

Foundation for Defense of Democracies
North Korea's Imminent and Long-term Threats: Good, Bad, and Worse Options
April 27, 2017

Panel with Daniel Glaser, former Treasury Assistant Secretary for Terrorist Financing; Sheena Chestnut Greitens, Nonresident Senior Fellow at the Brookings Institution; and Anthony Ruggiero, Senior Fellow at FDD. The discussion was moderated by Jay Solomon, Chief Foreign Affairs Correspondent at *The Wall Street Journal*.

SOLOMON: OK. Welcome to the final panel. We are going to focus on sanctions and financial warfare and look at what can, should, and hasn't been done to use financial warfare, sanctions to bring an end to the North Korean nuclear weapons program.

And we have a great panel who I will now introduce. On the far end is Dr. Sheena Chestnut Greitens. She is a non-resident senior fellow at the Center for East Asia Policy Studies at the Brookings Institution and previously served as staff on the State Department's Policy Planning team.

In the middle, Daniel Glaser is a principal with the Financial Integrity Network, an Advisory Board Member here at FDD's Center on Sanctions and Illicit Finance, and until this January served as the Treasury Department's Assistant Secretary for Terrorist Financing and Financial Crimes.

And right next to me is Anthony Ruggiero who is a senior fellow at FDD and he spent 17 years in the U.S. government as an expert in the use of targeted financial measures and most recently served as a Foreign Policy Fellow for Senator Marco Rubio.

So thank you everybody for being here. I'd like to start off with Anthony on the question of -- I think it's been repeated numerous times since this latest -- some described the third nuclear crisis with North Korea has blown up that North Korea is the kind of -- maybe the most sanctioned country in the world that we're sanctioned out that there's, you know, there's a little that you could use on the financial side to hurt a country like North Korea that's so isolated.

Can you take that on and say, is that true, why isn't that true and, you know, what countries would you say have faced more pressure and we've have more effect on?

RUGGIERO: So, I mean, by any measure it's not true. I mean, however you crunch the numbers, North Korea is either fourth or fifth if you're looking at just purely the number of entities that have been sanctioned or blocked by the Treasury Department. It depends on how you crunch those numbers.

I mean, it's clear also another sort of myth that is put out there is that North Korea is not integrated into the international financial community and it's -- that's also not true. I mean, the network that Assistant Secretary Thornton mentioned this morning Dandong Hongxiang was a network that did U.S. dollar transactions for six years.

So I think that there are lot of these myths that are out there, the myth of -- that China won't act if we act first, the myth of North Korea sanctions are well enforced or robust. I mean, these are all myths that I think prevent us from actually looking at the robust threat from North Korea and prevent us from actually having a capable and competent sanctions program against North Korea.

We haven't had one for 10 to 12 years depending on what your metric is whether it's when you did the BDA sanction or when you let the money go back 10 years ago. I mean, it's really sort of gone downhill from there.

SOLOMON: Danny, I want to pick up on that thread because under your leadership in a lot of ways, the pressure campaign against Iran was incredibly successful by any standard no matter what you think the ultimate deal and, I mean, part of that pressure campaign as I recall was this unbelievable network. Treasury and others developed really globally going around the world, meeting with bankers, businessmen, governments, going on these roadshows to basically develop this psychological fear of doing anything with Iran.

North Korea obviously isn't as advanced or as integrated as the Iranians were. But why wasn't or hasn't that been done over the past decade when, you know, they tested a nuclear bomb in 2006 and had been advancing and I know there were periods of diplomacy which might have caused it.

But, you know, given your experience and how successful it was in Iran, I'm curious why do you think that wasn't done over the last six or seven years and do you think it could be resurrecting that type of model against North Korea?

GLASER: It's funny, Jay, that you should phrase the question like that because in fact it was originally done with respect to North Korea. Anthony made reference to our efforts with respect to Banco Delta Asia.

The experience we had with Banco Delta Asia is what gave us the confidence at Treasury that we could do something similar with respect to Iran and especially the earlier years of our Iran pressure policy was very much modeled on our North Korea efforts. So it's funny that you say why don't we do with North Korea what we did with Iran, in fact, what we did with Iran was very much what we did with respect to North Korean in mind.

The question though that you asked is why hasn't it happened in the last say six or seven years and I think there's a couple of answers to that question. The first is that in many respects we live in a post-BDA world, the reason why BDA was as successful as it was -- well there's a number of reasons.

But one was that North Korea was fully integrated into the international financial system at that point. They were doing business fairly openly or not that covertly in a bunch of different places pretty obviously.

And BDA quite abruptly put an end to all of that and it was through a pressure campaign that you're talking about where we would travel -- Anthony and I travelled and did a lot of that work together to different countries, far off places like Mongolia.

RUGGIERO: Mongolia, yes.

