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NORTH KOREA'S CRIMINAL ACTIVITIES: FINANCING THE REGIME

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HOUSE OF REPRESENTATIVES

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NORTH KOREA'S CRIMINAL ACTIVITIES: FINANCING THE REGIME

TUESDAY, MARCH 5, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:07 a.m., in room 2172 Rayburn House Office Building, Hon. Edward Royce (chairman of the committee) presiding.

Chairman ROYCE. This hearing on North Korea will come to order. On February 12, North Korea conducted its third and most powerful test to date of a nuclear weapon, a smaller weapon, because North Korea is working on miniaturizing its weapon in order to place it on the head of an ICBM. This followed December's launch of a three-stage, intercontinental ballistic missile.

So we have had test after test. We have had broken promise after broken promise, and successive administrations, both Republican and Democrat, have clung to an unrealistic hope that one day North Korea will suddenly negotiate away its nuclear program. It is a hope that in 1994 many of our senior members here shared when we passed the nuclear framework agreement 19 years ago with North Korea.

But during that whole period of time that we attempted to engage, we found instead that North Korea was perfecting their weapon, was violating those negotiations. The approach that we have taken has failed. And three nuclear tests later, I think we have to be realistic. We have to find a better alternative. A failed approach to North Korea doesn't result in just a more dangerous situation on the Korean Peninsula. It, in fact, has resulted in a more dangerous world.

We know that North Korea helped build the carbon copy of their program in Syria on the banks of the Euphrates. We also know that Iran has directly benefited from North Korea's long-range missile technology. We suspect that they have benefited from the nuclear tests. Last month, Ranking Member Engel and I were in Northeast Asia, and it is clear from our discussions there that our North Korea policy must change.

Today we will look at the illicit activities that are underwriting North Korea's weapons programs. We are going to look at its illicit missile sales abroad and at its meth trafficking. This is the only country in the world that manufactures and then trafficks in meth. We are going to look at their counterfeiting of U.S. $100 bills, and we are going to think about the reason why this country has been

called the "Soprano State." We will hear from one witness who will testify that North Korea's "illicit money making machinery continues to turn."

But it is this dependency by the regime on illicit activities that can be exploited. This is the Achilles' heel. We did this once. In the fall of 2005, the Bush administration targeted the Macao-based Banco Delta Asia for its money laundering role. While U.S. money was being counterfeited they were laundering for North Korea. And our pressure led other banks in the region to shun North Korean business, which finally isolated the regime and cut off its ability to get hard currency. However, after Kim Jong-il made promises on its nuclear program, the pressure was prematurely lifted. Today, the current administration has done little to target North Korea's illicit activities. Instead, the administration has deferred to a policy at the United Nations and has opted for "strategic patience."

The purpose of today's hearing is to examine how best to pressure North Korea's ruling elite by systematically restricting their access to the hard currency on which they depend. We will hear from one witness who has first-hand experience spearheading such an effort. We will be introducing legislation based on some of the ideas we will hear today.

It is important to realize that we have more options other than simply to rely on Beijing to do more. Disrupting North Korea's illicit activities will place tremendous strain on that country's ruling elite who have done so much harm to the people of North Korea. We must go after Kim Jong-un's illicit activities like we went after organized crime in the United States—identify the network, interdict shipments, and disrupt the flow of money. This would sever a key subsidy for North Korea's weapons of mass destruction program. For only when the North Korean leadership realizes that its criminal activities are untenable do prospects for peace and security in Northeast Asia improve.

I will now turn to our ranking member, Eliot Engel of New York, for his opening comments.

Mr. ENGEL. Well, thank you very much, Mr. Chairman. I would like to thank you for calling this timely hearing and for your leadership in addressing the North Korean threat. I would also like to say publicly that it was a privilege to travel to the region with you earlier this year to discuss North Korea with top leaders in Seoul, Tokyo, and Beijing. The recent nuclear test conducted by the North was a dangerous provocation that raised tensions in Northeast Asia. It reinforces the fact that Pyongyang poses a serious threat to the national security of the United States and our allies in the region. Following the test, the House overwhelmingly passed a strong bipartisan resolution, authored by Chairman Royce and myself, condemning the North's irresponsible action. Among other things, that resolution called for the United States Government to use available legal authorities and resources to defend our country's interests against North Korean illicit activities, which is of course the topic of today's hearing.

North Korea's nuclear tests, ballistic missile launches, and attacks against South Korea have been obvious to the entire world. What has drawn less attention, however, is the fact that North Korea engages in a wide array of illicit activities to support its

military program and leadership. The North Korean regime's criminal conduct including drug smuggling, weapons trafficking, the sale of nuclear and ballistic missile technology to rogue regimes in Iran and Syria, and the counterfeiting of U.S. currency, cigarettes, and pharmaceuticals serves as a lifeline to keep itself in power. Proceeds from these criminal activities are distributed to members of the North Korean elite, including senior members of the military, and are used to finance the top leadership's lifestyle. They are also invested in North Korea's military programs.

I am one of the few Members of Congress that have been to North Korea, and I have been there twice. I visited the capital of North Korea, Pyongyang, and I can tell you that the North Korean regime would do better to help its own people and give them the things that they need, rather than spend its time and money on nuclear weapons and missile technology in defiance of the international community.

The North Korean regime practices what experts have called "criminal sovereignty." In essence, Pyongyang uses state sovereignty to protect itself from outside influence and interference, while dedicating a part of its government to carrying out activities in violation of international law and the domestic laws of many other countries. For North Korea these criminal activities are viewed as necessary to maintain the power of the regime, with no regard for the fact that they are corrosive to international law and order. So the question is, what steps can we take to combat North Korea's illicit activities? And can our efforts to prevent these activities be used to pressure North Korea to abandon its nuclear weapons and ballistic missile programs?

Now I just heard on the news this morning that the agreement has been made, ostensibly with China, to punish North Korea for its missile launching and nuclear tests. I hope that China will not do what it has done in the past and agree to sanctions and just erode those sanctions so the sanctions really never take hold. I hope that China will finally understand that the North Korean regime is a threat to stability in that region of the world, and in many regions of the world. Because as Chairman Royce pointed out, North Korea is a rogue state helping countries like Syria trying to obtain nuclear weapons, and collaborating with Iran.

I want this committee to know that on this issue there is not a millimeter's worth of difference between the chairman and myself. We both view the North Korean regime as a threat and one that needs to be contained. I wanted to tell you the first time we took the trip to North Korea; it was probably about 8 or 9 years ago. And one of the first things we noticed in Pyongyang was the billboards that were all across the country. One of the billboards still sticks in my mind. It showed a North Korean soldier bayoneting an American soldier in the head, in his helmet. And we knew it was an American soldier because on his uniform it said USA.

So the regime is endemically hostile to the United States and warrants watching, and I look forward to our witnesses' testimony. This is really very, very important, and we have many pressing concerns all around the world but we ought not to forget about the pressing concern with North Korea. We ought to stay focused on the region. I thank you, Mr. Chairman.

