

North Korea's Illicit Networks: Policy Options and Analyses
Foundation for Defense of Democracies
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Conversation with Chairman Ed Royce
Moderated by Juan Zarate

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I'm now very proud to turn the floor over to Juan Zarate, former Deputy Assistant to the President and Deputy National Security Adviser, and Chairman and Senior Counselor of FDD's Center on Sanctions and Illicit Finance, who will lead the conversation with Chairman Royce.

Over to you, Juan.

ZARATE: Toby, thank you. Thanks to you and FDD and C4ADS and others who put this together.

Chairman Royce, I want to thank you for taking the time to be with us. And there's no more important time or more important topic in the field of illicit finance.

Sorry about that. Let me start again.

Welcome, good afternoon. My name is Juan Zarate. I want to thank Toby Dershowitz and FDD for hosting this event.

I want to thank C4ADS and others who have been a part of putting this together.

You've been given packets of material which are both timely and substantively very important. C4ADS has come out with a new report entitled "Risky Business" on a new set of North Korean and Chinese networks tied to illicit finance, which is, again, timely and important.

Anthony Ruggiero from FDD, who has done excellent work has been up here at the Hill testifying numerous times, has put together another important report, "A New North Korea Sanctions Approach." All of this is in your material, in addition to some recent reporting from Jay Solomon who's with us today from *The Wall Street Journal*.

But I want to welcome first and foremost Chairman Royce who has been an incredibly important voice not just on North Korea and illicit finance, but on a whole range of illicit financing issues for the amount of time that I've known you, sir, almost two decades. And you've had enormous impact in this space.

There's no more important time to be talking about North Korea given the threat of both their missile and nuclear program, what appears to be a march in furtherance of both of those programs in the face of international sanctions and opprobrium, disregard for international pressure, and at a time when the Trump administration has declared that the era of strategic patience is over, and at a time when the North Korea policy review has concluded that this is now a period where we need maximum pressure and maximum engagement.

The question is, what does that mean, what does that look like, and how should we think about the complexities of this issue, especially in the context of China?

And so we're going to have a discussion here for about half an hour, then we're going to turn it over to what is probably the best panel on this set of issues that you could imagine after we're done.

So, Chairman Royce, welcome and thank you for being here.

ROYCE: Well, thank you, Juan. We've got until 12:30 so I'll try to be succinct.

But first, Juan and I worked together on bringing Viktor Bout to justice, the arms trafficker, and many other projects over the years. And I think, yes, fire away. You hit me with the questions and I'll give you my assessment.

ZARATE: You got it, sir. All right, lots of questions. Let's start first, you've driven a lot of the legislation up here. You drafted the North Korea Sanctions and Policy Enhancement Act. You were just behind the Korean Interdiction and Modernization of Sanctions Act. You've been a proponent of pressuring the North Korean regime with the use of sanctions and financial measures.

What does this legislation, the new legislation in particular, give us in terms of tools and capabilities that we haven't had to date?

ROYCE: Well, the new legislation is going to give us the ability to go specifically after the abuse of conscript labor. Basically what the North Koreans are expert at is rounding people up, sending them to regimes that want people to work for next to nothing. They send a check to the North Korean regime and then they feed these people, but they don't pay them. So it's involuntary servitude basically, but it's particularly prevalent in the Gulf states.

The total amount of it is about \$2 billion a year, but because the money goes directly into the accounts, it allows the North Koreans to fund their very expensive nuclear weapons program.

So previously, we had passed fundamental legislation in the last Congress, if you'll recall, that President Obama, signed and that the National Security Council basically ratified that emulates what we did with Banco Delta Asia back in, when was that, '06 or thereabouts.

ZARATE: '05, '05.

ROYCE: '05. And that is the one thing we know was very effective, because we have from the former minister of propaganda the information as well as from those who worked on the missile programs who we interviewed after they defected, and both said this shut down the missile lines, because without the money, without the hard currency, they can't buy the black market gyroscopes or in the current situation they can't buy, for example, the motors. Even the wiring comes offshore. And the last two come from China. The black market gyroscopes used to come from Japan. But they find a way to find companies that will fund this.

With the ability of the sanctions with Banco Delta Asia and another 10 banks, it became impossible for anybody doing business in China to consider continuing running the hard currency into the regime because your downside risk of losing the ability to do business with the United States or the international business community was such that that would put a bank into bankruptcy. So that's why it's effective.

But we have to reach beyond just the financial institutions and hit these other forms of funding, such as this use of slave labor or whatever you want to call this arrangement. Shut that down. And it also works to go after the ports. So these are some of the important components that will help shut down a situation which otherwise can transfer, for example, I'm thinking of one case, 35 tons of North Korean weaponry, including rocket launchers, rocket-propelled grenades, surface-to-air missiles. All of that was discovered being shipped and that was going to Hamas and other organizations, like other jihadi groups in Gaza.

So what they're doing is circumventing the rules, and they primarily get their funding – as you know, since they don't really produce much of anything – by either contraband cigarettes, illicit drugs like meth, or the arms trade. And all of that can be shut down fairly effectively.

And by the way, we know that from a lot of the good work done by FDD, I should mention Anthony Ruggiero who's in the front row here, he testified before our committee, but it's a lot of FDD's work over the years that's allowed us to look at the effectiveness of these types of sanctions.

ZARATE: Chairman, that was very helpful. We've got people watching us live, we've got a lot of experts in the room, a lot of true believers, as we like to say, in the use of sanctions and financial measures against illicit finance.

But for the lay audience, for your constituents in southern California, how do you explain why this is important? Because there's an orthodoxy that North Korea is the hermit kingdom. They

don't interact with the rest of the world. There is the orthodoxy that we've sanctioned North Korea to death since the Korean War and at the end of the day this is a regime that doesn't care about these kinds of measures anyway.

So how do you explain the importance of these issues to the public?

ROYCE: You know, I would remind people that every time the North Koreans manage to sucker us so that they can continue to get hard currency and expand out their program, we have another lesson in terms of their duplicity.

So if we go back to the creation of a nuclear weapons program on the banks of the Euphrates River in Syria, we've got to ask ourselves two questions. One, how did the North Koreans manage, in the middle of an agreement in which they had told us that they would comply, to do an agreement to give the capability to the Syrian regime to produce nuclear weapons? And it was a carbon copy, Juan. As you well know, it was a complete replica. And all the workers on the program were North Korean, as were the scientists.

Imagine where we would be right now – this is what I would say to my constituents – imagine where we would be right now if the IDF had not taken out that facility. Imagine the tug-of-war that would be going on between al-Nusra and ISIS and Hezbollah for that facility and the nuclear weapons in that facility.

And ask yourself one other question. How was it that the Assad regime had enough hard currency, enough billions upon billions to pay for that?

I've always questioned who actually was writing the checks to the North Koreans, just as currently I take great interest in the trips to North Korea by the Iranian scientific community. And I do think these things bear directly upon other challenges we've had around the world. Ask yourself whether A.Q. Khan could have ever worked out all the technology to get a turnkey operation for the atomic weapons program for Pakistan.

The North Koreans have been working on this, as their former minister of propaganda who was in his 80's shared with me, his entire life through the regime, this had been the principal focus. We'd better have concerns about just how cavalier they are of selling this technology and also about their threats and capabilities.

ZARATE: It's a great point in terms of not just the direct threat that these programs pose to the U.S. homeland, but obviously the proliferation networks.

There's been a lot of discussion about North Korean-Iranian ties as well, something we've looked at at FDD. Is that a connection we should be worried about in terms of the sharing of technical knowledge, the Iranians observing what the North Koreans are developing in terms of both missile and nuclear capability? And how does this play out in the context of the JCPOA?

ROYCE: This is the way I think it plays out. I think some years ago, basically, the Iranians got a copy of the playbook. They watched what the North Koreans were doing and they were

saying, oh, this is how you get from point A to point B. It really is amazing just how suckered the West was in giving concession after concession and allowing us – basically it was under our nose that they developed both the plutonium program and the enriched uranium program, and at the same time shared technology with scientists from other rogue states.

The fact that the North Koreans were allowed to get away with it, I'm convinced, gave the Iranians a great deal of comfort and confidence that they could as well.

ZARATE: Chairman Royce, there's been a lot of work, as you indicated, by FDD and C4ADS on exposing the types of networks that the North Koreans are engaged in for purposes of developing their nuclear and missile program. The report that C4ADS just put out has exposed yet again the depth of some of those networks.

What's your thinking about how we should get at some of these illicit networks? And that's going to feed into a question I have for you about China. But how should we think about these networks, which are very real and commercially savvy?

