

House Committee on Financial Services  
*Monetary Policy and Trade Subcommittee*

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# Restricting North Korea's Access to Finance

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## Introduction

Chairman Barr, Ranking Member Moore, and distinguished members of this subcommittee, 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 individuals, banks, and front companies who play a crucial role in enabling North Korea to evade current sanctions. Again, there is a common perception that China is immune to pressure from abroad, yet there are already strong indications that it 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 achieve an intercontinental ballistic missile (ICBM) that can deliver a nuclear weapon to the United States. The July 4 ICBM test is a wakeup call to all of us, including those who once called Kim a "Swiss educated reformer" or believe North Korea has any interest in serious negotiations with the United States.<sup>1</sup>

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

Thus, the U.S. finds itself in a rapidly deteriorating situation where counterproductive policy options like a freeze of North Korea's nuclear and missile programs or a 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.<sup>2</sup> Just after the July 4 ICBM test, North Korea's state media said that the Kim regime would not negotiate its nuclear weapons or

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<sup>1</sup> 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>)

<sup>2</sup> Jeffrey Lewis, "The Map of Death," *Foreign Policy*, April 3, 2013. (<http://foreignpolicy.com/2013/04/03/the-map-of-death/>)

ballistic missiles or stop bolstering its nuclear force unless the United States ended its “hostile policy and nuclear threat” to North Korea.<sup>3</sup> Translation: When Washington abandons its allies in Tokyo and Seoul and removes all troops, North Korea might be willing to talk about its programs.

### **The Nature of North Korea Sanctions**

North Korea is simultaneously known as the land of lousy policy options or the land of no policy options. It is simply not true. And the choice is not between negotiating a flawed deal or fighting a catastrophic war. Sanctions remain the best policy option to protect the United States and its allies from North Korea’s expanding programs.

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. In prior testimonies before the House Foreign Affairs Committee and its Subcommittee on Asia and the Pacific, I reviewed four of the most prevalent myths about sanctions, including: 1) North Korea is the world’s most-sanctioned country; 2) North Korea is isolated financially; 3) the U.S. will run out of North Korea designations; and 4) China will not respond to pressure over North Korea.<sup>4</sup>

A quantitative review of U.S. sanctions programs reveals that North Korea currently sits fifth, behind Ukraine/Russia, Syria, 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 Iraq (see graphic 1).<sup>5</sup> 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. A qualitative assessment of the sanctions imposed on North Korea reinforces the conclusion that it has not been targeted aggressively, since those sanctions barely touch the international business networks – especially in China – on which Pyongyang relies to evade most restrictions.