Chairman ROYCE. Thank you, Mr. Engel. This morning we are joined by a distinguished panel of experts. Dr. David Asher is a senior fellow at the Center for a New American Security. Previously, Dr. Asher served as a senior Asia advisor at the State Department. He was the coordinator for the North Korea working group that attacked Kim Jong-il's illicit activities and finances.

Dr. Sung-Yoon Lee is a professor at the Fletcher School of Law and Diplomacy at Tufts University. Known for his ability to turn a phrase, he has written extensively on the Korean Peninsula including a recent piece entitled, "Don't Engage Kim Jong-un, Bankrupt Him," which recently appeared in Foreign Policy magazine.

Ambassador Joseph DeTrani is president of the Intelligence and National Security Alliance. He served as the special envoy for Six Party Talks with North Korea in 2003. From 2010 to 2012, he was the director of the National Counterproliferation Center.

Without objection, the witnesses' full prepared statements will be made part of the record, but I am going to ask each to summarize your testimony in 5 minutes. We will begin with Dr. Asher.

STATEMENT OF DAVID ASHER, PH.D., NON-RESIDENT SENIOR FELLOW, CENTER FOR A NEW AMERICAN SECURITY (FORMER SENIOR ADVISER, EAST ASIAN AND PACIFIC AFFAIRS, AND COORDINATOR, NORTH KOREA WORKING GROUP, U.S. DEPARTMENT OF STATE)

Mr. ASHER. Chairman Royce, Ranking Member Engel, and other distinguished members of the committee, I want to thank you sincerely for this opportunity to testify on a matter of truly grave concern, the growing nuclear proliferation risk of the North Korean regime and the need for a fundamental new policy approach that comprehensively addresses that threat that North Korea poses to Asia and the world. In short, our diplomatic efforts, which I was part of along with Ambassador DeTrani in the Six Party Talks, have objectively failed. Unfortunately, so have our efforts to counter the proliferation activities and nuclear procurement of the North Korean regime.

I believe in the next 24 months North Korea's global and regional threat will go from bad to worse. Not only do I fear North Korea will deploy nuclear warheads on its expanding and increasingly sophisticated missile force, including directly against the United States and our allies, I am concerned that the chances of North Korea exporting nuclear weapons and nuclear capable missiles to Iran is alarmingly high, if indeed something has not already occurred.

North Korea has one, and quite possibly two, weapons grade uranium production facilities. According to the Institute of Science and international studies, North Korea could accumulate enough weapons grade uranium for 21 to 32 nuclear weapons by the end of 2016 with one centrifuge plant alone. With two it could be 26 to 37 nuclear weapons. This is on top of the 10 to 12 weapons that are publicly estimated to already be in North Korea's arsenal.

North Korea does not need 30 to 40 or 50 nuclear weapons. North Korea does need money. And my concern is that the regime needs money—in particular as a young regent takes power—to cement his position, solidify his control over the military, and pay for

his expanding and highly expensive WMD and missile programs which he has been putting on prominent display in the streets of Pyongyang and during these recent parades.

The nation that has the money and the need for nuclear material, including enriched uranium and weapons, most obviously is the Government of Iran. In mid-July 2002, North Korean President Kim Yong-nam led a high level delegation to Damascus, Syria, for a mysterious purpose that we were monitoring closely at the State Department. On July 18, 2002, an agreement on scientific and technological cooperation was signed between the Government of Syria and the Government of North Korea.

In hindsight, this scientific agreement was the keystone commencing the covert nuclear cooperation between North Korea, its General Bureau of Atomic Energy and its counterpart, the SSRC, inside the Syrian Government, which is in charge of weapons of mass destruction. Ominously, President Kim Yong-nam recently led a similar delegation to Tehran.

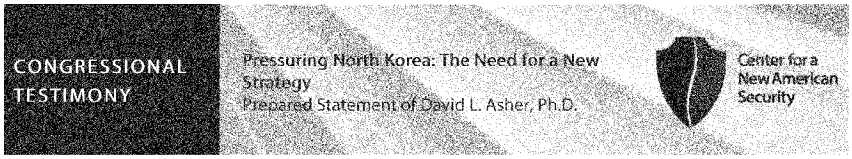
On September 1, 2012, Iran and North Korea announced a signing of a Scientific Cooperation Agreement that appears almost identical to that signed between North Korea and Syria in 2002. The Iranian retinue attendant at the ceremony welcoming the North Korean President included the Minister of Industry, Mine and Trade; the Defense Minister; and most ominously, the head of the Atomic Energy Organization of Iran, Fereydoon Abbasi-Davani. They also had high level discussions on coordinating key strategic issues. We can only guess what those are.

It is time to stop the complacency on countering, containing and disrupting North Korea's proliferation machinery and the malevolent regime before serious and enduring damage occurs to global security. Working closely with our allies, especially those on the front lines in South Korea and Japan, we need to organize and commence a global program of comprehensive action targeting Pyongyang's proliferation apparatus, its facilitators, its partners, agents, proxies, its overseas presence. We need to interfere and sabotage decisively with their nuclear and missile programs. We also need to revive an initiative identifying and targeting the Kim regime's financial lifelines, including its illicit sources of revenue and overseas financial nest egg bank accounts, especially in China. Chinese banks and trading companies who continue to illegally facilitate access for North Korea, themselves, should be targeted.

Finally, the United States should commence a program to influence the internal workings of the North Korean regime to undermine the Kim dynasty, and ultimately lay the groundwork for a change in regime if it doesn't change course fundamentally. Bringing about change in North Korea will require a top-down, determined effort across the whole of government and among a league of willing foreign partners similar to the initiative that I had the opportunity to run during the Bush administration.

Organizing such an initiative is not a trivial effort and it will require considerable energy and commitment including oversight by your committee. I appreciate this opportunity to make this testimony before you. Thank you.

[The prepared statement of Mr. Asher follows:]



Testimony before the House Foreign Affairs Committee
Prepared Statement of David L. Asher, Ph.D
Non-Resident Senior Fellow, Center for a New American Security
March 5, 2013

Chairman Royce, Ranking Member Engel, and other distinguished members of the Committee, I sincerely appreciate this opportunity to testify on a matter of grave concern to our national security: the expanding danger of a nuclear-armed North Korean regime and the need for a new policy approach that comprehensively addresses the North Korean threat and applies effective pressure against the regime.

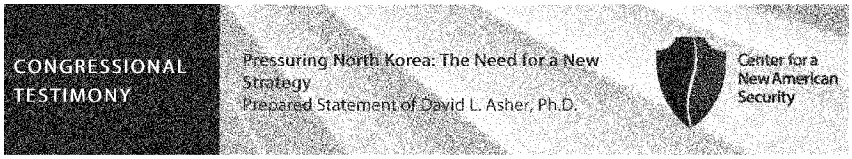
Despite determined diplomacy and global sanctions designed to curtail its ambitions, North Korea is winning its long Cold War with the world. In the wake of the recent successful nuclear and ICBM-class rocket tests, North Korea is close to attaining a position it has long sought – acceptance as a de-facto global nuclear power with the ability to threaten and coerce the United States and our allies directly. Our diplomatic strategy of getting North Korea to abandon its nuclear program within the Six Party Talks has proven an overt failure. Likewise, the UN sanctions-based pressure strategy has been ineffective at coercing a change in regime behavior or effectively containing the North Korean proliferation threat.

