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S. HRG. 115–117

EVALUATING SANCTIONS ENFORCEMENT AND POLICY OPTIONS ON NORTH KOREA

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING VARIOUS SANCTIONS POLICY OPTIONS, INCLUDING THE POTENTIAL FOR INCREASED SANCTIONS AND TO FURTHER ASSESS THE EXISTING SANCTIONS IMPOSED ON THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

SEPTEMBER 7, 2017

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: http://www.fdsys.gov/

U.S. GOVERNMENT PUBLISHING OFFICE

27–569 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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EVALUATING SANCTIONS ENFORCEMENT AND POLICY OPTIONS ON NORTH KOREA

THURSDAY, SEPTEMBER 7, 2017

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
Washington, DC.

The Committee met at 9:48 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Michael Crapo, Chairman of the Committee, presiding.

Chairman CRAPO. The hearing will come to order.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. Today, the Committee will receive testimony from three sanctions experts on how to intelligently and effectively use the various tools of sanctions and their enforcement to reverse a nuclear crisis being inflamed by the regime of Kim Jong Un in North Korea.

Mr. Adam Szubin, currently a Johns Hopkins scholar, is a former acting Under Secretary of Terrorism and Financial Crimes and Director of the Office of Foreign Assets Control, or OFAC, and was one of Treasury's best financial warriors, marshaling the Treasury's considerable power to effect real change with rogue Nations.

Mr. Anthony Ruggiero, again, a former Government sanctions official from both the Treasury and State Departments, is currently in residence at the Foundation for Defense of Democracies.

And, finally, Mr. John Park, having recently concluded a study on the use and effectiveness of North Korean sanctions, is a scholar at the Harvard Kennedy School.

Welcome, and we look forward to hearing from you today.

We have heard over the last week, in both words and deeds and in no uncertain terms, that Kim Jong Un is bringing North Korea, and the world along with him, to what may be the brink of disaster.

Kim's latest claim is that on Sunday, his scientists tested a hydrogen bomb that could potentially be loaded onto an intercontinental ballistic missile, or ICBM, and this on the tail of yet another illicit ballistic missile test, just days earlier.

According to the press, experts and intelligence estimates—excuse me. According to the press, experts and intelligence estimates differ on whether it was or was not a so-called "H-bomb."

One thing that is clear is that the test of this bomb revealed a blast six times stronger than the last and according to some reports up to 16 times the power of the Hiroshima bomb.

As noted by Nikki Haley, our U.S. Ambassador to the United Nations, in a speech Monday outlining 24 years of failed attempts to change North Korea's nuclear behavior, Kim is begging for war, and President Trump and his Administration can no longer follow a North Korean policy that has marked a quarter century of empty threats.

So what can be done? Many seem to believe that there are no good options for responding to North Korea in whatever time is actually left before Kim can assemble a serviceable nuclear-tipped ICBM, but accepting Kim's North Korea as armed with nuclear weapons cannot be a serious option right now either.

Today's hearing is about what can be done, short of military options, specifically focusing on what tools Congress may support Ambassador Haley's declared intention that only the strongest sanctions will enable us to resolve this through diplomacy.

In this area, I acknowledge the work of Banking Committee Senators Toomey and Van Hollen, who have introduced a very strong sanctions bill in the Senate which was recently referred to the Banking Committee for consideration.

Senators Gardner and Markey similarly introduced a strong sanctions bill, and I appreciate their work as well.

Most people know by now any meaningful de-escalation of Kim's nuclear threats will require the United States to reassess its relationship with China, and here, I thank Senators Sasse and Donnelly, as the Chair and Ranking Member respectively of the National Security and International Trade and Finance Subcommittee, for holding a hearing in May that explored the use of secondary sanctions against Chinese institutions to further constrain North Korea.

In order to do that, the United States more than ever needs to focus on a coordinated strategy that may turn out to impact many people in a number of countries, ours included.

For too long now, China has sat on the sidelines of this crisis and attended to its own interests. It is time for China to join the world in not just condemning Kim's hostile actions, but using its considerable economic and diplomatic power in concert with the rest of the world to bring about effective change to Kim's destabilizing nuclear program.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, for again pursuing this issue so important to our national security. North Korea's advancing weapons program is alarming not only to the U.S. and to our close allies, South Korea and Japan, but also to China and to all those with whom we share an interest in a denuclearized Korean Peninsula.

Senators Sasse and Donnelly, as the Chairman said, held an informative National Security Subcommittee hearing earlier this summer to assess whether U.S. secondary sanctions against Chinese businesses and banks might help strengthen our hand and complement enforcement of existing sanctions. They offered a measured set of conclusions and questions drawn from those hear-

ings in a letter to the Chairman and to me, which I would like to include in the record, Mr. Chairman.

Chairman CRAPO. Without objection.

Senator BROWN. Thank you.

Senators Van Hollen and Toomey and Senators Gardner and Markey, off this Committee, have separately put forward additional bipartisan sanctions legislation. Some of them recently traveled to the region to assess policy options. I thank them for their work.

We enacted a new package of North Korea sanctions last year and then included additional tough new sanctions in the Russia–Iran–North Korea legislation enacted earlier this month by a vote, if I recall, of 98 to 2.

Beyond sanctions, several years ago, President Obama began to work with regional allies to develop a robust package of military capabilities to realign U.S. and allied military posture for this different and more dangerous security landscape.

Today, we will hear from experts on the prospects for further economic sanctions on North Korea. I welcome all three of you, and, Mr. Szubin, welcome back to the Committee.

We are figuring out how best to target the money that flows to Pyongyang through other countries, including China. As a Government, the Chinese oppose the North Korean nuclear weapons program. They find it destabilizing. They also fear, of course, the collapse of the regime, in its wake a destabilizing flood of refugees across their borders into China. They see their national interests as different from ours.

With the acceleration of North Korea's tests, including the explosion of what they claim was a hydrogen bomb last week, and launches of increasingly capable ballistic missiles, we must persuade Chinese leaders that it is in their interest to do all they can now to denuclearize the peninsula. I hope the upcoming 5-year party conference in the People's Republic of China in mid-October will stiffen that country's resolve to push the North Koreans to denuclearize.

To move China and Pyongyang, we need to be clear and credible in our strategy and policy. This is no time for bluster. It is no time to be picking a fight with our key ally, the South Koreans.

Tweets from the President accusing South Korea of appeasement are counter-productive and unwise and rash. We will only serve to confuse and divide our allies and destabilize the situation if that kind of the behavior from the White House continues. It plays right into North Korea's hands, as it seeks to divide us.

Instead, this is a time for serious and hard work by U.S. diplomats to deter and to contain this regime. It is a time for a steady, sober assessment of U.S. national security goals, for close coordination with our allies, to reassess what we might actually accomplish.

Given these complexities, what do we do? What role should this Committee and this Congress play? Among other things, we can require the Administration to set clear, stated policy goals and then measure whether China and others are making sufficient progress to curtail sanctions violations.

We can develop tough new sanctions to further target entities that violate or evade current sanctions, enable the use of forced labor, or abuse human rights.

For me, the brutal treatment of Otto Warmbier by North Korean authorities that ended in his death is an especially poignant reminder of the brutality of Kim's regime.

We must also not lose sight of the Americans still held in Pyongyang and the importance of securing their release.

Congress can signal clearly to the Chinese and others that we are determined, determined to require tougher enforcement of sanctions, will steadily ratchet up pressure on this front, and our shared interest in the stability and denuclearization of the Korean Peninsula is paramount.

Our sanctions must, of course, be contained within a broader diplomatic, political, military, and economic strategy designed to meet our goals, which makes clear our sanctions are a means to an end, not an end in themselves. That end is to force Pyongyang to the table to negotiate, as we did successfully—and I thank Mr. Szubin again for that—with Iran.

Given our history on Iran, Congress brings credibility to this issue. It is helpful as some see the Administration's credibility undermined by its erratic behavior.

I am sure the North Koreans, for example, are watching closely this Administration's threats to walk away from the Iran Nuclear Agreement this fall. If that comes to pass, even as the IAEA certifies that Iran has continued to comply with the deal, Kim Jong Un will draw the conclusion that the U.S. will refuse to observe even firm commitments on the nuclear front, and we are hearing those comments over and over and over about the importance of Iran.

I am glad we are moving forward with a regular order process on this sensitive and urgent issue. I know there will likely be another hearing on the matter, when we will hear from Administration witnesses.

I welcome our witnesses today. Your expertise on what might work and what likely will not work to ratchet up pressure and bring the results we are seeking are most welcome. We all thank you for that.

Chairman CRAPO. Thank you, Senator Brown, and I also want to, again, thank our witnesses for being willing to come here.

I have already introduced you by name, and so now we will simply proceed.

I remind our witnesses that we have put your written testimony in the record. It will be in the record, and we ask you to keep your oral remarks to 5 minutes. I expect that there will be a lot of interest from the Members of the Committee, so you will have plenty of opportunity to expand on those comments if you will try to follow our timeframe.

I also remind the Senators to follow their timeframes for their questions.

With that, Mr. Szubin, we will begin with you.

STATEMENT OF ADAM SZUBIN, DISTINGUISHED PRACTITIONER IN RESIDENCE, STRATEGIC STUDIES, JOHNS HOPKINS UNIVERSITY SCHOOL OF ADVANCED INTERNATIONAL STUDIES

Mr. SZUBIN. Thank you.

Chairman Crapo, Ranking Member Brown, and distinguished Members of this Committee, thank you for convening this hearing on such an important and timely topic. Thank you for your work and delegations out to the region. Thank you for the strong legislative efforts you have made on this national security front and on others.

The scale and range of North Korea's nuclear and long-range missile programs is, as was noted by the Chairman and Ranking Member, advancing by the month. It is hard to think of a nuclear threat this acute since the Cuban missile crisis, and despite repeated pronouncements, a scenario that has been repeatedly described as unacceptable grows ever closer to becoming reality.

I do believe there is still a diplomatic way forward, but if we are to bring North Korea to the negotiating table in a meaningful way, the international community will need to play severe and unprecedented pressure on the regime.

For the U.S., our response will need to incorporate all of the levers at our disposal—diplomatic, financial economic, military—and we will need the full commitment of our partners, especially those in China, South Korea, Japan, Australia, and the European Union.

The only hope here lies in a qualitatively different level of pressure than we have seen to date, one that threatens Kim Jong Un's very hold on power.

On the sanctions end, that would mean placing a stranglehold on the North Korean economy that makes it impossible for the leader to pay his military and security forces, to fuel his planes and trucks, to provide bribes to his family and cronies.

It is possible that Kim Jong Un is so mired in delusion and defiance that even in such a case, he would not come to the table, but if Kim Jong Un will face the end of his regime before he relinquishes his nuclear program, then we need to see his leadership end.

China will, of course, be a determining factor. We must find a way to enlist the cooperation of the Chinese Government and the compliance of Chinese private actors. To date, the problem has been that as much as China may dislike Kim Jong Un and his nuclear program and threats, a collapse of the regime is a far worse alternative in their view. Serious and deft diplomacy will, therefore, be needed to assure China that, first, this issue is paramount for the U.S. above all others. Second, the proposed sanctions and pressure campaign against North Korea is aimed narrowly at resolving the nuclear crisis, not transforming North Korea or reunification; and third, that the U.S. will work in concert with China if China will work with us.

Discussions will likely require both carrot and stick. We can expect China to increase sanctions pressure half-steps but not to a decisive level. Ultimately, I believe the key will be making clear to China that the status quo is not tolerable because of a range of escalating costs, including sanctions exposure.

In approaching questions about sanctions against Chinese entities, especially larger State-owned entities and banks, U.S. policymakers need to be prudent and strategic, prudent because any larger sanctions will inevitably carry spillover costs to ourselves and our allies and strategic because, at the end of the day, we must

remember the objective is to win China's cooperation, not provoke a breakdown between our Nations or a trade war.

Those who would tell you that we can levy massive financial sanctions against China without serious reverberations for the global economy or businesses in the United States are mistaken. China's economy may have once been self-contained 10 or 15 years ago, but it certainly is not today. China is the second largest economy in the world. The four largest banks in China are the four largest banks in the world by assets.

Beyond banks, our trade ties with China are deep. China is the third largest market in the world for U.S. exporters after Canada and Mexico, and our Commerce Department estimate that U.S. exports to China support nearly 1 million American jobs.

Beyond any trade effects, a strong blow to China's economy would put downward pressure on the renminbi and upward pressure on the U.S. dollar. We would essentially be lowering the value of China's currency, a trend that our Government has fought for years to combat. None of these are reasons to walk away, but we must be prudent as we are determined.

On a final note, I would like to speak to the roles of Congress and the executive branches in designing and implementing sanctions. Congress has a vital role to play in sanctions policy, as I know well. That said, in comparison to executive branch sanctions, legislation is very difficult to repeal or amend, and sanctions laws have historically been one-way ratchets.

I raise this because of a recent trend toward what I see as a rigid codification of sanctions in a bid to strip the executive branch of discretion over the implementation and lifting of sanctions. Ultimately, the purpose of these sanctions is to incentivize behavioral change, and for that to work, the targets of sanctions must see that the President has the ability to adjust or lift the pressure. If the target perceives the sanctions to be immutable, then sanctions have ceased to act as an inducement to change, and they function solely as a penalty.

In 13 years working on U.S. sanctions policy alongside this Committee, I have witnessed up close the power of Congress working alongside the President to pursue sanctions campaigns, and it is formidable. My hope is that the two branches will work in concert to address this and the other pressing threats that confront our Nation.

Thank you very much.

Chairman CRAPO. Thank you.

Mr. Ruggiero.

STATEMENT OF ANTHONY RUGGIERO, SENIOR FELLOW, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. RUGGIERO. Chairman Crapo, Ranking Member Brown, and distinguished Members of this Committee, thank you for the opportunity to address you today on this important subject.

Often U.S. policy toward North Korea gets stuff in a provocation response cycle, whereby a North Korean provocation is met with strong rhetoric and a token increase in sanctions, a pattern repeated over and over. In practice, the Kim regime can keep distracting the United States with repeated provocations. We should

break this cycle and ensure that the U.S. response to every North Korean provocation advances our goal of denuclearizing the Korean Peninsula.

Some experts will call for the White House to negotiate a freeze of North Korea's nuclear program with claims that it will reduce the threat and eventually lead to denuclearization, but we have seen this movie before, and the ending is not encouraging.

Not only has North Korea told us it is not interested in denuclearization, its actions reinforce it. To the extent that Pyongyang is interested in negotiations, it is only for the purpose of extracting concessions in exchange for promises it will quickly violate, as it did with the 1994 agreed framework.

It is common for scholars and journalists to note that years of strong sanctions against North Korea have failed. It is true that thus far, sanctions have not achieved the U.S. objective of disarming North Korea, but it is not true that sanctions have been either strong or well enforced or that they cannot work.

Before last year's sanctions law came into effect in February, sanctions against Pyongyang were weaker than our efforts to isolate low-level threats like Zimbabwe, Sudan, and the Balkans, even as North Korea conducted four nuclear tests. U.S. sanctions against North Korea have finally approached the level where Pyongyang is in the same ball park as Russia and Syria, although still far from being as constrained as Iran was before the 2015 nuclear deal.

Before March 2017, U.S. sanctions did not have a serious impact because they were not targeting enough of either Pyongyang's international business or non-North Koreans facilitating sanctions evasion.

This year, the Trump administration started to sanction North Korea's international business partners. Since March 31st, the U.S. has sanctioned 43 persons, of whom 86 percent operate outside North Korea, and 54 percent are non-North Koreans.

Over the last decade, the U.S. has been reluctant to target Chinese firms, individuals, and banks facilitating North Korea's sanctions evasion in the hope that American restraint would encourage greater cooperation in Beijing, yet one pattern that emerges from a review of North Korea's financial activities is the disturbing extent to which Chinese banks help North Korea leverage the U.S. financial system to evade sanctions.

Recent disclosures show that from 2009 to 2017, North Korea used Chinese banks to process at least $2.2 billion in transactions through the U.S. financial system.

Since late May, the Trump administration has sanctions China six times using Justice Department and Treasury Department authorities. More needs to be done, including sanctioning medium and large Chinese banks. While some assert that China will never respond to foreign pressure, experience shows that it will, in fact, bend, especially if well-designed sanctions force Beijing to choose between the welfare of North Korea and the welfare of China's own banking sector.

Another disturbing development I want to emphasize today is the increasing role of Russia in sanctions evasion, including helping North Korea finance energy sales in U.S. dollars and selling items

to North Korean proliferation entities. We can do a lot more to stop it, and our experience with sanction policy points the way forward.

The U.S. goal should be to protect the U.S. and its allies at all costs by strangling the sources of revenue and materiel on which North Korea relies for its nuclear weapons program.

The Trump administration should use the Iran sanctions playbook for its North Korea policy, which force companies, individuals, banks, and Governments to make a choice. Stop doing business with Iran or lose access to the U.S. dollar. The approach worked as banks and companies and eventually Governments curtailed or eliminated business with Iran.

Pyongyang's provocations deserve increasingly harsh responses from Washington. A new sanctions approach is needed to secure the United States and its allies against the dangerous and growing threat from this rogue regime. Iran-style sanctions are the only peaceful means of coercing the Kim regime and for that reason are indispensable.

Thank you again for inviting me to testify, and I look forward to addressing your questions.

Chairman CRAPO. Thank you, Mr. Ruggiero.

Dr. Park.

STATEMENT OF JOHN PARK, DIRECTOR OF THE KOREA WORKING GROUP AND ADJUNCT LECTURER IN PUBLIC POLICY, HARVARD KENNEDY SCHOOL

Mr. PARK. Thank you.

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify before you today.

As requested by the Committee, I will be presenting key findings from my research into North Korean regime's accumulated learning in evading sanctions and outlining ways to bolster efforts to stop its procurement of banned items for its WMD programs. Such efforts are urgently needed as the regime continues to make rapid advances in its nuclear weapons development program; most recently, a sixth nuclear test and an intermediate-range ballistic missile flight over Japan.

As I highlighted in my testimony in July before a subcommittee of the House Financial Services Committee, the North Korean regime's sanctions evasion techniques have improved significantly because of North Korea, Incorporated's migration to the Chinese marketplace. As a result, U.S. policymakers need to diversity the set of policy tools beyond sanctions to disrupt North Korean–Chinese business partnerships operating inside of China.

My MIT colleague, Dr. Jim Walsh, and I recently conducted research on North Korea, Incorporated. It is a term that we use to describe the regime's web of elite State trading companies. We found that the net effect of sanctions was that they, in practice, ended up strengthening the regime's procurement capabilities, what we call the "sanctions conundrum."

In the marketplace, increasing sanctions on North Korea's State trading companies had the effect of elevating the risk of doing business with these entities. However, rather than deterring local Chinese business partners, the elevation of risks and rewards at-

tracted more capable, professional middlemen to procure items—illicit items on behalf of the North Korean clients. The process that drive this outcome was the monetization of risk. The higher the sanctions risk, the higher the commission fee that a North Korean entity had to compensate a local middleman.

