

House Foreign Affairs Committee  
*Subcommittee on Asia and the Pacific*

---

# Pressuring North Korea: Evaluating Options

**ANTHONY RUGGIERO**

Senior Fellow  
*Foundation for Defense of Democracies*

Washington, DC  
March 21, 2017

## Introduction

Chairman Yoho, Ranking Member Sherman, and distinguished members of this subcommittee, thank you for the opportunity to address you today on this important issue.

My testimony will outline four core elements to create a more effective North Korea policy, myths on North Korean sanctions, review North Korean sanctions evasion, and provide recommendations for Congress and the Trump administration.

The Kim family dynasty continues its 25-year drive to develop a nuclear weapon that it has already used to threaten the United States and our allies in Japan and South Korea. The last three U.S. presidents, Republicans and Democrats, were unable to develop an effective strategy to prevent North Korea from acquiring a nuclear weapon. Now Kim Jong Un has threatened to test an intercontinental ballistic missile (ICBM) that could reach the United States, and last month tested a solid propellant ballistic missile and killed his half-brother with nerve agent in a Malaysian airport. Earlier this month he simulated an attack on a base in Japan. We know that North Korea has proliferated ballistic missiles to Iran, Syria, and other nations, and secretly built a nuclear reactor in Syria in a location that has since fallen to ISIS.<sup>1</sup> Pyongyang is likely to proliferate the technology it develops to other rogue regimes, such as Iran.

One expert has predicted that North Korea could have an operational ICBM by 2020.<sup>2</sup> It is plausible, even likely, that by 2020, the regime will have a miniaturized nuclear device that could survive reentry on an ICBM, or may even have such a capability already.<sup>3</sup>

Meanwhile, South Korea may soon elect a president who once questioned the deployment of THAAD – a U.S. anti-ballistic missile system designed to shoot down short-, medium-, and intermediate-range ballistic missiles in their terminal phase.<sup>4</sup> Advisors to the candidate, Moon Jae In, last week suggested that the next South Korean president should review THAAD's deployment.<sup>5</sup> Moon has also advocated negotiations with North Korea that would include offering the regime financial inducements that would undermine the financial pressure of U.N. and U.S. sanctions, and which could violate recent U.N. Security Council resolutions.<sup>6</sup> This scenario is concerning, as Washington has tried to alter Pyongyang's behavior through economic engagement for 25 years, as well as disarming it through bilateral and multilateral negotiations, resulting in

---

<sup>1</sup> David Albright, Serena Kelleher-Vergantini, and Sarah Burkhard, "Syria's Unresolved Nuclear Issues Reemerge in Wake of ISIL Advance and Ongoing Civil War," *Institute for Science and International Security*, June 30, 2015. ([http://isis-online.org/uploads/isis-reports/documents/Syria\\_June\\_30\\_2015\\_Final.pdf](http://isis-online.org/uploads/isis-reports/documents/Syria_June_30_2015_Final.pdf))

<sup>2</sup> John Schilling, "North Korea's Large Rocket Engine Test: A Significant Step Forward for Pyongyang's ICBM Program," *38 North*, April 11, 2016. (<http://38north.org/2016/04/schilling041116/>)

<sup>3</sup> Jeffrey Lewis, "North Korea's Nuke Program Is Way More Sophisticated Than You Think," *Foreign Policy*, September 9, 2016. (<http://foreignpolicy.com/2016/09/09/north-koreas-nuclear-program-is-way-more-sophisticated-and-dangerous-than-you-think/>)

<sup>4</sup> James Griffiths and Joshua Berlinger, "What is THAAD?" *CNN*, September 9, 2016. (<http://www.cnn.com/2016/07/13/asia/what-is-thaad/>)

<sup>5</sup> Yeganeh Torbati and James Pearson, "Top South Korean presidential candidate would review missile defense process: advisors," *Reuters*, March 17, 2017. (<http://www.reuters.com/article/us-southkorea-china-thaad-idUSKBN16O0ZF>)

<sup>6</sup> Kent Boydston, "Moon Jae-In on North-South Integration," *North Korea: Witness to Transformation*, September 8, 2015. (<https://piie.com/blogs/north-korea-witness-transformation/moon-jae-north-south-integration>)

three separate agreements with Pyongyang to freeze or dismantle its nuclear weapons. This approach has completely failed.