While the world has grown weary of North Korea's continued misbehavior, expressions of indignation have largely supplanted serious policy. The December "space launch" that many experts believe was a mock ICBM test, was met by no serious global response beyond a modest, though helpful, uptick in EU sanctions and a typical UN condemnation (with no invocation or reference of Chapter 7 of the UN Charter which would have required serious action by member states).[1] Even the testing on February 12, 2013 of what the North Korean news agency asserted was "a miniaturized reduced-weight atomic bomb" with "great explosive power," did not compel swift and severe international action. Nearly a month after the test, the United Nations Security Council has yet to adopt a new sanctions resolution condemning the test—largely due to Chinese opposition.[2] Moreover, the media – which typically loves a crisis – has in large part downgraded the story beyond the front page. Apparently, the surreal North Korean cartoon has been replayed so many times that people have forgotten that it actually reflects a highly dangerous reality.

The Rapidly Expanding Threat

Even as the world has grown weary, I believe that in the next 24 months the North Korean global and regional threat could go from bad to worse. Not only do I fear North Korea will deploy nuclear warheads

[1] United Nations Security Council Resolution 2087 (January 22, 2013).
[2] Rick Gladstone, "No Move Yet by U.N. Body After Test by Koreans," *The New York Times*, February 26, 2013, http://www.nytimes.com/2013/02/27/world/asia/no-progress-seen-on-un-resolution-after-north-korea-nuclear-test.html?ref=securitycouncil.



on its expanding and increasingly sophisticated missile force, I am concerned the chances of North Korea exporting nuclear weapons and nuclear capable missiles is alarmingly high. I also am concerned about the rapidly evolving North Korean/Iranian strategic relationship, which Tehran increasingly considers as part of its "Axis of Resistance" (which formally includes Iran, Syria and Lebanese Hezbollah).

North Korea has one and quite possibly two Weapons Grade Uranium (WGU) productions facilities. According to the Institute for Science and International Studies, "North Korea could accumulate enough WGU for 21-32 nuclear weapons by the end of 2016. With two centrifuge plants, it could have 26-37 nuclear weapons by the end of 2016."[3] North Korea does not need another 26-37 enriched uranium warheads for its security. It already has more than enough plutonium based weapons in its arsenal to ensure a type of mutually assured destruction, an arsenal that few experts believe North Korea strategically needs in any event, given its existing ability to inflict tremendous conventional military damage. Even if we assume half of these WGU weapons will be deployed on missiles, it is unrealistic to assume the totality of WGU is being produce for domestic use. North Korea has a track record of exporting its main indigenously developed weapons systems as well as sensitive nuclear technology, with almost no exception. In Syria, the North showed it would readily cross a nuclear redline. Until the Syrian Al-Kibar facility was bombed by the Israeli Air Force on September 5, 2007, North Korea was well down the road to helping the Government of Syria build a Yongbyon-like plutonium reactor on the Euphrates, in partnership with the entity inside the Syrian Government in charge of WMD weapons programs. North Korea apparently was helping Syria develop a nuclear weapons program, not civilian electric power.[4]

North Korea also has a dangerously expanding arsenal of nuclear capable missiles. This includes the recently tested Unha-3 ICBM "space launch vehicle" as well as the untested road mobile rapid launch intermediate range missile, known as the Musudan, which is based on a Soviet SSN6 (one of the most tested nuclear missiles of the Cold War). Combined with Nodongs, Scuds, and Taepodongs, North Korea is hardly short of credible means of delivering nuclear weapons via missiles- all of which are for sale today in the Middle East by North Korean weapons trading companies and agents.

What North Korea certainly needs much more than nuclear weapons and advanced missiles is money to cement the power of Kim Jong Eun, solidify his control over the military and pay for expanding WMD and missile programs. Who has both the money and the need for weapons grade uranium, weapons technology and the means to deliver such weapons? The answer is: Iran.

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[3] David Albright and Christina Walrond, "North Korea's Estimated Stocks of Plutonium and Weapon-Grade Uranium," *Institute for Science and International Security*, August 16, 2012.

[4] Erich Follath and Holger Stark, "The Story of 'Operation Orchard' How Israel Destroyed Syria's Al Kibar Nuclear Reactor," *Der Spiegel*, November 2, 2009, http://www.spiegel.de/international/world/the-story-of-operation-orchard-how-israel-destroyed-syria-s-al-kibar-nuclear-reactor-a-658663-druck.html.

Clear and Present Danger of Nuclear Proliferation to Tehran

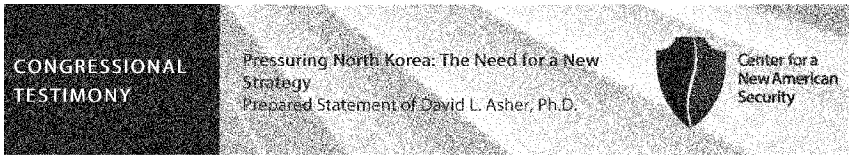
In mid-July 2002, North Korean President, Kim Yong Nam, led a high level delegation to Damascus, Syria for a mysterious purpose. On July 18, 2002 "an agreement on scientific and technological cooperation" was signed between the governments of the DPRK and Syria." According to North Korea's official news service, KCNA, "the agreement was inked by the President of the Academy of Sciences Ri Kwang Ho, upon authorization by the DPRK government, and Minister of Higher Education Hassan Risha, upon authorization by the Syrian government." In hindsight this "scientific cooperation agreement" was the keystone for the commencement of covert nuclear cooperation between North Korea and Syria, which ultimately resulted in the construction of a nuclear reactor complex and possibly other forms of WMD cooperation.[5]

Ominously, Kim Yong Nam led a similar delegation to Tehran in late August 2012, ostensibly to attend the annual Non-Aligned Movement Conference. On September 1, 2012, Iran and North Korea announced the signing of a Scientific Cooperation Agreement that appears almost the same as that signed in 2002 by North Korea and Syria. The Iranian retinue attendant at the welcoming ceremony for the North Korean president should have set off alarm bells. Cabinet members attending the ceremony included Minister of Industry, Mine and Trade Mehdi Ghazanfari, Defense Minister Brigadier General Ahmad Vahidi and Head of Atomic Energy Organization of Iran (AEOI) Fereydoon Abbasi Davani. Whether a scientific agreement is a lead indicator of North Korean and Iranian nuclear weapons cooperation or not, given the Syria precedent, North Korea's supply of material and Iran's demand, this potential needs to be aggressively monitored.

Time for Action, not Complacency

It is time to stop the complacency on countering, containing and disrupting North Korea's proliferation machinery and malevolent regime before serious and enduring damage occurs to global security. A nuclear-armed and proliferating North Korea fundamentally jeopardizes international stability and U.S. strategic interests in Asia, the Middle East, as well homeland security. The existence of the dictatorial, kleptocratic and highly repressive Kim regime runs against our fundamental interests in freedom, human rights and democracy, as does a divided Korean peninsula. The interest and sensitivities of our treaty ally, the Republic of Korea (ROK), must be factored into all strategic decisions related to North Korea. Together with the ROK, U.S. policy must squarely address the North Korean threat and seek to actively counter, protect, deter and disrupt Pyongyang's burgeoning nuclear and missile capabilities. Equally, U.S.