ROYCE: And very ingenious, right? The ingenuity surprises us, but so does how quickly and easily they can be shut down with a little bit of will. But that will has to come from the United States. If we had not brought to the Security Council the resolution or the legislation that we had passed in Congress for sanctions on North Korea, nothing would have been done.

But once we lead, and in this particular case, when my bill was brought to the Security Council, you did not have Beijing veto it, nor did you have Russia veto it. There was enough international momentum behind the concern over what North Korea was in the process of doing that we got that international support.

So now, in terms of these intricate systems and schemes, the same thing applies. We have to go after and do the hard work that you used to do, Juan, in terms of identifying and then shutting down and putting pressure on governments around the world. And it doesn't take that much pressure, as you know. You and I have been surprised at times because there were countervailing pressure in some of the things we tried to do from Moscow and elsewhere. But we found out, when the United States reached the right people and made it clear at the 11th hour that the right decision had to be done that the steps were taken.

But again, without FDD I'm not sure somebody would be looking at the foundation for this kind of success 24/7, and that's what we really need.

ZARATE: I couldn't agree more. I think there's real power in political will and the demonstration of political will. I think there's always an underestimation of the power of effective financial pressure campaigns, too. I think you've seen that play out over time, a lot of dismissiveness in the context of Iran.

ROYCE: Should I give you a quick example?

ZARATE: Sure.

ROYCE: All right. So we all remember the argument over South Africa. It had the nuclear bomb, it had apartheid. There was a vote here in Congress and 80 percent in the Senate and House, or between 75 and 80 percent in each institution, voted to override the president and voted for sanctions on South Africa. And I talked to a senior South African official who had been in the government at the time who told me we wouldn't have lasted for a week, it was clear to us we had to take that weapon and turn it back to the international system, which is what we did, and we had to lift apartheid and let Mandela out of jail and that's what we did.

When we can speak with one voice, we really can be enormously effective with financial sanctions, because when it's done in concert there are no choices other than implosion.

ZARATE: Let me touch on some of the complexities of this, though, because you do have, especially with the exposure of some of these networks and sanctions, for example, against Russian entities tied to North Korea and obviously Chinese networks and businesses tied, you start getting closer to the core of some of these partner nations that we need at the U.N. and to apply sanctions.

So how do we go about applying these kinds of measures if you can't get additional U.N. sanctions and we may have to apply unilateral sanctions? How does this work?

ROYCE: But remember, what we're basically doing is we're taking the sanctions that have already been passed by the Security Council that are the international sanctions and all we're saying at this point is that we are putting sanctions in place in order to enforce exactly that. So I would say that puts us on a much higher plane than, in some of these other arguments where we can disagree with another state on whether or not sanctions could be deployed.

In this particular case, we have the world consensus and the Security Council decision. And so we are simply using the financial system to enforce that. And we're doing it in a way in which the banking systems of other countries frankly would much sooner comply and get this over with because failure to comply and the consequences of it are very injurious to the bottom line.

The difference between running hard currency into the North Korean regime, which it will then use on its nuclear weapons program, and that is still pretty inconsequential compare to the amount of business that these financial institutions do with the United States.

So it's kind of a no-brainer, although sometimes I wonder if that has a different definition than it does back home.

ZARATE: No, I think you're right. I think there is obviously the baseline of international sanctions, to your point...

ROYCE: Yes.

ZARATE: ...also the baseline of international norms against illicit finance. China and Russia, for example, are members of the Financial Action Task Force, have agreed to the

international standards, and their legitimate financial institutions want to play in the legitimate financial world and commercial world.

ROYCE: And it is not in fact in their long-term interest to have an arms race in East Asia. And I think we all know that if North Korea really does get this capability, it's "Katy, bar the door" as far as what happens next with respect to states across not only East Asia.

ZARATE: Mr. Chairman, let's talk about China now. You've got full purview over the Chinese relationship given what you have to worry about on the Foreign Relations Committee. How should we think about the need to both partner and pressure China in the context of North Korea?

And to answer some of the critics of the current policy, are we over-relying on China in some ways? Is China even capable and willing to apply the kind of existential pressure on Pyongyang that may be necessary to change the direction of their nuclear program?

ROYCE: My presumption is that China is conflicted, in a sense. China has tried to find other sources of influence to push North Korea away from this confrontational strategy. But I think we've seen, you know, the uncle was assassinated and I've heard that it was a hundred members of his family or close associates on his side that were also killed. We saw the brother, Kim Jong-nam, which China had a close relationship with him, we saw him assassinated.

So I think what you see is the hermit kingdom exterminating anyone who could offer a countervailing approach. I think the same thing happened – I think this is why the former minister of propaganda who talked with me had jumped off the tour in Beijing. He had gotten wind that when he got back home the same situation. Was he looking at the Chinese model instead of *juche*, instead of the North Korea model? Because once you depart from the path, that family that runs this cult in North Korea and runs this particularly effective brainwashing operation has apparently decided those individuals who do not recognize that this is a deity that runs – you know, it's kind of like the Sun King, it's like Louis the 14th or something. It's as though if you start questioning Kim Jong-un, your life is in your hands. And it was the same with his father, right?

So I think that China could probably be persuaded. I spoke to their premier about this in Beijing, the fact that it wasn't in our interest or their interest to have an arms race and that if North Korea gets the full capability, we know what South Korea, we know, I presume, what Japan, I presume what many other nations will then do. This, given the dangers of proliferation in the world, and especially the very demonstrable danger that the regime in North Korea could sell this to a state or even a non-state actor for a billion dollars.

They've shown absolutely no concern whatsoever in terms of the kind of weaponry or capabilities that they've unleashed or sold around the world. So given that reality, I think this is the pressure point and I think that our sanctions, as long as we enforce the third-party aspect of those sanctions, can help China and other countries get to the right conclusion.

ZARATE: Do you think it's possible to have that kind of balance where you are pressuring the Chinese without being confrontational toward the Chinese?

ROYCE: Yes.

ZARATE: Because what you've described is something quite nuanced.

ROYCE: I do, it's something they understand. They're agonizing over this, too. This is not the kind of conduct that they wished for. This young man and his capricious, arbitrary attitude is something that I think everyone in the region finds particularly worrisome. So to the extent that we find a way to bring up the pressure—

The other thing obviously we should be doing that really works is getting information in. And the DVDs, the soap operas that many of you have seen from South Korea, 25 percent of the people now in North Korea have these DVD players. And I've also passed legislation to make it easier for us to get information in, not just with shortwave radio, not just with Radio Free Asia, which we now do much more of, but also this kind of information because it really gives one second thoughts when you're watching the drama of the average life of a South Korean as the daughter is yelling at the mother no, I'm not going to go to medical school, I'm going to be an artist, I'm going to go to the university and get this degree, and she goes out and jumps in her car and drives out in front of the condo and down the boulevard, you know, to her own condo where her boyfriend is waiting and they have a meal. And they're watching this and thinking, boy, we were told we live in a worker's paradise, but that looks a lot more like paradise and those people have a lot of freedom.

And so it's that kind of information also that gets you to the point where a politburo discussion went like this: If you're not listening to the radio broadcasts from the outside world, you are like a frog in a well; you do not know what's going on in the outside world. Well, when that discussion is going on in the politburo, you're beginning to get to where you want to be in terms of access to information. We just need to double down on that.

ZARATE: Chairman, you've described kind of an asymmetric campaign a bit; going after the illicit networks, using information warfare to a certain extent. When we talk about diplomacy and we talk about maximum pressure, are there things that we've not put on the table, for example, North Korean membership at the U.N., referrals to the International Criminal Court?

Are there things that we should be thinking about to add pressure, both directly and diplomatically or maybe in a bank-shot fashion, to pressure Pyongyang?

ROYCE: I think the decision – I've worked on this for many years as a delegate to the International Parliamentarians Coalition for Human Rights and we had meetings across Asia, Canada, we had participation worldwide in parliamentarians on this and finally got before the U.N. this decision. The finding of the decision was that it represented crimes against humanity in terms of what was being done.

I would suggest instead something like what we did with the special court for Sierra Leone that led to the indictment of Charles Taylor, or the special court for Rwanda. And then after the bombing, you know, in the Middle East we had a special court.

We have this opportunity to establish something that's worked in the past in order to bring these charges. But at the same time, I would also urge you to understand that a lot of this work has been done by the U.N. And in a sense, that report, if we broadcast that into North Korea, is one of the most damning things we can find.

And then I would also add that, in terms of these consulates around the world, I'm not sure how effective we could be on expulsion from the U.N. But one thing I am sure is that we can illustrate how in their consulates, in their embassies they use this as a modus operandi to do criminal activity. And I could give you 20 examples here that you and I would recognize from the newspapers of findings in the past, whether it's in Bangladesh or around the world, Malaysia, different countries, that made these discoveries and that that suggests that what we should do is an international program effort focused on disallowing those activities out of those embassies so that they cannot use them for meth distribution and everything else. That would be something very doable right now and something that we're urging the administration to do.