The approach outlined below preserves U.S. dedication to the denuclearization of the Korean Peninsula while acknowledging that North Korea is not ready to negotiate away its nuclear weapons. Nonetheless, the Kim family must know that the United States will not accept it as a nuclear state or back down against its aggressive actions.

In my testimony before the full committee last month, I reviewed the impact of the North Korea Sanctions and Policy Enhancement Act (NKSPEA) of 2016.<sup>7</sup> While the law was a significant step forward, there is more that the U.S. should do. The law is largely responsible for nearly doubling the number of designations since March 2016, but 88 percent of those were persons inside North Korea, which does not address Pyongyang's international business.

#### **Four Core Policy Elements**

The Trump administration can return to a more effective North Korea policy with four core policy elements.

1. **Tough talk, no negotiations.** Kim has no present interest in giving up his nuclear weapons, and would see renewed negotiations with the West over his arsenal as an opportunity to buy time or extract new concessions. But it is useful to tell North Korea directly or in a multilateral format that the U.S. will increase sanctions and sanctions implementation, continue military exercises, and place additional military assets in the region. Pyongyang needs to know what to expect in response to its continued destabilizing behavior. It is also essential that Pyongyang understand that it has a non-violent, diplomatic exit strategy that is vastly preferable to the alternatives. Additionally, it is crucial that any discussions be held in close consultation with U.S. allies, including reassuring them that it will not abandon or bargain away their interests.

Two common North Korea policy suggestions are negotiating a freeze of its nuclear and missile programs and agreeing to a peace treaty to formally end the Korean War.<sup>8</sup> These, however, do not address the real issue: that North Korea is unwilling to denuclearize. The U.S. has tried freezes before: in 1994, 2005, 2007, and 2012. The Leap Day deal only last two weeks before North Korea was back to its provocations. A peace treaty in the face of North Korea's aggressive actions and Beijing's sanctions against South Korea over THAAD would be poor policy.<sup>9</sup> North Korea will simply pocket all the benefits from negotiating a freeze or treaty without any actual drawdown to its nuclear and missile programs. Beijing and Pyongyang will then likely insist on the reduction or complete

---

<sup>7</sup> Anthony Ruggiero, "Countering the North Korean Threat: New Steps in U.S. Policy," *Testimony Before House Foreign Affairs Committee*, February 7, 2017.

<sup>8</sup> Leon Sigal, "Why Trump should strike a deal with North Korea," *CNN*, March 7, 2017.

(<http://www.cnn.com/2017/03/06/opinions/north-korea-talks/>); Ann Wright, "It's time to for the U.S. to negotiate a peace treaty with North Korea," *NK News*, March 16, 2017. (<https://www.nknews.org/2017/03/its-time-for-the-u-s-to-sign-a-peace-treaty-with-north-korea/>)

<sup>9</sup> David Straub, "The North Korean nuclear freeze mirage," *The Hill*, January 27, 2017.

(<http://thehill.com/blogs/congress-blog/foreign-policy/316488-the-north-korean-nuclear-freeze-mirage>)

withdrawal of U.S. troops from South Korea and possibly Japan. These policy options are not feasible at this time, and robust new sanctions and implementation of existing sanctions are better options for moving forward.

2. Get tough with China. In 2016, a ground-breaking study by C4ADS and South Korea's Asan Institute for Policy Studies documented how China is turning a blind eye to North Korea's nuclear and missile programs.<sup>10</sup> Beijing said it would end imports of North Korean coal,<sup>11</sup> but after a similar ban last April, China imported over \$800 million of North Korean coal. China must be treated as part of the problem until it shows that it can be part of the solution.

The Trump administration has vowed to get tough with Beijing. This is an important place to start, and a smarter policy than that taken by Presidents Clinton, Bush, and Obama – all of whom tried softer approaches on dealing with China on North Korea issue. Each of these efforts produced agreements of limited value. For Clinton and Bush, post-deal implementation focused more on preserving the deals than holding China or North Korea to their commitments.