GLASER: Kuala Lumpur, Singapore, different places we had to go to and persuade people that doing business with North Korea wasn't worth the risk. North Korea has never really fully gotten that back again. I know Anthony seemed to imply that they have. If Anthony thinks that, that's maybe a point we disagree on.

North Korea clearly has access to international financial system now, but nothing like it was, you know, 12 or 15 years ago. And so any action that you take is going to have less of a marginal benefit. You're just not going to get that big bang out of an action that we were able to get out of Banco Delta Asia. Any progress we make from here on in is going to -- I think be fairly marginal.

My second point, to answer your question about why hasn't been done is while I think it would be fun and helpful to annoy the North Koreans by going to places like Mongolia or Southeast Asia or different places to try to push them out of the financial system there, the fact of the matter remains that they get all the access they need through China.

So as far as I am concerned, if we want to think strategically about placing financial pressure on North Korea, the type that will actually affect a change in North Korean policy which would need to be existential level of pressure, it could only be done in the context of China and with the Chinese.

So if I were still in government, I certainly would be thinking about a broad pressure campaign with respect to North Korea, and how we get them out of Southeast Asia, and how we get them out of various different places and make sure they don't get into the U.S. financial system. The gravity of that discussion really needs to be with respect to China because none of it matters without that component of it.

SOLOMON: I mean, can you, and Sheena pick up as well, I'm curious what is the reception in China when you raise these questions? Because I remember in the last U.N. report, there was an example of a North Korean trying to sell lithium out of their embassy in Beijing and it's hard for me to believe the Chinese aren't monitoring this and even if, you know, they want to keep North Korea as a buffer, it's just hard for me to imagine they think it's a good thing this stuff is being sold through their borders.

So, I mean, Sheena, maybe you can pick it up -- and Danny as well like what do you think the mindset is and how receptive are the Chinese if you come in there in those roadshows saying, look, we're going to start hitting your banks if you don't cut this out?

GREITENS: So I think there are a couple of things here. One of the reasons why in some ways Banco Delta Asia and some of the other financial measures were effective is that it didn't

require somebody sitting in, say, the foreign ministry or Zhongnanhai in Beijing, one of these top government decision makers, they were obviously -- this is important to them but it also -- the Banco Delta Asia and some of these financial measures actually appeal to financial institutions' self-interest, right?

If they want to keep operating as a financial institution, they have a choice to make. So in some ways, it puts pressure on the institutions directly rather than trying to get the Chinese government to take X or Y action related to its own banking system.

The mechanism is a little bit different. I think that's -- you know, that's one of the reasons why Banco Delta Asia was as successful as it was. I wanted to pick up on a couple of other points about, you know, if you wanted to make this strategy effective and in particular given the weight that China carries, a couple of things that I think are important.

It's really useful to talk about the number of people and those numbers are striking, right? You're talking about, you know, 43 people in 2014. Maybe 200 North Korean individuals or entities that are on the list at the Department of Treasury today relative to something like 800, Anthony, was the number for Iran?

RUGGIERO: Right.

GREITENS: So, you know, clearly, that gets at the difference in the magnitude and the breadth of what was applied. Given that North Korea does have though fairly narrow -- its channels of access have been narrowed by some of the pressure that's been applied in the last eight years, you actually have to think about too who the people are that you're targeting.

And so a lot of those entities that have been listed have still principally been North Korean banks, North Korean companies, and North Korean individuals. What the sanctions haven't generally done is target that external support network, the nodes of the network that are geographically and jurisdictionally outside North Korea but that are playing a really important role in sustaining North Korea's access.

And so I think, you know, when we talk about the -- what makes for a heavily sanctioned country, the question isn't just how many people are on the list, it's what role they play in the process of allowing North Korea access. It might end up being that it's far more effective to sanction one Chinese bank that is allowing a number of accounts than it is to sanction say, I don't know, a dozen border guards, right?

So it's not the number of entities on the list that's necessarily the most important thing. It's also the role that they play and we know that there are still institutions, companies, individuals that are playing fairly major roles in facilitating North Korean access that just simply haven't been targeted.

So I think that's probably -- you know, there's been a lot of discussion about secondary sanctions and that's why those are important. It's because of the role they play in the network. And

principally what we've seen so far is targeting of North Korean entities and individuals, not the layer outside that provides them the access.

SOLOMON: I'm curious on a tactical level, if the financial campaign against North Korea escalates like it appears it might -- from your experience, Anthony and Danny, how receptive -- I remember during the Iran campaign, you'd show up at the banking club of Abu Dhabi or Dubai or, you know, some bankers forum in Europe and make these pitches.

Are the Chinese receptive, would they allow U.S. officials to meet with bankers in various parts of China to basically just make that same pitch that was made with Iran, i.e. you can either do business with these North Korean firms or you're going to be cut off? Would they allow the U.S. to make that type of pitch or are they too restrictive?