ZARATE: When we were tracking the super note, the counterfeit \$100 bill that came out of North Korea, it appeared in places like Taiwan, Peru, Yemen, anywhere the commercial consulates were you would see the counterfeit.

ROYCE: And that's how they were doing it. I have one of those old notes.

ZARATE: You're not using that.

(LAUGHTER)

ROYCE: No. That would really offend Juan, believe me, if I did that. No, I picked it up in Macau. And the reality is that Macau was being used for this purpose. But once we identified this and once we put the sanctions on, that did the trick. But that will have to come from us and our agencies have to be empowered to go after and identify and bring to justice those who are violating the law.

Juan, thank you and thank you for the role you did in bringing so many to justice.

ZARATE: Thank you, Mr. Chairman. Thanks for your time. We appreciate it.

ROYCE: Thank you.

(APPLAUSE)

ZARATE: Please join me in thanking Chairman Royce. I now have the honor of introducing the panel, moderated by Jay Solomon from The Wall Street Journal, former Undersecretary of Treasury, former Deputy Director of the CIA David Cohen, Anthony Ruggiero, formerly of the Treasury Department, now at FDD, and Varun Vira who has been doing incredible work at C4ADS. Gentlemen, over to you.

*Panel discussion with David Cohen, Anthony Ruggiero, and Varun Vira
Moderated by Jay Solomon*

SOLOMON: Thanks everyone for being here. This is an incredible group we have here to talk about North Korea, which is obviously very much in the news today. So I'm going to start off just introducing everyone again. We've got in the middle David Cohen, has served as deputy director of the CIA from 2015, February to January 2017, and prior to that he was the Under Secretary of the Treasury for Terrorism and Financial Intelligence. Next to me I have Anthony Ruggiero who is a senior fellow at FDD and spent 17 years in the U.S. government working on North Korea, predominantly, and served as a fellow for Senator Marco Rubio. And at the end, Varun Vira is the Chief Operating Officer of C4ADS, and he previously served as chief of analysis for the organization.

I wanted to start with all of you have written reports, columns in recent weeks on North Korea that encapsulates the challenge we're facing right now.

So maybe we could start with you, Varun, just about the report you put out that really focused on how North Korea is continuing to use China as a proliferation channel and network.

VIRA: Yeah. So thanks, Jay.

So we found, you know, a few things in the report. I mean, I think the first thing we found is that there are still significant gaps in implementation of the sanctions regime. But more importantly, there are a ton of opportunities potentially to take the sanctions a little bit further.

So on the bad side, we found a couple of things. And a lot of this obviously is being done through exploiting Chinese markets. But on the bad side, we found at sort of the tactical level, we found that the same commercial facilitators who have been involved in arms shipments and trafficking activities in the past continue to be involved with other instances, despite being, you know, exposed in the media or despite seizures happening against transactions they're conducting. They continue to sort of operate.

So in the paper, we talk about one individual, for example, who is affiliated with all three of the largest North Korean weapons seizures in the last three to five years. So obviously, there you can see that there are potentially some gaps in how this is being implemented, and this individual in particular, you know, operated through China for at least a period of time.

If we zoom out a little bit, the situation gets a little bit more sort of complicated. So you see situations where, you know, recent enforcement actions, like the 311, or, you know, sanctions against the North Korean banking system have been extremely effective. We do see diminished sort of use by the North Koreans of formal banking channels. But again, this is where, you know, sanctions need to be sort of dynamic because the North Koreans sort of adapt to regulations as they happen, so what we've seen is, in this case, they're moving out of the banks and are instead moving into the border trading firms in China and using them as their proxy banking institutions, essentially.

So again, there, you know, you see sort of an implementation gap. But the good news when we're talking about China and sanctions I think there is a lot of good news, which is that firstly it's well-known that North Korea has to use the licit financial system or the licit trading system to nest its illicit activities through. Well, what we found when we did an analysis of China and North Korea trade is that the entire ecosystem that they hide within is actually pretty limited, it's just 5,233 companies, which sounds like a lot, but it really isn't.

And then when you start, you know, tracing that back, what you actually find is it's much more limited than that even. Really, a lot of those subsidiaries are affiliates of each other so, you know, maybe you're talking about 2-3,000 unique entities. But then if you flip it and look at it instead of by number, you look at it by revenue, what you find is that the system is completely disproportionately weighted towards very few firms, something, you know, less than 50. So just the top 10 companies, for example, maintain as much as 30 percent of the trade.

So what this essentially means is, because they have liquidity, because they have the logistics to continue to facilitate these activities, a lot of the disparate illicit activity you see around the world, all roads are likely to lead back to those 10 or 15 or 20 sort of large trading firms. And we saw that with examples, again, in Hongxiang.

And in the paper we put out, and, you know, Jay covered this as well, we talk about one Chinese business network, for example, that's, again, just fulfills all of the shady characteristics. It's affiliated with a major weapons seizure that Chairman Royce mentioned, going towards Egypt. It's shipping explicitly dual-use material to North Korea. And it has entities around the world, including in the United States. So that in itself is bad, but when you look back at it, it has business identifying matches back to potentially the largest trading entity that I was talking about, a company that's done 10 percent of trading in 2016 with North Korea.

So again, that's where we believe that the system is centralized, it's limited, it's vulnerable. And with relatively limited enforcement surge against those top trading entities, it can really be possible to disrupt and ultimately dismantle the entire trading system, and obviously China has a big role in that.

SOLOMON: Thanks.

David, you wrote an editorial in *The Washington Post* in April where you basically said the U.S. now should really start imposing secondary sanctions and kind of using a lot more from the playbook the U.S. used against Iran. Could you talk a bit more about that?

And what I find interesting as someone who worked at treasury that you didn't – the concern, I guess, has always been, well, if we really go after China are we going to spark a trade war or are they going to retaliate? So maybe you could talk a bit more about your editorial and this issue of, is the risk of China retaliating a real one?

COHEN: Happy to. First, I want to thank FDD for hosting this and inviting me. It's great to be on this panel. Varun is the only one I don't know on the panel, to begin with. I'm proud to

say that Anthony came to work at Treasury when I was there and delighted to steal him away from the State Department and bring him to Treasury. And everybody should buy Jay's book on Iran.

(LAUGHTER)

I am, not surprisingly, a huge proponent of the efficacy of sanctions, financial sanctions in particular, and even more specifically secondary sanctions appropriately applied to generate the sort of pressure that Varun was talking about, which is targeted pressure on the key vulnerabilities that can then be used to generate the leverage for a negotiation.

But before I sort of go into that for a little bit, I do think there's a predicate question that we all need to grapple with with North Korea, and that is; is this a problem that is resolvable through a negotiated resolution?

The current administration, frankly much like the last administration, much like the administration before it, is proceeding down a path that has as its ultimate objective a negotiation. Secretary of State Tillerson was clear about this when he talked about the maximum pressure approach. He also made it clear that we're not seeking regime change in North Korea.

I think it's a very interesting question and one that I think, as I say, is worthy of discussion whether there is a combination of pressure and inducements sufficient to generate a negotiation and produce a successful negotiation with North Korea. And I think one of the things that I think we all need to recognize is that where we are today with North Korea is not for lack of effort. It's not like the Obama administration or the Bush administration before it was sort of feckless in their approach to trying to solve this problem.

I think we spent, I was going to say, more time in North Korea, but almost as much time on North Korea as any other issue in the Obama administration going back, you know, throughout the full eight years that I had the pleasure to serve. And I know it was true – you know, I came in and North Korea was already a very hot issue in the Treasury Department when I got there in 2009. Throughout that period, we were trying to figure out how to generate this negotiation.

One thing that I think we have learned is that Kim Jong-un cares most about regime survival. That is the paramount concern that he has. He's not unique in that regard, but he is, I think, intensively focused on his place as the third in the line of the Kim dynasty and the preservation of the Kim dynasty. That's why he killed his uncle, that's I think what we saw with the assassination of his half-brother in Malaysia recently. It's all, I think, understandable as a desire to preserve the regime.

And the question is whether, from his perspective, there is any daylight at all between regime preservation and a nuclear program. Because lots of people have remarked on the notion that what Kim Jong-un views as the ultimate guarantor of his regime is the nuclear program, the ability to hold at risk not just South Korea and Japan, but to put at risk the United States who he views as still the principal threat to his continued hold on power and his family's hold on power.