[5] "DPRK-Syria Intergovernmental Agreement Inked," Korean Central News Agency of DPRK, July 18, 2002, http://www.kcna.co.jp/item/2002/200207/news07/19.htm; "Leader Kim Jong Il Inspects Branch Stock Farm," Korean Central News Agency of DPRK, July 19, 2001, http://www.kcna.co.jp/item/2002/200207/news07/19.htm.



policy must seek to apply decisive pressure against the Kim regime to promote the end of Communism in the North and reunification with the South.

What to do?

Working closely with our South Korean ally, we need to organize and commence a global plan of action against Pyongyang's proliferation apparatus, facilitators, partners, agents, proxies and overseas presence. We also need a program of action identifying and targeting the Kim regime's financial lifelines, including its illicit sources of revenue. Finally, the United States should commence a program to influence the internal workings of the North Korean regime to undermine it. Although heavy sanctions are in place, they are obviously not sufficient. They are neither deterring the regime, nor interfering effectively in its WMD programs. "North Korea Inc," though hobbled, remains functionally in the proliferation business. Via a network of nested trading relationships inside foreign partner countries (China especially), a litany of front companies, and the aggressive use of diplomatic "commercial sections" and "official" bank accounts (which are not sanctioned), North Korea's WMD proliferation and illicit money making machinery continues to turn. We need a multiplexed campaign strategy to shut North Korean proliferation networks down, interfere with and sabotage their nuclear and missile programs, cut off leadership finances, hold the regime legally accountable for state directed criminality and acts of terrorism and ultimately lay the grounds for a change in the regime if it doesn't change course.

In essence, this was the mandate of the North Korean Illicit Activities Initiative (IAI) and the North Korean Activities Group at the National Security Council that I ran during the first term of the Bush Administration. The IAI involved over 14 U.S. government agencies and 15 foreign government partners. Without the use of sanctions, we were able to use law enforcement, sensitive diplomacy and other tools to strategically interfere with the Kim regime's financial lifelines, culminating in the well publicized designation of Banco Delta in Macao as a key leadership finance node and the indictment of key members of the regime in U.S. Federal Court. The effect of the campaign of actions under the IAI froze North Korea out of key aspects of the international financial system and also produced destabilizing internal effects that could have been magnified as the ultimate tool of high level coercive diplomacy to compel North Korea to abandon its nuclear program.

Recommendations:

- ***North Korea Activities Group:*** The administration should revive the NSC North Korea Activities Group, appoint a high level North Korea Pressure Czar at the Department of State, and commence an interagency and international effort to actively pursue North Korean illicit activities, weapons trafficking and regime finances using all instruments of national power.

- ***U.S. Department of Justice Investigations into North Korean Illicit Activities:*** The Department of Justice (DOJ) investigations into North Korean regime-level illicit activities which were conducted between 2002-2006 need to be reopened. The evidence produced through those previous investigations should either be used to support future investigations or declassified and made public. Evidence of the involvement of North Korean regime leaders and institutions in transnational organized crime should concurrently be brought to the attention of the UN Security Council and to the International Criminal Court.

- ***North Korea Influence Program:*** The president should order the appropriate government agencies to commence a program on influencing the internal workings of the Kim regime and preparing for and promoting its non-kinetic downfall.

- ***Assessment on China-North Korea:*** The administration should request a National Intelligence Estimate on the true nature of the China-North Korea relationship, including military, intelligence and WMD program cooperation, as well as an objective analysis of China's role in both facilitating and restraining North Korean sanctions violations. If the assessment concludes that China is providing more facilitation than restraint of North Korea's dangerous activities and sanctions violation, including WMD proliferation and procurement, sanctions should be considered against the Chinese government.

- ***North Korea Freedom Act:*** The Congress should enact a *North Korea Freedom Act* that, at a minimum, applies the financial pressure authorities invested in Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) to North Korea. The fact that Iran sanctions are far more serious, encompassing and effective than those against North Korea is remarkable and unacceptable. This legislation should include the following provisions to effect financial pressure:

    - **Freezing the DPRK out of SWIFT:** Compelling the Society for Worldwide Interbank Financial Telecommunication (SWIFT) to deny its members to use the SWIFT system to facilitate financial transfers for Iranian entities has been perhaps the most successful effect of the European sanctions. The same should be applied against North Korea by the United States.

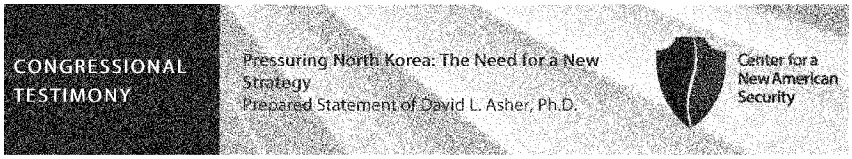
    - **Going After Those in the Middle:** In particular, an effort needs to be made to enforce the law and sanctions against those who are facilitating North Korean illicit access to the international financial and trading system, including non-North Korean banks, trading companies, freight forwarders and other partners who are fronting for North Korean sanctions evasion. This effort needs to include North Korea's use of trade-based means of

value transfer, directly and through second parties, including the purchase and sale of gold, diamonds and even scrap metal (all of which are used to avoid sanctions). Chinese trading companies and financial institutions, in particular – ala the 2005 case of Banco Delta in Macao – need to be targeted and held legally accountable for violating sanctions. North Korea is adept at exploiting loopholes in existing regimes of rules and regulations to conceal beneficial ownership and the true nature of illicit cargos. We find often that even basic due diligence, which would have disclosed a DPRK link, is not performed. "Customer's customers," "nested businesses" and beneficial owners need to be subject to enhanced-due diligence and those allowing them to transact freely should become legally liable for allowing their complicit activities.

- **Aggressive Verification and Compliance:** The existing sanctions need a comprehensive monitoring and enforcement mechanism. An aggressive enforcement effort equivalent to the verification and compliance efforts made on strategic arms control in the 1970s and 1980s needs to be put in place against North Korea. This should not only involve Treasury and State but also DOJ, the Department of Homeland Security and the Department of Commerce enforcement agencies and officers who will need to be able to build international cases against violators.

- **A National Financial Tracking Center:** America's centrality in the global financial system provides the United States with a remarkable ability to monitor and enforce sanctions compliance, anti-money laundering, as well as to detect and disrupt suspicious activities. Taking advantage of this centrality, the U.S. government should organize a National Financial Tracking Center for monitoring inbound and outbound financial flows as well as suspicious activities equivalent to the National Tracking Center that Customs and Border Protection (CBP) runs to monitor and police incoming and outgoing travelers, ships, cargos and trade. The National Tracking Center routinely alerts ships and planes coming into the United States that may be carrying suspicious cargos or passengers and compels them to take action before entering U.S. territory or at place of entry. No such alert mechanism exists to help financial institutions be aware and investigate potential suspicious financial activity.