3. Support key allies in the region. Washington should work with South Korea and Japan, and also Australia and other Asian allies, to use tools or other mechanisms to stymie North Korea's proliferation activities. This could include the Proliferation Security Initiative, a coalition of 105 nations dedicated to interdicting materials used in weapons of mass destruction – The U.S. should also conduct additional high-profile military exercises with its allies as a deterrent to North Korea. We must reassure South Korea amid China's efforts to intimidate it into canceling the deployment of the U.S. Terminal High Altitude Area Defense (THAAD) missile defense system.
4. Introduce new sanctions on North Korea and strengthen existing ones. Senator Cory Gardner (R-CO) on January 2 noted the importance of secondary sanctions and other measures to utilize the country's cyber activities to ensure there are consequences for North Korea and those who help it violate U.N. sanctions or U.S. law.<sup>12</sup> I discuss specific sanctions recommendations for Congress and the Trump administration later in my testimony.

### **Myths on 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

---

<sup>10</sup> "In China's Shadow," *The Asan Institute for Policy Studies and C4ADS*, August 2016. (<https://static1.squarespace.com/static/566ef8b4d8af107232d5358a/t/57dfe74acd0f68d629357306/1474291539480/In+China%27s+Shadow.pdf>)

<sup>11</sup> Anthony Ruggiero, "China's 'ban' on North Korean coal isn't the tough stance it seems," *The Hill*, February 28, 2017. (<http://thehill.com/blogs/pundits-blog/foreign-policy/321552-dont-be-fooled-chinas-ban-on-north-korean-coal-isnt-the>)

<sup>12</sup> Cory Gardner, "Why Donald Trump should make North Korea a top priority," *CNN*, January 2, 2017. (<http://www.cnn.com/2017/01/02/opinions/trump-north-korea-priority-opinion/>)

have not achieved the U.S. objective of disarming North Korea, but it is not true that sanctions have been strong or well-enforced, or that they cannot work. The most prevalent myths include the following:

1. Myth #1: North Korea is the world's most-sanctioned country. Despite North Korea's provocations over the last 25 years, the United States has demonstrated extraordinary restraint in sanctioning the country. A U.S. president only gave the Treasury secretary comprehensive authority to designate North Korean officials and party members in January 2015, and sanctions began to accelerate only in March 2016, after a new sanctions law went into effect. To date, designations on Pyongyang lag far behind those placed on Iran before the 2015 nuclear deal. The number and timing of designations reveal the commitment Washington has shown on sanctioning North Korea relative to other countries. Today, U.S. designations on North Korea are on par with those against Zimbabwe.<sup>13</sup> Washington still has far more sanctions against Iran and Russia than against the hermit kingdom.
2. Myth #2: 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."<sup>14</sup> Such actions put banks at a disadvantage, especially when governments are unwilling to identify these companies. The U.N. earlier this month noted that North Korea used foreign banks to process transactions through accounts in the U.S. and Europe.<sup>15</sup> Treasury similarly discovered that designated North Korean banks have conducted financial transactions through the American banking system. The Justice Department also found that from August 2009 to September 2015, Chinese nationals had used 22 front companies to open Chinese bank accounts to conduct dollar financial transactions through the U.S. financial system when completing sales to Pyongyang.<sup>16</sup>
3. Myth #3: the U.S. will run out of North Korea designations. The number of North Korea designations nearly doubled over the last year. Washington has finally directly sanctioned the country's leader Kim Jong Un, numerous government ministries, shipping companies, seven banks, and the national airline. Unfortunately, these designations did not touch North Korean international business ties. Despite abundant evidence of deceptive Chinese financial practices, Washington has not designated, fined, or investigated a single Chinese bank for illicit North Korean activity. Washington may believe that it cannot sanction

---

<sup>13</sup> Joshua Stanton, "You'd be surprised how much tougher our Zimbabwe and Belarus sanctions are than our North Korea sanctions," One Free Korea, July 15, 2014.

(<http://freekorea.us/?s=zimbabwe#sthash.uv4SyGfI.MhSXDHoI.dpbs>)

<sup>14</sup> 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](https://www.fincen.gov/sites/default/files/shared/2016-13038(DPRK_Finding).pdf))

<sup>15</sup> 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>)

<sup>16</sup> 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>)

Beijing without jeopardizing other priorities such as the Iran deal, but the failure to sanction Chinese financial institutions has drastically reduced the efficacy of both American and U.N. sanctions against North Korea.