So I think it's worth talking about, because if the answer to that question is there is no negotiated resolution here, we need to think about sanctions in a different way, I think sanctions can be useful both as a way to generate pressure to bring about a negotiation, as we did in Iran, it could also conceivably be useful to generate the pressure to bring about a change in leadership in North Korea. But how we design our sanctions and what we do with them and who we enlist in that effort can be different depending on what it is we're trying to accomplish.

I've talked for too long. I didn't even talk about my piece in *The Post*, but I'll come back to it.

(LAUGHTER)

SOLOMON: Leave it.

Anthony, you also put out a report this week kind of looking at sanctions steps, pressure that we haven't used, we should use. Maybe you could start off by kind of outlining steps that I know you've thought about for a long time, but they haven't been implemented yet and what they are.

RUGGIERO: Sure, happy to. Not to derail further, but I kind of want to talk about what David raised, but I'll certainly talk about the six recommendations.

But, you know, I've struggled, and we've talked a little bit about this, I've struggled with this for a while now, is that, will the Kim regime ever give up its nuclear weapons is the critical question. And, you know, a lot of us who have, you know, been at the six-party talks or worked on this for a long time would say, you know, we've tried almost every aspect and we've tried it four times minimum, it depends on what you count. Some people have a higher count than four.

But, you know, people – I think, you know, when you look at North Korea, I think it's, you know, people don't remember where we were in 2007, 2008, and the Chairman alluded to it, you know. The North Koreans built a reactor in Syria that was destroyed by Israel and nothing really happened because we were so engaged in negotiations.

Now, those negotiations involved giving North Korea almost everything that they asked for: removal from the state sponsor of terrorism list, you know, helping them destroy the cooling tower at Yongbyon. Whatever you want to list, we gave it to them. And at the end of the day, like the Clinton administration with the agreed framework learned, the North Koreans were more interested in their nuclear program than any type of deal that we were ready to offer them.

And so I start from that point, which is not an optimistic point, I realize, and then I start thinking about, if you were going to devise what I consider at this point fanciful negotiations, is the strategy the problem? And the strategy has been that, well, let's negotiate a freeze because, of course, a freeze, common sense, is great, right, because it stops, temporarily at least, stops their program. I can discuss why a freeze is not that great. And then eventually that will lead us to denuclearization. As I said, that strategy, at least four times, has not worked.

And so I would say, you know, not answering the question of whether they would actually give up their weapons, which I think is an answer that is hard to discern, I think you have to structure the negotiations differently. And one way to do that is to require a commitment to denuclearization up front.

You know, in the six-party talks, there was some kind of freeze and then later on there was, like, a declaration of their nuclear program, which may have been an effort to test their denuclearization. Something up front, like things we don't know about, like, where are your weapons, where do you construct your weapons? There's a variety of things that you could do that – and you'd have to pay for it significantly up front.

Now, I still don't think that the Kim regime will accept that. But from my perspective, the way I look at it is that's the only way, path toward a negotiated solution where both parties are committed to a negotiated solution. And I don't think the North Koreans will ever get there with this regime.

I think that the Kim regime is happy to take whatever inducements we will give them for a freeze and then string us along. They read a calendar, too, and they will get us as close to, you know, March, April 2020, and then just sort of putter along and wait and see if this president is reelected or another president and then they'll try again. I mean, they've done that numerous times before.

But to your actual question, I mean, going back to, I mean, I can talk about negotiating some strategy for the whole time. So my research memo, I started with 14 recommendations and I realized that that, you know, people only like me would want to hear 14 of them, so I tried to keep it to five, but I got to six.

And, you know, the first one is the China designations, which has been talked about before and the Chairman talked about. It's something that, you know, we're clearly pulling our punches. If you look at the designations last week I think it was, you know, obviously we're going after Russian companies now. That's a good starting point. But there was a designation of a North Korean inside China and the description says something like "and he has front companies and does financial transactions," but where are the Chinese companies involved with that? There's clearly Chinese persons helping him, but we have really held ourselves back.

If you look at the first report that C4ADS put out, there were 22 front companies involved in that network that were not designated and are still not designated to this day. I can go on and on, Glocom, Limac, which you revealed in a report, all of these networks have not been designated and they've all been revealed in the last six months.

Overseas labor, which the Chairman talked about, I mean, a conservative estimate is 500 million, but 2 billion is fine, too.

Tourist travel, which is obviously back in the news today. I think, you know, it's obviously a tragic situation. I think if you want to know all that you need to know about North Korea's treatment of Americans is if the rumors are true that he was in a coma for a year, that should be,

you know, clearly, Americans should not be traveling to North Korea and Congress should prohibit it.

Inspecting North Korean vessels, I mean, that's overdue. I mean, that's what the Chairman talked about is that it's a restriction.

And then I would say Iran-North Korea cooperation, definitely missile, nuclear, certainly watch out for.

And then I'm not going to repeat it, but the Chairman talked better than I can about using U.S. authorities to enforce U.N. sanctions authorities, which is overdue and something we frankly did on the Iran space.

SOLOMON: One point I'm still really interested in, Chairman Royce was talking about it, there is this perception, and Juan has talked about it, that North Korea is the most sanctioned country on earth, that it's unbelievably isolated, which might be true in some sense. But then, you know, 90 percent of its trade is external through one country. It's actually, apparently, a pretty dollarized economy in a lot of ways because of some of the sanctions that have been in the past. And, you know, a lot of the banks they're dealing with in China have access to the Western banks.

So maybe starting with Varun, explain why this isn't true, that it is not the most sanctioned country in the world and why it is more vulnerable. And maybe David and Anthony, who have worked in the government, like, more, like, what has been – why haven't we done what we did against Iran?

I mean, you could spread the blame. The Bush administration in 2007 seemed to have the North Koreans really on the ropes and it got unwound a bit. The Obama administration, in my view, didn't go as hard against North Korea as they did against Iran. So maybe we could start with that.

VIRA: So, I mean, objectively, North Korea is not the most sanctioned country in the world. I mean, if you just look in terms of sort of numbers, you know, it's not there in terms of sort of designations. But again, it's sort of quality of designations that matter more than sort of number, right?

So I think the first thing I'd sort of say is, again, we keep using this term "hermit kingdom," which is just objectively, in a lot of ways, especially when you're talking about its financing system, is just not true. It maintains this vast overseas empire to facilitate its procurement and financing activities. And if you then dive in deeper into the designations, a very small minority of those designations are against entities located outside North Korea, despite the fact and that's clearly where the revenue and the activity actually is. So just there's a very sort of clear mismatch there.

In terms of rolling up entire networks, I think that's, again, a place where potentially there's a lot more sort of opportunity. And I think, you know, Anthony just sort of mentioned that with the Dandong Hongxiang example where Dandong Hongxiang had, you know, 43 sort of affiliated

entities, 15-plus that should be sanctioned under law through sort of ownership, et cetera, but they weren't. Only one was officially sort of designated. And again, you know, you could say sanctioned under law means that in theory compliance should happen against those entities. But if it's not on the list, by and large, most companies are likely not enforcing against that.

So again, just in terms of the specific networks that have been actioned as well, it's not necessarily the whole thing has been taken apart. And you see that in things like the weapons trafficking flows we talked about where the same facilitator stays active, continues to sort of move across networks.

So, yeah, I mean, the long story, to cut the long answer short, no, North Korea is definitely not the most sanctioned country in the world. And I think there's a tremendous amount of opportunity to surge on targeting and, again, do it in a way where you're hitting the key nodes in the system that de-professionalize the entire thing, take out the skills, capability, knowledge, people, personnel, facilities that allow all the other networks around the world to operate. And if you can start taking those out, then we're getting much closer to an actual sanctions regime that I think is commensurate with the threat and the professionalism with which North Korea operates.

SOLOMON: David, could you pick that up? And as someone who was so senior in treasury, I don't think one should underestimate the idea that, yeah, dealing with China is a question. It's a huge trading partner, so I don't want to undermine the complexity of it, but maybe you could pick up on that.

COHEN: Right. And I'll also pick up a little bit on sort of why we are where we are today. I mean, I agree with Varun's description, which is that the target right now to really squeeze North Korea has been narrowed down. I think the number of significant nodes outside of North Korea, almost all of which, if not all of which are in China, is a handful, you know, and they're vulnerable. That is in part due to many years of effort.

And I was just whispering to Anthony trying to remember the year. In 2013, we designated the Foreign Trade Bank in North Korea, which was their principal means for doing international payments and getting access to the international financial system. We put sanctions on FTB in 2013. That had a pretty significant impact and the impact was to narrow down the target set. But we're not quite at BDA, Banco Delta Asia, situation of 2005 where that really was the key node and squeezing that had a big impact, but I think we're close to it.