In sum, targeted sanctions, unintentionally and counterintuitively, helped to create more efficient markets in China for North Korea, Incorporated.

Significantly, one of the biggest setbacks for North Korea, Incorporated, in recent years was an accidental one. In the early years of Xi Jinping's anti-corruption campaign in sweeping up the "tigers and flies" is a term that refers to the national as well as local-level corrupt party officials. Some of these officials, indirectly and directly, were involved in business deals with North Korean procurement agents embedded in the Chinese marketplace.

In applying this potent domestic policy tool, the Chinese authorities had unintentionally and highly effectively disrupted specialized North Korean–Chinese business partnerships. There are important lessons that we can apply to the immediate objective of halting the North Korean regime's procurement of illicit items for its nuclear and ballistic missiles development programs.

We can and must disrupt these partnerships upstream before the procured item becomes a part of globalized trade flows on its way to North Korea. To do so, we need to diversify the set of policy tools beyond sanctions and coordinate with more robustly with different policy actors, like compliance departments in financial institutions and law enforcement in China, to significantly reduce the wide-open space in which North Korea, Incorporated, currently operates.

With this goal in mind, I would like to bring to the Committee's attention what I call the "three antis." Number one, anti-corruption apparatus. The September 2016 case of the Dandong Hongxiang Industrial Development Corporation serves as an important, intentional precedent for scaling up the application of the anti-corruption apparatus to target corrupt party officials involved in these Sino–North Korean business partnerships. Given the vital link between private Chinese middlemen and local officials, using the anti-corruption apparatus intentionally to target these partnerships would have an immediate impact on procurement deals. Of all the policy tools, this substantial one is readily available but dependent on the senior Chinese leadership's decision to go down this path. The U.S. threat of applying secondary sanctions on large Chinese banks and companies could elevate the Chinese leadership's interest in pursuing this path.

Number two, anti-narcotics campaign. An open secret in China's northeastern provinces is that there is an expanding narcotics problem emanating from North Korea. Called "ice," this cheap and highly addictive form of meth is produced in North Korea. Drawing on the precedent of Sino–U.S. cooperation in the late 2000s when China was confronting an inflow of opiates through its border with Afghanistan, there was an opportunity to adapt—there is an opportunity to adapt this previous program to China's northeastern provinces. Although aimed at the narcotics trade, the positive spillover effects of increased Chinese law enforcement activities would fur-

ther constrain the areas in which North Korea, Incorporated, and its Chinese partners operate.

Number three, anti-counterfeiting activities. The North Korean regime is well documented as the most prolific creators of supernotes, counterfeited U.S. $100 bills. What is not so well known in the West is that there is strong concern in China that its neighbor has been counterfeiting Chinese currency. From Beijing's perspective, this criminal activity is a direct threat to China's national economic security. Given the high-level threat, the Chinese leadership can create special authorization to investigate and inspect North Korea-related consignments and facilities.

In conclusion, objectively assessing how criminal North Korean activities affect China's national interests yields a clear view of areas of common ground upon which we can build a common cause with Chinese authorities in stopping North Korea, Incorporated. The work of the Committee, the panel members, as well as sanctions-focused officials in the U.S. Government is more critical than ever in this endeavor.

Thank you.

Chairman CRAPO. Thank you, Mr. Park.

I will go with the first questions, and this question is for the whole panel or any of you who wish to respond to it.

Over the years, the United Nations reports have singled out States for helping North Korea evade U.N. sanctions. In addition to China, countries specifically mentioned include Egypt, Malaysia, Singapore, Vietnam, Syria, Sudan, Eritrea, Russia, Thailand, Namibia, and Myanmar. And, Mr. Ruggiero, you specifically mentioned Russia in your testimony in terms of some significant impacts there.

If secondary sanctions are imposed against Chinese banks or other Chinese businesses, what is the likelihood that these other countries will not just move in and fill the gap?

Anyone want to discuss that? Mr. Ruggiero.

Mr. RUGGIERO. Well, in terms of backfill, I guess I would say that that is a concern that I have with Russia. I do not think it would be the same scale as what China is doing with North Korea now, but I think it is a concern. And it certainly looks like a concern of the Trump administration because several months ago, they started laying the foundation saying that China had increased implementation of some sanctions and an unknown party was backfilling, and then we started to see one round of Russia sanctions and another round.

I would just say when I went through and looked at the POE's—the panel of experts' midterm report, some of those same countries come through—Angola, DRC, Eritrea, Mozambique, and on and on and on—Syria. Unfortunately, I mean, the way I look at this is that it has to be a global campaign against North Korea, but if we are doing that global campaign because we are not willing to make the hard decisions on China and Russia, it will not succeed.

Chairman CRAPO. Anyone else on that?

[No response.]

Chairman CRAPO. I would like to pursue the China angle here a little bit further. We often hear the statistics that 80, 90 percent of the trade of North Korea is with China or through Chinese

banks, and yet your testimony, Dr. Park, clearly shows some areas where cooperation with China on certain enforcement can be very beneficial, not just in sanctions policy, but in other areas, as you indicated, like narcotics and counterfeiting.

The broader question I would like to have each of you respond to—and we only got 2 minutes here, so please be brief—is it is what I see as a bit of a conundrum, and that is, we need to deal with China through this sanctions legislation that we are developing. But we also need China to be a partner with us in implementing a sanctions policy.

Just discuss that with me. How do we achieve both of those objectives? Mr. Szubin.

Mr. SZUBIN. Chairman Crapo, I think you framed it exactly right, and that is what I was referring to when I said our approach to China needs to be determined, it needs to be firm, but it also needs to be prudent and strategic.

I think right now, we have been able to win China's cooperation on specific enforcement cases, such as the ones Dr. Park references, and in my time in Treasury, we were able to successfully bring China's pressure to bear on certain networks, such as the Ma network and the DHID network, but none of that is going to amount to the type of decisive pressure on North Korea that we need at this late stage in North Korea's nuclear progress. And China, I assess, is currently unwilling to put that level of pressure on North Korea, and so the status quo has to change.

I think it is going to have to become more uncomfortable for China for it to perceive that the status quo is less acceptable than allowing severe pressure to grow against North Korea, and that can happen in a number of ways.

We have many interests in common with China. We have many levers to play, but it is going to take some high-level and some deft diplomacy with the Chinese to work this through.

Chairman CRAPO. Thank you.

Mr. RUGGIERO. I mean, I would just say we should not give Beijing too much credit. Most of those examples were when the United States acted first and pushed Beijing to compliance.

I will be convinced that China is a partner when they go to Dandong, which we all know is a serious problem, and they are implementing sanctions in Dandong when they go to their own banks and say, "You need to do better," when we have nongovernmental organizations here in the United States ferreting out these networks and the largest bank in the world cannot do that. I am not convinced they cannot do more.

Chairman CRAPO. Dr. Park.

Mr. PARK. Chairman Crapo, the very dysfunctional relationship between the Communist Party of China and the Workers Party of Korea, I think, reduces a lot of the opportunities that we would see for external pressure.

However, because the business partnerships are with Chinese nationals under Chinese law and using Chinese law enforcement tools and labeling these business partnerships as "criminal activity," there is a lot of bandwidth there. So it is not to say abandon sanctions, but in addition, this is the plus alpha. This is an area that I think we can use the leverage from the threat of secondary

sanctions in large Chinese banks and companies that may produce the type of outcome that we have not seen before.

Chairman CRAPO. Thank you.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Ruggiero mentioned Dandong. I want to touch on that with my question to Mr. Szubin.

The Treasury Department in July sanctioned that relatively small Chinese bank, the Bank of Dandong. It is a primary money-laundering concern.

In your testimony in May before the Subcommittee, Mr. Szubin, you noted Chinese banks facilitating North Korean trade are not limited to small banks, but also could include some of China's largest banks, which are notably some of the largest banks in the world.

Describe what the implications are in your mind of the U.S. sanctioning one of these larger banks. How would China likely respond? What macroeconomic impact with such actions have in your mind?

Mr. SZUBIN. It is a very complicated question, Senator.

The first thing I would say is that we see a spectrum of conduct when you look at the largest Chinese banks. And I am out of Government now for 8 months, so my expertise is already beginning to wane. But at least from my time at Treasury, there were some who are more diligent and some who are less, and the fact that North Korean money is moving through a Chinese bank, that is happening in the same way that narcotics money is moving through Western banks, European and American banks. The question is, How diligent are they being and how careful are they being to ferret it out?

And if we see that in cases they are being reckless or willfully blind, then that is a problem, and that is a problem that we need to confront.

In terms of the impacts, these banks are massive, and they are no longer walled off from the international economic system, international financial system.

We saw in August 2015 and at the turn of 2015 to 2016, what shocks to the Chinese economy mean for our markets, with major sell-offs and 2 to 3 percent drops in the Dow Jones on those days when China's economy took a hit. So our economies are interrelated, and there is no question that a major blow against one of these Chinese banks, a blow that led it, for example, to collapse would have massive reverberations for U.S. markets. We would feel it here, and American businesses would feel it.

Senator BROWN. You are saying that the sanctions could lead to a—it could affect the stability of these large Chinese banks. Are you implying that, suggesting that?

Mr. SZUBIN. Yes. And your question was open-ended as to which sanctions we would be pursuing. So I am saying at the outer edge, the more comprehensive sanctions, such as cutting off one of these four largest banks from the U.S. financial system entirely or designating it, blocking its assets, prohibiting all transactions with it, that tends to be a death sentence for an internationally active banks, as these banks are, and that is where you get to the outer end of the consequences that I was flagging.

Senator BROWN. In all the major, all the largest Chinese banks that we classify as some of the largest in the world, all of them are interconnected to the international banking system? All of them?

Mr. SZUBIN. Yes, sir.

Senator BROWN. OK. Thank you.

Mr. Park, last year, you and an MIT colleague, Dr. Walsh, published a detailed DPRK procurement network study. You describe professional sanctions evaders who facilitate illicit trade there. You found that under tightened sanctions, North Korean facilitators actually hired more capable Chinese middlemen to better handle financing, logistics, and doing business with private Chinese firms, increase the use of embassies as a vehicle for procurement. You recommend we encourage China to use its domestic anti-corruption, anti-counterfeiting, and anti-narcotics laws to disrupt those networks.

So expand that. What more should we be doing? What can we do to urge China to act more forcefully now, to get them to act now within Chinese law to stymie these sorts of illicit trade?

Mr. PARK. Thank you. Senator Brown, one of the interesting set of precedents in the China–U.S. relationship, there are a number of key areas, and I would label them as "effective programs," so the narcotics, anti-narcotics program, looking at the flow of opiates from Afghanistan being one. So when you look at the law enforcement level of cooperation, I think these are programs that you can modify and tailor to some of these issues.

What more can be done, I think, is in this area of looking at additional types of rooms to maneuver, where you are providing information. Certainly, that has been done in the past. Whether the Chinese side acts upon it or not, there are political considerations then.

The situation is different now, and I think with the urgency of the situation, with the threat of secondary sanctions, you have the Chinese leadership's attention now, and what you do with that threat of using this measure, not to use it outright, and combine it with a larger strategy, these are areas that I think the Chinese authorities will revisit some of these domestic policy tools that they can apply to criminal North Korean activities at the end of the day.

Chairman CRAPO. Thank you.

Senator TOOMEY. Thank you very much, Mr. Chairman. Thank you to the witnesses as well. I think we all understand and agree on the severity of the threat posed by North Korea. I think there are a lot of other areas where there is broad agreement, including from in the testimony that our witnesses provided. I think it is widely acknowledged that we have not yet imposed the toughest possible sanctions against North Korea. I think there have been minimal secondary sanctions applied so far.

There is ample evidence that North Korea is extensively evading the existing sanctions regimes, an interesting article in today's *Wall Street Journal* that further explains how that is happening.

It is my understanding that the North Korean economy was able to grow last year, and my own subjective conclusion would be that it would strike me as unlikely that Kim would feel that the continuity of his regime is currently threatened by this regime of sanctions.

And for these and other reasons, Senator Van Hollen and I have decided to pursue the BRINK Act legislation that would impose tough secondary sanctions. I thank Senator Van Hollen and his staff for the great work that they have done on this.

Very briefly, I just want to confirm. First of all, the BRINK Act, as you may know, is designed to implement sanctions that are similar in their nature to those that were imposed on Iran. Is there uniform agreement among the witnesses that the secondary sanctions that were imposed on Iran were a very important factor in driving Iran to the negotiating table for the agreement which led to the JCPOA? Does everybody agree that that was an important part?

[Heads nodding affirmatively.]

Senator TOOMEY. Then the next question is, Does everybody agree that secondary sanctions on the financial institutions—and I should point out that our legislation would impose them globally. They are not exclusively under our legislation meant to be imposed on Chinese banks. They are meant to be imposed on any financial institutions that facilitate transactions with the North Koreans. Is there agreement that such secondary sanctions would impose significant new pressure on the regime?

Mr. Ruggiero, would you care to respond?

Mr. RUGGIERO. Sure. I think building on what Mr. Szubin said, there is a range of secondary sanctions, and I agree, and I have made clear, that going right now to designating or cutting off the largest banks in the world form the U.S. financial system, now is not the time to do that.

And this is what is in the BRINK Act, is using fines against those financial institutions for their lack of due diligence, and I think that is a key point that is in the BRINK Act as well, is requiring a report on whether these financial institutions are doing enough to ask the right questions to prevent these transactions from going through the U.S. financial system.

Senator TOOMEY. And, as a technical matter, does everybody agree that we do have the ability to identify the financial institutions that are engaging in these transactions? Maybe not every last one, but we know of financial institutions, including Chinese banks, that are currently facilitating business with North Korea. Does everybody agree with that?

[Heads nodding affirmatively.]

Senator TOOMEY. Now let me go to this question of the adverse impact on the United States if one of these banks were to fail. I am not sure I have a suitable analogy, but, Mr. Szubin, you pointed out that the four largest Chinese banks are the four largest banks in the world. Is not it really true that whatever business they are doing with North Korea, while it is absolutely essential to North Korea, it is trivial in scale to their own business? Is that true?

Mr. SZUBIN. Yes, Senator.

Senator TOOMEY. So if they were faced with an ultimatum that continuing doing business with North Korea would result in a catastrophic disaster for their institution in the form of being cutoff from U.S. dollar-denominated transactions, is not the only rational decision to discontinue doing business with North Korea?

Mr. SZUBIN. That might be the decision.

I think we have to remember here, these are State-owned banks.

Senator TOOMEY. Right.

Mr. SZUBIN. And so we are really—we are not talking about J.P. Morgan.

Senator TOOMEY. I understand.

Mr. SZUBIN. We are talking about a pressure campaign vis-a-vis the Chinese Government.

Senator TOOMEY. Right. But the Chinese Government, presumably, is extremely vested in avoiding a financial crisis and collapse of their largest financial institutions, it would seem to me.

Mr. SZUBIN. Absolutely. China has far more to lose when this escalates than we do.

Senator TOOMEY. Absolutely.

Mr. SZUBIN. My point was only that there are real costs here, and we need to be mindful of them.

Senator TOOMEY. Yes. My point is that there is a rational behavior that I think we can likely anticipate.

The last point I want to make, Mr. Szubin, in your testimony, you make a point that I agree with. You mention on page 7 that sanctions that cannot be eased without an affirmative joint resolution of Congress are not likely to be constructive. Likewise, it is not advisable to impose sanctions that only allow for easing once the ultimate objectives of the sanctions have been obtained. This is part of your broader message that there ought to be some flexibility for the Administration.

I just want to underscore our legislation provides an Administration with that flexibility. In fact, there is a very high bar that Congress would have to achieve in order to prevent any Administration from lifting these sanctions. Congress would have to pass legislation and have to take the step to affirmatively pass legislation, and presumably, if the Administration wanted to lift these sanctions, the Administration would veto such legislation. Congress would then have to override that veto.

So in order for a President to be unable to lift the sanctions under our legislation, he would have to be unable to convince one-third plus one of either house of the legislature that that is a good idea.

So I do not know what your view is, but I think that is a very sensible balance and maintains a lot of discretion for the President, while involving Congress in the decision making.

Does anybody have a comment on that mechanism?

Mr. SZUBIN. I would say that mechanism, where the President is given the discretion to adjust and lift sanctions, with Congress always having the ability to act in a bicameral way to stop him, is the right model. That has also been the historic model that we have seen used for decades.

I am worried less by a specific bill that is under consideration now than by what I see as a broader trend to try to shift that balance decisively in a way to constrain executive branch discretion, and I appreciate your thoughts, Senator, on this because I am very much in agreement with it.

Senator TOOMEY. Thank you.

Thank you, Mr. Chairman, for indulging my time limit.

Chairman CRAPO. Thank you.

Senator Reed.

Senator REED. Thank you very much, Mr. Chairman, and thank you, gentlemen, for your testimony. It is very, very thoughtful.

Mr. Szubin, from what I have been hearing from Defense officials the critical resource that will move the North Koreans is oil, that other economic problems, can be worked around or, as Mr. Putin said, they can "eat grass" instead of doing something else. So how would we structure sanctions to force a reduction in oil? Is that a fair question?

Mr. SZUBIN. I think it is a key point of leverage. It is one of the three that I point to in my written testimony, Senator, because of exactly the reasons you point out. Not only is it a key input for them as an economy writ large, but it is a direct input for their military. They need oil, and they are dependent on others, most importantly China, for the supply of that oil.

We have run this play before. In the Iran context, with Congress' help, we put pressure on other countries—China, South Korea, Japan, the Europeans—and they brought down substantially their purchases of Iranian oil. We are going to need more than that here. We are going to need a very precipitous increase in the pressure against the supply of fuel and oil to North Korea, I believe, just because we have much less time and the threat is much more exigent.

Remember, Iran was in the early stages of building up its enrichment program. North Korea already has multiple nuclear weapons. So I think that has to be a key point of leverage in our discussions with the Chinese.

Senator REED. So the focal point of the sanctions, critically, should be on reducing oil flowing into North Korea?

Mr. SZUBIN. I think that should be a key focal point.

Senator REED. OK.

Mr. SZUBIN. And if China is willing to cooperate with us on doing that, then we have averted the need for secondary sanctions and all the better.

Sanctions here are only an indirect means to the end of getting the pressure out of Beijing.

Senator REED. And a question that has been raised throughout is, What is the calculation that the Chinese will, in fact, pursue? What do they fear more, basically? A financial collapse of their banks and their market or a collapse in North Korea? And from things we have heard is that they are very much concerned about North Korean collapse, perhaps even more so than weathering a financial storm. They have done that before. Do you have any insights on that?

Mr. SZUBIN. Those are clearly both nightmarish scenarios for the Chinese Government.

I would—this is only my personal assessment. I believe they are more vested in the strength, stability of their own economy than they are in stability on the Korean Peninsula, but that does not mean that the latter is secondary or a small interest for them. Clearly, as you point out, it is not.

Senator REED. And just let me ask a question, is that we have active discussions with the Chinese, with the Japanese, with the South Koreans. Is it necessary to have back channels with the

North Koreans? In your experience in Government is communicating with the object of your, you know, problem, helpful?