- **Interbank Compliance Network:** Despite extensive and incredibly costly efforts to detect and avoid sanctions violations and money laundering schemes, as illuminated by the recent Iran sanctions violation and huge money laundering cases against some of the largest banks operating in the United States, the AML-CFT system is clearly not working adequately. Allowing banks operating in the U.S. to harness technology and economies of scale and scope to create an interbank compliance network is one of the best ways to help the U.S. financial system be a more effective tool in detecting suspicious activities,



including money laundering, terrorism financing and sanctions evasion. Collectively, anti-money laundering (AML) compliance functions and Bank Secrecy Act data across banks could be shared – something that Section 314 of the USA Patriot Act mandates but which banks have yet to embrace, despite large potential cost savings and increased effectiveness.[6] Ironically, despite a huge effort to enhance bank AML and sanctions compliance, the US financial system remains the world's largest money laundering machine for terrorist, proliferators and traffickers. As was learned in the case of the Lebanese Canadian Bank, dozens of U.S. banks were involved in facilitating a multi-billion dollar scheme to launder money for the terrorist group Hezbollah via the purchase of used cars in the United States without being properly detected or stopped. Iran and North Korea have been detected using similar trade based and beneficial ownership schemes to evade law enforcement and sanctions, including via the global banking system whose main interbank transfer networks run through the United States and are accountable to U.S. law.

- **Enhanced Customer Due Diligence is Key**: The Treasury Department's new "enhanced know your customer due diligence requirement," requiring that banks not only be able to authoritatively identify their customers but also ensure that they are not engaged in financial activities for the benefit of unidentified third parties, should facilitate a substantial improvement in sanctions and AML compliance.[7] It also represents a further opportunity (and necessity, given the otherwise huge costs to the banks) to create a public-private partnership for enhanced AML, including the previously mentioned Financial National Tracking Center and Interbank AML Network.

- ***A 21 U.S.C. § 960a-like Statute for Counter Proliferation***: In the world of drug enforcement, the Congress gave the DEA an incredible tool, the 960 statute, which allows DEA to pursue narco-terrorists globally. A similar statute should be enacted against those who engage in the proliferation of weapons of mass destruction, especially to state sponsors of terrorism like Iran or North Korea.

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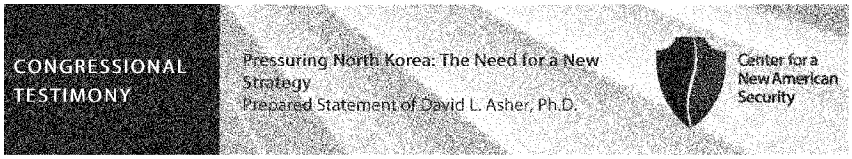
[6] USA PATRIOT Act Section 314(b) permits financial institutions, upon providing notice to the United States Department of the Treasury, to share information with one another in order to identify and report to the federal government activities that may involve money laundering or terrorist activity. Public Law 107-56, "Uniting and Strengthening America By Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act) Act of 2001, October 26, 2001, Section 314.

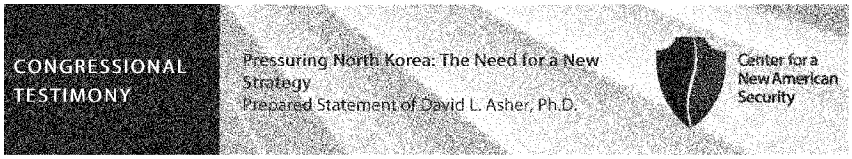
[7] Department of the Treasury, "Financial Crimes Enforcement Network: Request for Comments: Customer Due Diligence Requirements for Financial Institutions," RIN 1506-AB15 (February 28, 2012).



- ***Section 311 of USA Patriot Act:*** Section 311 grants the Secretary of the Treasury the authority, upon finding that reasonable grounds exist for concluding that a foreign jurisdiction, foreign financial institution, class of transaction or type of account is of "primary money laundering concern," to require domestic financial institutions and financial agencies (e.g., banks) to take certain "special measures" against the entity identified as a primary money laundering concern. This includes the ability to cut a foreign financial institution off from being able to transact business with the U.S. It has been used with particular success against North Korea's nested financial relationships inside Banco Delta Asia in Macao in September 2005 and Lebanese Hezbollah's money laundering activities via the Beirut Lebanese Canadian Bank in February 2011. In both cases, the Treasury designations served as a powerful warning shot to financial institutions around the world, deterring them from accepting similar business relationships with the likes of North Korea and Hezbollah. The imposition of Section 311 against another Chinese bank would serve the purpose of dramatically driving up the cost of Chinese complicity and complacency in North Korean sanctions evasion and WMD proliferation financing via the Chinese financial system.

- ***Partner Country Capacity Building:*** Encourage partner nations to enact Patriot Act Section 311 equivalents, in particular the EU and Japan. Japan, our closest partner on the North Korean Illicit Activities Initiative (IAI), would be able to strategically utilize a 311 capability. I am greatly pleased to see my distinguished senior counterpart in coordinating the Japan side of the North Korea IAI, Shinzo Abe, become Japan's Prime Minister. Prime Minister Abe has been a remarkably determined concerned leader and advocate against North Korea's illicit activities, most notably its abduction of innocent Japanese citizens. As I have told my Japanese colleagues over the years, those in North Korean intelligence and special operations who are directly involved in the Kim regime's lifeblood illicit activities are essentially the same people who oversaw and carried out the abductions. As Prime Minister Abe understands, effective law enforcement against North Korean illicit activities and related finances is a way of directly affecting those who stole Japanese citizens lives away, an act rightfully characterized as human terrorism.

- **Enhanced Deterrence:** As North Korea increases its highly-enriched uranium stockpile, engages in further nuclear tests and weaponizes its missiles, enhanced strategic nuclear deterrence will be critical. Our allies are concerned about the credibility of America's nuclear umbrella. The United States should propose a Strategic Deterrence Dialog with Seoul and Tokyo to underline the safeguard of America's nuclear umbrella and demonstrate forward deterrent capabilities, if necessary, to stop our allies from pursuing indigenous nuclear programs.



Conclusion:

The United States has the power to effectively coerce change in North Korea (and Iran) without engaging in military action. Over the past decade, the U.S. government, led by the Treasury Department, has developed a new paradigm for using targeted financial power to achieve national security objectives of critical importance. At the heart of this paradigm is the integrated use of tools to curtail the financial activity of rogue actors, like North Korea, while protecting the integrity of the international financial system. This new paradigm represents an evolution away from classic, broad-based economic sanctions, and toward the employment of precision guided financial measures designed to influence the private sector's willingness to do business with dangerous and defiant actors and regimes. The new strategy is based on a widening appreciation within governments of the power of markets and the private sector to influence international security.[8] The use of targeted financial measures has not obviated the need for economic sanctions but has significantly added to their potential effectiveness.