So, you know, this issue when you talk about North Korea always relatively quickly comes to China. And the question is, are we going to prioritize going after and trying to incentivize the Chinese to go after the people and the front companies and the financial institutions in China that are the key mechanism for supporting the regime?

This administration, I mean, we'll see as this rolls out. It seems as though what the Trump administration is doing is prioritizing North Korea over everything else, what had been in the campaign and early on a lot of talk about unfair trade practices from China, the currency issues with China, that has all been shunted to the side. You see the president making comments about how China is onboard with putting pressure on North Korea and they're doing a great job. Yeah, I

think time will tell how much China is actually prepared to do here just by sort of inducements to China by withholding some punishments and saying nice things about them.

The argument that I made in my *Post* piece was that we can, in a targeted fashion and sort of as a shot across the bow, start doing some secondary sanctions against entities in China that are the ones that are continuing to provide the outlet for North Korea, in part to squeeze them and in part as a signal to China that we are prepared to go, you know, to turn it up to 11, the old "Spinal Tap" reference, but not to go there right off the bat.

Because for this to be effective, for the secondary sanctions to be effective and, frankly, to squeeze North Korea, we've got to get China to also rethink its interests in North Korea and using secondary sanctions in a sort of demonstration-shot mode against some smaller Chinese entities that are supporting North Korea I think is a way to add a little bit of stick to what seems to be the carrot that the Trump administration is dangling out there today.

SOLOMON: Anthony?

RUGGIERO: Sure. You know, David and I were laughing because I showed him my sort of internal chart of, you know, where we rank North Korea. And, you know, it's harder than it looks because you have to de-conflict all the designations and all that. But right now, we have them number four after Syria, Ukraine/Russia, Iran, and then North Korea.

But I think David and Varun are exactly right, it's more about the quality of the designations. And so from my perspective, I go to the U.N. Panel of Experts. U.N. Panel of Experts, you don't even have to read the whole report, just read the executive summary. I think it's, like, the third paragraph, they say that North Korea is now doing prohibited activities because they're using non-North Korean individuals and front companies.

And then you get the new U.N. Security Council resolution, I think it's 2356, and what's in there? Only North Koreans. You know, if you want to know about why North Korea sanctions are not working either at the U.N. or U.S. sanctions, that's the answer right there.

I mean, to the question of what will China do if we do secondary sanctions, I think David brought up FTB, that's an excellent example. And I would just go one step further. FTB, Foreign Trade Bank, was designated about a month later presumably without the government's approval. Bank of China closed Foreign Trade Bank's account and said that publicly. So that's one example. We don't have a lot of these examples.

The second example is that, even though everybody expected that they would object to Dandong Hongxiang, they actually froze accounts, arrested people or detained people. So, I mean, we're talking about – we're not talking about going after Chinese persons that are engaged in, you know, some lower-level part of the U.S. sanctions. We're talking about violations of U.S. law and that we are right now not focused on and we're allowing Chinese banks and Chinese companies to run roughshod over enforcement of U.S. law.

COHEN: Can I just add one thing to Anthony?

SOLOMON: Yeah, sure.

COHEN: We sometimes mistakenly think of China and the effort to shut down the North Korean nodes through China as sort of a uniform problem, but it's not. And I think Varun's work points this out, that there are some small entities, some individuals and presumably some small financial institutions that are involved. It's a much different thing to say we're going to apply secondary sanctions against Bank of China than against, you know, a small Chinese bank.

And we have a historical precedent for this in the Iran context where we applied secondary sanctions against Kunlun Bank in China, which was, you know, a small- to middling-sized bank that was processing transactions for designated Iranian banks and, therefore, subject to secondary sanctions. We did it. We spent a bunch of time in advance going to China many trips to China, lots of frequent flyer miles, telling them about this problem and that we wanted them to do something about it and ultimately told them we were going to take care of it ourselves. We did and it was met with a pretty formulaic and pretty tepid response from the Chinese.

Now, there are lots of reasons that North Korea and Iran are differently situated in the Chinese mind. And I think it's important to keep that, you know, front and center. But we also do have some reason to believe, I think as Anthony is saying, that the Chinese, if we are disciplined about this and we do the diplomacy ahead of time, will either acquiesce or even amplify the steps that we want to take to pressure North Korea.

RUGGIERO: And I would just say that, I mean, we have done a lot of that over the 10 years and this is – and David mentioned this, that the Trump administration has really put all of its eggs in this basket with China policy. And if they do not act against Chinese companies, then that will impact their policy with regard to China on South China Sea or trade or whatever.

So I think the Chinese -- if you're in China, your expectation is, just like the other administrations over the last 10 years, the Americans will sort of, like, do one little thing that makes them happy and then they'll go away. And that's why it's so important, especially now that it looks like they might do an ICBM test this year, that, you know, the Trump administration faces this critical issue with regard to other U.S.-China policy, too.

SOLOMON: Curious in, like, a tracking counter-proliferation view, like, reading your recent report, stuff FDD's done in recent years, I haven't read your work in recent years, but I'm sure it was great, but...

(LAUGHTER)

COHEN: I hope not.

SOLOMON: ...like, how much, like, I'm just curious, like, the technology, how much better or adept is the U.S. government at tracking what the North Koreans are doing because of the technology?

Like, everything you guys at C4ADS does is public information, as far as we know. Same with FDD. I mean, it feels as someone who's watched North Korea for 10, 15 years that our knowledge is really exploding because of the digital technology we have. I'm just fascinated on that. Like, how much more – I mean, you're a young guy, but how much more are we learning because of the technology we have?

VIRA: No, I appreciate that. But I mean, I think the right answer there is, yes, there are new technologies, there are new methodologies, et cetera, that are available today that maybe weren't available in the past. I don't know if it's necessarily that as much as it's sort of a different way of thinking about these issues.

I think Juan kind of touched on that a little bit when he was talking about, you know, people don't always realize sort of the power or the influence you can have by using sort of the financial levers of power, right?

So think of it a different way. I mean, think of it, if you're a North Korean agent anywhere in the world, you want to move a cargo somewhere, you need a ton of logistics that you need to put in place. All of those are going to leave behind some form of data trail, right? You need reinsurance for your ship. You need a bank guarantee letter. You need to actually register a business. You need to make a payment. All of these you don't do in isolation. You need to nest that within sort of, again, the broader licit system of trade, transport, finance, whatever it is. And by doing so, you're leaving behind a trail, right?

And it comes back to sort of the Chinese discussion we were just having right now. I personally, and again, I don't see a ton of it, but I have not seen, you know, a North Korean overseas transactions denominated in Chinese yuan, for example, or is denominated in, you know, the Korean won. They're all dollar or, at lesser form, euro transactions.

If you're doing that, you're essentially not just, you know, leaving behind a trail in sort of the broader system, you're leaving behind a trail on this side of the border, too, right, because your transaction is passing through the Fed or it's clearing through a U.S. entity of some sort. So, again, that data is not just available, it's also accessible to both, you know, people like us, but also much more. You know, there's a lot of people in the room who literally wrote the book on many of these actions we're talking about today, who then have access to that type of information to be able to take it further as well. So I think it's a different paradigm.

COHEN: Can I make one really quick comment?

SOLOMON: Yeah, please.

COHEN: Everything Varun said is exactly right. Though one additional point is that the financial institutions in China – so one of the difficulties is you've got a front company that's the, you know, XYZ Company set up in Hong Kong, you know, with a Chinese principal as the founder of the company. And, you know, it's hard to tell what it is they do there. You know, there are a billion of these front companies.

The financial institutions, even if it is impossible to figure that out from our side, the financial institutions are actually in a reasonably good position to figure it out, particularly if they're incentivized to do so. And we have seen this time and again across our sanctions programs where we rely on the financial community to apply due diligence, know their customer. All the financial transparency work that we do is designed to put the banks in a position to be able to identify these illicit actors, even if we can't figure them out ahead of time. And, you know, that's a very powerful amplification to what we do on our sanctions, plus the fact that, you know, people think that every transaction in the world runs through a computer in the basement of the Treasury Department and so we know it all anyway.

SOLOMON: I mean, you've been at it for at least a decade, too. I mean, do you feel like our knowledge is accelerating because of either lessons learned or technology?

RUGGIERO: Yeah. I mean, I think in this space, on the financial space, there's a lot more information out there. I would also say imagery and analysis of their nuclear and missile programs, there's a lot more information out there in the public sphere. I mean, when I started in the intelligence community, you know, 17 years ago, on North Korea there was not a lot of this information on the outside.

But I think it's also important to acknowledge that, you know, when reports, like the ones from C4ADS come out, and we have governments that are not acting against North Korea, it's really a forcing mechanism which is what we're looking for. And I think that, you know, this information obviously the government has on the inside, but they, for other reasons, maybe chose not to act. And I think that's the important part of it.