4. Myth #4: China will not respond to pressure over North Korea. Conventional wisdom says Beijing will shelter North Korea from international sanctions at all cost.<sup>17</sup> That is not necessarily true. Treasury sanctioned North Korea's Foreign Trade Bank in 2013 because it was facilitating transactions on behalf of actors linked to Pyongyang's proliferation network.<sup>18</sup> Two months later, the Bank of China sent the Foreign Trade Bank a notice closing its account.<sup>19</sup> 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.<sup>20</sup> When Pyongyang threatens Chinese economic interests, Beijing can tighten its lifeline to North Korea, even moving against its own citizens who had likely been authorized to trade with the country.

### North Korean Sanctions Evasion

The United Nations issued its annual report earlier this month on North Korea, revealing numerous sanctions violations and confirming widespread suspicions that international sanctions on Pyongyang are poorly enforced. As the report notes, North Korea consistently obscures its access to the international financial system. The report also warns that these efforts generate significant revenue for the Kim regime, most of it denominated in dollars, euros, and Chinese renminbi. North Korea's reliance on the international financial system is concerning, but also provides the U.S. leverage to address Pyongyang's illicit activities.

The U.N. report also detailed the stunning finding that SWIFT provides financial messaging services to North Korean banks, including designated ones, although on March 7 *The Wall Street Journal* reported that SWIFT would stop providing its services to banks in the country.<sup>21</sup>

This was not SWIFT's first dance with rogue regimes; in 2012 it provided these services to Iranian banks, including the Central Bank of Iran. SWIFT finally acted against Tehran's banks,

<sup>17</sup> 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>)

<sup>18</sup> 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>)

<sup>19</sup> Simon Rabinovitch and Simon Mundy, "China reduces banking lifeline to N Korea," *Financial Times*, May 7, 2013. (<https://www.ft.com/content/a7154272-b702-11e2-a249-00144feabdc0>)

<sup>20</sup> 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/](http://www.upi.com/Top_News/World-News/2016/09/21/China-arrests-more-than-10-business-executives-for-North-Korea-trade/1531474469593/))

<sup>21</sup> Jay Solomon, "Swift Banking System Bars North Korean Banks," *The Wall Street Journal*, March 7, 2017. (<https://www.wsj.com/articles/swift-banking-system-bars-several-north-korean-banks-1488937466>)

including those designated for proliferation and terrorism, after Congress began consideration of sanctions legislation prohibiting the practice.<sup>22</sup>

SWIFT claims that provided its services to U.N.-designated North Korean banks after receiving authorization from Belgium. Belgium should not have provided the authorizations in the first place, and the U.N. noted that they were violations of its sanctions. These authorizations also likely violated the discretionary sanctions in the North Korea Sanctions and Policy Enhancement Act of 2016 against knowingly providing financial support for U.N.-designated persons.<sup>23</sup>

North Korea's SWIFT access is a symptom of a larger problem: malaise toward Pyongyang's financial activities. The Justice Department in September 2016 revealed a China-North Korea scheme that provided the Kim regime access to the American banking system over a six-year period.<sup>24</sup> No Chinese bank was sanctioned or fined for this activity. The North Korean bank at the center of this network is one of the U.N.-designated banks on SWIFT that were noted in the U.N. report.

In the December 2015 trial of Chinpo Shipping in Singapore, a Bank of China representative suggested transactions in dollars would be successful if the company removed references to North Korean vessels in wire transfers.<sup>25</sup> Bank of China should have been fined by the U.S. even if such remarks were limited to a single overzealous employee, and the U.S. must clarify that this conduct is unacceptable.

The U.N. has said, and Reuters confirmed, North Korea's efforts to sell military equipment from a front company purportedly in Malaysia.<sup>26</sup> This network and its banks have not been sanctioned.