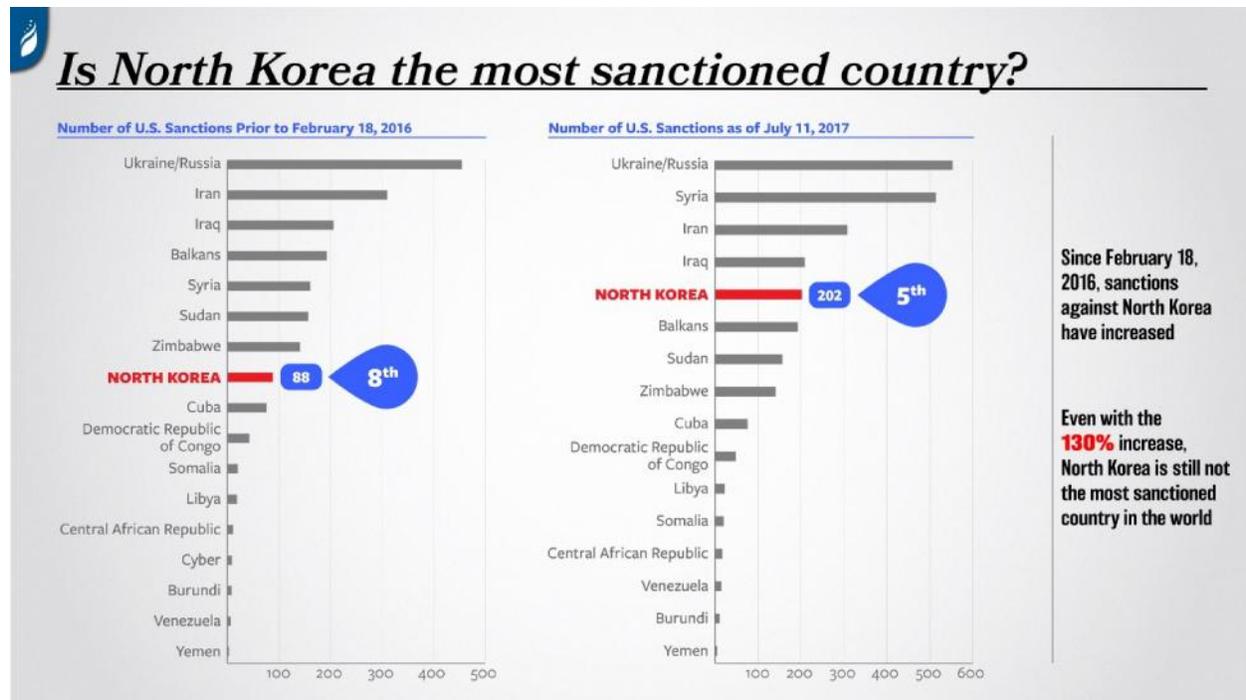
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<sup>3</sup> “Kim Jong Un Supervises Test-launch of Inter-continental Ballistic Rocket Hwasong-14,” Korean Central News Agency, July 5, 2017. (<https://kcnawatch.co/newstream/276945/kim-jong-un-supervises-test-launch-of-inter-continental-ballistic-rocket-hwasong-14/>)

<sup>4</sup> Anthony Ruggiero, “Countering the North Korean Threat: New Steps in U.S. Policy,” *Testimony Before House Foreign Affairs Committee*, February 7, 2017.

([http://www.defenddemocracy.org/content/uploads/documents/20717\\_Ruggiero\\_Testimony.pdf](http://www.defenddemocracy.org/content/uploads/documents/20717_Ruggiero_Testimony.pdf)); Anthony Ruggiero, “Pressuring North Korea: Evaluating Options,” *Testimony Before House Foreign Affairs Committee, Subcommittee on Asia and the Pacific*, March 21, 2017. ([http://www.defenddemocracy.org/content/uploads/documents/32117\\_AR\\_NK.pdf](http://www.defenddemocracy.org/content/uploads/documents/32117_AR_NK.pdf))