Mr. SZUBIN. It can be, and that is a question that I think is really best left to the Secretary of State, others who are managing these diplomatic relations on a day-to-day basis.

If North Korea is ready to open up a serious channel, by all means, we should be listening and talking to them. If not, then it is not—it may not be the time. But that is, of course, what we are ultimately aiming here for, is to open up serious constructive talks.

Senator REED. Dr. Park, do you have any sort of notions about the comments that Mr. Szubin has made, particularly about opening up some back channels or some form of communication?

Mr. PARK. I would just add that those type of channels are very important in terms of just getting explanations.

We are working on a lot of assumptions right now. As some of my senior colleagues at the Belfer Center who come from a military background, they are fond of us saying, "Between the terrain and the map, the terrain always wins." I think we are relying on a lot of maps right now, and these type of dialogs can help us understand the human terrain and some of the developments on the ground in a way that we are not really capturing right now.

Senator REED. Thank you very much.

Thank you.

Senator REED. Thank you.

Senator SCOTT. Thank you, Mr. Chairman, and thank you to the witnesses for being here this morning. Good to see you again, Mr. Szubin.

I may submit some questions for the record as it relates to our interdependence on China and our ability to provide more sanctions that may have a positive or, hopefully, a negative impact on North Korea's economy and what that means in a rippling effect to us as it relates to our relationship with China. I would love to hear your thoughts on some of those questions.

But for this morning, Mr. Szubin, you previously testified that North Korea is not sanctions proof. Its leadership depends upon access to foreign goods and international banking services. China supplies about 90 percent of the goods and services to the Kim regime.

Furthermore, North Korea has been able to evade our sanctions by funneling resources through a network of Chinese-based front companies. Common sense dictates that if China is not committed to reining in North Korea, there is only so much the United States can do alone.

My question to you, sir, is, How effective are American sanctions on North Korea if China is not doing their part?

Mr. SZUBIN. Not effective, Senator.

Senator SCOTT. Yeah. How far does the Chinese banking sector reach into North Korea? Why is cutting off these tentacles so foundational to putting pressure on the regime?

Mr. SZUBIN. I would actually frame it in the other direction. I feel like it is North Korea trying to insert its tentacles into the Chinese banking system, and the reason I say that is North Korea does not have proper country-to-country relationships with Chinese

banks. There are not correspondent banks like Brazil would have with the United States between North Korea and China.

What they have are a whole network of front companies, shell companies that they are using to open accounts at Chinese banks, and many of them are incorporated in China by Chinese nationals. So it is not necessarily so easy to discern, on the face of it, which Chinese company that is coming into your bank to open an account is fronting for the North Koreans.

But I think there are ways to discern. We have been able to figure it out through major work on the intelligence, on the law enforcement side, and I believe China has the capacity to do so as well. Obviously, it is an extremely sophisticate Government and increasingly sophisticated banking system, and if they view this as the primary threat that I believe it to be, I think they could make massive headway in shutting down these networks and closing them out of their banking system. And that would be very much to the good, not just for the international safety, but also for the strength of China's banks.

Senator SCOTT. So they have the capacity but not necessarily the incentive yet to do so?

Mr. SZUBIN. Yes.

Senator SCOTT. Thank you.

We make a lot of tires in South Carolina. We exported about $35 million worth of them to South Korea in 2015 alone. Putting aside the economic merits, of course, it would seem to me that there is an important national security aspect here as well. Stepping back from our leadership with South Korea is going to create a vacuum, and no country likes vacuums. No region likes vacuums. So we would assume that China would then step in to fill that vacuum.

Mr. Ruggiero, my question for you is, How would dissolving coarse impact, American influence in the Pacific Rim, and the dynamic between South Korea and China?

Mr. RUGGIERO. Well, I believe that we need to be going the other direction. We need to work closer with our allies in the region.

I think this—unfortunately, things like that may play into the hands of Kim Jong Un, whose ultimate goal is to reunify the Peninsula, preferably not be force, and he wants to drive a wedge between the United States and South Korea.

I mean, I have called for something that is very similar to what happened on Iran, which was a coalition of like-minded countries. That is what we need to be working with, to increase sanctions implementation, to talk about military maneuvers, to do more exercises like interdictions in the region that the North Koreans will notice.

So from my perspective, we really need to be going the other direction, working closer with South Korea, because it does look like South Korean President Moon has finally realized that he is not really going to be able to talk to North Korea and provide incentives to make this go away.

Senator SCOTT. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman.

This first question is for Mr. Park. Obviously, we need a coalition of the willing, as is described. How willing is China at this point? How concerned, in your judgment, is China about what is happening in North Korea?

Mr. PARK. Senator, there are two areas that are counterintuitive in terms of some of the more recent Chinese concerns.

One is that if you look at it from the North Korean development, the pace, their view is this 34-year-old leader has developed nuclear weapons too fast, so command control concerns, professionalization, accidental launches, things of those nature, very similar set of concerns that they had about Pakistan in the summer of 1998.

The second concern they have is about an overreaction by the U.S. side, the inadvertent escalation. This is something that—not to minimize the threat that they perceive coming from North Korea and the destabilizing acts there, but there is a sense that they have seen this before, and they are accustomed to it. And, as China rises in economic and military capabilities, there is a sense that they have more tools to apply to this issue.

But something that is new is what is coming from the U.S. side, and I think that is what they are grappling with in real time.

Senator HEITKAMP. So that for the Chinese, the U.S. reaction is the unknown with the change of the Administration?

Mr. PARK. Well, we all also are in uncharted territory in the sense that North Korea exhibiting intercontinental ballistic missile and the ability to put a nuclear warhead on that. It is different from the type of threat that North Korea was previously, regionally.

Senator HEITKAMP. I mean, one of the concerns that I have—and I think long term—building this coalition and building this sanctions regime is absolutely critical. I am not sure we have that much time, and so the critical question that I have is the immediacy of the challenge that we have and how can we immediately get everyone to walk back, stand still while we develop an opportunity here to do something more long term to control the situation.

Mr. PARK. Senator, there is a lot of concern, and one of the things is if we do move quickly in some of these areas, because North Korea is so far advanced, that it would incentivize them to accelerate even further. And so those are things that we have to take into account. These are the measures that—there are a lot of secondary and tertiary effects that come out of them as well.

Senator HEITKAMP. I found your testimony, actually, fascinating and something that we need to think more about, which is always the law of unintended consequences and then really understanding the situation on the ground.

And so I want to turn to Mr. Szubin and ask you just to respond to some of the testimony that we have heard from Mr. Park, Dr. Park, about the challenges of trying to re-create one-size-fits-all kind of sanction regimes without really understanding the uniqueness of the Pacific.

Mr. SZUBIN. I also found Dr. Park's testimony and writings on this to be very informative.

We cannot have a one-size-fits-all approach. The networks that North Korea is using may have become more efficient, may have

allowed it to pursue procurement goals more efficiently, more easily through Chinese banks, and one could call that an unintended consequence of sanctions pressure. That said, I do not think it calls for backing up.

Senator HEITKAMP. Right.

Mr. SZUBIN. I think it calls for doubling down.

And all sanctions targets are going to evade. They are always going to try to move to more covert, smaller, more nimble means, but we have proven equal to the task.

We have, for working with our partners, the intelligence capabilities and the enforcement capabilities to play that cat-and-mouse game and win.

Senator HEITKAMP. So just quickly responding to Dr. Park's comment about any kind of major effort at this point may, in fact, escalate and advance the work that the North Koreans are doing?

Mr. SZUBIN. So there, I would respectfully disagree. I think that North Korea is already fully incentivized to go full speed, and I do not think we are going to encourage them to go any faster than they are currently going.

Senator HEITKAMP. OK. Those are all really critical points because I think that with this Committee and with the work that is already being done in Congress, we can build a sanctions regime that could be effective. We just do not have a lot of time here, and so, Mr. Szubin, if you could just give us one suggestion of something we should be doing diplomatically or in this Congress that you think would have an immediate reaction.

Mr. SZUBIN. I think there is room for Congress to be providing additional tools of pressure, as Congress did with Iran, to allow the Administration to go to China and say, "Look, the game is changing, if not already changed, and the costs for you, for your companies, even for your financial institutions are going to become unacceptably high. Help us figure out a way out of this." And sometimes it is caricature, a good-cop/bad-cop routine, where Congress is the bad cop, there is a role for Congress in helping assist that.

And I want to be sure that, as I noted in my testimony, the Administration is left with the latitude to ratchet up, ratchet down, and play that leverage in a smart, strategic way.

Senator HEITKAMP. If I can just have one more question. Obviously, Senator Tester and I sent a letter to the State Department asking for a special envoy to North Korea. We did that at the suggestion of a lot of folks that we thought were engaged and understood this problem a little bit more. What would you—would you suggest that that is a good idea at this point?

Mr. SZUBIN. I would respectfully defer. I do not know whether that is needed.

I do know that what I believe is motivating your letter is sorely needed, which is a concentrated effort from this Administration, from the top down, and it has to involve, as I saw in Iran, our Ambassadors across our many embassies. It has to involve the Defense Department, the State Department, the Treasury Department. It has to be a full-court press.

Senator HEITKAMP. And it has to be consistent——

Mr. SZUBIN. Correct.

Senator HEITKAMP. —from trade policy all the way down to foreign policy, diplomatic policy, military policy.

Mr. SZUBIN. Absolutely.

And, as I noted at this Committee's Subcommittee hearing back in May, it does not help if the State Department is winnowing down at exactly the time that we need to be ramping up this campaign.

Chairman CRAPO. Thank you.

Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

Mr. Szubin, I am just curious. You mentioned earlier that there were basically tentacles moving into the Chinese banking system from North Korea, and that they were using Chinese nationals in this process. Do you believe that China recognizes these North Korean tentacles as being a threat or a problem within their banking system today?

Mr. SZUBIN. Yes, but I think insufficiently so.

So, as with many parts of the North Korea problem, I think China wishes this were other. They wish that Kim Jong Un did not have any nuclear program at all, because it is just a huge headache for them, and it leads to an increased U.S. force presence right off their border.

But wishing that has not made it so, and the question is, Are they sufficiently motivated to crack down on it? And right now, I would say no.

Senator ROUNDS. Based upon what Dr. Park has indicated as being one of their tools in the three antis approach, the areas in which they have promoted a reduction in criminal activity, a reduction in narcotics, a reduction in corruption, would it appear—and I will ask this question of Dr. Park. Would it appear that they have the tools available to them within their existing—language of their existing law? Do they have the tools available to them to stop this encroachment on the part of North Korea if they are appropriately incentivized today?

Mr. PARK. Absolutely. I think it is a question of political will.

Defining the North Korean issues and activities inside of the Chinese marketplace is criminal activities under Chinese law, is an important way to move forward and view it from the Chinese perspective.

As we saw with the counterfeiting of the Chinese currency, that is a direct threat to Chinese national economic security. If we incorporate these additional approaches in addition to sanctions, this is where I think we get into uncharted territory in a positive way.

The final thing I would mention is that, as I referred earlier, there is the highly dysfunctional relationship between the Communist Party of China and the Workers Party of Korea. A lot of these activities taking place right now, those tentacles that Mr. Szubin is referring to, the genesis was from roughly around the October 2009 period. Then Premier Wen Jiabao led a very senior delegation to Pyongyang to meet with Kim Jong Un, and they signed a number of agreements that under Chinese law gave the green light to Chinese companies to do business with North Koreans.

We have to revisit that, and we have to say while a lot of these areas are still valid and they are OK, there are these areas that

are criminal and they are having a direct impact in furthering the North Korean nuclear weapons program.

Senator ROUNDS. And so the reality is that while they may very well have tools available to them, there are also restrictions that an official in China would look at and say, "We have already made a decision that these are appropriate in many cases, and that we now have to do additional work counter to find out whether or not there is truly an inappropriate act going on." It is not as black and white or cut and dried as perhaps we would like it to be. Is that a fair statement?

Mr. PARK. Well, thanks to technology, we have colleagues at a place called C4ADS, the Center for Advanced Defense Studies. They are using data analytics to track down North Korean interlocutors and partners on the Chinese side, and they have been able to map out Chinese nodes. So these are inconvenient facts, so I think these are the types of areas where you can directly engage the Chinese.

But it is important to frame it, again, from their national interest and how these hurt their national interest. That is something we have not really done, aside from the nuclear proliferation and the security concerns.

Senator ROUNDS. Let me ask, just very quickly, to each of you. I have got about a minute left. If we were going to focus quickly on the areas in which we could have the most impact on North Korea today, using an appropriate and partnership arrangement, if it could be arranged, would it be more appropriate to focus on the restriction of oil importation by North Korea from China, or would it be more appropriate and effective to focus on the financial institutions and the tentacles that we find right now from North Korea into Chinese banking systems? Which would you focus on if you could only focus on one?

Mr. PARK. Senator, the three antis or just broadly what would I focus on?

Senator ROUNDS. Whichever way you believe would be the most effective.

Mr. PARK. So the way you have framed it, most impact now, something that we have not discussed, incentives. I think in monetary rewards to these Chinese middlemen, leading to information to the interdiction of North Korean shipments and other things, we have not explored that. There are ways they can game it out, but I think there are important lessons from other monetary reward situations where we would get a flood of commercial information that we could act upon, very quickly.

Mr. RUGGIERO. I would say the financial side. I am concerned that Russia would backfill on restrictions on oil and other petroleum products, so I think financial, it is the biggest part of that. We could stop a lot of that at the source.

Mr. SZUBIN. And I would be guided here by China. In other words, if China says they are more willing to focus on the financial side or more willing to focus on cutting off purchases from North Korea of coal and other North Korean exports, those could be very effective pressure points and could be impactful quickly.

If China is willing to work with us on the fuel side, then let us do that, but all of the ones that you are pointing to are pressure points that will be felt in Pyongyang quickly.

Senator ROUNDS. Thank you.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

So just last weekend, North Korea conducted its sixth and possibly its largest nuclear test. Although we have had various sanctions in place now for years, North Korea has evaded many of these sanctions and aggressively advanced its nuclear weapons program. So it seems to me we need a better approach if we are going to have any hope of pressuring the North Koreans to change their behavior.

Dr. Park, I know that in 2014, you interviewed 21 high-level North Korean defectors about the impact of financial sanctions, and you found that sanctions imposed costs on the regime, but that they had the unintended impact of forcing North Korean procurement networks to innovate and, as a result, actually to get stronger.

So let me ask you the question this way, Dr. Park. Many of the sanctions imposed thus far have not deterred North Korea. Does this mean that sanctions against North Korea cannot work?

Mr. PARK. Senator Warren, I would frame it as sanctions plus other policy tools, and under that heading, diversifying the policy toolkit. The time is now, and I think this is where we can do the full-court press in these other areas.

So there is the opportunity right now, and I think they are, in certain quarters, the political will. But it has to be done in a way that is viewed from the national interest of the other parties in order to get the type of cooperation and the time and the scale that we need right now.

Senator WARREN. Well, you know, it seems to me that if the recently passed U.S. and U.N. sanctions do not address the ways that North Korea evades sanctions, then we need to redesign the sanctions or redesign the enforcement so that we can make that happen.

President Trump can threaten fire and fury, but experts say that a land war on the Korean Peninsula would result in the deaths of millions of people. He can threaten to cutoff trade with any country that trades with North Korea, but we all understand that that would cripple the U.S. economy.

We need to use every realistic tool available to reduce the threat posed by North Korea, and I think that means military readiness and intelligence and sanctions and diplomatic pressure on the North Korean regime.

Now, Mr. Szubin, in your prepared testimony before a recent Banking Subcommittee on North Korea, you said—and I want to quote you here—"We will need massive diplomatic investment and multilateral engagement and help from banks and businesses and other countries if we are going to have any chance at all to succeed."

The State Department is one of the primary agencies responsible for building those coalitions, and yet the Trump administration has proposed cutting the State Department budget by 32 percent.

Mr. Szubin, if the Trump administration cuts the State Department budget by 32 percent, would it increase or decrease any chance we have of countering the threat posed by a nuclear-armed North Korea?

Mr. SZUBIN. Senator, as I said in the May hearing and as I said today, this is the time to have our strongest diplomatic representatives out there, and that means not only to have our State Department staffed, but also to have leadership in place and to carry the types of sensitive messages we are talking about here and to show that we mean it, it cannot be done by junior career foreign service people. We need Ambassadors, we need Assistant Secretaries, Under Secretaries on planes, as we saw with Iran, to show the world that we are serious.

Senator WARREN. Yeah.

We provide the strongest defense of the United States and our allies when we support both a strong military and a State Department that has the resources it needs to push back on North Korea and push them back from the edge of a nuclear apocalypse. Cuts to the State Department are just stupid. They are dangerous. I hope we do not go in that direction.

Thank you, Mr. Chairman.

Chairman ROUNDS [presiding]. On behalf of the Chairman, Senator Tillis.

Senator TILLIS. Thank you, Mr. Chair.

To the comments by Senator Warren, I cannot imagine any reasonable Member in Congress seriously considering cutting the State Department budget. If you serve on Senate Armed Service, as I do, when you have former Joint Chiefs of Staff, when you have the service chiefs saying, "If you cut our diplomatic funding, make sure you allocate more money for bullets"—so I think it is very clear that there has got to be a strategic use of diplomatic tools, and I do not think—I think it may be a position that is taken by some in the Administration. But to have that appear to be something that is being seriously considered here in Congress, I just do not see a path to that, so I think it is a non-issue.

With respect to sanctions, can you tell me a little bit about—the petroleum imports from China to Korea are significant. I understand that they may be reducing their number of finished products for economic reasons. I do not think North Korea is paying their bills, which to me is promising. It means they are running out of resources. But can you talk a little bit about the reality that China is in a difficult situation?

They would certainly give up North Korean commerce for all the other commerce they could lose if everybody said, "We are not doing business with you." So there are clearly strategic factors involved. I mean, for them to, all of a sudden, become an unfriendly Nation to China is also destabilizing to the Chinese economy.

So how do you kind of get the pressure we should rationally expect China to place on North Korea, recognizing their own regional stability issues that they have to grapple with that go far beyond the economic relationship with North Korea? To any of you.

Mr. PARK. That is, I think, the crux of the question in terms of how we are going to get China on board to do what they need to do in disrupting these procurement networks and also to put the type of pressure on North Korea. I——

Senator TILLIS. And just because I know I am going to run out of time——

Mr. PARK. Sure.

Senator TILLIS. —I think that that is what we have to continue to discuss and evolve so that we would get that optimal point, recognizing just an outright—you know, demanding an outright—cut the links with North Korea have stability, regional stability issues that I think are a bigger factor than the economic consequences.

We also have the dimension of to what extent Russia could increase its energy inputs to offset some of what China would do. So all those sorts of scenarios, I think, have to be played out.

Do you all know how many Nations, if North Korea were to pursue a hostile act or complete a hostile act, that we are obligated to come to their defense?

Mr. PARK. In terms of allies?

Senator TILLIS. Yeah.

Mr. PARK. South Korea, Japan, and northeastern Asia, and you look farther afield, you are looking at North Korea ranges of their ballistic missiles if they do another test and they go southward, as they did with their space launch vehicle just north of the Philippines.