RUGGIERO: Well, I mean, I think President Trump has said that the Chinese want to be more cooperative, right? If President Trump and this administration wants to have a cooperative policy with China, they could do that. They can go, the Treasury Department could go and talk to the banks directly, talk to the companies directly.

I mean, personally, I'm pessimistic that that will work. I think it's going to take as Danny said a policy of confrontation with China. It's going to require taking down these networks, I know you didn't say confrontation but I'll...

GLASER: Thank you. I'll correct that, too.

RUGGIERO: I'm partying that. I'm saying that. But, you know, sort of going through China, you're going to have to take down these networks. I'm less on the sanctioning Chinese banks. I think using significant fines against Chinese banks will probably be more effective because you have the ability to go in at the top as opposed to sanctioning a smaller bank.

And, you know, is the Trump administration really willing to then sanction a second and third Chinese bank, one of which might have to be a large Chinese bank, I don't think that they're ready to do that. But following up on what Sheena said about numbers and what we've looked at is, you know, since the passage of the sanctions law last year, the number of designations has nearly doubled but 88 percent of those are people inside North Korea and you're talking about, you know, the network I referenced earlier and that Susan referenced, the Dandong Hongxiang network, 22 of the front companies were not designated.

Not a single bank was punished for that. The Glocom network that was revealed by Reuters and the U.N., nothing is happening with that one. Unfortunately, I can go on and on and on. I mean, the U.N. reports are on my desk. A lot of that has not been sanctioned, and a lot of that has not been gone after whether it's in Africa or Southeast Asia and I agree, it's not the magnitude of China but it still would require a pressure campaign outside of China that they could be doing now.

And some of those countries are going to want to be cooperative. We can offer them the resources to be cooperative. And in other areas, we would have to use our sanctions tools against those countries and it probably would be far more effective than in some areas.

GLASER: Yes. Just to put a fine point on North Korea as, quote-unquote, "the most sanctioned country in the world" it's an absurd statement. There's nobody who understands North Korea sanctions who would ever say such a thing.

It's a rhetorical talking point that you hear people use on TV from time to time when they have some sort of other point that they're trying to make. In fact, I think people would be surprised up until sort of the last couple of years of the Obama administration how unsanctioned North Korea was, how few restrictions there were on dealing with North Korea.

But put that aside. I really do think that all of that almost doesn't matter for a lot of the reasons that everybody has been saying and I really do think again that it does come down to China.

But it's very easy to sort of sit here, you know, in this room and say, well, then let's just sanction a Chinese bank. It's a lot more complicated than that. It's a lot more complicated than that for a number of reasons.

First of all, I don't think it the largest Chinese banks that are doing the business with North Korea. The big global sophisticated Chinese banks to the extent that they're doing business with North Korea they're probably are unaware of it and to the extent they would be aware of it, they really have bigger -- Bank of China, Ag Bank, Communications Bank, they have bigger fisher to fry than the 75 cents that they're going to make off of some sort of relationship with North Korea.

These are the banks that are most responsive to the stimuli that we put into system. So when we try to take measures or say things that are going to tend to create a dynamic that excludes a target say North Korea, those are the banks that are going to react with the same or very similarly as a Deutsche Bank would react or Barclays or JPMorgan.

But those aren't really the banks that are the huge problem right now. The banks that are more problematic are the smaller and medium-sized Chinese banks that have limited or no contact with United States and therefore, make them less susceptible to pressure.

And, I mean, Mark Dubowitz and I were just talking about this just a few minutes ago. You saw a similar phenomenon with respect to Iran, with respect to Kunlun bank. They're...

SOLOMON: This is a Chinese bank.

GLASER: It's a Chinese bank where a lot of North Korea business was happening and had very, very few contacts with the United States. Therefore, the United States was free to sanction the bank which we did and the bank was free to continue doing the business and everybody -- you know, we felt like we're being really tough and the Chinese we're able to express outrage and the business didn't stop.

And so I think that you're going to find a similar sort of problem here. So the only way this works is if the Chinese really decide they're going to -- they're going to work with us to shut this down and that's going to happen one of two ways.

It's going to happen if the alternative scenario that's presented to the Chinese is so unacceptable to them whether it's some sort of direct confrontation with China which I certainly wouldn't recommend or whether it's some sort of outcome on the Korean peninsula that we're prepared to accept that the Chinese aren't prepared to accept which is a big question.

Or whether it's persuading Chinese to work with us cooperatively, you know, by -- you know, as Anthony said, I believe the Trump administration has stated that China is more willing to work with us now. I frankly am quite skeptical about that. I think that they're going to be disappointed as many administrations in the past.

I have sat down with the Chinese many times to discuss North Korea issues, the exact issues that you're talking about. I could tell you the Chinese feel, you know, what the Chinese will say is, thank you, Mr. Glaser, we understand what U.N. Security Council resolution says. You may not be aware of this, we actually have a seat on the U.N. Secretary Council and we helped draft the resolution and we will continue to interpret it as we think appropriate and they take a minimalist interpretation compared to our maximalist interpretation.