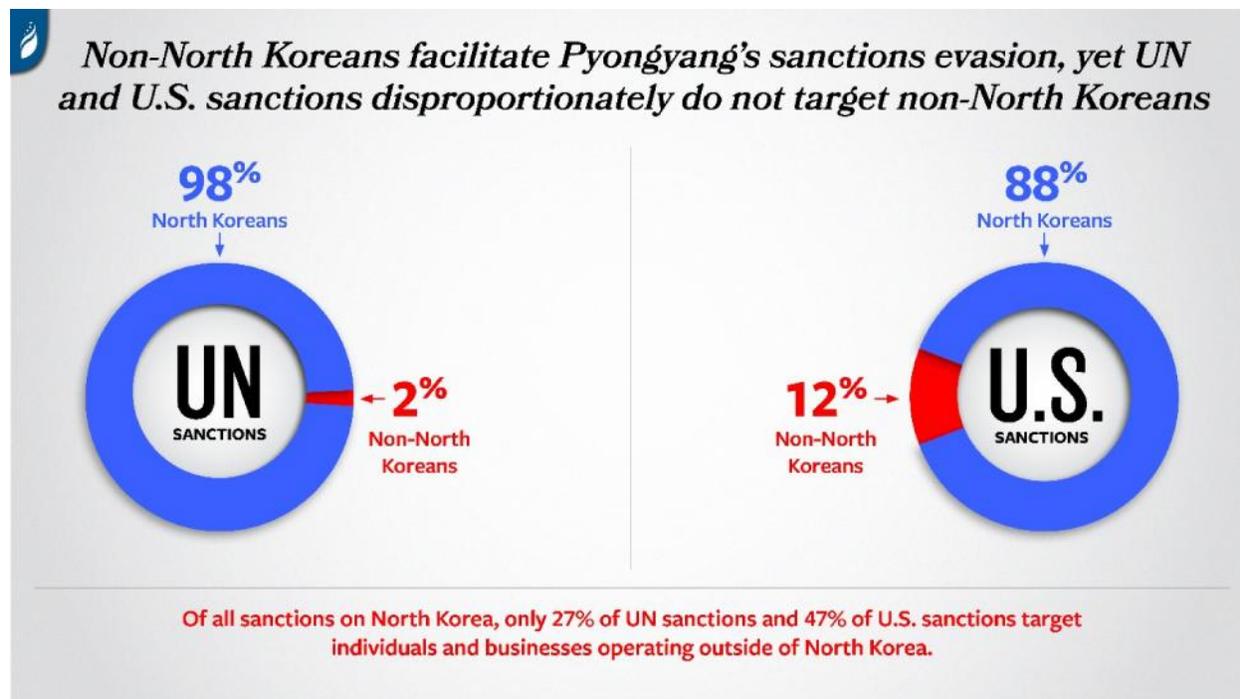
<sup>5</sup> The review of sanctions included those entities and individuals listed on the U.S. Department of the Treasury’s Office of Foreign Assets Control Specially Designated Nationals list. The Ukraine/Russia sanctions category includes persons sanctioned under the Sergei Magnitsky Rule of Law Accountability Act and persons subject to the Ukraine-related Directives. U.S. Department of the Treasury, Specially Designated Nationals List, accessed through July 11, 2017. (<https://sanctionssearch.ofac.treas.gov/>)



Thus, while the number of U.S. and UN North Korea sanctions programs may be increasing, they focus on the wrong areas. To be sure, there is value in naming the North Koreans responsible for the regime’s proliferation activities, missile and nuclear developments, human rights abuses, and other illicit activities. But the UN Panel of Experts reported in February 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.<sup>6</sup>

<sup>6</sup> 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>)

At present, 47 percent of U.S. sanctions target persons located/conducting business outside of North Korea, and only 12 percent of those persons are non-North Korean. The UN sanctions numbers are worse. Only 27 percent of all designations target persons located or conducting business outside of North Korea, and just 2 percent of those persons are non-North Korean.



### 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 will not negotiate away its nuclear 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.

The key aspect of the Iran sanctions model was that it forced companies, individuals, banks, and governments wherever located to make a choice: continue doing business with Iran or join the U.S. efforts. If they chose business with Iran, Washington would restrict or end their access to the U.S. dollar, freeze their assets, and label them as doing business with a state sponsor of terrorism intent on developing a nuclear weapon. The approach worked around the world as 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.”<sup>7</sup>

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.<sup>8</sup> This shows we are not serious about sanctions that have sufficient teeth to have the desired impact. Likewise, Austria claimed that ski equipment for Kim’s chalet 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.<sup>9</sup> 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.

### 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.

Conventional wisdom says Beijing will shelter North Korea from international sanctions at all cost.<sup>10</sup> That is not necessarily true. China’s response to last month’s U.S. sanction against Bank of Dandong has been muted. In 2013, the U.S. Treasury sanctioned North Korea’s Foreign Trade Bank because it was facilitating transactions on behalf of actors linked to Pyongyang’s proliferation network.<sup>11</sup> Two months later, the Bank of China sent the Foreign Trade Bank a notice closing its account, cutting off its access the Chinese financial system.<sup>12</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>13</sup> Clearly, when Pyongyang threatens

<sup>7</sup> 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](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))

<sup>8</sup> 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>)

<sup>9</sup> 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>)

<sup>10</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>11</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/j11876.aspx>)

<sup>12</sup> 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>)

<sup>13</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

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.