Senator TILLIS. And to what extent do those Nations already have a highly assertive policy with respect to doing business with North Korea?

Mr. PARK. Japan has been the innovator in terms of sanctions measures.

Senator TILLIS. How about the others?

Mr. PARK. South Korea adopted more recently, but I think under this new Government, they are still hoping that there is an opportunity, diplomatic opening, to reengage economically.

Senator TILLIS. With respect to the—you brought up something, I think, Mr. Park, about counterfeiting, which I had not heard before. First off, I am no longer going to accept hundred-dollar bills when I get big bills, and that is not very often. My wife normally keeps me to $60 withdrawals.

But what more—I mean, what more do we need to learn about that, and what specific actions in the global community are being taken to really tighten the noose on that?

Mr. PARK. My colleagues who have the Treasury background are the experts here.

Senator TILLIS. Yeah. OK.

Mr. RUGGIERO. I think on counterfeiting, in the 2000s, there was a demonstrated effort against the supernote, which was the effort by North Korea to counterfeit U.S. currency.

Senator TILLIS. To what extent could—because I am about to run out of time. I am sorry to cut you off, but I would like to learn more about it. But to what extent would—what specific actions could we take or should we consider with respect to sanctions that have some nexus in this known counterfeiting activity, if any?

Mr. RUGGIERO. Well, the approach in the 2000s was, I think at the very beginning, to look at the items needed for counterfeiting, so, for example, inks and presses and things of that sort that North Korea would need to allow them to do this counterfeiting. If it is ongoing, that would be the first approach I would advocate, and a lot of those, there are only a couple of companies in the world that have that expertise. So you could go to those countries in a diplomatic way and say, "Please do not allow the transfer."

This is where North Korea having the tentacles or nexus in China becomes complicated because it will not look like North Korea is looking at this procurement. It is a Chinese company or a Hong Kong company or a Western company in some instances.

Senator TILLIS. Thank you. I am sorry I had to be so short on your responses. You have got a lot of great information, and we appreciate your help.

Chairman CRAPO [presiding]. Thank you.

Senator Tester.

Senator TESTER. Yeah. Thank you, Mr. Chairman, and I want to thank the panels for being here today. Unfortunately, as the Chairman has pointed out, there are committees stacked on committees today, and this may be the most important committee we are dealing with. And we have got some very important committees this morning.

Look, I do not know that anything has kept me up more at night than what is going on in North Korea at this point in time over the last 10 years. I have had the impression that the President has been rather cavalier in his dealings with North Korea, and I really do not know what has been done diplomatically to really bring people together.

For example, there has been criticism of South Korea. I do not know that that is helpful. Germany has said you no longer can depend upon the United States anymore. So there is this feeling out there at a time when we need to bring our allies together, in my opinion, that the United States is very unpredictable.

I guess my question is you guys are not on the military side of things. You are more on the sanctions side of things and diplomatic side of things. Could you grade this Administration's job in what they have done in handling the North Korea situation since they have come into office, knowing full well that the previous Administration also—and the Administration before that and so on—but could you grade the work that they have done from a diplomatic standpoint as far as their effectiveness?

Mr. SZUBIN. Senator, I am newly minted as a professor, and so my grading skills are not yet——

Senator TESTER. But you may be the smartest guy I have met.

Mr. SZUBIN. You know, at the end of your question, you noted this is not just this Administration.

Senator TESTER. No, it is not.

Mr. SZUBIN. This has been moving forward inexorably.

Senator TESTER. Yep.

Mr. SZUBIN. And my time at the Treasury span President Bush and President Obama, and I cannot give us good grades on this. I do not think we—and I am pointing at myself here—did enough, and the——

Senator TESTER. So you do not think they did enough. So what should they be doing? What should they be doing different now than you have done in the past?

Mr. SZUBIN. It is really taking the pressure up into a qualitatively different place than it has been, not incremental, and it cannot be more half-steps, like we have seen from China. We cannot be U.N. resolutions that look tough on paper but are implemented in a half-hearted way. We need a concerned pressure. It needs to be massive, and it needs to be now.

Senator TESTER. Does the State Department have the staffing to do that?

Mr. SZUBIN. I do not know. I am not on the inside anymore.

Senator TESTER. OK.

Mr. SZUBIN. I mean, the key people are going to be the most senior folks—the Deputy Secretary, the Secretary of State, other key folks leading this effort, and the Ambassadors.

Senator TESTER. Do you guys agree with that assessment that we need to really step it up in a big, big way and not just incrementally, but—go ahead.

Mr. RUGGIERO. Right. I agree with Mr. Szubin. I mean, U.S.–North Korea policy has failed since 1994.

Senator TESTER. Yeah.

Mr. RUGGIERO. I mean, we have to be honest with ourselves.

Senator TESTER. Yep.

Mr. RUGGIERO. And we are not having the conversations we need to have about whether this regime will actually denuclearize——

Senator TESTER. Yep.

Mr. RUGGIERO. ——no matter the pressure and how we get to a level of pressure.

Senator TESTER. OK.

Mr. RUGGIERO. And I would just say that it is also the Treasury Department in terms of staffing, and there, I think we have a lot of political appointees already in place. And that is an area where they can increase pressure there.

Senator TESTER. OK. Do you think the Treasury Department is adequately staffed to do this?

Mr. RUGGIERO. They have a confirmed Under Secretary and Assistant Secretary, and they have an OFAC director.

Senator TESTER. Dr. Park, could you comment on what we should be doing that we have not done in the past and, second, where we are at staffing-wise?

Mr. PARK. I concur with my colleagues here. I would just add that when it comes to the acting now, the coordination with particularly the Chinese actors, moving beyond just the national level, but also the different actors in the companies and the banks, there is a compliance department culture that is growing very quickly.

And, as Mr. Szubin mentioned, these are large banks. It is in their interest, and it is part of their business protection to do the compliance.

Senator TESTER. How much of their capital flows through China, percentage-wise? Can any of you give me that answer?

Mr. PARK. I would turn to Mr. Szubin and Mr. Ruggiero on those.

Mr. SZUBIN. We do not know, is the answer, but we know it to be the great majority.

Senator TESTER. OK. Has the United States done everything they can do from a sanctions standpoint on capital that they can control? Let us assume that 80 or 90 percent goes through China, and I do not know if that is true or not, as you do not. But the truth is, has the United States done everything they can possibly do, just because they have the ability because of our currency to throw—have we done everything we can do, or is there still more that we can do to actually put the screws to North Korea to make them understand that their behavior is unacceptable?

Mr. SZUBIN. Is your question with respect to pressuring China——

Senator TESTER. No.

Mr. SZUBIN. ——or with respect to North Korean financial——

Senator TESTER. China's side, yes, with our allies and with everybody else.

Mr. SZUBIN. Yeah. So I do not think there is North Korean money coming through U.S. banks either here or U.S. banks abroad. I think we have been very vigilant in our financial sector. It is very finely tuned to detect these types of things.

Senator TESTER. And with our allies, same thing?

Mr. SZUBIN. Our allies have been relatively good. I think we have seen incidents in, for example, Southeast Asia, where flows have gone through, and it can be recklessness. It can be negligence. Sometimes the financial institutions are not as sophisticated as our financial institutions. So I am not saying things are perfect, but there is enough eggs in the China basket that were we to solve that issue, I am confident we would see a major move of the needle in terms of the pressure.

Senator TESTER. OK. I am way over time. Thank you very, very much.

Chairman CRAPO. Thank you.

Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Chairman CRAPO. You have been patient.

Senator VAN HOLLEN. Yeah, we have. We also have the appropriations foreign ops markup going on.

But I want to just start by thanking you and Ranking Member Brown for this timely hearing and for your joint determination to make sure that this Committee does its part in making sure that we bring what Mr. Szubin described as concerted, massive, and immediate pressure on North Korea, using all the tools at our disposal to do that.

And I did have the opportunity over the break to visit South Korea, Japan, and China on a bipartisan delegation that was led by Senator Markey, and in Korea, we went to the DMZ area, but we also traveled up to the North Korea-China border to the city of Dandong that many have talked about, where you have that cross-border trade between North Korea and China. We thought it was important to go up there and take a look at what was going on and talk to people.

And we also had a chance to meet with President Moon, and I just want to assure my colleagues, based on our conversations, that he is determined to address the threat. He is not engaged in ap-

peasement, and I do think it is important that we are all on the same page going forward.

He is also deploying the THAAD anti-missile defense system there, despite some concerns in South Korea, and what is troubling to me is that when South Korea is taking these defensive measures to deploy these defensive systems, China has actually imposed an informal embargo on some South Korean consumer goods. They have actively discouraged visits from China to South Korea, which were growing, a big part of the tourism industry; in fact, some estimates suggest that it has dropped by about 40 percent. And so instead of doing more to work with us and the international community to actually force the U.N. sanctions on North Korea, they are actually penalizing South Korea for deploying the THAAD missile defense system.

So, as we have all discussed today, it is very important that we find ways to work with China to get them to bring more pressure on North Korea and recognize that the most chaos you would see in terms of a regime in North Korea is if you have military action and a war.

And the U.N. panel of experts last February did a thorough analysis of the trade and commercial interactions with North Korea, and they concluded that the sanctions which were then in place were not being fully complied with, that there were lots of holes in them.

And Senator Toomey mentioned this morning the *Wall Street Journal* article that mentions the fact that this same U.N. panel of experts is just about to issue an interim report saying that that pattern continues, that the sanctions are not being adequately enforced. And I want to quote from the *Wall Street Journal* article here. It says, "The U.N. panel"—and this is today—"The U.N. panel also named several North Korean banks established, managed, or owned by Chinese companies. Beijing told the panel that the companies are not authorized to establish banks in North Korea, but the panel said it had not heard whether Chinese authorities had acted to shut them down."

And that is why Senator Toomey and I and many others on a bipartisan basis believe it is important to take this next step, and that is why we have introduced the BRINK Act. And the idea of the BRINK Act is to model it after the Iran sanctions. Obviously, there are some differences between the situation in Iran and the situation in North Korea, but the idea is to put in place a clear structure of escalating sanctions that will take place.

But it also does provide the Administration with some flexibility, and I want to ask you about that because, first of all, it says let us just name and identify the banks and firms, name and shame, that are engaged in trade with North Korea. Do any of you see any problem with publicly identifying, just naming those banks that we have information about if they are evading the sanctions?

Mr. SZUBIN. And, Senator, are you talking about evading U.S. sanctions, or are you talking about evading U.N. sanctions?

Senator VAN HOLLEN. These would be both, whether they are evading U.N. sanctions but also if they are—whether that bank is engaged in conduct that evades U.S. sanctions or U.N. sanctions.

Mr. SZUBIN. So I think, obviously, naming and shaming is a tried-and-true tool in the sanctions toolkit. As such, I would not object to it, no.

Senator VAN HOLLEN. Any objections?

[No response.]

Senator VAN HOLLEN. Yeah. And then it does have an escalating series of choices that the Administration can make, right? You do not have to immediately cutoff any bank from the financial system. The whole idea is to provide warning and then determine whether or not that bank or financial institution is knowingly violating these provisions, which is why fines are also an option.

So I guess, have you had a chance to look at those suite of options within the overall structure? And if we could start with you, Mr. Ruggiero, and then we will——

Mr. RUGGIERO. Yes. I think that starting with fines—well, starting with identification and then fines, and I think the other interesting part of the bill is the carve-out for law enforcement activity, which is also important, because I think that law enforcement should have the option to seek cooperation, like they did with Chinese telecoms, ETE.

Senator VAN HOLLEN. Right. No, and I am glad you mentioned that piece of it.

And I see I may have gone over my time. Senator Warner is here, but let me thank you, Mr. Chairman, thank all of you for being here, and appreciate your insights.

Chairman CRAPO. Thank you.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

I saw your face fall when I walked in because you thought one more Senator is coming in.

Chairman CRAPO. How could you tell?

[Laughter.]

Senator WARNER. I will want to appreciate all your testimony. I will get briefed. I was down on a Finance Committee hearing, and I had a witness. And I will try to ask two brief questions, not to duplicate ground that has already been covered.

Mr. Ruggiero, this is following up on some of Chris' questions. I think it has probably been discussed at some length that if we go to a sanctions on any banking institution that does business with North Korea, you potentially go into a realm of mutually assured destructions, since some of the largest Chinese banks affect the whole financial system. And I believe you have suggested perhaps beyond simply naming and shaming, the question of going after not some of the largest banks, but some of the smaller and medium-size banks. Do you all think that would be an effective—send an appropriate message or as a first step? Obviously, I guess you would because you have suggested that, but I would like to also hear from Mr. Szubin and Mr. Park.

Mr. RUGGIERO. Well, I guess I would start with saying that in the Iran sanctions context, the United States issued over $12 billion in fines against European financial institutions, so I would not necessarily say we would keep it in the small to medium.

And I would also point out that banks like Bank of China, where a representative in a Singapore court, it was revealed that a rep-

resentative coached a Singapore company on how to do U.S. dollar transactions, essentially, by keeping North Korea's name out, things like that. Now, maybe that does not rise to the level of a fine, but I think the Treasury Department could use examples like that, whether in a cooperative way with Chinese banks or in an, unfortunately, combative way.

But I agree with Mr. Szubin that the options of designating these banks, whether to cut them off from the U.S. financial system or freeze their assets, are down the road. That is not—when you are looking at an escalation ladder, that is not where we are right now.

Senator WARNER. Dr. Park. Mr. Szubin.

Mr. SZUBIN. To me, the question of what entities you focus on should be driven by the intelligence, by the evidence. If we have actors, big or small, who are knowingly facilitating North Korea's weapons procurement or who are knowingly facilitating sanctions evasion, then I think that is exactly where we should be going with our enforcement authorities, and the question of which tool, which sanction is the right tool, I would defer to those who are close to the evidence.

But the points that I was making in my written testimony about the size, the economic impacts of major blows against Chinese entities and banks was not to say that we should walk away from this issue. To the contrary, I think we need to redouble our efforts, and we have to be ready to look at any and all alternatives. We are facing a really serious nuclear threat, and when you have people talking about potential military commitment or potential attacks against a city of an ally like Seoul with millions and millions of people, including hundreds of thousands of U.S. citizens, we have to be ready to do some things that might be uncomfortable for us, to do some things that might be economically costly for us. I just think we need to be eyes open about what those costs are, and that is what I meant by prudent and strategic.

Senator WARNER. Did you want to add anything?

Mr. PARK. I would just very quickly add, in terms of some of the unintended consequences that may look like they are unforeseeable, one thing that we have to take into account, we have the precedent of what is happening right now vis-a-vis South Korea and the Chinese marketplace. This is something that if we do go this route of applying secondary sanctions on these large Chinese entities, there will be some version of a Chinese retaliation on American companies and American interests. That is an area that we have to start thinking about now.

In terms of if we are going this route, then we have to have things ready in order to deal with those consequences or blowbacks as we approach that area. We should not be blindsided. If we are blindsided, then I think that is shame on us in terms of that particular circumstance.

Senator WARNER. Last question, and again, thank you, Mr. Chairman, for letting me go on.

It seemed to me North Korea has been in levels of economic sanctions for some time. They seem fairly effective at setting up front companies, and, Mr. Ruggiero, as you mentioned, their names may not appear. I mean, how aware do you think China and Singapore,

for example, are of how extensive the North Korean kind of false fronts and front companies are?

Mr. RUGGIERO. Well, I would make two points. The first is that we have nongovernmental organizations using customs records to ferret this out, so I think that the largest banks in the world can do that if they want to.

The second point I would make in reading some of the Justice Department actions, what we learned is some of these front companies and the main organization, Chinese companies advertise themselves as China–North Korea trade partners. So those are the types of things that banks and compliance officers should be asking questions about, and it is very difficult.

But, as Mr. Szubin said, we are at a point now where we have to go to the Chinese and say, "If your banks are not going to ask those questions, then we are going to have to take our own actions to protect ourselves."

Mr. SZUBIN. Yes. With your permission——

Chairman CRAPO. Mr. Szubin, if you would like to add, the last word, we will give that to you.

Mr. SZUBIN. Mr. Chairman, thank you so much, and it is actually on a point that came up a little bit earlier in the hearing, I believe, from Senator Tester who asked how I would assess, how we would assess the Administration's efforts vis-a-vis North Korea.

I am not up close. I am not inside the Government, and I am not in a position to assess the diplomacy that is going on behind the scenes.

But I did want to note one thing that is playing out in a more public way, which is the Administration's consideration of removing the certification on the Iran side, which obviously is an issue that is watched very carefully by those in Pyongyang and those in Beijing. It does have effects on the issues we have been talking about today, and I think that the decision that I have heard being considered of withdrawing a certification that Iran is in compliance with the deal, while still keeping sanctions, waivers in place, feels very much like playing games with the nuclear deal. And it is not the way great Nations conduct themselves.

The world's opinion is Iran has been complying with all the material provisions of the deal, and I think it is important that if that is true, that we certify that that is true. That gives us credibility when we talk about needing a diplomatic solution with North Korea. If Iran breaches the deal in a material way, we need to come down on them like a ton of bricks, and I believe we will have international support to do so. But in the current status, this is not something that we should be toying with, my own personal opinion, obviously.

Thank you very much, Chairman.

Chairman CRAPO. Thank you.

And, again, thank you to all the witnesses. As is usually the case, you will probably get some questions following the hearing from Senators who either were not able to get here or who did not get to ask all of their questions during their opportunity.

And in—frankly, in that regard, how long do we want to give—we will have the questions due by—so I am going to say to the Members of the Committee, have your questions within a week and

ask you to just respond as quickly as you can afterward, if you would.

And, frankly, I am serious. I appreciate your expertise and the information you have provided us here today. This is an issue that develops almost daily, and so if there are additional observations you would like to offer us on your own, please feel free to do so. It would be very well received.

With that, this hearing is adjourned.

[Whereupon, at 11:26 a.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF ADAM SZUBIN

DISTINGUISHED PRACTITIONER IN RESIDENCE, STRATEGIC STUDIES, JOHNS HOPKINS UNIVERSITY SCHOOL OF ADVANCED INTERNATIONAL STUDIES

SEPTEMBER 7, 2017

Chairman Crapo, Ranking Member Brown, and distinguished Members of this Committee. Thank you for convening this hearing on such an important and timely topic and for inviting me to testify today.

The scale and range of North Korea's nuclear and long-range missile programs is advancing by the month, with a corresponding increase in the regime's threats and defiance. The threat to our allies and to U.S. persons in the region is already too high, and the regime has made no secret of its aim to develop a missile that can reach the continental United States. It is hard to think of a nuclear threat this acute since the Cuban missile crisis. And, despite all of the world's diplomatic pronouncements, a scenario that has been repeatedly described as unacceptable grows ever closer to becoming reality.

Our response needs to be decisive and firm. It will need to incorporate all of the leverage at our disposal: diplomatic, financial, economic, and military. And it will require the full commitment of our partners, especially those in South Korea, Japan, China, Australia, and the European Union. Ultimately, we must hope that there is a diplomatic solution here, in which the international community negotiates a peaceful and verifiable end to North Korea's nuclear weapons program.