Financial and economic pressure can achieve meaningful changes in behavior with a lower cost and at lower risk than other instruments of national security policy such as military force. Coercive financial and economic pressure is not an alternative to diplomacy. Rather, it should be part of a comprehensive approach to influence governments like North Korea that are at loggerheads with the international community, and where other measures are insufficient or inappropriate. Pressure strategies that are well conceived and well executed can counter, contain and disrupt the most dangerous and destabilizing behavior - from mass killing to nuclear proliferation. They can also fill a gap between what a government is prepared to do militarily and diplomatically. Additionally, they can have genuine, large-scale effects that, if mounted effectively, can compel defiant states to change their strategic direction.

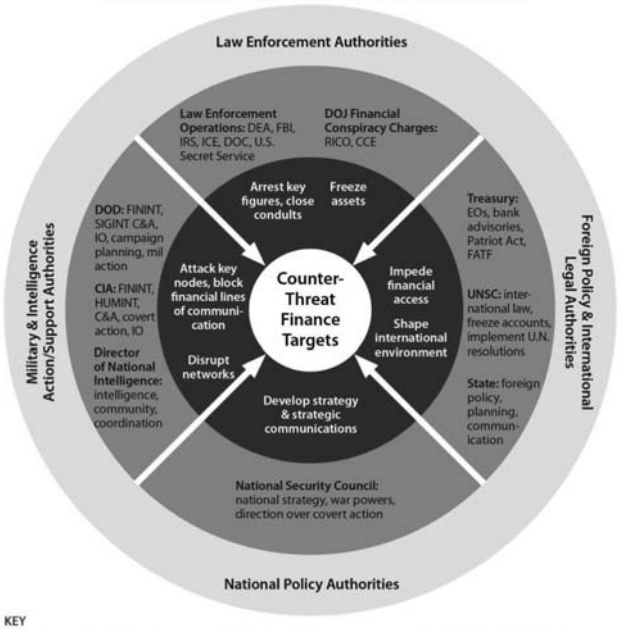
Nonetheless, the effectiveness of economic coercive strategy or a campaign involving "counter threat finance" depends on the clarity of the desired end state; the sophistication of planning and integration of domestic and international capabilities and authorities; and the quality of intelligence support for planning, execution and monitoring. They also highlight the criticality of bringing in the government's best and brightest and motivating them. A genuine whole of U.S. government approach and real "coalition of the willing" among like-minded foreign governments are frequently discussed but infrequently accomplished.

Bringing about change in North Korea will require a top-down determined effort across the whole of government and among a league of willing foreign partners. Failure to effectively counter, contain, deter

[8] Juan Carlos Zarate, "Harnessing the Financial Furies: Smart Financial Power and National Security," *Washington Quarterly* (October 2009), 43.

and disrupt North Korea's proliferation and regime threat could fundamentally jeopardize international security in the 21st century.

COUNTER-THREAT FINANCE: BALANCING NATIONAL SECURITY RESOURCES



KEY

C&A: Collection and Analysis
CCE: Continuing Criminal Enterprise
DEA: Drug Enforcement Administration
DOC: Department of Commerce
DOJ: Department of Justice
EO: Executive Order
FATF: Financial Action Task Force
FININT: financial intelligence
HUMINT: human intelligence
ICE: U.S. Immigration and Customs Enforcement
IO: Information Operations
RICO: Racketeer Influenced and Corrupt Organizations Act
SIGINT: signals intelligence
UNSC: United Nations Security Council

Background on the North Korea Illicit Activities Initiative, 2001-2006

Between 2002-2006 the U.S. government organized a multi-agency and multinational initiative to restrict the illicit activities and finances of the Kim Jong Il regime in North Korea. The Illicit Activities Initiative (IAI) sought to pressure Kim Jong Il to back away from his nuclear development and proliferation programs. It aimed to undercut the Kim regime's ability to profit from illicit activities. By impeding the regime's misuse of the international financial and trading system and threatening its accumulated fortune deposited in overseas banks, the initiative sought to create leverage over Pyongyang, without resorting to conventional coercive strategies – such as large-scale threats of military attack – or employing broader economic sanctions (for which it would be difficult to garner international support, let alone effectively enforce).

As a Senior Advisor to former Assistant Secretary of State for East Asian and Pacific Affairs James Kelly, I led this initiative under Kelly's direction. I also served as the North Korea working group coordinator, reporting directly to former Deputy Secretary of State Richard Armitage, and in 2004-2005, co-chaired a special policy coordinating committee at the National Security Council called the North Korean Activities Group (NORKAG).

The IAI ultimately involved 14 different U.S. government departments and agencies, 15 foreign government partners and more than 200 policy officials, intelligence analysts and law enforcement officers around the world. In addition to wide ranging and sensitive diplomatic efforts to curtail North Korea's illicit financing and weapons proliferation, the IAI featured multiple international law enforcement investigations, including two of the largest undercover Asian organized crime cases in U.S. history, and the innovative use of Treasury Department authorities in conjunction with those investigations. The IAI drove North Korea out of a range of criminal businesses and cut the nation's illicit trading companies and leadership off from bank accounts around the world. Through the IAI, the U.S. government generated significant diplomatic leverage over North Korea, a point made clear by the regime's reaction to the imposition in September 2005 of the Patriot Act's section 311 against Banco Delta Asia, a Macau bank accused of laundering money for the Kim regime and other North Korea entities. I believe that if this leverage had been sustained and used effectively, North Korea's ability to defy international rules and norms could have been crippled, compelling Kim Jong Il to make a strategic choice toward denuclearization.

Chairman ROYCE. Thank you.

We will go to Mr. Lee.

STATEMENT OF SUNG–YOON LEE, PH.D., ASSISTANT PROFESSOR IN KOREAN STUDIES, THE FLETCHER SCHOOL OF LAW AND DIPLOMACY, TUFTS UNIVERSITY

Mr. LEE. Thank you, Mr. Chairman, members of the committee. Sixty years ago today on March 5, 1953, the Soviet leader Stalin died, and the prospects for ending the Korean War improved dramatically. And we had a ceasefire agreement signed in July, July 27, and the past 60 years has been a history in dramatic contrast. South Korea has risen to be one of the world's most successful cases on how to build a free and affluent country, while North Korea has been a model, an exemplary failed state marked by a brutal regime that has maintained power through hereditary succession, extreme internal repression, and also military extortion.

My point here is that the Kim dynasty, the DPRK, is engaged in a systemic contest for pan-Korean legitimacy: Which is the more legitimate representative government representing the entire Korean nation? It is a contest that North Korea cannot win. Hence, North Korea associates financial crimes, earnings derived from such activities, nuclear blackmail and repression as the "sine qua non," a necessary condition to its self-preservation.

This odd approach to national policy practiced by the regime has created a country that is quite abnormal. I would call it, grammatical impropriety notwithstanding, "uniquely unique." Let me illustrate. North Korea is the only country in the world, or rather, it is the world's sole hereditary Communist dynasty. It is the world's only case of an industrialized, urbanized, literate, peacetime economy to suffer a famine. It is the world's most cultish, isolated country, albeit one with the world's largest military in terms of manpower and defense spending proportional to its overall population and national income.