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. 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.

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 processed over \$1.3 billion in transactions through the American banking system between 2009 and 2016.<sup>14</sup>
- Along with four front companies, Dandong Zhicheng Metallic Material Company Ltd., 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, including \$52 million this year.<sup>15</sup>
- 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.<sup>16</sup>

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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>14</sup> *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)

<sup>15</sup> "Risky Business," *C4ADS*, June 2017. (<http://c4ads.org/reports/>); *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>)

<sup>16</sup> 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](https://www.fincen.gov/sites/default/files/federal_register_notices/2017-07-07/2017-14026.pdf))

- 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 at U.S. banks.<sup>17</sup>
- 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.<sup>18</sup>
- 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.<sup>19</sup>

The Justice Department declared in September 2016 that there were “no allegations of wrongdoing” by Chinese banks involved in the Dandong Hongxiang network.<sup>20</sup> We now know 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.”<sup>21</sup> 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.*** The nonprofit research firm C4ADS has done ground-breaking work on the Dandong Hongxiang network, in which a Chinese company and Chinese individuals created front companies for a UN- and U.S.-designated North Korean bank, thereby enabling dollar transactions to be processed through the U.S. financial system.<sup>22</sup> The UN Panel of Experts reported that North Korea’s networks generate revenue in dollars and euros, providing leverage for U.S. sanctions and regulatory actions.<sup>23</sup> Following its designation of Bank

<sup>17</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>18</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>19</sup> 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>)

<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>)

<sup>21</sup> 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](https://www.fincen.gov/sites/default/files/federal_register_notices/2017-07-07/2017-14026.pdf))

<sup>22</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>23</sup> 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>)

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.<sup>24</sup> 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.<sup>25</sup>

### North Korea's Chinese 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.<sup>26</sup> 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."<sup>27</sup> Many of these activities involve Chinese facilitators or have a nexus in China, suggesting that Beijing should do more to curtail these activities.<sup>28</sup> A sample of these proliferation activities include:

- Since 2009, North Korea has engaged in a sophisticated effort to sell military radios using front companies and banks in mainland China, Hong Kong, and Malaysia, according to *Reuters* and a UN report in February.<sup>29</sup> The UN stated that funds for the effort were provided by Pyongyang's main proliferation entity, which was designated by the U.S. in 2005 and by the UN in 2009.<sup>30</sup>
- The July 4 ICBM test was delivered to the launch site on a Chinese-made truck.<sup>31</sup> The same trucks were used by North Korea to parade six road-mobile intercontinental ballistic

<sup>24</sup> 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>)

<sup>25</sup> 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>)

<sup>26</sup> 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>)

<sup>27</sup> "Risky Business," *C4ADS*, June 2017. (<http://c4ads.org/reports/>)

<sup>28</sup> 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.WXqoytkT.dpbs>)

<sup>29</sup> James Pearson and Rozanna Latiff, "North Korea spy agency runs arms operation out of Malaysia," *Reuters*, February 27, 2017. (<http://www.reuters.com/article/us-northkorea-malaysia-arms-insight-idUSKBN1650YE>); 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>)

<sup>30</sup> The President of the United States, "Blocking the Property of Weapons of Mass Destruction Proliferators and Their Supporters," 70 Federal Register 126, June 28, 2005. (<https://www.treasury.gov/resource-center/sanctions/Documents/whwmdeo.pdf>); United Nations Security Council, "Narrative Summary of the Designation of the Korea Mining Development Trading Corporation," April 24, 2009. (<https://www.un.org/sc/suborg/en/sanctions/1718/materials/summaries/entity/korea-mining-development-trading-corporation>)