Currently, the North Korean leadership has no interest in such discussions. If we are to get to negotiations, then, the international community will need to place severe pressure on North Korea until it agrees to come to the table in a serious way. Sanctions will be a key component of that pressure.

Most experts assess—and I agree—that a quantitative increase in sanctions pressure will be insufficient to change Kim Jong Un's calculus. Even a major drop in North Korea's export revenues or financial access will not affect his behavior. With a repressive security apparatus at his disposal, Kim Jong Un can weather economic hardship by passing it along to the helpless North Korean people. The only hope we have lies in a qualitatively different and more severe level of pressure—one that threatens Kim Jong Un's hold on power. It would mean placing a stranglehold on the North Korean economy that makes it impossible for the leader to pay his military and security forces, to fuel his planes and trucks, or to provide bribes to his family and cronies. This is a level of pressure far beyond what the international community applied to Iran. In such a scenario, with his Government on the brink of collapse, it is possible that Kim Jong Un would come to the table to save his regime.

That said, a number of experts believe that even in extremis Kim Jong Un would not negotiate in a serious way. They assess that he would dig in out of a combination of defiance and delusion even if his Government risked collapse. I suspect that these experts are right. But if Kim Jong Un will face the collapse of his leadership before he relinquishes his nuclear program, than we need to see his leadership end, whether through a military coup or other means. And severe multilateral sanctions pressure is a route to that end.

The bottom line is, the international community needs to put such pressure on Kim Jong Un that he will either come to the table to protect the well being of his country or be replaced by someone who will. This level of pressure is far higher than where we are today. And, despite some good developments over the last few months, including a strong U.N. Security Council sanctions resolution, I do not believe that the pressure is mounting at nearly a sufficient rate.

A Renewed Sanctions Campaign

What would a sufficiently tough sanctions program look like and how would it be obtained? The good news here is that—contrary to some observers—North Korea is not somehow "sanctions proof." It is isolated but it is not self-reliant. In fact, in many ways, its isolation renders it more vulnerable to sanctions pressure than Iran was in the mid-2000s when we commenced our pressure campaign.

North Korea's anemic economy requires the regular import of petroleum, coking coal, and textiles. Its antiquated industrial and communications sectors require significant imports of machinery, equipment, and expertise. On top of the general economic needs of the country, Kim Jong Un depends upon a system of patronage to purchase the loyalty of senior political and military officials, for which he needs cash as well as foreign luxury goods such as cars, technology, and high-end consumables. In the aggregate, these imports and purchases are estimated at approximately $5 billion a year. None of them can be bought using North Korean currency; no exporter outside of North Korea will accept payment in North Korean won. All of this

means that the leadership of North Korea must (a) continuously generate new foreign currency earnings through the sales of minerals, weapons, counterfeit goods, etc.; (b) receive payment for those exports in foreign bank accounts via the international banking system; and (c) pay for and arrange for the delivery of needed imports. All three of these elements are needed to prevent a broader economic collapse and to maintain the loyalty of Kim Jong Un's inner circle. A serious sanctions campaign should target all three. It would stifle North Korea's foreign currency earnings—for example by cutting off purchases of North Korea's coal and minerals. It would shut down the front company bank accounts in China and elsewhere that North Korea uses to access foreign currency. And it would constrain the shipment of fuel to North Korea.

China will be the determining factor in such a campaign. To bring the pressure up to the threshold required, we must find a way to enlist the cooperation of the Chinese Government and the compliance of Chinese private actors. In theory, this should be doable. China is not pleased with either Kim Jong Un or with North Korea's burgeoning nuclear and ballistic missile capabilities. China certainly does not like the stepped up U.S. military presence in the region that North Korea has provoked.

To date, the problem has been that, as much as China may dislike Kim Jong Un and his nuclear program, a collapse of the North Korean regime is a far worse alternative. Even an erratic Kin Jong Un is preferable to a Government implosion in North Korea, which could trigger an outpouring of millions of indigent refugees across China's border, a struggle for control over North Korea's military and nuclear programs, and the potential prospect of reunification of the Korean peninsula under a South Korean Government, bringing a close U.S. military ally to China's borders.

It is important to recognize, then, that China will not ratchet up the pressure on North Korea to anything close to a leadership-threatening level unless it understands what comes next and views the scenario/s as acceptable. China will not "roll the dice" and hope for the best.

Serious and high-level engagement will therefore be needed to assure China that (1) this issue is paramount for the United States, above other commercial and geopolitical priorities; (2) the proposed sanctions campaign against North Korea is aimed at addressing the nuclear problem not regime collapse; and (3) our interests in this diplomatic effort overlap with and are reconcilable with China's national security interests, including maintaining stability on the Korean peninsula. I believe that there is enough overlap between China's concerns vis-a-vis North Korea and our own for us to work out a mutually acceptable approach and end-game.

Discussions with China will likely require both carrot and stick. We can expect China to take half-steps to increase sanctions pressure but not to a decisive level. Ultimately, the key will be making clear to China that the status quo is not tolerable because of a range of escalating costs, including sanctions exposure.

In approaching questions about sanctions against Chinese entities—especially larger State-owned entities or banks—U.S. policymakers need to be prudent and strategic. Prudent because any larger sanctions would inevitably carry spillover costs to ourselves and our allies. And strategic because, at the end of the day, the objective is to win China's cooperation, not provoke a breakdown between our Nations or a trade war.

There has been much discussion recently about the global economic repercussions of an aggressive sanctions campaign targeting larger Chinese entities or banks. Those who would tell you that we can levy massive financial and economic sanctions against China without serious reverberations for the global economy or businesses in the United States are mistaken. China's economy and banking system may have been self-contained and insulated against spillover 15 years ago, but it certainly is not today.

The U.S. has the largest economy in the world and China has the second. Looking at China's banks, the four largest banks in China are the four largest banks in the world, each larger than JPMorgan Chase by assets. Yes, they are inextricably dependent on access to the U.S. financial system but the dependencies run both ways. They hold several trillion dollars of assets in our markets and at our largest institutions. By comparison, Lehman Brothers before its collapse was only one-seventh as large. The implosion of one of the world's largest financial institutions would send shock waves through the international financial system and trigger large and unpredictable fall-out.

Beyond the banks, our trade ties with China are deep and growing. U.S. companies export about $115 billion of goods to China, making it our third largest market after Canada and Mexico. Since 2009, U.S. exports to China have grown about 92 percent, as compared to 27 percent growth to the rest of the world. The U.S. exported an additional $53.5 billion in services to China in 2016, a growth of 400 per-

cent from 10 years ago. The Commerce Department estimates that U.S. exports to China support nearly one million American jobs, concentrated in the agricultural, automobile, airline, and financial services sectors.

Beyond any direct trade effects from sanctions, a strong blow to China's banks or economy would put downward pressure on the renminbi and upward pressure on the U.S. dollar. We would essentially be lowering the value of China's currency—a trend that our Government has fought for years to combat—with pronounced costs for American manufacturers and exporters and to the many countries around the world that compete with China. And, as former Secretary Robert Rubin has said, "if China really had an economic crisis and as a consequence, the currency plummeted, that would put tremendous pressure on emerging market country around the world to depreciate their currencies, and you can be off to a global currency war."

Finally, the interconnected nature of the global economy means that our economy and our markets face risks if there is a sudden shock to China's economy. We don't need to speculate on this question. Meltdowns in China's stock market during August 2015 and January 2016 were immediately felt in New York. On August 24, 2015—China's "Black Monday"—the Dow Jones Industrial Average dropped 3.6 percent, while the S&P 500 index fell 3.9 percent. On January 7, 2016, another episode of pronounced weakness in Chinese markets, the Dow Jones Industrial Average fell nearly 2.3 percent, while the S&P 500 index dropped 2.4 percent. These were among the worst trading days in U.S. equity markets in years. Estimates on the global equity market spillover impact from the August 2015 and January 2016 selloffs were on the order of $3 trillion and $2 trillion, respectively. A strong blow to China's economy or weakened banking sector could unleash large capital outflows, triggering a repeat of the August 2015 or January 2016 episodes, or worse. And none of this takes into account the inevitable response and counter-sanctions from China against U.S. firms, especially those with a presence in China.

These are not reasons to walk away from a serious effort to win China's cooperation on North Korean threat. We must do so. But we must be determined as well as prudent.

New Sanctions Legislation

On a final note, I would like to speak to the respective roles of the Legislative and Executive branches in designing and implementing sanctions. The way in which we design sanctions can determine their success or failure. Congress has a key role to play, as I saw firsthand over 13 years at the Treasury Department. From Iran to Sudan to Russia, Congress provided powerful authorities to protect our financial system and to combat foreign threats. That said, in comparison to executive branch sanctions, laws are very difficult to repeal or amend, and sanctions laws have historically been one-way ratchets.

To provide just one example, Mikhail Gorbachev ended the restrictions on the emigration of Soviet Jews in 1989. The Supreme Soviet passed a law codifying this step in May of 1991. In recognition, President George H.W. Bush waived the Jackson–Vanik Amendment's sanctions on the Soviet Union in June of 1991. It took another 11 years for Congress to repeal Jackson–Vanik and, even then, it only did so in an attachment to the Magnitsky Act, which imposed new sanctions against Russia over human rights violations.

I raise this because of a recent trend towards what I see as extreme codification of sanctions, in a bid to strip the executive branch of discretion over the implementation and lifting of sanctions. One recent sanctions bill devotes 20 pages of text to restraining the executive branch's discretion.

President George H.W. Bush was able to incentivize the Soviet Union by utilizing the waiver provisions in Jackson–Vanik, and responded to the repeal of emigration restrictions immediately. The waiver provisions in Jackson–Vanik were designed as guardrails to ensure that the Administration faithfully carried out the objectives of the sanctions but they also left the President leeway to exercise his foreign policy authorities. In one paragraph, they required that the President determine that the waiver would substantially promote the objectives of the law—in this case freedom of emigration—and that the President had received assurances that the emigration practices in question would henceforth lead to the substantial attainment of the objectives of the Act. If Congress disagreed, it could overrule the President's use of the waiver through a joint resolution.

Had that flexibility not been in place, had Jackson–Vanik tied the hands of the executive branch until the final objectives of the law were satisfied or required an affirmative vote by Congress before the waiver could be issued, the Soviet Union would have perceived these sanctions to be immutable, and the Jackson–Vanik Amendment would not have been nearly as powerful as an inducement to change.

Ultimately, this is what sanctions against States are for. They are meant to incentivize behavioral change. For that inducement to work, the targets of sanctions must see that the President has the ability to lighten or remove the pressure. That is, those that conduct our Nation's foreign affairs must have discretion over how and when sanctions are eased or removed. If the sanctions target perceives the sanctions to be fixed, then sanctions have ceased to act as a motivator for change and exist solely as a penalty.

Congress should have a role in crafting sanctions policy. It is, as with many of the aspects of our system that our framers devised, a balance. Where this balance in the separation of powers lies may differ across contexts. In my view, however, sanctions that cannot be eased without an affirmative joint resolution of Congress are not likely to be constructive. Likewise, it is not advisable to impose sanctions that only allow for easing once the ultimate objectives of the sanctions have been obtained. As in Jackson–Vanik, the executive must be able to recognize and reward substantial progress towards a goal, otherwise our diplomats' only available strategy is to negotiate end-state resolutions.

I have witnessed first-hand the power of congress working alongside the President to pursue a sanctions campaign and it is formidable. My hope is that the two branches can work in concert, particularly to address threats like North Korea where objectives are fully shared.

Conclusion

Even with a concentrated and strategic effort across our Government, we cannot guarantee that a diplomatic effort powered by new sanctions pressure will succeed. But it has a chance to do so. And, faced with this ever-growing threat, I believe that it is our duty to put all of our energies into this effort.

Thank you again for inviting me to testify.

PREPARED STATEMENT OF ANTHONY RUGGIERO

SENIOR FELLOW, FOUNDATION FOR DEFENSE OF DEMOCRACIES

SEPTEMBER 7, 2017

CONGRESSIONAL TESTIMONY: FOUNDATION FOR DEFENSE OF DEMOCRACIES

Senate Committee on Banking, Housing, and Urban Affairs

Evaluating Sanctions Enforcement and Policy Options on North Korea

ANTHONY RUGGIERO

Senior Fellow
Foundation for Defense of Democracies

Washington, DC
September 7, 2017

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Anthony Ruggiero September 7, 2017

Introduction

Chairman Crapo, Ranking Member Brown, and distinguished members of this committee, thank you for the opportunity to address you today on this important issue.

My testimony will examine why current sanctions on North Korea are insufficient to exert meaningful pressure while also explaining how the U.S. government and its foreign partners can implement sanctions that have a much better chance of restraining Pyongyang's brutal dictatorship. Above all, the U.S. and its partners must apply the lessons learned from its successful effort to force Iran to the negotiating table via comprehensive sanctions.

Despite the common misperception that tough sanctions on North Korea are already in place, my testimony will illustrate how the current restraints on Pyongyang pale in comparison to the ones that compelled Tehran to negotiate. Above all, the U.S. and its partners must target the Chinese firms, individuals, banks, and others who play a crucial role in enabling North Korea to evade sanctions. Again, there is a common misperception that China is immune to pressure from abroad, yet there are already strong indications that Beijing will bend when facing the right kind of pressure.

In the course of my testimony, I will offer nine specific recommendations for how Congress and the Trump administration can implement an effective sanctions regime.

Before proceeding, it is essential to underscore the urgency of the threat from Pyongyang. Kim Jong Un is a despot who murdered an American citizen; tortures, starves, and kills his own people; and will spare no expense to develop an intercontinental ballistic missile (ICBM) that can deliver a nuclear weapon to the United States. The July 4 and July 28 ICBM launches and September 3 sixth nuclear test are a wakeup call to all of us, especially those who once described Kim as a "Swiss-educated reformer" or believe North Korea has any interest in serious negotiations with the United States.[1]

Furthermore, one should not assume Kim will hold back from using his nuclear weapons on America and our allies.

Often, U.S. policy toward North Korea gets stuck in the provocation-response cycle whereby a North Korean provocation is met with strong rhetoric and/or a token increase in sanctions, which is repeated over and over. These scattershot responses have not to date added up to a serious and effective sanctions policy because they are driven by the momentary need to look tough, rather than by a clear strategy for denuclearizing the Korean peninsula. In practice, the Kim regime can keep distracting the United States with its repeated provocation. We should break this cycle and ensure that the U.S. response to every North Korean provocation advances our ultimate goal.

Regrettably, many experts call for the acceptance of North Korea as a nuclear weapons state and insist that the U.S. can protect itself with a policy of deterrence. To evaluate the effectiveness of deterrence, one must be clear about such a policy's goals. Some suggest the United States has

[1] Michael Moynihan, "Kim Jong Un & The Myth of the Reformer Dictator," *The Daily Beast*, December 24, 2013. (http://www.thedailybeast.com/kim-jong-un-and-the-myth-of-the-reformer-dictator)

successfully deterred Pyongyang over the last 25 years, since there has been no second Korean war. But the goal should be deterring North Korea from actions that threaten the U.S. or its allies. On that score, deterrence has a mixed record at best. For example, Pyongyang killed over 40 South Korean sailors when it sunk the *Cheonan*, maintains a robust relationship with Iran, built a nuclear reactor in Syria that Israel destroyed in 2007, and launched a ballistic missile directly over Japan. Unfortunately, this is a short list of the failures of deterrence.

Thus, the U.S. finds itself in a rapidly deteriorating situation where counterproductive policy options like a negotiated freeze of North Korea's nuclear and missile programs or a hypothetical peace treaty are treated like real options. Advocates say North Korea is ready to accept a freeze and/or peace treaty and it will lead to denuclearization. Unfortunately, we have seen this movie before.

Not only has North Korea told us it is not interested in denuclearization, its actions reinforce it. Pyongyang showed us the "Map of Death" in 2013 suggesting its nuclear targets are Washington, DC; Hawaii, home to Pacific Command; possibly San Diego, home to the Pacific Fleet; and possibly San Antonio, home to U.S. Air Force Cyber Command.[2] Just after the July 4 ICBM test, North Korea's state media said that the Kim regime would not negotiate its nuclear weapons or ballistic missiles or stop bolstering its nuclear force unless the United States ended its "hostile policy and nuclear threat" to North Korea.[3] Translation: When Washington abandons its allies in Tokyo and Seoul and removes all troops, North Korea might be willing to talk about its programs.

At some point, Washington will need to consider the Kim regime as the obstacle toward achieving denuclearization of the Korean peninsula, and sanctions can decrease the threat from the regime in a way that negotiations cannot.

The Nature of North Korea Sanctions

Understanding the utility of sanctions as part of a broader, coherent North Korea policy is often clouded by myths about the country's history. It is common for scholars and journalists to note that years of strong sanctions against North Korea have failed. It is true that, thus far, sanctions have not achieved the U.S. objective of disarming North Korea, but it is not true that sanctions have been either strong or well-enforced, or that they cannot work. The four most prevalent myths about sanctions are:

1) *North Korea is isolated financially*. North Korea consistently obscures its access to the international financial system using non-traceable front companies, a practice that the Treasury Department has called "a threat to the integrity of the U.S. financial system."[4] North Korea's use of front companies puts banks at a disadvantage, especially when governments are unwilling to

[2] Jeffrey Lewis, "The Map of Death," *Foreign Policy*, April 3, 2013. (http://foreignpolicy.com/2013/04/03/the-map-of-death/)
[3] "Kim Jong Un Supervises Test-launch of Inter-continental Ballistic Rocket Hwasong-14," *Korean Central News Agency*, July 5, 2017. (https://kcnawatch.co/newstream/276945/kim-jong-un-supervises-test-launch-of-inter-continental-ballistic-rocket-hwasong-14/)
[4] U.S. Department of the Treasury, Financial Crimes Enforcement Network, "Finding that the Democratic People's Republic of Korea is a Jurisdiction of Primary Money Laundering Concern," 81 Federal Register 35441, June 2, 2016. (https://www.fincen.gov/sites/default/files/shared/2016-13038(DPRK_Finding).pdf)

identify these companies. The UN, in its February 2017 report, noted that North Korea used foreign banks to process transactions through accounts in the U.S. and Europe.[5] As I describe later, the Treasury and Justice Departments similarly discovered that designated North Korean banks have conducted financial transactions through the American banking system.

2) *The U.S. will run out of North Korea entities to designate*. The number of North Korea designations has more than doubled since mid-February 2016 when the North Korea Sanctions and Policy Enhancement Act went into effect.[6] Washington has finally directly sanctioned the country's leader Kim Jong Un, numerous government ministries, shipping companies, seven banks, and the national airline. This year, the Trump administration started to sanction North Korean international business partners. Since March 31, the U.S. has sanctioned 43 persons, of whom 86 percent operate outside North Korea and 54 percent are non-North Koreans who facilitate North Korea's sanctions evasion.