### Recommendations for Congress

1. Mandate additional resources to address North Korea's activities. The North Korea Sanctions and Policy Enhancement Act of 2016 is a comprehensive law that provides a myriad of tools for the Trump administration to address the North Korean threat. It is important that Congress continue to address additional areas through legislation in the same overwhelmingly bipartisan nature, signaling to North Korea and China that focus on this

<sup>22</sup> Rick Gladstone and Stephen Castle, "Global Network Expels as Many as 30 of Iran's Banks in Move to Isolate Its Economy," *The New York Times*, March 15, 2012. (<http://www.nytimes.com/2012/03/16/world/middleeast/crucial-communication-network-expelling-iranian-banks.html>); Reuters, "Payments system SWIFT to expel Iranian banks Saturday," March 15, 2012. (<http://www.reuters.com/article/us-nuclear-iran-idUSBRE82E15M20120315>)

<sup>23</sup> 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. §201. (<https://www.congress.gov/114/bills/hr757/BILLS-114hr757enr.pdf>)

<sup>24</sup> 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>)

<sup>25</sup> 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/>)

<sup>26</sup> 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>); James Pearson and Rozanna Latiff, "North Korea spy agency runs arms operation out of Malaysia, U.N. says," Reuters, February 27, 2017. (<http://uk.reuters.com/article/uk-northkorea-malaysia-arms-insight-idUKKBN1650YG>)

issue will continue. Throughout my testimony, I have detailed the challenge we face with an adversary that seems to be one step ahead of us. Our entire approach to the North Korea issue needs to change. One area Congress can address immediately is providing additional resources to the Treasury Department, Justice Department, Intelligence Community, and other government agencies to investigate violations of the NKSPEA.

2. Restrict travel to North Korea. I noted in my testimony last month to the full committee that the State Department's enhanced travel warnings mandated by the NKSPEA are important to protecting the safety of U.S. nationals.<sup>27</sup> Banning tourist travel would also amplify the effectiveness of the recent designation of North Korea's national flag carrier, Air Koryo, and deny Pyongyang another source of hard currency. By law, the president does not have the authority to ban transactions incident to travel to, from, or within North Korea without further action by Congress.<sup>28</sup> Congress, however, could pass legislation authorizing the president to restrict travel to North Korea by requiring licenses for such transactions. The benefit of this licensing system is that it would allow the United States to screen and be aware of all U.S. persons in North Korea. The licensing system could also have exceptions for U.S. government travel and private trips associated with humanitarian missions. This action would restrict tourist travel to North Korea.
3. Investigate China. The Treasury and Justice Departments' actions in late September 2016 showed a troubling pattern of Chinese persons assisting North Korean-designated persons, including through the U.S. financial system. These transactions lasted six years, to September 2015, making it hard to believe the Chinese government regulators were unaware of this conduct. It is important that Congress understand the extent of China's efforts, or lack thereof, to combat money laundering, sanctions violations, and proliferation financing. I recommend that new legislation include specific sections on North Korea's network within China. It should also address the broader issue of Chinese support for, and harboring of, North Korean nationals involved in prohibited conduct. In particular, the report could also focus on whether the financial institutions involved should have been designated or subjected to secondary sanctions.
4. Prohibit Relationships with North Korean Banks: SWIFT's action to stop providing financial messaging services to North Korean banks was important and overdue. But it is important for Congress to be clear that any business, with few exceptions, with North Korean banks is unacceptable. The trade-off must be clear: continuing business with North Korea will bring significant consequences. The United Nations Security Council Resolutions has progressively tightened restrictions on relationships with North Korean banks. However, the U.N. reported the use of SWIFT and front companies for U.N.-

---

<sup>27</sup> The State Department "strongly urges U.S. citizens to avoid all travel to North Korea/the Democratic People's Republic of Korea (DPRK) due to the serious risk of arrest and long-term detention under North Korea's system of law enforcement, which imposes unduly harsh sentences, including for actions that in the United States would not be considered crimes and which threaten U.S. citizen detainees with being treated in accordance with "wartime law of the DPRK." U.S. Department of State, "North Korea Travel Warning," November 9, 2016. (<https://travel.state.gov/content/passports/en/alertswarnings/north-korea-travel-warning.html>)

<sup>28</sup> International Emergency Economic Powers Act of 1977, Pub. L. 95-223, 91 Stat. 1625, codified as amended at 95 U.S.C. §103(b)(4).



designated North Korean banks. The U.S. should play a leadership role in adopting sanctions against those who provide any services to North Korean banks.

5. Extend the North Korea Human Rights Act: The Kim family regime's treatment of its own people is appalling, and Beijing's willingness to excuse its actions is disappointing. The United States must lead the effort to promote information flow into North Korea and hold the hermit kingdom accountable for its actions. China has prevented the U.N. from sending North Korea's case to the International Criminal Court. But Congressional action to extend this important law will keep focus on the issue and ensure the Trump administration makes it a priority in discussions with Pyongyang and Beijing.

