finances will be feeling significantly less pinch than during 2017 – even though nothing has changed to the UNSC sanctions framework. Naturally, that may have implications for Pyongyang’s motivation to take steps towards denuclearization.

For its own part, the DPRK’s ongoing promotion of domestic products and services in state media is likely indicative of the country’s efforts to mitigate the negative impacts of international sanctions as a result of lagging U.S. - DPRK diplomacy. Indeed, North Korea likely realizes that domestic production and “self-reliance” will need to remain high priorities for state planners, especially if any sanctions relief secured in renewed diplomacy with Washington turns out to be based on a ‘snapback’ mechanism – and therefore only temporary in nature.

Finally, data indicators in July are notable for two reasons. Firstly, the reductions in both the value of Euros and Dollars at unofficial KPW exchange rates suggests, somehow, that these two currencies have reduced in value. This is notable given that in neighboring South Korea, KRW has shown notable decreases in value in the same time span against the same two increasingly valuable currencies. One possible explanation is that the spike in Chinese tourists means that RMB is becoming a favored currency over Euro or Dollar. Secondly, the fact that increases in cereal and rice prices seen in June have not replicated in scale in July suggests that fears of predicted food shortages are not yet having a significant effect.

Because of the increase of rice prices in June and July, the increased North Korean imports of Chinese cereals this month and predictions of serious food shortages may translate into modest economic opportunities for companies based in China that export cereals such as rice, corn and maize to the DPRK.

But while the North’s direct appeal to Chinese investors relating to tourist industry infrastructure may tempt some, North Korea’s proposed investment projects are not always “devised in a coherent manner” to attract foreign investors, according to Peter Ward, a writer and researcher on the DPRK economy.

Separately, one of the long-term risks for foreign-entities doing business in North Korea is that there has traditionally been little guarantee for the protection of property or safety of personnel. Consequently, July’s English language advertisement of an insurance / reinsurance broker may be an effort to signal that emerging risk mitigation mechanisms for foreign-owned corporations to conduct business in North Korea may be on the horizon.
MILITARY: NORTH KOREA ELEVATES MILITARY WARNINGS AND HOLDS BILATERAL MILITARY TALKS WITH RUSSIA

Section by Caroline Kearney

The DPRK’s warnings towards the U.S. and South Korea over significantly downscaled joint military drills scheduled for August escalated substantially following initial warnings in June. On July 16, a DPRK foreign ministry spokesperson was quoted in two separate articles in the Korean Central News Agency (KCNA) as saying the upcoming 19-2 Dong Maeng military exercise was a violation of last year’s DPRK-U.S. agreement in Singapore and could affect working-level talks between the two governments. The spokesperson went on to directly tie Washington’s commitment to cancel military exercises to Pyongyang’s discontinuation of ICBM and nuclear tests, implying North Korea could restart tests of both weapons and cancel working-level talks if the exercises moved forward. U.S. Secretary of State Mike Pompeo on July 16 rejected the claim that Washington breached its commitment, saying the U.S. is “doing exactly what President Trump promised Chairman Kim we would do with respect to those exercises.” And on July 25, DPRK state media quoted Kim Jong Un as describing the upcoming 19-2 Dong Maeng exercises as a national security threat that “cannot be ignored.” This consequently provided legitimacy for the North to develop “ultra-powerful weapons systems,” Kim indicated, and to test short-range ballistic missiles through the lens of national defense.

North Korea steps up warnings against downsized U.S. - ROK military exercises

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Russia’s deputy defense minister meets DPRK counterparts

Russia’s deputy Minister of Defense Alexander Fomin traveled to Pyongyang to meet his counterpart Kim Hyong Ryong, Vice Minister of the People’s Armed Forces and No Kwang Chol, the Minister of the People’s Armed Forces on July 3 and 4. The two sides were set to discuss opportunities for military cooperation, “the
The U.S. Senate and House of Representatives both passed their own versions of the National Defense Authorization Act on July 12, the final versions of which will have implications for the Korean peninsula. Daniel Wertz at the National Committee on North Korea provided detailed analysis of both bill versions, as did Jonathan Corrado at NK Pro. Notably, provisions include a prohibition on the use of funds to decrease the number of U.S. troops in South Korea, support to reach a formal end to the Korean war, an allocation of $10 million to monitor and verify North Korea's efforts towards denuclearization, reporting requirements on the Trump administration related to North Korea's nuclear, military and cyber activities, and widening the scope of sanctions enforcement on those doing business with North Korea. However, both bills will undergo intense negotiations in conference committee reaching a final report to be approved by both houses and the White House.

U.S. defense bill has new implications for Korean peninsula

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North Korea’s escalated warnings about military exercises in July were in many ways targeted at Seoul, as described in the above WMD section, but also in part at Washington.