SOLOMON: One other thing that seems striking as you follow this stuff is the convergence of bad actors. You know, earlier they were talking about the 2007 reactor that was blown up, which was, you know, a North Korean reactor built in Syria. You know, who financed it? We don't know, but that was a pretty good example.

If you look at North Korea's missile system, it seems to be a mixture of, you know, there's cooperation with Iran that's been sanctioned, there's the Russians must have been involved at some point, the Pakistanis probably, the Chinese. I mean, is that something all of you really notice in your work, that there is this kind of pool of bad actors, whether it's North Korea, Iran, Syria, Pakistan? Is that something that you see kind of across the board?

Varun, start?

VIRA: Yes. I mean, again, I see it as – think of it as, like, three concentric circles, the way I see it at least. I mean, there's sort of North Korea in the center, then there's your first launching pad, which is most likely china, and then there's sort of the outside world sort of around that, right? So I see that data set, you know, 5,000 companies that I was sort of talking about being the sort of first jumping off point through which you connect to sort of networks around the world.

And certainly, when we look at some of the trading activities among some of those companies, I mean, we see signals, right? We see interesting risk factors. I'm certainly not saying that it means there's some illicit underneath, but the pattern is unusual.

So we see there's one company, for example, that has done not that much trade, like, you know, under I think it was under \$30 million worth of trade over the last few years, but the only people it's done business with are North Korea, Iran and Angola. Well, that's I interesting, right?

(LAUGHTER)

Others that are trading in certain types of categories, which, again, become sort of interesting. So certainly we see those convergences.

And again, I talk about – I keep coming back to this same message, right? It's those key nodes that connect sort of everything because Dandong Hongxiang was a great example of that. I mean, they had five front companies in Hong Kong that had facilitated almost \$300 of payments between sort of what were then-sanctioned entities in Burma. Again, we don't know that the money eventually went back to North Korea, but they went to front companies associated with Dandong Hongxiang in Hong Kong, for example. So again, you probably see this sort of connectivity between sanctioned actors around the world, all operating through some of the same channels, same logistics, same channels.

And that's, again, where it becomes, you know, maybe you've got to take slightly a different look at things where, you know, as much as I'm a big proponent of, you know, going after those fixed nodes themselves, you may want to start, you know, thinking about some of the enablers around those as well, right? I mean, the registration companies, incorporation services companies. We see that's a big pattern we see. You know, like, there's hundreds of front companies, but there's only three or four incorporation companies they use, or the same freight forwarder shows up again and again and again. It's a different, again, way of thinking about it. You could take out potentially those nodes that actually connect illicit actors around the world, not just North Korea.

SOLOMON: David, did you kind of feel this convergence in your work?

COHEN: Yes.

(LAUGHTER)

No, I mean, yeah. Birds of a feather.

(LAUGHTER)

RUGGIERO: No, you know, North Koreans will sell anything to anyone as long as they can pay. And, you know, there was a time that some of us said, you know, not nuclear, they'll never do that, I mean, that's – not chemical weapons, they'll never do that or anything chemical related. Clearly, that's not the case. They built a reactor in Syria. They sold UF6 to Libya. They've had a

relationship with Syria that probably has a chemical element. So, you know, they're willing to do anything.

It's a global problem. And I think the Chairman alluded to it, not just an arms race in Asia, but an arms race in the Middle East if we, you know, if North Korea can have a nuclear weapon it could deliver to the United States.

COHEN: Can I just...

SOLOMON: Sure.

COHEN: ...not to joke about this, but this is actually a good thing in that one of the reasons that we were successful in developing pressure on Iran that led to the negotiation there was that there was a basically a worldwide consensus that the people who were involved in supporting Iran's nuclear program were illicit actors, were people who you did not want to do business with if you were a fine, upstanding bank or freight forwarder or company formation, you know, whatever it may be.

North Korea is in a similar place and the North Korea nuclear missile program in particular, which creates the foundation on which we can build the necessary consensus to, you know, to take additional action to isolate those actors and, most importantly, to get China to also get onboard with isolating these actors. Because if it is a rogue actor in China, making them look bad, you know, acting contrary to Chinese law, it's a heck of a lot easier to get the Chinese to work with us to shut them down than if it is a legitimate actor in China or elsewhere.

SOLOMON: Have North Korea's illicit businesses waned at all? I mean, you know, four or five years ago it was heroin smuggling, knockoff cigarettes, you know, meth, super notes. Has it waned? I just don't hear about it as much as I did.

COHEN: We did some good work on the super note. That's actually, I mean, it's sort of a, you know, the successes you never really talk about. But the combination of the new hundred-dollar bill and denying the North Koreans equipment that they needed to refurbish their printing presses to churn out the old hundred has resulted in, I mean, you guys may know this better than I do, but there's basically no new super note coming out and the new hundred not at all. But they've moved into other areas of illicit activity.

RUGGIERO: Right, I mean, yeah, that's definitely a success story. I mean, cyber, that's the new area for them, right? I think, you know, when I look at, you know, the cyber, the cyber hack on Sony was less for money, more for being able to really attack the United States asymmetrically, I mean, you know, threatening another 9/11 if people went to the theaters to see "The Interview." Certainly a terrorist act, how they're not on the state sponsor of terrorism list is beyond me.

But, you know, if they're involved in the WannaCry virus and, you know, the Bangladesh cyber intrusion for a billion dollars, so I think they see that as a sphere that they can both use asymmetrically against the United States, but then they can also use for funding.

There was a 2015 indictment in the Philippines, you know, for meth, very high-grade meth so they say, so, you know, there are other areas that they're involved in.

But yeah, I mean, I expect that North Korea is continuing these illicit activities.

SOLOMON: Great. Well, I'm going to throw it open now for questions. And I'm sure there are going to be a lot of them. So just raise your hand and identify yourself and away we'll go.

This gentleman over here.

QUESTION: Yes, I'm Jonathan Pollack with the Brookings Institution.

For a lot of us, North Korea is a longstanding habit. But I do just want to really compliment Varun and his colleagues for yet again, through a methodology that demonstrates that, you know, North Korea a lot of times is hiding in plain sight, it demonstrates frankly a lot of creativity that North Koreans do have. Let it not be said that they can't be entrepreneurial because they are, at least in these select areas.

But my question to you, Varun – and I read your report last night. I'm left without clarity about how we think of China's complicity, lack of complicity, lack of awareness, whatever you want to call it, with respect to so many of these activities. I mean, again, you could say at one level they may be, in some measure, in a state of denial, which, by the way, gives a great opportunity. And I make your reports available to Chinese all the time to educate them, perhaps shame them to an extent, because there may be things here that I don't know that they are as aware of as you would think that they would be, whoever the "they" is.

But since your report is really more about how North Koreans operate, sometimes under cover from China, do you have a sense of can we make generalizations here? Because it's related critically to how we do interact with the Chinese government on these issues.

VIRA: Yeah, that's a tough question. I mean, I think it's a mixed bag, put it that way, right? I mean, I would point out, for example, that Dandong Hongxiang was an example where the Chinese did take their own actions as well. I'd point out that a lot of the actions the North Koreans are taking exposes the Chinese business financial sector to potentially a lot more risk than it's factoring in for right now. And I think especially if we see things like, you know, a secondary shot across the bow, I'll call it that, then that risk gets sort of elevated as well.

But I do think there's potentially a portion of it where, again, these are nested networks. I mean, the way I like to look at it, in some cases, is this is as much North Koreans taking advantage of the Chinese market at times as it is Chinese facilitators being complicit in these systems. So I think there's sort of a duality to this.

I'd also point out, you know, the mechanism. And again, it wasn't me who wrote the report, it was one of my analysts and he did a really good job at it. But one of the things I thought he did really well was explaining sort of the mechanics of how payments are made. And I thought that was interesting because, again, that suggests that, you know, there may be situations where Chinese

banks just are not doing adequate KYC or doing have the tools to do it, et cetera, because it's almost like a North Korean hawala system, right?

I mean, it's – the way you see it is a procurement order comes down from the top, it goes to somebody in North Korea who's sort of an operational guy. On one side, he sort of calls up his overseas rep, right, who goes out and finds sort of a supply company. That's on one side, that's the procurement side of things.

On the finance side, a payment order kind of goes to a bank or financial institution or whoever sort of holds the money to make that. In this case, we talked about it was KKBC, which is Credit Kuantan.

KKBC doesn't actually move any money and that's what I thought was super interesting. Right? I mean, this is where the hawala sort of thing comes in. They almost, like, pick up the phone and sort of relay the order over to one of these border trading firms which is holding that account in their name at a Chinese bank on behalf of the sanctioned entity.