And they say if you have any evidence that you'd like to provide us that there's something going on in our country, we'll be happy to consider it. And we can give them some and we can't give them everything. People might understand it's complicated sharing information with the Chinese. And the conversation goes on and, you know, for very long stretches of time as North Korea's nuclear arsenal continues to grow.

So I'm fine with people saying let's sanction a Chinese bank. I just don't know what Chinese bank they have in mind. And I don't know what they actually think's going to be accomplished by it. But I do agree that the whole game is China, the whole game is China with the respect to financial pressure on North Korea at this point in time.

SOLOMON: I mean, Sheena, maybe you can -- I know one fear is like if we really start to hit Chinese banks on some level even if they're smaller or medium they could retaliate that our economies are so integrated that there could be I don't know a trade war, but some sort of retaliation. Do you think that's a real fear?

I guess in this one case Danny was mentioning that they complained about it and I guess I don't know if they shut the bank down but there's no real retaliation. That's a pretty important question I think.

GREITENS: I think so far it's been understood what the United States has been trying to do and the focus has been pretty narrowly on these activities by North Korean actors and entities that are of concern. And I guess I don't necessarily see China escalating or broadening the conflict again because the stakes for the two countries of sort of starting some broader process of reciprocation or escalation would be really problematic and that gets it a whole host of issues that

are way beyond the scope of North Korea about what's going on with the U.S.- China economic relationship, how the administration will handle that and I just think there are fair number of unanswered questions about that that they make it hard to sort of usefully speculate.

But I don't see if the United States actions are pretty clearly aimed at specific North Korean activities and actors or actors that are very clearly facilitating North Korea's behavior that is in violation of the U.N. sanctions and that that is the way that those decisions are explained, I don't see a lot of incentive actually for China to reciprocate and there's no real way to reciprocate because the same thing is not happening in terms of U.N. Security Council resolutions on North Korea in the United States.

There's no real meaningful reciprocation there because as Danny mentioned, the game is China. That's where the access is taking place. It isn't taking place in the United States. So there really isn't a sort of a reciprocity there that's possible without broadening the issues involved in a way that I just don't see any incentive for the Chinese government to do.

A couple of quick other thoughts on the overall purpose of sanctions and what makes them effective. We use sanctions in our North Korea policy on a lot of different objectives and it's actually easy to lose sight of that, but it's important to keep that in mind.

So we kind of -- even over the course of this conversation shifted to, well, are these sanctions going to be enough to persuade China to help, you know, roll back the North Korean nuclear program. But that's not the only reason to sanction even some of these North Korean actors or Chinese actors that are working with and sustaining North Korea.

The other two reasons are simply to contain the activity. Make sure it doesn't expand and progress and to limit onward proliferation. North Korea has sold pretty much every weapons system it's ever developed. It has had a lively arms export market. There's a lot of good reason to sanction and aggressively investigate North Korea's financial networks.

Even if you don't think that you're going to roll back their nuclear program, which is still both the stated goal of U.S. policy and the U.N. Security Council resolutions. I think five of the resolutions refer to complete verifiable irreversible disarmament. Those are the terms of the resolution.

But, you know, even if you're not sanctioning because you think that's realistic, there are a lot of other good reasons to do it. We haven't even touched on the fact that, you know, the legislation last year sanctioned North Korean individuals and entities including the highest levels of the regime on human rights grounds, right?

So there a lot of reasons to impose sanctions that are not aimed at sort of a coercive diplomacy game that involves China. They're aimed at onward proliferation. They're about human rights. They're about simply enforcing the rules of the international financial system that the U.S. maintains.

The U.S. is the only actor that's going to defend the integrity of that system in the way that we -- that we want or need to be done. So I think it's just important to remember that this sort of rollback coercive diplomacy purpose is not the only reason that we're imposing sanctions on North Korea. The U.S. has other objectives that are important objectives that sanctions are used for. And so, you know, sanctions are tool for multiple purposes.

SOLOMON: Right.

GREITENS: And the other thing to think about in terms of what makes them effective if we're going to try, depending on what the objective is, we're using sanctions for a lot of objectives, there are sort of two things that I think is important to consider.

One is that sanctions work best when they're not expected. I actually think that's the biggest reason that Banco Delta Asia was successful is that it was not a type of sanction that North Korea had anticipated or adapted to. There's pretty good evidence now from the nonproliferation community that sanctions are much better at convincing countries not to start weapons programs than it is convincing them to abandon program once they've started.

And the reason is that countries if they -- at this point, they know that starting a nuclear weapons program is going to get some sort of sanctions imposed and they factor that into the decision. So the people at this point who are starting or augmenting, developing weapons programs know that sanctions are coming and the only thing that will change their calculus is a sanction that they didn't expect when they made that decision in the first place.