<sup>31</sup> 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>)

missiles in 2012.<sup>32</sup> 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.<sup>33</sup>

- 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.<sup>34</sup> The UN has prohibited these items since 2006, and such activity probably violates China's own export-control restrictions.<sup>35</sup>
- In 2016, *Reuters* reported that North Korea had showcased a new mobile artillery system on Chinese trucks, despite a 2009 UN ban on exporting arms and related material to North Korea.<sup>36</sup>
- In 2008, China's Limac Corp and North Korea's Ryongbong General Corp established a joint venture to mine tantalum, niobium, and zirconium, which can be used for nuclear reactors and missile technology.<sup>37</sup> Ryongbong was sanctioned by the U.S. in 2005 and by the UN in 2009. However, the *Wall Street Journal* reported that the joint venture continued for another five years before its registration was revoked due to a failure to file inspection reports.<sup>38</sup>
- In June 2016, Dandong Dongyuan Industrial Co. Ltd. exported to North Korea a shipment worth \$790,000 of radio navigational aid apparatus.<sup>39</sup> Experts at the James Martin Center for Nonproliferation Studies stated that this equipment can be used in navigation systems in vehicles and can serve as guidance devices for ballistic missiles.
- According to the UN Panel of Experts, North Korean universities that train the regime's nuclear scientists have exchange agreements with Chinese universities, even though UN

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<sup>32</sup> 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/>)

<sup>33</sup> 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](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1718%20%282006%29))

<sup>34</sup> 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/>)

<sup>35</sup> 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](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1718%20%282006%29))

<sup>36</sup> James Pearson, "China-made truck used by North Korea in new artillery system," *Reuters*, March 8, 2016. (<http://www.reuters.com/article/northkorea-nuclear-truck-corrected-updat-idUSL4N16H1CL>); United Nations Security Council, Resolution 1874, June 12, 2009. ([http://www.un.org/ga/search/view\\_doc.asp?symbol=S/RES/1874%282009%29](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1874%282009%29))

<sup>37</sup> Jeremy Page and Jay Solomon, "Chinese-North Korean Venture Shows How Much Sanctions Can Miss," *The Wall Street Journal*, May 7, 2017. (<https://www.wsj.com/articles/chinese-north-korean-venture-shows-how-much-sanctions-can-miss-1494191212?mod=djem10point&mg=prod/accounts-wsj>)

<sup>38</sup> Jeremy Page and Jay Solomon, "Chinese-North Korean Venture Shows How Much Sanctions Can Miss," *The Wall Street Journal*, May 7, 2017. (<https://www.wsj.com/articles/chinese-north-korean-venture-shows-how-much-sanctions-can-miss-1494191212?mod=djem10point&mg=prod/accounts-wsj>)

<sup>39</sup> "Risky Business," *C4ADS*, June 2017. (<http://c4ads.org/reports/>)

resolutions ban the training of North Koreans in sensitive technology that can be used for nuclear proliferation.<sup>40</sup>

- Debris from the February 7, 2016 Kwangmyongsong rocket contained several foreign-sourced items. The UN Panel of Experts traced the parts, through the serial number and the manufacturer of the camera, to Beijing East Exhibition High-Tech Technology Co. Ltd.<sup>41</sup> The UN prohibited the export of missile technology and parts to North Korea in 2006.<sup>42</sup>
- 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.<sup>43</sup>
- The UN 2016 report traced the manufacturer of the North Korean UAV drone recovered by South Korean authorities to Chinese companies including Morrowind Aerial Imaging Technology and Microfly Engineering & Technology.<sup>44</sup>

***Recommendation 2: Sanction Chinese Facilitators of Pyongyang’s Sanctions Evasion.*** A bipartisan group of experts has recommended that targeting China’s role in Pyongyang’s sanctions evasion is essential to change the Kim regime’s calculus.<sup>45</sup> The Trump administration should sanction elements of the network, preferably with near simultaneity for maximum effect. Chinese entities and individuals are at the heart of this network and Beijing will object to the sanctions, but the time for accepting China’s excuses is over.

