Research Memo

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A New North Korea Sanctions Approach

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Introduction

The United Nations Panel of Experts reported in February that Pyongyang uses non-North Korean facilitators and front companies to evade UN sanctions.[1] Since China and Russia continue to block meaningful UN sanctions against these networks of facilitators, the United States should lead an effort of like-minded countries (South Korea, Japan, Australia, the United Kingdom, France, and Germany) to punish these networks, effectively taking a page from the Iran sanctions playbook. The new C4ADS report and others like it have made important contributions to exposing these illicit networks, an objective that the U.S. government should also pursue. Pyongyang's accelerating missile program and mature nuclear weapons capability are action-forcing events that require an immediate response. This paper provides six specific and actionable recommendations the United States and its partners should take right away to increase pressure on North Korea to cease it activities that harm the national security interests of the United States and, indeed, the world community.

Recommendations

1. **Sanction Chinese Facilitators of Pyongyang's Sanctions Evasion.** A bipartisan group of experts has recommended separately that targeting China's role in Pyongyang's sanctions evasion is essential to change the Kim regime's calculus.[2] C4ADS's new report finds 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 to return to the negotiating table."[3] C4ADS's ground-breaking work on the Dandong Hongxiang network – where a Chinese company and Chinese individuals created front companies for a UN- and U.S.-designated North Korean bank – included dollar transactions processed through the U.S. financial system.[4] The UN Panel

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

2. 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); 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/)

3. "Risky Business," *C4ADS*, June 2017. (http://c4ads.org/reports/)

4. "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)

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of Experts reported that North Korea's networks generate revenue in dollars and euros, providing leverage for U.S. sanctions and regulatory actions.[5] The U.S. Treasury should sanction these networks – preferably with near simultaneity for maximum effect – and should fine Chinese banks with inadequate money laundering controls who participate in this illicit commerce.[6]

2. **Block the Revenue North Korea Receives from Overseas Laborers.** The regime sends citizens overseas – estimates range from 50,000 to 120,000 – into terrible work conditions while requiring foreign countries and companies to pay the workers' salaries directly to the regime, which passes on just a small percentage to the workers.[7] These *de facto* slave laborers likely participated in the construction of venues for the upcoming soccer World Cups in Russia in 2018 and Qatar in 2022.[8] 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.[9] One expert puts North Korea's earnings from the practice at some $500 million annually.[10] The U.S. should lead an effort to end *de facto* 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.

3. **End Tourist Travel to North Korea.** North Korea has detained two Americans this year, joining two others already serving harsh sentences there.[11] These detentions are part of a pattern for Pyongyang, which uses Americans as bargaining chips in its standoff with Washington.[12] 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.[13] The travel warnings are not working, and Congress could prohibit citizens from traveling to the country at all (with limited exceptions including humanitarian

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

6. 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)

7. 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)

8. 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)

9. 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)

10. 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)

11. Joshua Stanton, "The PUST hostage crisis is a fitting symbol of the futility of engaging Pyongyang," *One Free Korea*, May 8, 2016. (http://freekorea.us/2017/05/08/the-pust-hostage-crisis-is-a-fitting-symbol-of-the-futility-of-engaging-pyongyang/#sthash.mWYmMwXz.dpbs)

12. 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/)

13. 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)

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.

4. **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.[14] All North Korean ships could 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, including regular updates to assist with port state compliance, and expand interdiction exercises with key partners in the region.

5. **Address Iran-North Korea Cooperation.** A February 2016 Congressional Research Service report noted the North Korea-Iran ballistic missile relationship is "significant and meaningful."[15] 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.[16] In so doing, Treasury noted that senior Iranian officials had worked with North Koreans for several years and had traveled to Pyongyang for contract negotiations and to work on a missile component.[17] 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.

6. **Use U.S. and Partner States' Authorities to Enforce UN Sanctions.** UN Security Council Resolutions are not self-enforcing and the United States has a special responsibility to lead a UN sanctions implementation effort given the preeminent role of the U.S. dollar in the international financial system. Unfortunately, China and Russia will not allow the UN Security Council to address the implementation challenges identified by the UN Panel of Experts, but the United States should coordinate an implementation effort with other like-minded countries (South Korea, Japan, Australia, the United Kingdom, France, and Germany). In some cases, countries may need assistance drafting implementation laws or regulations. In other cases, the U.S. should sanction those countries that violate UN sanctions and refuse implementation assistance.

Conclusion

Pyongyang's provocations, which will soon culminate in the development of a nuclear-armed ballistic missile capable of hitting North America, deserve increasingly harsh responses from Washington.[18] 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. Sanctions are the only peaceful means for coercing the Kim regime, and are for that reason indispensable.

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

15. 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)

16. 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)

17. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Those Involved in Ballistic Missile Procurement for Iran," January 17, 2016. (https://www.treasury.gov/press-center/press-releases/Pages/jl0322.aspx)

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