That also means sanctions have to be imposed quickly, right? Gradual incremental sanctions give countries time to adapt which North Korea is really good at. And if we put pressure on China, one reason why we would want to keep up sort of global investigations and global pressure is to avoid North Korea saying, OK, well, my options -- my operations in China are under pressure. I'm just going to go to Southeast Asia. I'm going to go to the Middle East.

It's something that they've done consistently in the past. It's just sort of find substitution effects that keep those networks and that income coming and U.S. strategy has to sort of proactively account for that in advance.

SOLOMON: Great. Thanks. Well I'm going to throw this open to questions. Just please wait for the mic, state your name and if you can say who you would like to address for. Why don't we start with that gentleman right there?

QUESTION: Hi. Bruce Klingner from the Heritage Foundation. Good to see all of you again. Assistant Secretary Thornton said that, you know, we're looking to China to sort of clean up its house of those that are violating U.S. laws and indeed we would be willing to do that if we don't get satisfaction from Beijing.

As all of you know, with Chinese entities, the U.S. government has evidence of the entities that are in violation with U.S. law. Do you think we should continue to let Beijing have time to go against those ones or that we should really just start doing it now whether secondary sanctions

imposing fines on Chinese banks as we've imposed fines on European banks for their money laundering for Iran. Thank you.

SOLOMON: Anthony, what do you think? I guess basically how quickly should we be moving on the Chinese?

RUGGIERO: I mean, you know, I have advocated that they should have done it, you know, sort of at the beginning of their administration because the Chinese see how many times the United States' other administrations have gone to them and give them this sort of time limit and really not acted, right?

But I understand that Trump administration feels like they have to give some type of timeframe. But the question is will they actually act. I think the Chinese are doing the easy things. You know, they're sending back the coal ships. They're sort of floating that they might do an oil embargo that they probably won't even implement.

So, you know, they're sort of floating these things that are easy for them to do and I think they have an expectation that the United States won't go to the next level, which is confrontation, taking down these networks by ourselves and going after the banks. And I think that if the Trump administration wants to be serious about it, they're going to have to do that soon.

SOLOMON: Danny, do you think they should -- I mean, it sounds like they want to give them months. I mean, that's what the message was. I'm curious what you think.

GLASER: Look, I don't know exactly what people mean when they say Chinese banks violating U.S. law. If there's Chinese banks violating the U.S. law, then they should be investigated and brought to justice, you know, as quickly as possible. And I'm sure that our regulators and our law enforcement agencies, they've demonstrated as virtually every major bank in the world has come to understand that we take violating U.S. sanctions law and U.S. anti-money laundering/counter terrorist finance law within the United States quite seriously. And I don't think that there should be or is any country's institutions that are exempt from that.

Now, that's one set of issues. With respect to Chinese banks that are doing things that we think are in violation of U.N. Security Council resolutions or we think that they shouldn't be doing because it's otherwise unhelpful to our efforts with respect to North Korea.

Look, we've given them 25 years, so what's another six months, right? I don't know what the right amount of time is. What I do know is -- and if you take a little frustration, it's we've been having the same conversation for -- I mean, for 15 years now. I mean, how -- so we could continue to have this conversation. It's an interesting conversation but at a certain point, we have decide are we serious about this or not?

So, we could say, OK, you know, is this enough, is that enough. North Korea is not going to change its policy until it feels an existential amount of pressure. I do not believe we could bring if we're talking about financially an existential amount of pressure, unless the Chinese are working with us cooperatively.

So, for me, the question is what is going to get the Chinese to work with us cooperatively. If someone were to say to me, if we work with them for the next six months, we could get there, that sounds great to me.

I fear that it's just going to be six more months of what the last 15 years has been. And if that's the case, then we have to either at some point, start thinking about other things in terms of sort of denuclearization versus deterrence. Or we have to start thinking about scenarios that are very uncomfortable to think about and I'm certainly not advocating.

So, I think that we need to figure out a way to get the Chinese to work with us cooperatively on this.

SOLOMON: Kim Dozier.

QUESTION: Kim Dozier with the *Daily Beast*. I'm not quite sure who could answer this one. But it seems that you all are saying that we have to make this – we the United States have to make this in China's best interest, in it's self-interest to get it to work together with us. Do you think the Trump administration's moves to militarize the area, put in layered missile defense, ratchet up the pressure with rhetoric, have convinced China that it should work with us to avoid a military confrontation?

And my other question is, you mentioned the U.N. report sitting on your desk. Realistically, how long would it take to get a package of punitive sanctions together that would really hurt North Korea and make them sit up and take notice?

GLASER: Well, I mean, for the record, a lot of the escalation, the military escalation, is from the Obama administration, it's not all Trump Administration. In fact, all of it, really, is Obama Administration.

So, China sees this issue differently from the ways that we see it. I'm quite confident that they would prefer a North Korea with no nuclear weapons but that's not their number one issue on the peninsula. They have a variety of other issues on the peninsula. They have concerns about a refugee crises.