3) *China will not respond to pressure over North Korea*. Conventional wisdom says Beijing will shelter North Korea from international sanctions at all costs.[7] That is not necessarily true. China's response to U.S. sanctions against its banks, firms, and individuals has been muted. In 2013, after the U.S. Treasury sanctioned North Korea's Foreign Trade Bank, the Bank of China sent the Foreign Trade Bank a notice closing its account, cutting off its access to the Chinese financial system.[8] When Washington moved against Chinese nationals aiding a designated North Korean bank in September 2016, Beijing arrested 10 people and froze the assets of those involved.[9] Clearly, when Pyongyang threatens Chinese economic interests, Beijing can tighten its leash on North Korea, even moving against its own citizens who had likely been authorized to trade with the country.

4) *North Korea is the world's most-sanctioned country*. A quantitative review of U.S. sanctions reveals that North Korea currently sits fourth on the list of countries with the most sanctioned entities. North Korea has moved up one position since mid-July, placing it behind Ukraine/Russia, Syria, and Iran – even after the lifting of numerous sanctions on Iran to comply with the Joint Comprehensive Plan of Action (JCPOA), as the 2015 nuclear deal is formally known – and ahead

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[5] United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," S/2017/150, February 27, 2017. (http://undocs.org/S/2017/150)

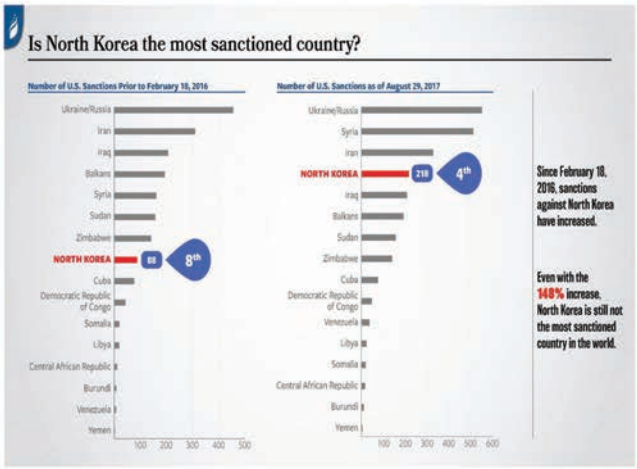
[6] North Korea Sanctions and Policy Enhancement Act of 2016, Pub. L. No. 114-122, 130 Stat. 93, codified as amended at 114 U.S.C. (https://www.congress.gov/114/bills/hr757/BILLS-114hr757enr.pdf)

[7] Joel Wit and Richard Sokolsky, "The Art of a Deal with North Korea," *Politico*, January 24, 2017. (http://www.politico.com/magazine/story/2017/01/the-art-of-a-deal-with-north-korea-214686)

[8] U.S. Department of the Treasury, Press Release, "Treasury Sanctions Bank and Official Linked to North Korean Weapons of Mass Destruction Programs," March 11, 2013. (https://www.treasury.gov/press-center/press-releases/Pages/jl1876.aspx); Simon Rabinovitch and Simon Mundy, "China reduces banking lifeline to N Korea," *Financial Times* (UK), May 7, 2013. (https://www.ft.com/content/a7154272-b702-11e2-a249-00144feabdc0)

[9] U.S. Department of Justice, Press Release, "Four Chinese Nationals and China-Based Company Charged with Using Front Companies to Evade U.S. Sanctions Targeting North Korea's Nuclear Weapons and Ballistic Missile Programs," September 26, 2016. (https://www.justice.gov/opa/pr/four-chinese-nationals-and-china-based-company-charged-using-front-companies-evade-us); Elizabeth Shim, "China arrests more than 10 business executives for North Korea trade," *UPI*, September 21, 2016. (http://www.upi.com/Top_News/World-News/2016/09/21/China-arrests-more-than-10-business-executives-for-North-Korea-trade/1531474469593/)

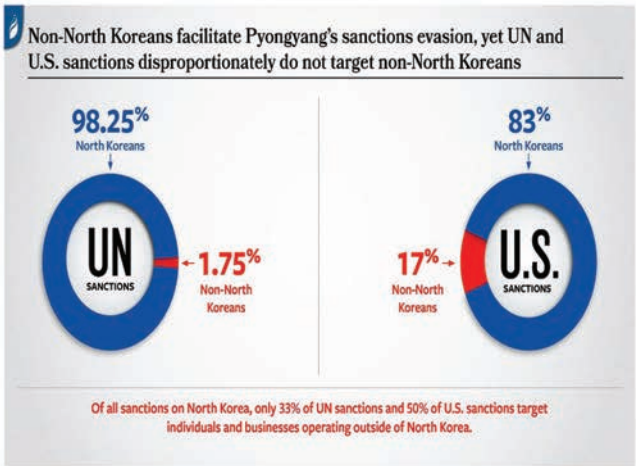
of Iraq (see graphic 1).[10] North Korea sanctions have more than doubled since the North Korea Sanctions and Policy Enhancement Act came into effect on February 18, 2016. Prior to that date, North Korea ranked eighth, behind Ukraine/Russia, Iran, Iraq, the Balkans, Syria, Sudan, and Zimbabwe.



[10] The review of sanctions included those entities and individuals listed on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated Nationals list. The Ukraine/Russia sanctions category includes persons sanctioned under the Sergei Magnitsky Rule of Law Accountability Act and persons subject to the Ukraine-related Directives. U.S. Department of the Treasury, Specially Designated Nationals List, accessed through August 29, 2017. (https://sanctionssearch.ofac.treas.gov/)

A qualitative assessment of the sanctions imposed on North Korea reinforces the conclusion that it has not been targeted aggressively, since U.S. sanctions barely touch the international business networks – especially in China – on which Pyongyang relies to evade most restrictions. The Trump administration's recent efforts have focused on Pyongyang's international business and non-North Koreans, but there is still more to do.

Even the UN acknowledges that North Korea uses "non-nationals of [North Korea] as facilitators, and rel[ies] on numerous front companies" to generate "significant revenue" for North Korea.[11] In testimony before the House Committee on Financial Services Subcommittee on Monetary Policy and Trade in mid-July, I noted that 47 percent of U.S. sanctions targeted persons located/conducting business outside of North Korea. That number has now increased to 50 percent. In July, only 12 percent of those persons were non-North Korean; that number has increased to more than 17 percent (see graphic 2). The UN sanctions numbers are worse. In July, only 27 percent of all designated persons were located or conducting business outside of North Korea, a number that has improved to 33 percent. In July, only 2 percent of those persons were non-North Korean, yet that number has dropped to 1.75 percent.



[11] United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," February 27, 2017. (http://undocs.org/S/2017/150)

The Iran Sanctions Model for North Korea

Both critics and supporters of the 2015 nuclear deal agree that sanctions were the main driver that brought Iran to the negotiating table. Thus, the Trump administration should look to the Iran sanctions playbook for its North Korea policy. If we want to change North Korea's behavior, our sanctions have to be at least as tough as they were on Iran.

The goal of sanctions on North Korea is different than it was with Iran since the regime already has nuclear weapons and will not negotiate away its program. Kim Jong Un views negotiations merely as one step toward his goal of recognition of North Korea as a state with nuclear weapons. The U.S. goal should be to protect the U.S. and her allies at all costs by strangling the sources of revenue and materiel on which North Korea relies for its nuclear weapons program, its military, and luxury goods to buy off its elites.

The key aspect of the Iran sanctions model was that it forced companies, individuals, banks, and governments in the U.S. and abroad to make a choice: stop doing business with Iran, or lose access to the U.S. dollar and risk the U.S. freezing their assets and labeling them as doing business with a state sponsor of terrorism intent on developing a nuclear weapon. The approach worked. Around the world, banks and companies – and eventually governments – curtailed or eliminated business with Iran.

By this standard, sanctions on North Korea have a long way to go. Former Deputy Director of the CIA and former Under Secretary of the Treasury for Terrorism and Financial Intelligence David Cohen has noted, "North Korea is not, by any stretch, 'sanctioned out.' Despite a broad set of international and U.S. sanctions, North Korea has gotten off relatively easy, especially as compared with Iran."[12]

We learned earlier this year that Belgium allowed North Korean banks sanctioned by the UN to maintain access to SWIFT, the secure financial messaging service, despite SWIFT's checkered history with Iran, whose access to SWIFT only ended when Congress began considering legislation prohibiting it.[13] This shows how many Western governments are not serious about imposing sanctions that have sufficient teeth to have the desired impact. Likewise, Austria justified the export of ski equipment for Kim's chalet on the grounds that it was not listed as a luxury good in the European regulations, taking a literal view of sanctions rather than realizing that building a ski resort in a country where its population is starving is the very definition of luxury.[14] There are other such examples of sanctions violations, in most cases aided by countries that have a lax interpretation of the UN sanctions architecture in Southeast Asia, Africa, and the Middle East.

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[12] David S. Cohen, "One powerful weapon to use against North Korea," *The Washington Post*, April 21, 2017. (https://www.washingtonpost.com/opinions/one-powerful-weapon-to-use-against-north-korea/2017/04/21/ddbb9702-26c2-11e7-bb9d-8cd6118e1409_story.html?utm_term=.f4a89212dbee)
[13] Anthony Ruggiero, "Time to act against rogue North Korean banks," *The Hill*, March 17, 2017. (http://thehill.com/blogs/pundits-blog/foreign-policy/324430-time-to-act-against-rouge-north-korean-banks)
[14] United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," February 27, 2017. (http://undocs.org/S/2017/150)

North Korea's Financial Activities

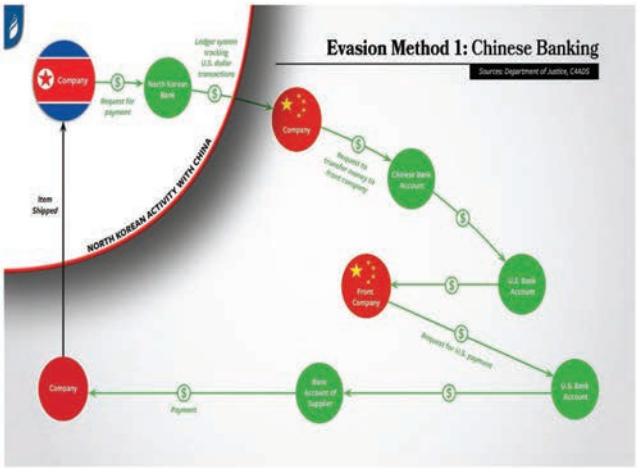
A review of Treasury and Justice Departments' actions against North Korea's financial activities reveals three methods Pyongyang uses to finance its sanctions evasion. The first method was used by Dandong Hongxiang Industrial Development, which was sanctioned by Treasury and indicted by Justice in September 2016 (see graphic 3).[15] The method was also used by Dandong Zhicheng Metallic Materials which was sanctioned by Treasury and subject to an asset forfeiture request for more than $4 million filed by Justice in August.[16] Both companies' illicit activities were initially exposed by the innovative data-mining organization C4ADS.[17]

The scheme begins with North Korea shipping a commodity to a Chinese company – in these examples, coal is used. The Chinese company sells the item and pockets a significant profit. The money owed to the North Korean exporter remains in China, which allows North Korea to use it to purchase goods. Each side keeps a ledger that tracks debits and revenue allowing North Korea to purchase goods from the Chinese companies' accounts and the Chinese company to receive additional profit from facilitating these sales. Most sellers want payment in U.S. dollars, which requires hiding Pyongyang's role to continue the transaction. This is where Chinese firms and individuals use accounts in Chinese banks to transfer money to front companies in China and other jurisdictions to create the illusion of a transaction between the seller and China, when North Korea is the real destination. This fraudulent scheme tricks U.S. banks into processing the transactions and Chinese banks are either complicit or fail to ask about Chinese companies' business with North Korea.

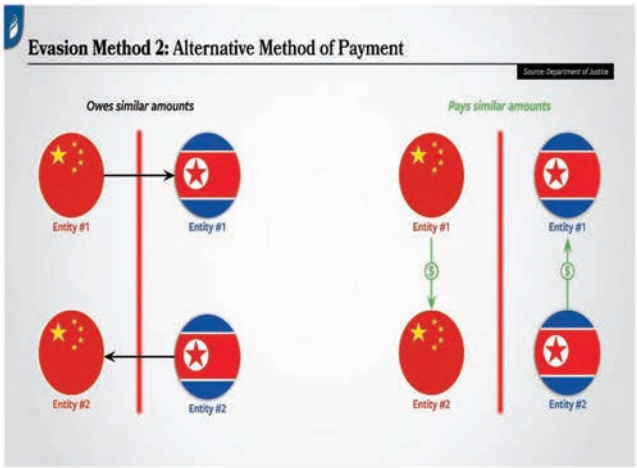
[15] U.S. Department of the Treasury, Press Release, "Treasury Imposes Sanctions on Supporters of North Korea's Weapons of Mass Destruction Proliferation," September 26, 2016. (https://www.treasury.gov/press-center/press-releases/Pages/jl5059.aspx); U.S. Department of Justice, Press Release, "Four Chinese Nationals and China-Based Company Charged with Using Front Companies to Evade U.S. Sanctions Targeting North Korea's Nuclear Weapons and Ballistic Missile Programs," September 26, 2016. (https://www.justice.gov/opa/pr/four-chinese-nationals-and-china-based-company-charged-using-front-companies-evade-us)

[16] U.S. Department of the Treasury, Press Release, "Treasury Targets Chinese and Russian Entities and Individuals Supporting the North Korean Regime," August 22, 2017. (https://www.treasury.gov/press-center/press-releases/Pages/sm0148.aspx); *United States of America v. Funds Associated with Dandong Chengtai Trading Limited*, No. 1:17-cv-01706 (D.D.C. August 22, 2017). (Accessed via PACER)

[17] "In China's Shadow: Exposing North Korean Overseas Networks," *The Asan Institute for Policy Studies and C4ADS*, August 2016. (https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/57dfe74acd0f68d629357306/1474291539480/In+China%27s+Shadow.pdf); "Risky Business: A System-Level Analysis of the North Korean Proliferation Financing System," *C4ADS*, June 2017. (https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/59413c8bebbd1ac3194eafb1/1497447588968/Risky+Business-C4ADS.pdf)

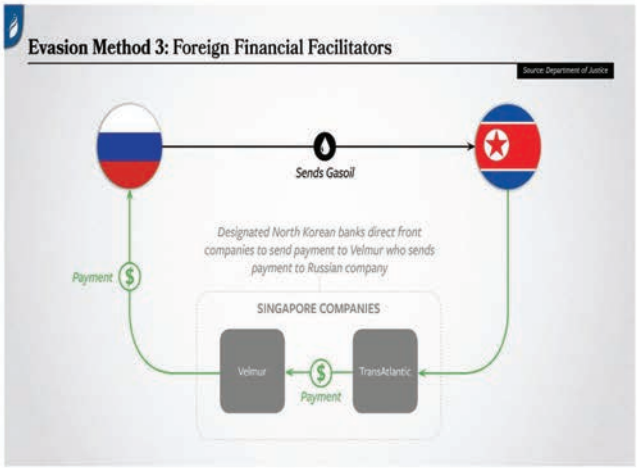

Evasion Method 1: Chinese Banking
Sources: Department of Justice, CAADS
Company
Request for payment
North Korean Bank
Ledger system tracking U.S. dollar transactions
Company
Request to transfer money to front company
Chinese Bank Account
U.S. Bank Account
Front Company
Request for U.S. payment
U.S. Bank Account
Bank Account of Supplier
Payment
Company
Item Shipped
NORTH KOREAN ACTIVITY WITH CHINA

The second method was identified by the Justice Department following an interaction with an unnamed North Korean defector (see graphic 4).[18] The scheme is simple: Chinese companies pay each other using the credits of one North Korean company to pay the debt of another North Korean company. It is unclear if these transactions involve U.S. dollars, but they have the benefit of avoiding money transfers between China and North Korea that could be subject to increased scrutiny. Chinese banks likely facilitate these payments between Chinese companies, and asking additional questions about the nature of the business relationship between these companies and North Korea could identify these are problematic transactions prompting additional scrutiny.



[18] *United States of America v. Funds Associated with Dandong Chengtai Trading Limited*, No. 1:17-cv-01706 (D.D.C. August 22, 2017). (Accessed via PACER)

The third method was used by a Russian company to receive payments from North Korea for the shipment of oil (see graphic 5). Independent Petroleum Company (IPC) was sanctioned by the Treasury Department in early June for signing a contract to provide oil to North Korea and reportedly shipped over $1 million worth of petroleum products to North Korea.[19] IPC shipped gasoil to North Korea and IPC requested payment from North Korea in U.S. dollars, but a direct transaction between Russia and North Korea using U.S. dollars is nearly impossible. IPC and North Korea devised a scheme to create two companies in Singapore to create the illusion of transactions between North Korean front companies, Singapore, and Russia. The scheme obscured North Korea's involvement and continued Pyongyang's ability, with assistance from a Russian company and Russian individuals, to violate U.S. law. The Justice Department requested forfeiture of almost $7 million and fines for these alleged violations of U.S. laws.[20]



[19] U.S. Department of the Treasury, Press Release, "Treasury Sanctions Suppliers of North Korea's Nuclear and Weapons Proliferation Programs," June 1, 2017. (https://www.treasury.gov/press-center/press-releases/Pages/sm0099.aspx)

[20] *United States of America v. Funds Associated with Velmur Management PTE. Ltd.*, No. 1:17-cv-01705 (D.D.C. August 22, 2017). (Accessed via PACER)

North Korea's Chinese Banks

To be as tough on North Korea as it was on Iran, the U.S. should move aggressively against the Chinese banks that are integral to North Korea's sanctions evasion efforts. Pyongyang's activities taint every Chinese financial transaction conducted through the United States as a possible effort to finance prohibited activities.

Information on North Korea's use of Chinese banks to access the American banking system is incomplete and likely represents the tip of the iceberg. The available estimates generally encompass only transactions with designated North Korean entities and individuals or those who work on their behalf.

One pattern that emerges from the data is the disturbing extent to which Chinese banks help North Korea leverage the U.S. financial system to evade sanctions.

Merchants that knowingly or unknowingly sell goods to North Korea or its Chinese front companies want payment in dollars. Pyongyang has consistently turned to Chinese banks to process transactions through the U.S. financial system on its behalf, allowing North Korea to pay business partners in U.S. dollars, which is prohibited by U.S. law. The only way for North Korea to conduct these U.S. dollar transactions is to obscure its involvement in the transactions. While doing so is illegal, such banks have little to fear from a government in Beijing that has made clear its lack of interest in enforcing sanctions.