### 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

<sup>40</sup> 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.NGxNL3Pq.dpbs>)

<sup>41</sup> 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>)

<sup>42</sup> 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](http://www.un.org/ga/search/view_doc.asp?symbol=S/RES/1718%20%282006%29))

<sup>43</sup> 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>)

<sup>44</sup> 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>)

<sup>45</sup> 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>); Joshua Stanton, Sung-Yoon Lee, and Bruce Klingner, “Getting Tough on North Korea,” *Foreign Affairs*, May/June 2017. (<https://www.foreignaffairs.com/articles/north-korea/2017-04-17/getting-tough-north-korea>); David S. Cohen, “One powerful weapon to use against North Korea,” *The Washington Post*, April 21, 2016.

([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=.cf5c7aef261b](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=.cf5c7aef261b)); Elizabeth Rosenberg, “The Maximum Financial-Pressure Strategy for North Korea,” *Foreign Policy*, May 9, 2017. (<http://foreignpolicy.com/2017/05/09/the-maximum-financial-pressure-strategy-for-north-korea-secondary-sanctions-china/>)

the workers' salaries directly to the regime, which passes on just a small percentage to the workers.<sup>46</sup> These slave laborers likely participated in the construction of venues for the upcoming soccer World Cups in Russia in 2018 and Qatar in 2022.<sup>47</sup> UN Security Council Resolution 2321 states that Pyongyang uses earnings from overseas labor for its nuclear and ballistic missile programs, which would be a violation of previous Security Council resolutions.<sup>48</sup> One expert puts North Korea's earnings from the practice at some \$500 million annually.<sup>49</sup>

***Recommendation 3: Block the Revenue North Korea Receives from Overseas Laborers.*** The U.S. should lead an effort to end North Korean slave labor by using Executive Order 13722 and the North Korea Sanctions and Policy Enhancement Act of 2016 to sanction foreign companies and individuals who pay the Kim regime for such labor. 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 while continuing to import North Korean laborers.

#### Additional Sanctions Recommendations

***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.<sup>50</sup> 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 cyberattacks 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.<sup>51</sup> The *New York Times* reported

<sup>46</sup> 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>)

<sup>47</sup> 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](https://www.vice.com/en_us/article/north-korean-slaves-are-building-qatars-world-cup-centerpiece))

<sup>48</sup> United Nations Security Council, Resolution 2321, November 30, 2016. ([http://www.un.org/en/ga/search/view\\_doc.asp?symbol=S/RES/2321%282016%29](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2321%282016%29))

<sup>49</sup> 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>)

<sup>50</sup> 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](https://www.nytimes.com/2017/03/22/business/dealbook/north-korea-said-to-be-target-of-inquiry-over-81-million-cyberheist.html?_r=0))

<sup>51</sup> Samantha Ravich and Anthony Ruggiero, "The growing North Korean cyber threat," Fifth Domain Cyber, June 12, 2017. (<http://fifthdomain.com/2017/06/12/the-growing-north-korean-cyber-threat-commentary/>); 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](http://www.defenddemocracy.org/content/uploads/documents/6132017_Ravich_Testimony.pdf))

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.<sup>52</sup>

***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.<sup>53</sup> All North Korean ships should be subject to inspection 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: Address Iran-North Korea Cooperation.*** A February 2016 Congressional Research Service report noted the North Korea-Iran ballistic missile relationship is “significant and meaningful.”<sup>54</sup> 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.<sup>55</sup> North Korea's successful tests and stated deployment of the solid-fueled Pukguksong-2 medium-range ballistic missile could be attractive to Iran.<sup>56</sup> 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 7: 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. dollar in the international financial system. China and Russia successfully blocked UN condemnation of the July 4 ICBM test and they 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

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<sup>52</sup> 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>)

<sup>53</sup> 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>)

<sup>54</sup> 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>)

<sup>55</sup> The White House, “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/j10322.aspx>)

<sup>56</sup> 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>)

assistance drafting implementation laws or regulations. In other cases, the U.S. should sanction those countries that violate UN sanctions and refuse implementation assistance.