As a result, this recent elevation of rhetoric could suggest that Pyongyang wants its concerns to be seen not only as a tactical issue for immediate gain in DPRK-U.S. working-level talks, should they resume, but as an important strategic issue that will need to be fundamentally resolved in order for talks to eventually yield fruit. As a result, if the issue remains unresolved, it appears the North will continue to maintain a justification to build up weapons capabilities, per Kim’s comment that the exercises pose a fundamental security threat. This may, in part, explain the heightened missile/rocket testing towards the end of July, as well as the revealing of the new submarine currently under construction.

Financial institutions should particularly keep an eye on the final version and passage of the sanctions amendment to the National Defense Authorization Act. The House version would prohibit financial institutions from conducting significant transactions with any “covered person” and restrict those institutions from maintaining U.S. correspondent accounts if they knowingly did so.

Significantly, the amendment’s definition of a “covered person” extends beyond persons designated by sanctions and includes any North Korean person living abroad who is not a refugee or essential diplomatic personnel – and any person involved in trade or investment with North Korea. Any person or institution connected to any significant trade or financial services with almost any North Korean person could thus be targeted by these measures and should be aware given the potentially grave consequences.
In this section, NK Pro highlights a number of noteworthy stories from the month of July:

- **KCNA blasts Japan for export restrictions on South Korea** - DPRK state media attacked Japan over its export restrictions against South Korea because of the fact Tokyo dragged North Korea into the row on July 18. The KCNA’s article demanded Japan make reparations for the victims of forced labor and called out the Japanese government for its “absurd excuse” that South Korea may have exported sanctioned materials to the North.

- **Rodong Sinmun highlights women’s role in building socialist country** - A “socialist powerhouse cannot be built only on the power of men,” Rodong Sinmun said on July 30. The article went on to imply that North Korea would not have its “dignity and status on the world stage” without the contributions of women.

- **“Old Stone Age” or Paleolithic-era tools and remains discovered** - History faculty at Kim Il Sung University said they excavated remains and tools in a natural cave near the Ryesong river basin, according to a July 29 KCNA article. The team reportedly found “five stone tools of three kinds, three bone tools and 732 fossil bones of 17 species of mammals.”

- **Yangdok County Hot Spring Tourist Area possibly nearing completion** - The Pyongyang Times and DPRK Today announced the conclusion of various construction projects such as houses, public buildings, road extension areas and afforestation near the new Yangdok County Hot Springs Tourist Area on July 2, 10 and 27 respectively. Rodong Sinmun released a July 24 article about an inspection by Kim Jae Ryong, a member of the Politburo, of the Yangdok spa. It is unclear, however, if the project will be completed by its October 10 deadline.

- **Highlights of campaigns to save electricity in the country** - KCNA reported on electricity-saving measures such as the installation of wind-powered generators and computer-controlled systems throughout the country, in an article dated July 25.
**THE MONTH AHEAD: WHAT TO EXPECT**

*Section by Caroline Kearney*

U.S. Special Representative for North Korea Steven Beigun will accompany Secretary of State Mike Pompeo at the ASEAN Regional Forum on August 2 - 3 in Thailand, suggesting that issues related to the North's nuclear program are likely to be high on the agenda. Though according to a Reuters article on July 31, DPRK foreign minister Ri Yong Ho canceled his trip to the conference.

Expect reciprocal military measures such as short-range ballistic missile and rocket test drills from North Korea during and after these exercises, based on their statements in state media during the month of July.

DPRK leader Kim Jong Un’s sister Kim Yo Jong has been invited again to South Korea to attend an event marking the 10th death anniversary of former ROK President Kim Dae-jung, according to a Korea Herald article on July 30. Last month, Kim Yo Jong traveled to the DMZ to deliver flowers and a letter on the occasion of the recent death of South Korea’s first lady, Lee Hee-ho.

According to a Reuters article on July 31, a North Korean official said U.S. - DPRK working-level talks may restart “very soon.” However, recent military tests and Kim Jong Un’s tour of a new naval submarine may pose hurdles for such a rapid timeline. But should talks go ahead, Korea Risk Group — the holding company of NK Pro and NK News — understands that Sweden is a major contender to be host.

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<td>5. Third DMZ peace trail in South Korea to open next month</td>
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<td>The third and final Demilitarized peace-themed trail is set to open in Paju, South Korea on August 10. The previous two peace trails opened in April and June of this year. Media are anticipated to be invited to the event, indicating it is likely to crop up as a news issue.</td>
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<tr>
<th>6. National Liberation Day on August 15</th>
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<td>This annual holiday will mark the 74th anniversary of Japan’s surrender in World War Two and is widely celebrated in North Korea. The day is also of interest as its celebrated by both North and South Korea. Given the worsening Japan-ROK diplomatic spat, it is possible that the celebration could have added importance this year.</td>
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<th>7. Day of Songun on August 25</th>
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<td>This date officially commemorates the day when Kim Jong II accompanied Kim Il Sung to inspect the 105th Tank division of the Guards. In practice it is a day to celebrate Kim Jong II and his first steps up the political ladder.</td>
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</table>
North Korea: A Month in Review

An analytic look at the main developments of the July 1 and July 31 period

By NK Pro Staff Analysts

Please send any feedback about this new feature to chad.ocarroll@nknews.org