Another disturbing development was first revealed in a mid-June Justice Department request for the forfeiture of more than $1.9 million from Mingzheng International Trading Limited, which was sanctioned by Treasury in late August.[21] Justice stated that Mingzheng acts as a front company for a covert branch of North Korea's Foreign Trade Bank (FTB), Pyongyang's primary foreign exchange provider, which is operated by a Chinese national.[22] Justice noted that the FTB bank representative ordered five payments to Velmur, a now-exposed Russian-North Korean front company, totaling more than $1.8 million.[23]

Recent disclosures show that from 2009 to 2017, North Korea used Chinese banks to process at least $2.2 billion in transactions through the U.S. financial system:

- The Justice Department stated that Dandong Hongxiang and its associated front companies – created by four Chinese individuals accused of evading North Korean sanctions –

[21] *United States of America v. Funds Associated with Mingzheng International Trading Limited*, No. 1:17-cv-01166-KBJ (D.D.C. June 14, 2017). (Accessed via PACER); U.S. Department of the Treasury, Press Release, "Treasury Targets Chinese and Russian Entities and Individuals Supporting the North Korean Regime," August 22, 2017. (https://www.treasury.gov/press-center/press-releases/Pages/sm0148.aspx)

[22] *United States of America v. Funds Associated with Mingzheng International Trading Limited*, No. 1:17-cv-01166-KBJ (D.D.C. June 14, 2017). (Accessed via PACER)

[23] *United States of America v. Funds Associated with Velmur Management PTE. Ltd.*, No. 1:17-cv-01705 (D.D.C. August 22, 2017). (Accessed via PACER)

processed over $1.3 billion in transactions through the American banking system between 2009 and 2016.[24]

- Along with four front companies, Dandong Zhicheng Metallic Material Company Limited, which accounted in 2016 for 9.19 percent of total North Korean exports to China, used the Chinese financial system from 2009 to 2017 to process $700 million through the U.S. system, including $52 million this year.[25]

- The Treasury Department stated that Bank of Dandong processed at least $133.62 million from May 2012 to May 2015 as an agent for companies transacting with, or on behalf of, U.S.- and UN-sanctioned North Korean entities.[26]

- In May 2016, Treasury stated that Leader (Hong Kong) International Trading Limited, a North Korean front company, from January 2009 to November 2012 cleared at least $13.5 million through correspondent accounts in U.S. banks.[27]

- Further afield, a Singaporean court found that a local firm, Chinpo Shipping, used its bank accounts – including in Bank of China – from April 2009 to July 2013 to process more than $40 million through the U.S. for North Korea.[28]

- From October to November 2015, Mingzheng International Trading Limited, a front company in Shenyang, China, laundered more than $1.9 million using the Chinese banking system for U.S.-sanctioned North Korean Foreign Trade Bank.[29]

The Justice Department declared in September 2016 that there were "no allegations of wrongdoing" by Chinese banks involved in the Dandong Hongxiang network.[30] We now know

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[24] *United States of America v. Funds Associated with Mingzheng International Trading Limited*, No. 1:17-cv-01166-KBJ (D.D.C. June 14, 2017). (Accessed via PACER)

[25] "Risky Business: A System-Level Analysis of the North Korean Proliferation Financing System," *C4ADS*, June 2017. (https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/59413c8bebbd1ac3194eafb1/1497447588968/Risky+Business-C4ADS.pdf); *United States of America v. All Wire Transactions Involving Dandong Zhicheng Metallic Material Company, LTD., et. al.* (D.D.C filed May 22, 2017). (http://www.dcd.uscourts.gov/sites/dcd/files/BAHMemoandOrder.pdf)

[26] U.S. Department of the Treasury, Financial Crimes Enforcement Network, "Proposal of Special Measure Against Bank of Dandong as a Financial Institution of Primary Money Laundering Concern," 82 Federal Register 129, July 7, 2017. (https://www.fincen.gov/sites/default/files/federal_register_notices/2017-07-07/2017-14026.pdf)

[27] U.S. Department of the Treasury, Financial Crimes Enforcement Network, "Finding that the Democratic People's Republic of Korea is a Jurisdiction of Primary Money Laundering Concern," 81 Federal Register 35441, June 2, 2016. (https://www.fincen.gov/sites/default/files/shared/2016-13038(DPRK_Finding).pdf)

[28] Andrea Berger, "Thanks to the Banks: Counter-Proliferation Finance and the Chinpo Shipping Case," *38 North*, December 16, 2015. (http://38north.org/2015/12/aberger121615/)

[29] U.S. Department of Justice, Press Release, "United States Files Complaint to Forfeit More Than $1.9 Million from China-Based Company Accused of Acting as a Front for Sanctioned North Korean Bank," June 15, 2017. (https://www.justice.gov/usao-dc/pr/united-states-files-complaint-forfeit-more-19-million-china-based-company-accused-acting)

[30] U.S. Department of Justice, Press Release, "Four Chinese Nationals and China-Based Company Charged with Using Front Companies to Evade U.S. Sanctions Targeting North Korea's Nuclear Weapons and Ballistic Missile

that was not correct, as the June 2017 action against Bank of Dandong revealed that Dandong Hongxiang owned a minority stake in the bank through December 2016. The Treasury Department also stated that Dandong Hongxiang used the bank to process $56 million through the U.S. financial system between October 2012 and December 2014. Treasury noted in June 2017 that "the close relationship between the two entities helped establish Bank of Dandong as a prime conduit for North Korean activity."[31] This case illustrates that it is crucial for the U.S. government to target entire networks, including the Chinese banks that facilitate these activities.

Recommendation 1: Sanction Additional Chinese Banks. Following its designation of Bank of Dandong in June, the Trump administration should move against another Chinese bank using the full suite of Treasury's tools. Treasury should issue significant fines against one or more medium-sized banks as a means of signaling there is a systemic problem inside China's financial system.[32] The purpose of such moves is not simply punitive; it is to drive a wedge between Chinese banks that covet their access to the U.S. financial system and Chinese leaders who indulge North Korea. If the banks fear they will be the next target of U.S. sanctions, they will pressure political leaders to change course.[33]

North Korea's Networks

Tracing North Korea's proliferation activities is difficult, as Pyongyang obscures the true nature of the procurements and uses non-North Korean entities and individuals to shield these activities from scrutiny.[34] A report by C4ADS found that "the system of North Korean sanctions evasion is centralized, limited, and vulnerable, and that its disruption can greatly increase the pressure on the Kim regime."[35] Many of these activities involve Chinese facilitators or have a nexus in China, suggesting that Beijing should do more to curtail these activities.[36] Russia has also recently emerged as a conduit for North Korea's proliferation activities. A sample of these proliferation activities include:[37]

Programs," September 26, 2016. (https://www.justice.gov/opa/pr/four-chinese-nationals-and-china-based-company-charged-using-front-companies-evade-us)

[31] U.S. Department of the Treasury, Financial Crimes Enforcement Network, "Proposal of Special Measure Against Bank of Dandong as a Financial Institution of Primary Money Laundering Concern," 82 Federal Register 129, July 7, 2017. (https://www.fincen.gov/sites/default/files/federal_register_notices/2017-07-07/2017-14026.pdf)

[32] Anthony Ruggiero, "Severing China-North Korea Financial Links," *Center for Strategic & International Studies*, April 3, 2017. (https://www.csis.org/analysis/severing-china-north-korea-financial-links)

[33] Anthony Ruggiero, "Time for Trump to Get Tough on China," *Politico*, July 6, 2017. (http://www.politico.com/magazine/story/2017/07/06/donald-trump-china-north-korea-215343)

[34] United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," February 27, 2017. (http://undocs.org/S/2017/150)

[35] "Risky Business: A System-Level Analysis of the North Korean Proliferation Financing System," *C4ADS*, June 2017. (https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/59413c8bebbd1ac3194eafb1/1497447588968/Risky+Business-C4ADS.pdf)

[36] Joshua Stanton, "UN report finds extensive evidence that China hosts N. Korea's proliferation networks," *One Free Korea*, March 15, 2017. (http://freekorea.us/2017/03/15/un-report-finds-extensive-evidence-that-china-hosts-n-koreas-proliferation-networks/#sthash.mB0tb4EF.WXqovtkT.dpbs)

[37] Additional examples of North Korea's proliferation activities can be found at: Anthony Ruggiero, "Restricting North Korea's Access to Finance," *Testimony before House Committee on Financial Services, Subcommittee on Monetary Policy and Trade*, July 19, 2017. (http://www.defenddemocracy.org/content/uploads/documents/Anthony_Ruggiero_Testimony_HFSC.pdf)

- The July 4 ICBM test was delivered to the launch site on a Chinese-made truck.[38] The same trucks were used by North Korea to parade six road-mobile intercontinental ballistic missiles in 2012.[39] North Korea claimed the trucks were for the forestry ministry, and the UN has prohibited since 2006 the export of items for the Kim regime's missile program.[40]

- In 2015, a Chinese company supplied sophisticated machine tools to North Korea, which could be used for its nuclear, missile, and military programs, according to a report published in April by the Institute for Science and International Security.[41] The UN has prohibited these items since 2006, and such activity probably violates China's own export-control restrictions.[42]

- The UN 2016 report noted that the shipment of Scud missile parts from North Korea to Egypt was run out of the North Korean embassy in Beijing.[43]

- In early June, Treasury designated a Russian company and individual for providing supplies to Korea Tangun Trading Corporation and noted the individual is a frequent business partner of Tangun officials in Moscow.[44] Tangun was designated by the U.S. in 2009 for its involvement in North Korea's WMD and missile programs.

- In late August, Russia's Gefest-M LLC and its director were sanctioned for procuring metals for Tangun's Moscow office.[45]

- UN Security Council Resolution 2371 sanctioned nine North Korean overseas representatives for prohibited activities and/or sanctions evasion. Four of the representatives are located in Russia and five are in China.[46]

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[38] James Pearson and Jack Kim, "North Korea appeared to use China truck in its first claimed ICBM test," *Reuters*, July 4, 2017. (http://www.reuters.com/article/us-northkorea-missiles-china-truck-idUSKBN19P1J3)
[39] Larry Shaughnessy, "Truck raises questions about China's role in North Korea's missile program," *CNN*, April 20, 2012. (http://www.cnn.com/2012/04/20/world/asia/north-korea-chinese-truck/)
[40] United Nations Security Council, Resolution 1718, October 14, 2006. (http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1718%20%282006%29)
[41] David Albright, "Shenyang Machine Tools Company," *Institute for Science and International Security*, April 13, 2017. (http://isis-online.org/isis-reports/detail/shenyang-machine-tools-company/)
[42] United Nations Security Council, Resolution 1718, October 14, 2006. (http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1718%20%282006%29)
[43] United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," February 24, 2016. (http://undocs.org/S/2016/157)
[44] U.S. Department of the Treasury, Press Release, "Treasury Sanctions Suppliers of North Korea's Nuclear and Weapons Proliferation Programs," June 1, 2017. (https://www.treasury.gov/press-center/press-releases/Pages/sm0099.aspx)
[45] U.S. Department of the Treasury, Press Release, "Treasury Targets Chinese and Russian Entities and Individuals Supporting the North Korean Regime," August 22, 2017. (https://www.treasury.gov/press-center/press-releases/Pages/sm0148.aspx)
[46] United Nations Security Council, Resolution 2371, August 5, 2017. (http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2371(2017))

Recommendation 2: Sanction Chinese and Russian Facilitators of Pyongyang's Sanctions Evasion. The Trump administration should continue to sanction elements of the Chinese and Russian networks that facilitate North Korea's sanctions evasion, preferably with near simultaneity for maximum effect. Chinese entities and individuals are at the heart of sanctions evasion, but Russia is filling a key void. Beijing and Moscow will object to the sanctions, but the time for accepting excuses is over.

Additional Sanctions Recommendations

Recommendation 3: Block the Revenue North Korea Receives from Overseas Laborers. To be as tough on North Korea as it was on Iran, the U.S. must work to disrupt the stream of revenue generated by Pyongyang's provision of *de facto* slave labor to foreign countries in exchange for hard currency. The regime sends citizens overseas – estimates range from 50,000 to 120,000 – into terrible work conditions while requiring foreign countries and companies to pay the workers' salaries directly to the regime, which passes on just a small percentage to the workers.[47] These slave laborers likely participated in the construction of venues for the upcoming soccer World Cups in Russia in 2018 and Qatar in 2022.[48] One expert puts North Korea's earnings from the practice at some $500 million annually.[49] In early August, Kuwait stated that it employs over 6,000 North Korean workers and said it has no plans to reduce that number, contradicting the State Department's 2017 Trafficking in Persons report.[50] The Russian government admitted last week that it employs 40,000 North Korean workers in timber processing and construction.[51]

UN Security Council Resolution 2371 unfortunately only caps the number of overseas North Korean workers, despite stating the revenue is used in Pyongyang's nuclear weapons and missile programs.[52] The Countering America's Adversaries Through Sanctions Act mandates the

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[47] Shin Chang-Hoon and Go Myong-Hyun, "Beyond the UN COI Report on Human Rights in North Korea," *The Asan Institute for Policy Studies*, November 3, 2014. (http://en.asaninst.org/contents/asan-report-beyond-the-coi-dprk-human-rights-report/); Marcus Noland, "Organized Exports of Labor: Welcome to the Echo Chamber," *Peterson Institute for International Economics*, June 1, 2015. (https://piie.com/blogs/north-korea-witness-transformation/organized-exports-labor-welcome-echo-chamber)

[48] David Conn, "World Cup 2018: Fifa admits workers have suffered human rights abuses," *The Guardian* (UK), May 25, 2017. (https://www.theguardian.com/football/2017/may/25/fifa-world-cup-2018-workers-human-rights-abuses); Allie Conti, "North Korean Slaves Are Building Qatar's World Cup Centerpiece," *Vice*, November 7, 2014. (https://www.vice.com/en_us/article/north-korean-slaves-are-building-qatars-world-cup-centerpiece)

[49] Marcus Noland, "Organized Exports of Labor: Welcome to the Echo Chamber," *Peterson Institute for International Economics*, June 1, 2015. (https://piie.com/blogs/north-korea-witness-transformation/organized-exports-labor-welcome-echo-chamber)

[50] Jon Gambrell, "Kuwait Says North Korean Workers Welcome Then Refutes Itself," *Associated Press*, August 11, 2017. (https://www.bloomberg.com/news/articles/2017-08-11/kuwait-says-north-korean-workers-welcome-then-refutes-itself?utm_content=politics&utm_campaign=socialflow-organic&utm_source=twitter&utm_medium=social&cmpid%3D=socialflow-twitter-politics); U.S. Department of State, "Trafficking in Persons Report 2017," June 2017. (https://www.state.gov/documents/organization/271339.pdf)

[51] Polina Nikolskaya and Katya Golubkova, "Russian-North Korea projects foundering because of missile tests: minister," *Reuters*, August 28, 2017. (http://www.reuters.com/article/us-russia-northkorea-trade-idUSKCN1B81BO?utm_campaign=trueAnthem:+Trending+Content&utm_content=59a4451504d3010ce4152a6b&utm_medium=trueAnthem&utm_source=twitter)

[52] [52] United Nations Security Council, Resolution 2371, August 5, 2017. (http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2371(2017))

president to impose sanctions on persons that employ North Korean workers, and Washington should lead an effort to end North Korean slave labor.[53] The U.S. should then build a coalition of like-minded countries that commit to not accept North Korean overseas laborers. China and Russia would block a UN ban on payments to North Korea, but exposing the terrible work conditions and links between the revenue and the prohibited programs could pressure Beijing and Moscow to alter the payment mechanism providing the money directly to the laborers, while continuing to import North Korean laborers.

Recommendation 4: Pursue an Offensive and Defensive Cyber Strategy. North Korea is honing its cyber skills to use both as an asymmetric weapon against the United States and South Korea, and as a means of generating revenue, such as the regime's attempt to steal $1 billion from Bangladesh's central bank.[54] Pyongyang conducts its cyber activities from inside China. Beijing and other supporters value access to the American financial system, and we should issue sanctions and criminal charges against them to send a message that enabling cyber attacks has consequences. We must harden our defenses and strengthen the castle walls, share data with the private sector – the primary target of North Korea's attacks – and think more creatively about new forms of cyber cooperation with the most technologically-advanced of our allies.[55] The *New York Times* reported in March that Washington is engaged in a cyber effort to sabotage North Korea's missile launches, sending Pyongyang a message that cyber attacks go both ways.[56]

Recommendation 5: Impose Mandatory Inspections for all North Korean Ships. North Korea uses its shipping fleet to transfer prohibited materials, which in some cases are disguised as shipments of legitimate items. The UN reported in February that Egypt intercepted the *Jie Shun*, which was carrying rocket-propelled grenades and components concealed under iron ore.[57] All North Korean ships should be subject to inspection when they arrive at foreign ports or, if applicable, in international waters to ensure they are complying with the UN sanctions on transfers of prohibited goods. The U.S. and its partners should sanction all elements of the North Korean fleet to subject them to increased inspections at foreign ports, including regular updates to assist with port state compliance, and expand interdiction exercises with key partners in the region.

Recommendation 6: Use U.S. and Partner States' Authorities to Enforce UN Sanctions. UN Security Council resolutions are not self-enforcing, and the United States has a special responsibility to lead a UN sanctions implementation effort given the preeminent role of the U.S.

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[53] Countering America's Adversaries Through Sanctions Act, 115 U.S.C. (https://www.whitehouse.gov/legislation/hr-3364-countering-americas-adversaries-through-sanctions-act)

[54] Michael Corkery and Matthew Goldstein, "North Korea Said to Be Target of Inquiry Over $81 Million Cyberheist," *The New York Times*, March 22, 2017. (https://www.nytimes.com/2017/03/22/business/dealbook/north-korea-said-to-be-target-of-inquiry-over-81-million-cyberheist.html?_r=0)

[55] Samantha Ravich and Anthony Ruggiero, "The growing North Korean cyber threat," *Fifth Domain Cyber*, June 12, 2017. (http://www.defenddemocracy.org/media-hit/samantha-ravich-the-growing-north-korean-cyber-threat/); Samantha Ravich, "State-Sponsored Cyberspace Threats: Recent Incidents and U.S. Policy Response," *Testimony before the Senate Foreign Relations Committee*, June 13, 2017. (http://www.defenddemocracy.org/content/uploads/documents/6132017_Ravich_Testimony.pdf)

[56] William J. Broad and David E. Sanger, "U.S. Strategy to Hobble North Korea Was Hidden in Plain Sight," *The New York Times*, March 4, 2017. (https://www.nytimes.com/2017/03/04/world/asia/left-of-launch-missile-defense.html)

[57] United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," February 27, 2017. (http://undocs.org/S/2017/150)

dollar in the international financial system. China and Russia will not allow the UN Security Council to address the implementation challenges identified by the UN Panel of Experts. The United States should coordinate an implementation effort with other like-minded countries (South Korea, Japan, Australia, the United Kingdom, France, and Germany). In some cases, countries may need assistance drafting implementation laws or regulations. In other cases, the U.S. should sanction those countries that violate UN sanctions and refuse implementation assistance.

Additional Recommendations

Recommendation 7: Address Iran-North Korea Cooperation. A February 2016 Congressional Research Service report noted the North Korea-Iran ballistic missile relationship is "significant and meaningful."[58] That missile relationship was serious enough for the Obama administration to sanction Iran a month earlier, just one day after the nuclear deal with Tehran was implemented.[59] North Korea's successful tests and stated deployment of the solid-fueled Pukguksong-2 medium-range ballistic missile could be attractive to Iran.[60] The U.S. and its partners should use their own authorities and North Korea-related UN sanctions to prohibit the exchange of technicians, review the role of Iranian ports in North Korea's proliferation activities, and ensure the intelligence community is assessing the relationship for signs of increased missile cooperation or incipient nuclear cooperation.