### **Recommendations for the Trump Administration**

1. Make significant changes to our North Korea sanctions efforts. North Korea represents a direct threat to the United States and our allies, and we must radically change our approach to North Korea sanctions efforts. All remaining North Korean banks should be designated immediately. A senior official from the Treasury Department should make clear in a major speech or Congressional testimony that Washington will enforce requirements on financial institutions. These will help those institutions know their customer, enabling the use of sanctions against those who do not comply.

President Trump should direct the attorney general and Treasury secretary to jointly investigate the Treasury and Justice actions in late September 2016, and the Bank of China for its 2013 transactions on behalf of Chinpo Shipping.<sup>29</sup> The Treasury secretary should take strong action against any bank that continues to provide direct or indirect financial services to North Korean banks.

2. Designate additional persons before the next North Korean provocation. The United States has a tendency to engage in a provocation-response cycle in response to North Korea's provocative behavior. This approach is dangerous, as it suggests that Pyongyang is only a threat when it engages in provocations. In fact, North Korea is a threat to the United States and our allies every day that it continues development of nuclear weapons, means of delivery, and proliferation activities. Part of this new approach would include investigating China-North Korea activities and using the North Korea Sanctions and Policy Enhancement Act of 2016 to designate persons, including Chinese financial institutions, with sanctions and secondary sanctions. A critical aspect of this approach is the designation of North Korean front companies on a regular basis. Financial institutions can be an ally in the effort to stop North Korea's activities, but that can only happen if there is a regular designation process that exposes North Korea's efforts to compromise the financial system through front companies.
3. Enhance diplomatic efforts to implement sanctions. The United States is uniquely positioned to lead a diplomatic effort to implement existing sanctions and create the environment for new multilateral sanctions. These would be done through the U.N. or with

---

<sup>29</sup> 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/>)

international coalitions concerned with the prevention of money laundering, smuggling, proliferation, and human trafficking. The U.N. Panel of Experts has consistently called out the poor implementation of U.N. sanctions already in place. The United States, particularly its Special Representative for North Korea Policy, could lead that effort.<sup>30</sup> It is also important that these efforts reinforce the idea that while a significant percentage of North Korea's trade is with China, Pyongyang has other economically important and dangerous relationships with other states. The U.S. government must be properly organized, staffed, and resourced for this mission, and it is imperative that North Korea be given the highest priority when it comes to diplomatic engagement and sanctions investigations.

4. Increase engagement at the United Nations. A general sanctions rule is that the United States leads while other states and multilateral bodies (such as the U.N. and European Union) follow. That rule is instructive here, where Washington must use all of its sanctions and investigative tools, including the resources of non-governmental organizations, to expose North Korea's illicit network. The United States could use the information it acquires to host information sessions for interested delegations. The U.S. should also increase its support to the U.N. Panel of Experts, including by providing it more information about the status and location of key North Korean networks and assets.

## Conclusion

North Korea is an extraordinary foreign-policy challenge. Pyongyang's provocations, which will soon lead to a nuclear-armed ballistic missile capable of hitting North America, deserve increasingly harsh responses from Washington.<sup>31</sup> And while China is critical to any effort to increase sanctions against North Korea, America has in the past sought Beijing's cooperation at the U.N. – a strategy that failed completely. If Washington wants to be serious about sanctions, it must acknowledge that China is part of the North Korea problem until Beijing demonstrates otherwise. Sanctions against North Korea and China are the only peaceful means for coercing the regime, 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.

---

<sup>30</sup> United Nations Security Council, "Report of the Panel of Experts established pursuant to resolution 1874 (2009)," S/2016/157, February 24, 2016. ([http://www.un.org/ga/search/view\\_doc.asp?symbol=S/2016/157](http://www.un.org/ga/search/view_doc.asp?symbol=S/2016/157))

<sup>31</sup> John Schilling, "North Korea's Large Rocket Engine Test: A Significant Step Forward for Pyongyang's ICBM Program," 38 North, April 11, 2016. (<http://38north.org/2016/04/schilling041116/>)