So, again, does the bank know, does it not know? I mean, these are things I can't sort of comment on. But I think it's a mixed bag. I think there's a lot of opportunity to show China that this is exposing your system to a lot of risk; therefore, it's in your self-interest to be involved. But I also think the flip side is also true, where there's certainly a lot of complicity of Chinese entities involved in these networks that are operating in plain sight. And I think Ma Xiaohong was a good example of that where she was one of the most prominent businesswomen in the Northeast, right? She couldn't have done that without knowledge of the broader system.

SOLOMON: You guys, I know you've dealt a lot with the Chinese. I mean, what is your assessment? And it's probably not even, probably the finance people might be more cooperative than others.

COHEN: I think – I agree with everything that Varun said. And I think the other piece is the Chinese and the Chinese authorities are in a position to know more. And when they want to turn the screws they can and they have. And we've seen it post FTB and post some of the U.N. Security Council resolutions.

You know, it's a big country. There are a lot of people doing lots of different things there, but they also have a pretty substantial security and internal awareness, put it that way.

So if they wanted – so I think, you know, it may be that they are, you know, presently familiar with everything that's in the report, but they could, if they wanted to, could do a heck of a lot more.

RUGGIERO: Right. I mean, we can debate whether they're complicit. It's not a debate whether the Chinese are making a choice. The Chinese could go to Dandong and realize that they have a problem. They could look at the 5,200 companies. It's not a lot in the scheme of the number of Chinese companies. They could go to the banks in Dandong or servicing these 5,200 companies and say now all 5,200 of those need to be subjected to whatever level of scrutiny. So whether

they're complicit or not, the Chinese themselves, the Chinese government is making a choice not to do that.

And when we're talking about whether they're our partner, that suggests they're not a partner given the 10 years that we've been telling them that there is this problem.

COHEN: Can I sort of...

SOLOMON: Sure.

COHEN: They are making a choice, but it's a deliberate choice. And I think this gets back to what I was saying at the very outset. The Chinese have two competing desires with North Korea. One is, and I think that this is authentic, they would like a denuclearized peninsula. Second, they want stability on the peninsula. They want the second more than the first. So whether they're complicit, whether they're, you know, willfully blind, whether they're, you know, facilitating, whatever it may be, I mean, Anthony is exactly right, there is a choice there and that choice is being made because what they are most worried about is destabilizing the regime in a way that you then get regime collapse and the potential for conflict on the peninsula.

They are, you know, very much averse to a repeat of the Korean War when you had, you know, American forces right on the other side of the Yalu. They worry more about that than they worry about North Korea with nuclear weapons capability, which is not to say they do not worry about North Korea with nuclear weapons capability. I think they do. I think they recognize that, you know, you've got a bunch of nuclear weapons and the delivery mechanisms that are currently capable of hitting Chinese territory if they were to be pointed in that direction.

And so I think we need to, as we've had sort of a really interesting conversation about ramping up pressure and how the Chinese could be helpful here, I do think we need to think about what it is that we're trying to accomplish by ramping up the pressure. And I think that then informs how we can get the Chinese, if at all, to be helpful.

VIRA: Yeah, and just actually one other thing there, just tagging up on both, and it's where. I mean, what Anthony pointed out, I mean, one of his recommendations was inspect the ships and inspect the cargo, right? I mean, that's one of the places, for example, where there's less of an excuse or sort of ignorance and willful blindness. I mean, you can see those coal things from space, literally. I mean, the ships are coming in, you know, into these ports, there's not that many coal terminals that these ships are coming in and out of. Places like that, the excuses wear a little bit thinner, I think, and there you see that choice that's being made potentially a little bit more clearly. So, again, I think it's issue by issue as well.

SOLOMON: The gentleman in the suit.

(LAUGHTER)

QUESTION: Thank you. Bruce Klingner from the Heritage Foundation.

Great panel with a lot of knowledge up there. A comment and a question. The comment is, people often just see that sanctions versus diplomacy when, of course, they're interrelated. The comment, I just finished two days of meetings with North Korean officials in Europe and there was no flexibility, there was no desire for negotiations. Very clearly, they see denuclearization as off the table. There's nothing the U.S. or South Korea could offer them.

Now, the question is, so far the Trump administration hasn't distinguished itself from the Obama administration. They're still, as you've pointed out, pulling their punches on secondary sanctions.

Now, if they do go ahead and implement them, is there sort of a singular strategy? Would you apply the same strategy to, say, the big four banks in China? Or given their size and the impact that going against them may have on the U.S. economy, do you have to do something differently? And if you do go after Chinese entities, I think the assumption is they're going to hit back very strongly. But there have been cases, the Foreign Trade Bank and ZTE and others, where they didn't seem to hit back strongly.

So is there a way that you can prevent them from hitting back, you know, that would make it more likely that we could sanction them? Thank you.

SOLOMON: David, let's go to you.

COHEN: So two comments then. On the sanctions versus diplomacy front, I mean, I don't have any reason to doubt that the North Koreans that you were talking to were expressing North Korean government policy, that there is no negotiated path away from the nuclear weapons and the missile program that they have.

But if you assume that there is, right, which is, I think, implicit in your question about talking about secondary sanctions, I'll just make two comments. One is—there's going to be a little bit of a tangent here—I think we need to pay attention to what we're doing in Iran and how we're implementing the JCPOA. Because if you're Kim Jong-un and you are trying to make a judgment about whether it is worth it to get into a negotiation with the Americans in particular to eliminate your nuclear program, which is I think Anthony is exactly right, freeze is not sufficient, we've got to get to denuclearization, he's got two things in particular that he's thinking about. One is Libya, right, where Gadhafi gave up his nukes and then, you know, in the blink of an eye essentially he was then ousted from Libya with U.S. assistance, so that seems like not such a great outcome for Kim Jong-un. The second is Iran where they agreed to shutter their nuclear program in exchange for economic benefits.

There's legislation floating around the Hill, there's implementation in the Trump administration that will bear on whether, from Kim Jong-un's perspective in particular and the Iranians' secondarily, whether the Iranians are getting the benefit of the bargain there. And if they're not and if he thinks they didn't or they don't, I think it makes it that much more difficult to get to a point where you can have a productive negotiation with North Korea if that is even a possibility.

So, you know, we talk a lot about the North Korea-Iran linkage in terms of the sort of illicit activity between the two. I think there's an Iran-North Korea linkage on the negotiation front as well.

On the secondary sanctions, I think there's a huge difference between secondary sanctions on Bank of China and, you know, China Construction Bank and the sort of the big five Chinese banks versus the Kunluns of the world.

And one of the things we did in—yet another tangent here—the Russia sanctions is, because of some of the concerns with reverberating effects of sanctions on Russian financial institutions, the sanctions we designed on Russia after the incursion into Ukraine and the annexation of Crimea were different from what we had done in the past, which was to cut off financial institutions from the U.S. We denied them access essentially to the U.S. capital markets for short-term funding.

I would think, you know, as we think through what should be done with respect to the larger Chinese financial institutions, if we want to have an impact without, frankly, destabilizing the world economy, which is much more of a concern with China than it was with Russia, I think you need to think through whether you want to use the sort of full-on secondary sanction tool of cutting them off from the U.S. and do something that has a more tailored impact.

RUGGIERO: If I could just –

SOLOMON: Yeah, please.

RUGGIERO: On Iran or Iran and North Korea and the negotiated settlement, I would say there's another side to that coin, too, where Iran could see North Korea's playbook, I think as the Chairman looked at, and, you know, look at the agreed framework. And, you know, there are some similarities with JCPOA where a nuclear program is essentially frozen for another period of time.

But also say that North Koreans also know, you know, we've released BDA for them. I still go back to my, you know, I'm not sure that we're going to get to that point where we have to, you know, start negotiating, releasing sanctions.

But in terms of, like, secondary sanctions against China, I think the one part is regulatory fines against Chinese banks is an area that could be used as well where you have – if you can prove it, if you have Chinese banks that are not looking for North Korea transactions going through the United States.

I think we had the example with Chinpo Shipping, whether it was a, you know, sort of random Bank of China employee, it still doesn't matter. That was clearly something that Bank of China's, you know, compliance department should have looked at. And then if you look through the Justice Department asset forfeiture for Dandong Hongxiang, there is, you know, China Merchants is in there, Shanghai Pudong, I mean, they're doing these transactions and there's a spike in U.S. dollar transactions that should have been, especially with Ma, she's promoting herself as North Korea or, you know, China trade relationship. That should have been a red flag for those banks.

SOLOMON: In the back.

QUESTION: All right. William Asher. This is a question to Mr. Ruggiero.