Recommendation 8: Implement Restrictions on Tourist Travel to North Korea. The death of American student Otto Warmbier was nothing less than a callous murder at the hands of North Korea's Stalinist dictatorship. We should remember that at least three Americans are being held in North Korea. These detentions are part of a pattern for Pyongyang, which uses Americans as bargaining chips in its standoff with Washington.[61] Senior American envoys have also bought into the illusion that engagement could yield results, regardless of how clearly the regime advertised its hostility. The State Department has restricted the use of U.S. passports for travel to North Korea starting September 1, except under limited conditions.[62] This is a good step forward, but Congress must ensure it is being implemented and that it is not adversely affecting the operations of humanitarian organizations who care more about the North Korean people than the Kim regime.

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[58] Paul K. Kerr, Steven A. Hildreth, and Mary Beth D. Nikitin, "Iran-North Korea-Syria Ballistic Missile and Nuclear Cooperation," *Congressional Research Service*, February 26, 2016. (https://fas.org/sgp/crs/nuke/R43480.pdf)

[59] The White House, Press Release, "Statement by the President on Iran," January 17, 2016. (https://obamawhitehouse.archives.gov/the-press-office/2016/01/17/statement-president-iran); U.S. Department of the Treasury, Press Release, "Treasury Sanctions Those Involved in Ballistic Missile Procurement for Iran," January 17, 2016. (https://www.treasury.gov/press-center/press-releases/Pages/jl0322.aspx)

[60] Anthony Ruggiero and Behnam Ben Taleblu, "The danger of North Korea and Iran – and how Trump should tackle it," *The Hill*, July 6, 2017. (http://thehill.com/blogs/pundits-blog/foreign-policy/340832-the-great-danger-of-north-korea-and-iran-and-what-trump-can)

[61] Anthony Ruggiero, "North Korea Takes another American Hostage," *Foundation for Defense of Democracies*, April 24, 2017. (http://www.defenddemocracy.org/media-hit/anthony-ruggiero-north-korea-takes-another-american-hostage/)

[62] U.S. Department of State, "United States Passports Invalid for Travel to, in, or Through the Democratic People's Republic of Korea," 82 Federal Register 36067, August 2, 2017. (https://www.gpo.gov/fdsys/pkg/FR-2017-08-02/pdf/2017-16287.pdf); U.S. Department of State, "Notice of Information Collection Under OMB Emergency Review: Request for Approval To Travel to a Restricted Country or Area," 82 Federal Register 36065, August 2, 2017. (https://www.gpo.gov/fdsys/pkg/FR-2017-08-02/pdf/2017-16286.pdf)

Recommendation 9: Address North Korea's Human Rights Abuses. The North Korean regime has perfected torture on its own people. When the UN detailed these abuses in a ground-breaking report in 2014, the world collectively shrugged.[63] Even the United States – the "city on a hill" – waited two years to act against North Korean human rights abusers, an inexcusable dereliction of leadership.[64] The UN report noted that Kim's thugs carry out forced abortions, and any baby that survives is drowned or suffocated in front of the mother; immerse prisoners in a tank until they almost drown; hang people upside down; force needles under fingernails; pour a water-hot chili pepper concoction down the victim's nose; and use starvation as an element of statecraft to keep innocent civilians fearful of the state.[65]

U.S. Ambassador to the UN Nikki Haley should press for a Security Council session on North Korea's human rights violations, including a vote on the commission of inquiry's recommendation to refer the issue to the International Criminal Court or create an international tribunal.[66] Washington should lead this effort, which would force serial human rights enablers China and Russia to veto the resolution. Congress should consider extending the North Korean Human Rights Act that expires later this year.[67] Congressional action to extend this important law will maintain focus on the issue, promote information flow into North Korea, and ensure the administration makes it a priority in discussions with Pyongyang and Beijing.[68]

Conclusion

Pyongyang's provocations, including its ICBM tests and sixth nuclear test, deserve increasingly harsh responses from Washington. A new North Korea sanctions approach is needed to secure the United States and its allies against the dangerous and growing threat from this rogue regime. Iran-style sanctions are the only peaceful means for dealing with the threat from Pyongyang, and are for that reason indispensable.

On behalf of the Foundation for Defense of Democracies, I thank you again for inviting me to testify and I look forward to addressing your questions.

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[63] United Nations Human Rights Council, "Report of the Commission of Inquiry on Human Rights in the Democratic People's Republic of Korea," February 7, 2014. (http://www.ohchr.org/EN/HRBodies/HRC/CoIDPRK/Pages/ReportoftheCommissionofInquiryDPRK.aspx)

[64] Anthony Ruggiero, "Don't let North Korea's nukes overshadow human rights abuses," *The Hill*, April 28, 2017. (http://thehill.com/blogs/pundits-blog/foreign-policy/331061-dont-let-north-koreas-nukes-overshadow-human-rights-abuses)

[65] United Nations Human Rights Council, "Report of the Commission of Inquiry on Human Rights in the Democratic People's Republic of Korea," February 7, 2014. (http://www.ohchr.org/EN/HRBodies/HRC/CoIDPRK/Pages/ReportoftheCommissionofInquiryDPRK.aspx)

[66] United Nations Human Rights Council, "Report of the Commission of Inquiry on Human Rights in the Democratic People's Republic of Korea," February 7, 2014. (http://www.ohchr.org/EN/HRBodies/HRC/CoIDPRK/Pages/ReportoftheCommissionofInquiryDPRK.aspx)

[67] North Korea Human Rights Act of 2004, Pub. L. No. 108-333, 118 Stat. 1287, codified as amended at 22 U.S.C. §7801. (https://www.congress.gov/108/plaws/publ333/PLAW-108publ333.pdf)

[68] Anthony Ruggiero, "Don't let North Korea's nukes overshadow human rights abuses," *The Hill*, April 28, 2017. (http://thehill.com/blogs/pundits-blog/foreign-policy/331061-dont-let-north-koreas-nukes-overshadow-human-rights-abuses)

PREPARED STATEMENT OF JOHN PARK

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SEPTEMBER 7, 2017

Introduction

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify before you today. As requested by the Committee, I'll be providing key findings from my research into the North Korean regime's accumulated learning in evading sanctions, and outlining ways to bolster efforts to stop its procurement of banned items for its WMD programs. Such efforts are urgently needed as the regime continues to make rapid advances in its nuclear weapons development program—most recently a 6th nuclear test and an intermediate-range ballistic missile flight over Japan.[1]

How Has the North Korean Regime Evaded Sanctions?

As I highlighted in my testimony in July before a subcommittee of the House Committee on Financial Services, the North Korean regime's sanctions evasion techniques have improved significantly because of North Korea, Incorporated's migration to the Chinese marketplace.[2] As a result, U.S. policymakers need to diversify the set of policy tools beyond sanctions to disrupt North Korean–Chinese business partnerships operating inside of China.

My MIT colleague, Dr. Jim Walsh, and I conducted research on North Korea, Incorporated—a term we use to describe the regime's web of elite State trading companies. We found that the net effect of sanctions was that they, in practice, ended up strengthening the regime's procurement capabilities—what we call the "sanctions conundrum."[3]

In the marketplace, increasing sanctions on North Korea's State trading companies had the effect of elevating the risk of doing business with these entities. However, rather than deterring local Chinese business partners, the elevation of risks and rewards attracted more capable, professional middlemen to procure illicit items on behalf of North Korean clients. The process that drove this outcome was the monetization of risk. The higher the sanctions risk, the higher the commission fee that a North Korean entity had to compensate a local middleman.

In sum, targeted sanctions—unintentionally and counterintuitively—helped to create more efficient markets in China for North Korea, Incorporated.

Significantly, one of the biggest setbacks for North Korea, Incorporated in recent years was an accidental one. In the early years of Xi Jinping's tenure as General-Secretary of the Communist Party of China, his signature Anti-corruption campaign swept up "tigers and flies."[4] Some of these corrupt party officials were, directly or indirectly, involved in business deals with North Korean procurement agents embedded in the Chinese marketplace.

In applying this potent domestic policy tool, the Chinese authorities had—unintentionally and highly effectively—disrupted specialized North Korea–China business partnerships. While this precedent was an accidental one, there are important lessons that can be applied to the immediate goal of halting the North Korean re-

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[1] The primary U.S.-led response to these provocations has been a robust call for enhanced sanctions in the U.N. Security Council (UNSC). The pillars of the UNSC sanctions regime on North Korea include resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), and 2371 (2017). The context surrounding these resolutions is usually a nuclear test or launch using ballistic missile technology, which then triggers a UNSC response through Chapter VII measures. These tests and launches are repeatedly condemned as a clear threat to international peace and security. North Korea is urged not to conduct any further test or launch, reminded of its international obligations, and called upon to abandon all of its nuclear weapons and existing program in a complete, verifiable, and irreversible manner. With each passing resolution, the scope and substance have both widened and deepened, entailing very specific provisions. "Halting North Korea's Nuclear and Ballistic Missile Development Programs", Asan Institute–Harvard Belfer Center Workshop, Seoul, June 2017.

[2] Park, John. Testimony before the House Committee on Financial Services' Monetary Policy and Trade Subcommittee, "Restricting North Korea's Access to Finance", 19 July 2017. Accessed at: *https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=402134.*

[3] Park, John, and Jim Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences", MIT Security Studies Program, August 2016. Accessed at: *https://drive.google.com/file/d/0B_ph0c6i87C_eGhCOGRhUVFaU28/view.*

[4] The term "tigers and flies" refers to national as well as local-level corrupt Party officials, who have been the targets of Xi's Anti-corruption apparatus. "Portrait of a Purge: Who Is Being Investigated for Corruption and Why?" *The Economist*, 13 February 2016. Accessed at: *https://www.economist.com/news/china/21692928-who-being-investigated-corruption-and-why-portrait-purge.*

gime's procurement of illicit items for its nuclear and ballistic missile development programs.

We can and must disrupt these partnerships upstream—before the procured item becomes a part of globalized trade flows on its way to North Korea. To do so, we need to diversify the set of policy tools beyond sanctions and coordinate with different policy actors—like compliance departments in financial institutions and Chinese law enforcement—to significantly reduce the wide-open space in which North Korea, Incorporated currently operates.

What Additional Policy Tools Are There?

In addition to the policy recommendations offered by my distinguished colleagues on the panel, I'd like to bring to the Committee's attention what I call the "Three Antis." These are a set of China's domestic policy tools—namely, Anti-corruption apparatus, Anti-narcotics campaign, and Anti-counterfeiting activities—that can be used to impede North Korea's illicit procurement.

1. Anti-Corruption Apparatus

The September 2016 case of the Dandong Hongxiang Industrial Development Company[5] serves as an important—intentional—precedent for scaling up the application of the Anti-corruption apparatus to target corrupt Party officials involved in these Sino–North Korean business partnerships. Given the link between private Chinese middlemen and local corrupt Party officials, using the Anti-corruption apparatus intentionally to target North Korean–Chinese business partnerships would have an immediate impact on procurement deals. Of all the policy tools, this substantial one is readily available, but dependent on the senior Chinese leadership's decision to go down this path. The U.S. threat of applying secondary sanctions on large Chinese banks and companies could elevate the Chinese leadership's interest in pursuing this path.[6]

2. Anti-Narcotics Campaign

An open secret in China's northeastern provinces is that there's an expanding narcotics problem emanating from North Korea. Called "ice," this cheap and highly addictive form of methamphetamine is produced in large quantities in North Korean pharmaceutical factories. Drawing on the precedent of Sino–U.S. cooperation in the late 2000s when China was confronting an inflow of opiates through its border with Afghanistan, there's an opportunity to adapt the previous program to China's northeastern provinces. Although aimed at the narcotics trade, the positive spillover effect of increased Chinese law enforcement activities would further constrain the areas in which North Korea, Incorporated and its Chinese partners operate.

3. Anti-Counterfeiting Activities

The North Korean regime is well documented as the most prolific creators of "supernotes"—counterfeited US$100 bills. What's not so well known in the West is that there's strong concern in China that its neighbor has been counterfeiting Chinese currency. From Beijing's perspective, this criminal activity is a direct threat to China's national economic security. U.S. policymakers could leverage this Chinese concern to elevate channels of bilateral cooperation drawing on U.S. experience tracking down the North Korean regime's sophisticated counterfeiting operations. Given the high threat level, the United States should encourage China to further expand the deployment of Chinese law enforcement resources trained on counterfeiting activities, with special authorization to investigate and inspect North Korea-related consignments and facilities.

Conclusion

Objectively assessing how criminal North Korean activities affect China's national interests yields a clear view of areas of common ground upon which we can build

[5] "In China's Shadow: Exposing North Korean Overseas Networks", Asan Institute for Policy Studies and C4ADS, August 2016. Accessed at: *https://c4ads.org/reports/*.

[6] If the U.S. Government were to solely apply secondary sanctions on large Chinese banks and companies, there would be two likely main consequences that it would have to anticipate and for which it would have to prepare. The first would be an immutable Chinese stance that such measures amount to being forced to apply foreign laws in an area under Chinese jurisdiction, which would be viewed as a violation of China's sovereignty. The second would be unintended setbacks for U.S. business interests following the designation of these large Chinese entities, which operate widely in the global marketplace. These setbacks could range from delays in completing transactions to cancellation of major business projects. Engaging major Asia-based U.S. business firms in a full-scope assessment of the setbacks they anticipate from the application of secondary sanctions on their Chinese counterparts would yield valuable insights. These insights, in turn, could be useful in recalibrating the application of secondary sanctions.

a common cause with Chinese authorities in stopping North Korea, Incorporated. The work of the Committee, the panel members, as well as sanctions-focused officials in the U.S. Government is more critical than ever in this endeavor.

Thank you.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER FROM SENATORS SASSE AND DONNELLY

United States Senate
WASHINGTON, DC 20510

August 30, 2017

The Honorable Mike Crapo
Chairman
U.S. Senate Committee on Banking,
Housing and Urban Affairs
Washington, D.C. 20510

The Honorable Sherrod Brown
Ranking Member
U.S. Senate Committee on Banking,
Housing and Urban Affairs
Washington, D.C. 20510

Dear Chairman Crapo and Ranking Member Brown:

As you plan the Banking Committee's schedule for the coming months, we welcome your consideration of a full committee hearing on sanctions against the Democratic People's Republic of Korea (DPRK). This is an important and timely subject. We are writing to share with you some key findings and issues worthy of further review from our subcommittee's examination of the impact U.S. and international sanctions are having on Kim Jong-Un's regime and its pursuit of weapons of mass destruction.

On May 10, 2017, the Banking Subcommittee on National Security and International Trade and Finance held a hearing on "Secondary Sanctions against Chinese Institutions: Assessing Their Utility for Constraining North Korea." With the DPRK already largely isolated from the global economy, China accounts for more than 90 percent of the DPRK's total trade and is the economic lifeline of the Kim regime. China's support of new multilateral sanctions in 2016 and especially the most recent United Nations (UN) Security Council resolution passed with unanimous support in 2017 marks meaningful progress. However, the fact remains that China has a mixed record on enforcing both the letter and the spirit of sanctions against the DPRK. For example, despite agreeing to UN sanctions packages in 2016, China's trade with the DPRK in the first quarter of 2017 was up nearly 40 percent from the same period in 2016.

Our hearing included testimony from Juan Zarate and Adam Szubin, former Treasury Department officials and widely respected sanctions experts whose service spans Republican and Democratic administrations. The witnesses agreed on many key points, a few of which we highlight below.

First, both witnesses believe, cautiously, that it is possible to generate enough sanctions pressure to force the DPRK government to the table to negotiate a verifiable end to its nuclear weapons program. As Mr. Szubin stated, "North Korea is not self-reliant or 'sanctions proof.'" However, there is a strong consensus that the level of pressure necessary to get the Kim regime to the table, let alone reach an agreement, will be extraordinarily high and must be coupled with a full court diplomatic effort with our allies and with China directly to persuade China to engage more directly with the DPRK. It is our shared belief that the current multilateral sanctions may be insufficient to achieve this goal, even after the progress made at the United Nations in August. Continued U.S. engagement and leadership will therefore be critical in the months ahead and must include a

comprehensive effort to ensure rigorous enforcement of all U.S. and multilateral sanctions.

Second, while our witnesses agreed that the U.S. will need to sanction Chinese entities to strengthen enforcement against the DPRK, they called for nuance and collaboration over a directly adversarial approach between Washington and Beijing. They call for operating within a framework of law and order, working together with China to, as Mr. Zarate put it, "isolate rogue financial and commercial activity and those flouting legitimate authority." Without this kind of collaboration, Mr. Szubin argued, threatening or imposing secondary sanctions against Chinese targets "may change the conduct of individual Chinese entities… but it will not bring about the kind of comprehensive and sustained crackdown by Chinese authorities, traders, bankers and businesspeople that is required to bring North Korea to the table. That type of sanctions pressure will only be achieved when the Chinese government agrees to apply it."

Finally, and most importantly, our witnesses stressed that increasing sanctions pressure on the DPRK to the level necessary to force negotiations requires a deliberate, forceful, and coordinated diplomatic effort by the United States coupled with tough sanctions enforcement. Mr. Zarate stated, "To be effective, an attempt to use sanctions or financial measures of any sort must nest within a coherent strategy and cannot stand alone." China must be persuaded that our paramount interest in addressing the DPRK's nuclear and ballistic missile programs is not necessarily at odds with their principal interest in avoiding regime collapse.

We hope these fundamental findings are useful to you as you consider calling current administration officials to testify before the full committee and recommend the following questions as worthy of further consideration by the committee:

- What is North Korea's objective in pursuing its nuclear weapons and ballistic missiles programs, and what are its internal and external objectives with regards to the geographic paths of its missiles and its rate of current testing?
- What is the administration's strategy on the DPRK? What is the end goal on the DPRK and will the strategy achieve that goal?
- How does the Defense Intelligence Agency's assessment, as reported in the press, that the DPRK has miniaturized a nuclear weapon alter the administration's end goal or strategy?
- How does the sanctions-related and illicit finance work of the Treasury Department, specifically the Office of Terrorism and Financial Intelligence, nest within this strategy?
- What, if any, additional authorities does Treasury need to implement its strategy?
- How are Treasury Department officials working with other relevant departments and agencies to coordinate efforts on the DPRK?
- Does Treasury believe it has sufficient mechanisms in place to prevent North Korea from circumventing sanctions via illicit activities and underground markets?
- Is the Treasury Department sufficiently resourced to monitor primary and secondary sanctions against the DPRK?
- Do Treasury Department officials agree that it is possible to bring the DPRK to the negotiating table through sanctions pressure, and if so, are stronger U.S. or multilateral sanctions necessary to achieve that goal?
- How will the Countering America's Adversaries Through Sanctions Act (P.L. 115-44) be used by the Treasury Department to increase sanctions pressure on the DPRK?

Thank you for your consideration of our input. We look forward to working with you to address this timely and important matter before the full committee.

Sincerely,

Ben Sasse
Chairman
Subcommittee on National Security
and International Trade and Finance

Joe Donnelly
Ranking Member
Subcommittee on National Security
and International Trade and Finance