### **U.S. 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. 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.<sup>57</sup> Senior American envoys have also bought into the illusion that engagement could yield results, regardless of how clearly the regime advertised its hostility. While this issue is not directly tied to the regime's revenue, it is important to mention here.

Ultimately, the U.S. should not be surprised that Kim killed an American – the real surprise is that it took this long. 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.<sup>58</sup> 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.<sup>59</sup>

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, and 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.<sup>60</sup> At some level, it was naïve to hope that North Korea would not subject Americans to life-threatening abuses.

When dealing with North Korea, it is also essential to recall that China plays a central role in excusing the regime's behavior, just as it excuses North Korea's nuclear weapons and missile programs. In particular, Beijing allows despicable groups, such as Young Pioneer Tours, to operate on its soil, selling trips to Pyongyang to young people like Warmbier while assuring them that visits to North Korea are “extremely safe.”<sup>61</sup> More concerning is Beijing's refusal to allow the Security Council to refer North Korea to the International Criminal Court or a new international tribunal. No one should forget that Chinese President Xi Jinping has the blood not only of Otto Warmbier, but every dead and imprisoned North Korean on his hands.

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<sup>57</sup> 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/>)

<sup>58</sup> 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>)

<sup>59</sup> 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>)

<sup>60</sup> 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>)

<sup>61</sup> Austin Ramzy and Choe Sang-Hun, “Otto Warmbier Came Home in a Coma. Travel Company Says North Korea Is ‘Extremely Safe!’” *The New York Times*, June 16, 2017. ([https://www.nytimes.com/2017/06/16/world/asia/otto-warmbier-north-korea-travel.html?\\_r=0](https://www.nytimes.com/2017/06/16/world/asia/otto-warmbier-north-korea-travel.html?_r=0))

The North Korea Sanctions and Policy Enhancement Act of 2016 mandated that the State Department issue warnings for travel to North Korea given “the serious risk of arrest and long-term detention” there.<sup>62</sup> The travel warnings are not working.

***Recommendation 8: End Tourist Travel to North Korea.*** Congress could prohibit citizens from traveling to the country at all (with limited exceptions including humanitarian work, government activities, and the press, for example). The time has come to deprive Pyongyang of such bargaining chips, which may limit the escalation of economic pressure.

***Recommendation 9: Address North Korea’s Human Rights Abuses.*** 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.<sup>63</sup> 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.<sup>64</sup> 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.<sup>65</sup>

## Conclusion

Pyongyang’s provocations, including its test of an ICBM that could reach parts of the West coast, deserve increasingly harsh responses from Washington.<sup>66</sup> 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 coercing the Kim 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.

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<sup>62</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>); U.S. Department of State, “North Korea Travel Warning,” May 9, 2017. (<https://travel.state.gov/content/passports/en/alertswarnings/north-korea-travel-warning.html>)

<sup>63</sup> 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>)

<sup>64</sup> North Korea Human Rights Act of 2004, Pub. L. No. 108-333, 118 Stat. 1287, codified as 22 U.S.C. §7801. (<https://www.congress.gov/108/plaws/publ333/PLAW-108publ333.pdf>)

<sup>65</sup> 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>)

<sup>66</sup> Ankit Panda, “Why is Russia Denying That North Korea Launched an ICBM?” *The Diplomat* (Japan), July 11, 2017. (<http://thediplomat.com/2017/07/why-is-russia-denying-that-north-korea-launched-an-icbm/>)