They have concerns about a unified Korea in the U.S. orbit at their border. I think they would rank both of those concerns higher than a nuclear North Korea. So, as long as that's the case, I think it's going to be very hard to get China to put -- again, I keep coming back to it -- an existential level of pressure on an ally. And I think people need to continually remind themselves of the fact that North Korea is a Chinese ally. They don't like everything North Korea does just like we don't like everything some of our allies do, but they are, at the end of the day, a Chinese ally.

So, we're not talking about let's do another round of sanctions and now China is going to stop thinking about North Korea as its ally or it's going to reassess its fear of millions of refugees crossing its border. That's not going to happen.

So, again, I think that there are things that could get it to reassess, but these are grave, grave issues. As far as working with us financially, again, I think that it would be easier for them to get themselves to do that. But still, I think that they would have to really be concerned about some sort of fundamental break with the U.S. financial system and I don't know that that's in the United States' even interest to threaten. So, it's a tough issue.

SOLOMON: Sheena, you want to pick that up?

GREITENS: Yes. On this question about, you know, what would convince China to behave differently, I agree. I think that they have a pretty clear definition of what their interests on the Korean peninsula are and the only thing that will change their calculus is convincing them that the alternative is going to be much worse.

Right now, you know, for the last couple of decades, U.S. policy hasn't presented them with, you know, if you keep going where you're going, the alternative is going to be worse, than if you change course in the direction we want you to.

And that's partly because the United States to get to that sort of existential choice would have to take a lot more risks than U.S. policy has done in the last 15 years. An existential crisis is risky. It's risky for China. It's also risky for the United States and I think that's, you know, why we haven't seen that approach adopted, you know, to go to that level of risk so far.

But I think, you know, what I picked up from this morning is that this administration is signaling, sort of the question and it comes in with the credibility of the signal that they're willing to take higher risks and whether the level or risk that they're willing to run is interpreted in Beijing as approaching that existential choice threshold.

SOLOMON: The gentleman over there. Wait for the mic, please.

QUESTION: Thank you. Dev Kar, formerly of the IMF senior economist and chief economist at Global Financial Integrity. I've been working on illicit flows for the last 10 years. I just wanted to ask the panel whether you're aware of quantitative estimates of IFFs, illicit financial flows, from North Korea. The methodology of putting together those numbers because with all the numbers we cannot monitor, what are we monitoring? You know, so that's the first question.

The second question is that this methodology, whatever what the methodology is would have to focus on the trade between North Korea and China because that is the main source of illicit flows. So, that entails very close cooperation between U.S. customs and Chinese customs. What we need is detailed transactions data, transaction by transaction on trade that China is conducting with North Korea. Is there any movement on that? Those are my two questions.

SOLOMON: Anthony...

(LAUGHTER)

RUGGIERO: I can try. Sure, I mean, I think it was mentioned earlier, you know, 90 percent trade. When you look at the coal trade, you know, 1.2 billion in coal trade just last year. You know, it was, at least, on an upward slope.

And so, yes, definitely. I mean, North Korea, China trade, I think there are a lot of experts in the room here who have looked at this, I think. I think you're right that the Chinese, in a lot of cases, report only the things they want to report so you have to sort of dig down into that data.

I think there's some indications that some of these networks that we we're talking about before which are larger networks because they don't want to raise suspicions are using some of that convenience between China and North Korea.

If I could just talk about China, the other question prior to this is that, I mean, I agree with what Danny and Sheena said. I would just say that it looks like the Trump administration is on the beginning of that risk path, right? So, I think what the Trump administration sees is that Chinese interests have to be threatened in order to get China to act.

And I think that the deployment of THAAD which I think Danny's right, it didn't just happen overnight. The fact that there's a second, now a second aircraft carrier because there's already one that's permanently based in Japan, I think the fact that that aircraft carrier's also doing exercises with south Korean and Japanese military vessels, that is not in China's interest. I wouldn't be surprised if the Trump administration announces that they're going to leave a second aircraft carrier that they rotate through in that region. That is not in Chinese interests.

Talking about broader North Korea policy and when people say is the United States going to trade Los Angeles or Washington for Seoul, is Beijing interested in having a robust U.S. military presence for this sort of, you know, Kim Jong-un who they might have the better way to sort of, either undermine that regime or we were talking about earlier, regime change.

Or Victor was talking about finding the moderate or pragmatist in the North Korean military. But the question is will the Trump administration, are they really willing to go to the higher level risk which could come with a lot of downsides.

SOLOMON: Josh Stanton. There's the mic.

QUESTION: You introduced me so I'll skip that. Mr. Glaser, this question is for you. You asked rhetorically, I believe, which Chinese banks and I think you mentioned that most of them were smaller banks. I really see this as two problems particularly the smaller banks that are dealing with North Korea directly.