In your latest memo, you made a question about obviously getting rid of travelers to North Korea, including Americans, based off, of course, the recent developments, including Dennis Rodman.

Would you take that a step further and also try and sanction North Korean entities or travel entities, such as Juche Travel Services, Young Pioneer Tours or, take it a step further, Air Koryo?

RUGGIERO: Well, I mean, Air Koryo is already designated and, you know, I think there has been some, you know, enforcement actions in terms of, you know, getting rid of the non-China routes of Air Koryo. I think there should be pressure on China to limit the routes of Air Koryo.

I mean, on the travel agencies, I mean, if you have any desire to read their "Is it OK to travel to North Korea?" it's, you know, it's an eye-opening experience. I did it yesterday unfortunately again. And you see how it's many, you know, untruthful statements about "it's totally safe, no one really gets detained," you know, "there's only really been five," I think their number was five or something. You know, I've certainly gotten attacked on Twitter by them, and my answer is that one American being detained is one too many.

And I understand that we don't have travel restrictions to really any countries other than Cuba, right? And I understand there are some flaws in that travel system. But the bottom line is that the American people expect their government to protect them from dangers.

The travel warnings by the State Department are not working. I mean, we're doing this in a ladder process. The last bill that the Chairman passed had the warnings mandated. Those are not working. And the next level should be a travel ban and I think it could have exceptions for humanitarian, for journalists, for government workers, whatever. I mean, you can have exceptions.

But the other point I would like to point out, too, is that if you, I suspect, if you ask the State Department today how many Americans are in North Korea they have no idea. And that's the other point, is that if you go to a licensing system run by the Treasury Department, that you would have some sense, especially if we're talking about no one wants war, but we're talking about a very volatile situation, we have no idea, our protecting power has no idea how many Americans are in North Korea at any one time.

I mean, it's a dangerous situation. And anyone to believe that, you know, it's an adventure-seeking thrill just has to look and see. I mean, the two latest ones who were detained were professors who were teaching North Korean students. I mean, that's – you know, and then if you want to – as I noted before, I mean, they held someone that was in a coma, you know, apparently for a year. I mean, that is the kind of regime that we're talking about.

And what they do to their own people, you know, a hundred thousand in essentially prison camps and what they do to people that they send overseas, why Americans would want to go to North Korea is beyond me.

SOLOMON: Great. The lady in the back.

QUESTION: I'm Soojin Park at the Woodrow Wilson Center. Thank you for such a great session today.

I appreciate all of the comments that you have made and the knowledge shared and also the policy suggestions. I very much agree with many of the suggestions and hope that these would materialize, could materialize.

But given that the current administration has put all the eggs on China for now and is looking for China to rein in North Korea's actions, if China maybe takes some action to do that, but not enough to actually put enough pressure on North Korea, from what I've observed the current administration could go on and put the secondary sanctions in place. But a step aside, if the U.S. goes on kind of a conflict track with China in the long term, how could denuclearization on the Korean Peninsula be possible without full, if not full, great cooperation with China? That's my question.

SOLOMON: David?

COHEN: Look, I think it's very hard to imagine how you get to denuclearization of the Korean Peninsula without Chinese assistance, cooperation, collaboration on it.

One thing that we have not talked about, and I think appropriately so, is this notion that seems to be floating out there among some that there's a military solution to this problem. I would just point out that even if you were to assume that there was a way to take out North Korea's nuclear facilities and its missile garrisons, that would come with an enormous number of dead Americans, South Koreans and, you know, who knows whoever else.

There's the thinking about, you know, potential resolutions to this problem. You know, and, frankly, I credit everybody in this room, everybody on this panel for not having gone to that in the hour-and-a-half we've been here because it is a nightmare scenario and, you know, one that, you know, ultimately may not result in the denuclearization of North Korea. But it may, but with enormous consequence.

So that then leads to the question of what to do, how to get China involved here. My sense, look, I think there's no good answer to this question, right? I think if there was a good answer to this question we wouldn't be sitting here in June 2017 trying to figure this damn thing out because we've been trying to figure this thing out for a long time.

I do think more thought should be given to involving the Chinese in a targeted fashion to change not the regime, but change who's got control over the question of North Korea's nuclear program, whether that means a change in leadership or somehow get others in North Korea to be in

a position to sideline Kim Jong-un in a way that brings about, you know, someone who we can then negotiate with about the nuclear program. That, among an array of bad options, that strikes me as the least-bad option. It's incredibly hard to do.

But I do think as we think about the sanctions approach, what we should be focused on is how to incentivize the elites in North Korea to stand up and take that and take that mantle. Now, that also comes with huge costs. You saw the uncle who was assassinated. You've seen the head of the MSS recently was taken out, as well as many of his subordinates. I mean, this is a brutal regime and it's a guy who is not at all averse to using the most extreme methods of killing people to enforce his hold on power.

But there's got to be, I think, more thought given to how we can try and drive a wedge between the military, intelligence and party elite in North Korea and Kim Jong-un.

SOLOMON: In the very back.

QUESTION: Hi. Although China doesn't want things to boil too high, they don't want a nuclear war, as you stated, don't they seem to have an interest in keeping tensions relatively high so they can use that as leverage over the U.S., generally?

RUGGIERO: Sure. I mean, there could be an element of that. I mean, I think the, you know, the Chinese motivations here, certainly they want stability on the peninsula, but they've chosen not to use the leverage that they have.

I mean, I guess, you know, piggybacking on what David said to the other question, I guess I, you know, I don't think if we use secondary sanctions or some kind of sanctions against China, I don't think that they're going to sort of pick up their chips and say we're not, you know, we're not going to have six-party talks or whatever. I think that it's more likely that that will pressure Beijing to actually move a negotiated settlement, if that's the ultimate goal, to become more likely.

And I think, going back to the original points I made about it will only work if the way we're describing to China is either, as David says and I agree with, not necessarily regime change, but understanding that maybe these are not the people that we're going to have to deal with, coupled with an actual negotiation strategy that has the potential to work, not one that's a freeze and we're going to string this out. One that says our expectation is going to be—and you, China, have to reinforce that with North Korea—that some kind of statement of denuclearization that we can believe up front will happen.

And I don't think that this leadership in North Korea is the one that will get there simply because they see these weapons as key to their regime's survival.

SOLOMON: I think we have time for about one more question, so in the front row – the mic.

Identify yourself, please.

QUESTION: Hi. Dan De Luce from *Foreign Policy*.

If you could just talk about the discussions in the Obama administration about going for secondary sanctions. And then I imagine there would be a similar conversation now. What's the argument not to do this? And what's the unintended consequence potentially? You know, what kind of Chinese retaliation could happen? Or is that a red herring, in your view?

COHEN: Well, like Attorney General Sessions, I'm going to take executive privilege on internal conversations on the administration. But I can now give you a sort of broader answer to that question.

The question of ramping up pressure on China, whether through secondary sanctions or otherwise, I think in this administration as in the Obama administration, probably in Bush and Clinton as well, is always assessed in relation to the plethora of difficult issues that we have with China, whether it's cyber, trade, South China Sea, you know, Tibet. You know, you name it, there is a whole host of issues with China that if you emphasize secondary sanctions, you emphasize North Korea, you necessarily have to at least accept the possibility that you're not going to be able to make progress on these other issues. And so that's always a consideration.

I think it's a consideration in this administration where it seems to be that they have emphasized North Korea over these other issues that had a lot of attention in the campaign. So that's one.

The second is what are the collateral consequences? Well, there is retaliation that China can visit on the United States. You know, we are – the economic relationships between China and the U.S. are far more intense than any other country that we've ever thought about applying sanctions against, much more so than Russia, certainly more so than Iran, you know, go down the list, South Sudan, you know, or Sudan, right?

And the Chinese have shown, they did this a couple of years ago with respect to Japan when there was an incident at sea between a Chinese vessel and a Japanese vessel where they cut off rare earth materials to Japan. They have shown that they know how to use their leverage to inflict economic pain on those who, you know, who are their targets.

So I think we have to recognize that the Chinese have the capacity to retaliate against the U.S., which all folds back to a point that I think everybody has made, which is that if we're going to bring along the Chinese here to put pressure on North Korea and to target the pressure in a way that we want to do it, it's going to take additional diplomacy. I mean, it's not like this administration will be starting from a dead start. I mean, this has been going on for a long time, but I think more work needs to get done on that front. It would be nice if we had a State Department that could actually do that work. Sorry, a little editorial comment there.

But just, you know, sort of coming out of the box with a full-on secondary sanctions program, I think, has the potential to backfire.

SOLOMON: Well, I am told time's up. So I want to thank FDD and C4ADS for these great reports and for everyone for coming.

And my guests here, it was great, appreciate it. Thanks a lot.