The result is this abnormal state, one that is able to exercise disproportionate influence in regional politics commensurate with its territorial size, population size, economic power, exceedingly small economic, political or soft power. And this North Korea achieves principally through a strategy of external provocations and internal repression. In short, the leadership in Pyongyang will not make concessions on its nuclear and missile programs unless it is confronted with a credible threat that calls into question the need for its continued existence. And the United States is singularly well equipped to deliver this kind of pressure to the regime. This is due to the strength and attractiveness of the U.S. financial system and the Pyongyang regime's low threshold for withstanding financial pressure, because it is so overly dependent on illicit activities to maintain its own regime.

The United States Treasury Department should declare the entire North Korean Government a primary money laundering concern. This would allow Treasury to require U.S. banks to take precautionary special measures substantially restricting foreign individuals, banks, and entities from gaining access to the U.S. financial system. Treasury could also apply these measures to third-country business partners that finance the Kim regime's,

Pyongyang's shadowy economy. And the U.S. should also ask allied governments to apply corresponding measures to third-country banks, businesses, and nationals doing business with North Korea.

Moreover, the U.S. should expand the designation of prohibited activity to include those furthering North Korea's proliferation, illicit activities, import of luxury goods, cash transactions in excess of $10,000, lethal military equipment transactions, and the perpetration of crimes against humanity. North Korea is the world's leading candidate for indictment for crimes against humanity. Such measures would effectively debilitate—present the North Korean regime with a credible threat that would far surpass what took place against Banco Delta Asia in 2005.

I would urge Congress to pass a bill that gives Treasury investigative powers and requires the Treasury Department to investigate reports of suspicious activity, enforce U.N. Security Council resolutions, and also clamp down on further perpetration of crimes against humanity. By linking human rights violations with the national sanctions, the United States could deliver a potent threat, a credible threat to the regime. Thank you very much.

[The prepared statement of Mr. Lee follows:]

Testimony of Sung-Yoon Lee
Kim Koo-Korea Foundation Professor in Korean Studies, Assistant Professor
The Fletcher School of Law and Diplomacy, Tufts University
Committee on Foreign Affairs, U.S. House of Representatives
Hearing on "North Korea's Criminal Activities: Financing the Regime"
March 5, 2013

Thank you, Mr. Chairman, Members of the Committee, and distinguished guests:

I am indeed honored to have this opportunity to present my views on what I consider to be the most effective way to strengthen the hands of the United States as Washington addresses the North Korean regime's multifarious criminal and illicit activities, including its continued development of nuclear and long-range missile programs and proliferation of weapons of mass destruction.

I would venture to say that even a cursory review of the North Korean regime's uniquely distorted approach to political and economic affairs over the past several decades reveals two glaring contradictions in the North Korean system—vulnerabilities—that invite exploitation by the U.S. and its two allies in Northeast Asia, the Republic of Korea and Japan: First, the Kim regime's overdependence on illicit financial earnings as an instrument of regime preservation; second, the regime's unparalleled systematic oppression of its people.

These features are North Korea's two most apparent systemic weaknesses, as hard as the Kim regime tries to shield them from view. The former sustains the North's ruling clan, military, and internal security forces. It makes possible Pyongyang's dependence on nuclear blackmail and illicit activities as instruments of regime preservation in the face of a collapsed economy. The latter, extreme human rights violations, is an essential characteristic, perhaps even a necessary condition, of the Kim hereditary dynasty—a quasi-communist kingdom wherein the people, faced with invasive state control, fear tactics, and pervasive indoctrination, have yet to muster up the courage to demand of their leaders even the most basic freedoms, let alone seek to topple the regime.

How would Washington, through individual efforts or in cooperation with Seoul and Tokyo, target Pyongyang's vulnerabilities?

For starters, see the North Korean regime, to use a worn out cliché, "as it is"—that is, not as a regime that seeks "better relations" with Washington in a conventional sense, through bargaining away its nuclear weapons and other weapons of mass destruction programs and expanding economic, cultural, and political ties with the U.S. and Western Europe in ways similar to what South Africa, Kazakhstan, Ukraine, and Belarus chose twenty years ago, but see the Kim regime as a uniquely repressive totalitarian state that is singularly unfit to prevail as the winner in the existential contest for pan-Korean legitimacy that has been the basic internal dynamic in the Korean peninsula over the past 60 years. In other words, the North Korean regime views its nuclear and missile programs as the sine qua non to its continued preservation and even as the one panacea that perhaps one day may overturn all the gloomy indices of inferiority in state power vis-à-vis South Korea that it must live with for now and the foreseeable future. In short, the leadership in Pyongyang will not make concessions on its nuclear and missile programs unless it is confronted with a credible threat that calls into question the need for its continued existence.

Sixty years ago today, on March 5, 1953, the Soviet leader Stalin died, and the prospects for a ceasefire to the Korean War became brighter. Four months later, on July 27, an armistice agreement was reached. And the past 60 years of the history of the Korean peninsula is a testament to the superiority of democracy and capitalism over totalitarianism and communism. It is a dramatic story of the resilience of the people of the Republic of Korea, and, of course, the defense commitment of the United States to South Korea that has made the past 60 years of peace—at times unstable, but de facto peace—in the Korean peninsula possible. During this time, the Republic of Korea has developed into a model success case of how to build a free and affluent modern nation state, while North Korea has descended to become an exemplary failed state, marked by a regime that is systematically repressive and cruel like no other, and consequently a people impoverished and isolated like no other.

The grim situation in North Korea today, in which the regime elites enjoy a life of relative luxury while the vast majority of the people languish in miserable conditions under a brutal police state, are the direct product of the Kim dynasty's determined policies over the past several decades, not the result of U.S. sanctions or unfavorable weather conditions, as some wish to believe. These resolute policies pursued by the Kim dynasty include assiduously misallocating its meager national resources and earnings from illicit financial transactions to its nuclear weapons and long-range ballistic missile programs, while allowing a substantial percentage of its people to starve and waste away. The sum total of such policies is a state that is what can only be described as—grammatical propriety notwithstanding—"uniquely unique." Allow me to give you some examples:

North Korea is the world's sole communist hereditary dynasty, the world's only literate-industrialized-urbanized peacetime economy to have suffered a famine, the world's most cultish totalitarian system, and the world's most secretive, isolated country—albeit one with the world's

largest military in terms of manpower and defense spending proportional to its population and national income. The result is a most abnormal state, one that is able to exercise disproportionate influence in regional politics despite its relatively small territorial and population size and its exceedingly meager economic, political, and soft power, principally through a strategy of external provocations and internal repression.

But here also lies the potential bane of the Kim regime's existence. Once we recognize the nature of the Kim regime and accept that the regime equates nuclear brinkmanship and criminal activities with its own existential identity, the way forward becomes clear.

First, recognize that Pyongyang's overdependence on its shadowy palace economy makes the Kim regime particularly vulnerable to tools designed to counter international money laundering. The United States is in a position to take the lead in enforcing financial regulatory measures against North Korea's illicit activities and should immediately seize upon the opportunity. While UN sanctions are more symbolic, the U.S. is singularly well equipped to impose on Pyongyang measureable economic losses that have palpable political implications. This is due to the strength and attractiveness of the U.S. financial system and the North Korean regime's low threshold for financial pressure.