But then there are also banks like China Merchants Bank, Agricultural Bank of China, China Construction Bank, Industrial and Commercial Bank. As you know, these are the biggest banks in China. I am pulling these names from a forfeiture complaint filed last August by the Justice department. These banks were servicing a company called Dandong Hongxiang that we have talked about in today's event.

The account holders in a lot of these cases were either fictitious addresses, empty offices that were next to North Korean embassies, they were British Virgin Islands shell companies that have also worked with other North Korean entities and there were entities that were openly associated with North Korea.

The Justice Department in indicting Dandong Hongxiang said that it believed that there was no wrongdoing on the part of the Chinese banks. And, OK, let's concede that maybe that's true, there is now a new regulation, 1010.569 as you know, implementing the Patriot Act designation and the enhanced due diligence, if this were to happen today, and the Chinese were to say, well, we don't know who our customers are anyway, wouldn't the proper response to that be that you have a legal obligation to know your customers, that arguably these banks failed that obligation, and that furthermore, these banks have correspondence in New York in many cases because these are very large banks and have we, in fact, subpoenaed or investigated the transactions that are flowing through these correspondence?

GLASER: So, I mean you kind of made my point for me that I was trying to make earlier that the Chinese banks and the Chinese entities in China that are involved in criminal activity in the United States are not immune from investigation and ultimately prosecution by the U.S. Justice Department.

And in this case, this activity was investigated, brought to light, and there was a forfeiture complaint filed and the Justice Department concluded that certain entities were culpable and certain entities were not culpable and I certainly have no reason to second-guess the Justice Department. It hasn't been my experience in dealing with the Justice Department that they pull their punches on those types of matters.

So I'm perfectly comfortable with what the Justice Department said on that. The broader issue that you raised goes to the implementation of anti-money laundering/counter terrorist financing laws within China and the capabilities of the Chinese regulatory authorities to supervise their financial institutions that we've seen all over the world difficulties including here in the United States that supervisory authorities have had in effectively enforcing AML/CFT laws. Virtually every major global bank in the world seems to be operating on a deferred prosecution agreement with the Justice Department right now.

So, and I -- you know, you laughed but I didn't say it as a joke. It's true. So, I'm quite certain that those problems present themselves in China. And I think it's quite important that the Chinese authorities, the regulatory authorities, the Chinese bank regulators, the People's Bank of China re-double their efforts to effectively police their own system.

I actually think that that's something that's quite achievable. I have no doubt that that part is achievable that in terms of the Chinese enforcing your basic know your customer rules, your basic beneficial ownership rules, your basic due diligence rules, I have no question that the Chinese have the will, perhaps not always a capability of doing that and that I think is a quite fruitful area for U.S.-Chinese cooperation.

SOLOMON: The gentleman over there?

QUESTION: Joe Bosco, formerly with the defense department. Mr. Glaser you made the point that China is reluctant to apply existential pressure on North Korea for the fear of the flow of refugees and the emergence of a pro-western regime in all of Korea. I wonder if – doesn't that premise that given an existential threat to North Korea that Pyongyang would choose regime suicide rather than yielding to China's pressure? And isn't there an alternative explanation for China's collaboration and even collusion with North Korea and that is that North Korea, as an ally, as you point out, has been extremely useful to China as a major distraction and diversion from the west.

It has enabled China to play the role of so-called responsible international stakeholder and good faith negotiating partner in contrast to the crazy regime in North Korea. So, doesn't China really -- isn't it playing a double game here where North Korea serves its strategic purposes?

GLASER: Well, I think, obviously, China thinks North Korea serves its strategic purposes because it's willing to tolerate North Korea.

I'm not a deep expert on China. So, I offer the two reasons why I think might be motivating China, perhaps your third reason that's also valid and perhaps there's three or four other reasons as well.

The bottom line, though, is that of China's goals on the Korean peninsula, denuclearization of North Korea is one of them but it is not the number one. Whatever the reason is. And, you know, it has been said the only thing that's going to change that is for the status quo to change to the point where China fundamentally reassesses what it regards to be in its own strategic interest and I think that's going to require quite a jolt for them to do that.

I don't see that being an easy process. Again, I've sat in countless meetings where we sort of put ourselves in China's shoes and say, gosh, well, if we were China, we would make this particular decision but we're not China. China is China and China has its own assessment of what's in its best interests and it's going to be very, very, difficult, I think, to swing that.

I'm not saying we shouldn't try. Don't take this as defeatist. I think that we need to try. I think that we need to and I don't think that and as I've said, you saw me react, when Anthony said I thought we should be confrontational with China, I actually -- I don't think we should be confrontational with China.

But I do think China needs to -- needs to come to believe in a way that it has never believed before that the alternatives to the status quo are quite unacceptable to it and perhaps the Trump administration is making steps in that direction. I think we have a ways to go.

SOLOMON: OK. I think we've got to wind it up because we only have two more minutes but I just wanted to throw one last question to all three of you because I know particularly with Danny, there's kind of the frustration that this, you know, this crisis has been drifty, but starting with Sheena, is it a feeling now that we are in a different path. We are not, you know, this can't drag on for another 20 years.

Maybe it can, but maybe I'd like all three of you to kind of address that. Are we now in a new paradigm? Is this kind of -- something's going to give in the next two to three years, it's not sustainable to just continue the process?

GREITENS: I think if that's the way the current administration sees it, then that very much is -- will affect how the decision plays out, right? And so, yes, I think we're in a different place in part because the administration signaled that this is the highest national security priority, that they might be willing to take more risks, and that they see a ticking clock, right?

They seem to be operating on a shorter time horizon than previous administrations and I think that changes the calculus. It's part of why the risk acceptance seems to be going up. And I think a lot of that has to do with the fact that North Korea's missile programs and nuclear programs have developed more quickly than were originally predicted, that efforts to slow them seem to have been relatively unsuccessful.

I mean, maybe they would have been a little faster. We can't know that for sure but they're moving pretty quickly. And the estimates that we're now hearing about possibly being able to target the western half of the United States homeland, by the end of this administration, I think is something that this administration takes really, really seriously.

The idea that that threshold would be crossed on their watch is a problem for them. And that in and of itself changes the game because it seems to really fundamentally be changing the way that they're thinking about and approaching the problem. So, yes. I think it may very well be a different period. It seems to me to be.

SOLOMON: Danny?

GLASER: I don't know -- I think that that could be right. But I think -- I think that that...

GREITENS: It might be wrong.

GLASER: No, no. I think...

GREITENS: You asked me my guess.

GLASER: Yes, No. Honestly, I don't say that dismissively. I think that that that was very articulate statement that could have been made several times over the course in the past 10 years, and was made several times in the course of 10 years that it finally crossed a line that fundamentally changes the paradigm. We're really serious about it this time. There's a ticking clock.

We can't allow North Korea to get whatever the next capability they're about to get because that's going to fundamentally change the way we perceive, the situation. It's going to fundamentally change the way we perceive this as a crisis.

And each time that crisis has come and gone and it's almost -- I'll tell you, the North Koreans have gotten very good in making almost ritualistic, there's a ritual. There's an international ritual that occurs now with respect to the provocation and response cycle.

That is almost very comforting to everybody. And I hope we're at a point now where we have to break out of it because now the new capabilities we're talking about are capabilities that really do go to the heart of the security of the United States and of the U.S. to say nothing of our allies. And again, that's why and again this has been put out there, you know, at a certain point, we're going to move past the financial pressure strategy question get to the question of whether we are in a de facto deterrence posture at this point in any case.

I don't think that really changes the way we act that much. I've seen these articles which argue for us to shift to a deterrence posture. But deterrence posture seems to be -- then prescribe almost the exact set of actions we'd take anyway.

So I don't know but I do think we need to ask ourselves at what point do we stop saying this changes everything and start acknowledging that we're in a de facto deterrence posture.

SOLOMON: Anthony?

RUGGIERO: Well, I mean, I was going to talk about the provocation response cycle. I think that's very important. I think it's certainly -- I mean, a lot of people made fun of Tillerson's statement. I forget which provocation it was but it was sort of, you know, we've said enough about North Korea and a lot of people make fun of that. But I think it is part of their narrative which is we're going to break out of this provocation response cycle.

Danny's right. Over the last, you know, 12 to 15 years, it was always, they did a nuclear test. You know, we're going to focus for six weeks and get the most robust sanctions ever and then we don't focus on it and then we get a panel of expert's report that says this is not working and we're not really fixing that. I think killing his half-brother with VX, you know. Who else he's worked with with chemical weapons is Syria and that's in the news now.

You know, Iran -- the Iran relationship, it was so troubling with the Obama administration did sanctions against Iran for its work with North Korea right at the JCPOA implementation day. So, I mean, we can go on and on. You know, the solid propellant missile program. I mean, this threat is real and I think, you know, having followed North Korea's proliferation for a long time, these missiles that we're seeing, the sub-missiles, all these things, those are going to be commodities that they start selling to countries like Iran and elsewhere and that -- and Sheena's right. You know, experts say 2020 is the year and that's not that far away where they're going to have a road mobile ICBM, whether it's liquid or solid, that could cover the entire continental United States.

And it's pretty clear they probably have the nuclear weapon to put on it. So, this threat has always been there. It's just that we sort of convince ourselves that this cycle works and it clearly doesn't. So, I think the Trump administration is looking at it the right way but they face some

tough decisions over the next three to six months that other administrations have faced and decided that other issues with China are more important. So, it's still to be determined.

SOLOMON: Great. Well, thanks so much. This was a great panel. Timely. And thanks for coming.

END