The U.S. Treasury Department should strengthen its sanctions against North Korean banks and businesses that finance the Kim regime's palace economy. To this end, the Treasury Department should declare the entire North Korean government to be a Primary Money Laundering Concern, which is a legal term for entities that fail to implement adequate safeguards against money laundering. There are precedents for such actions, for example, against the governments of Nauru and Ukraine, which bore the effect of forcing both to implement significant anti-money laundering measures.

This designation would allow the Treasury Department to require U.S. banks to take precautionary "special measures," substantially restricting foreign individuals, banks, entities, and even entire governments that are linked to the sanctioned entity access to the U.S. financial system. Treasury could also apply these measures to third-country business partners that finance Pyongyang's palace economy. The U.S. should also ask allied governments to apply corresponding measures to third-country banks, businesses, and nationals doing business with North Korea. Moreover, by expanding the designation of prohibited activity to include those furthering North Korea's proliferation, illicit activities, import of luxury goods, cash transactions in excess of $10,000, lethal military equipment transactions, *and* crimes against humanity, the U.S. can disconnect Pyongyang from the international financial system in ways that have a far more debilitating effect than the Treasury Department's sanctions against North Korean-held accounts in Banco Delta Asia in September 2005. Such actions would in effect dam several, if

not most, of North Korea's main streams of revenue. That, in effect, would lend a potent, new meaning to the prevailing view of Pyongyang as a pariah state.

The key advantage of such measures is that they can be enforced without Chinese cooperation or even in the face of Chinese obstruction. Should President Obama reinforce these measures through the use of Executive Orders 13,382 and 13,551 and freeze the assets of Chinese and third-country entities suspected of helping North Korea's proliferation activities, the accumulated pressure will most likely minimize Chinese obfuscation and even induce the pragmatic leadership in Beijing to cooperate with the U.S. in protecting the integrity of the international financial system. These measures, if sustained, would have the effect of deterring international banks, companies, and entities that, intentionally or not, undermine international sanctions and abet the Kim regime. International banks are especially sensitive to the behavior of other international financial institutions when assessing the risks of doing business with a particular nation. Whereas these measures may not necessarily have a devastating effect on a robust or big economy like that of the U.S. or China, in tiny North Korea, they would effectively choke off the regime's streams of revenue. And that means a credible threat of devastating consequences for Pyongyang, should it not change its ways or continue to approach denuclearization talks with the same kind of willful deceit as it has for more than twenty years.

As to the notion that sanctions against despotic regimes are ineffective because they do not necessarily bring about a fundamental change in regime behavior or democratization in the target nation, in the case of North Korea, such concerns may be mitigated by the nature of the hereditary leadership. The North Korean dynasty is no ordinary dictatorship; it is a criminal regime with very few effective means of generating revenue that are legal. Its multifarious criminal activities, including crimes against humanity, are a lifestyle choice born of a dogged determination *not* to adopt international norms of statecraft and economic policy.

Admittedly, in North Korea, there are no political opposition parties or dissidents, or an identifiable anti-regime movement. And the self-isolated country already is heavily sanctioned by the U.S. and the international community. However, unlike other authoritarian regimes of the world, North Korea's main streams of revenue are predominantly illicit. Deprived of even a portion of such streams of revenue, the Kim regime could face a potentially serious situation; that is, a steady rise in the number of malcontents among the regime elites. And the psychological threat of further financial loss from prolonged sanctions and subsequently even further diminished ability to appease the elites would be a shocking dose of reality for the top stakeholders in the system. The sheer possibility of a rise in the number of disgruntled men in the party, bureaucracy, and military would, more than any conceivable variation on artful nuclear diplomacy, give the Kim regime reasons to rethink its long-term strategy.

Furthermore, the effectiveness of sanctions should not be evaluated solely on the criterion of transforming the target country's leadership but by the degree of gain in the sanctioning

country's bargaining position relative to the sanctioned nation. By implementing these sanctions, is the U.S. likely to be in a stronger position to achieve a better eventual settlement with North Korea? In weighing U.S. interests vis-à-vis North Korea, deterrence as well as denuclearization becomes a critical consideration. Thus, the utility of financial sanctions as a credible deterrent to Pyongyang's further nuclear and missile development and proliferation, at least in the short term, is a necessary condition to achieving the ultimate goal of denuclearization.

In sum, these financial regulatory measures are the best way to present the Kim regime with a non-lethal-but-existential threat. On principle, too, they are the right thing to do. Such credible threats also have the best chance of achieving secondary or even tertiary objectives goals in any sanctions regime: protecting the integrity of the international system and symbolically enhancing the prestige of the sanctioning nation by making a moral statement. These measures also have the advantage of having the best chance of modifying the Kim regime's brutal treatment of its own people, even if change is incremental and sporadic.

On the point of the North Korean regime's other major pressure point: The three democracies in Northeast Asia should recognize the unfeasibility of operating in perpetuity a prison camp nation through extreme repression and information blockade. Washington, Seoul, and Tokyo should highlight the acute North Korean humanitarian crisis through drawing world public attention to the issue and increasing support of radio broadcasts and other information transmission efforts into North Korea. The Republic of Korea, as the sole legitimate representative government in the Korean peninsula, should take the leading role in this global human rights campaign. The U.S. and Japan also have a mandate to improve human rights in North Korea. They could and should cooperate with South Korea to sponsor—if necessary, through third parties—reports, publications, international conventions, transmissions and dissemination of information related to North Korea's multifarious nefarious human-rights abuses throughout their respective countries and the world. The more people in democratic societies think about the North Korean regime as a threat to humanity and less as an idiosyncratic abstraction, the more they will be resolved not to allow their leaders to resort to politically expedient measures with each future provocation by Pyongyang or defer Korean reunification.

South Korean President Park Geun Hye should make raising the North Korean human rights issue a high priority, even a centerpiece of her presidency. The Park administration should take the initiative and redouble efforts currently in place—which are woefully underfunded and undermanned—to transmit information into North Korea and facilitate North Korean defectors to resettle in the South. In particular, the Park administration should drastically increase support of radio broadcasts into North Korea. Nearly 50% of North Koreans who have defected to the South say that they came into contact with outside information primarily through South Korean TV shows on DVD and radio broadcasts, which served as an incentive to escape their nation. In this effort, the U.S. can provide South Korea with moral, financial, technical, and logistical support. Citizens in free societies would do well to remember that sending information into North Korea is not merely a defense of the principle of the freedom of information; it is an act that saves real

lives.

After all, a nation cannot remain half slave and half free, and the danger of doing so only increases with each year that the political and economic contrasts between the two halves of the Korean peninsula increase. If the Kim dynasty were a more "normal" dictatorship, one that is focused on raising the standard of living of the people while intent on restraining some of their liberties, the hitherto policy of choice by Pyongyang's neighbors of deferring Korean unification may be more defendable. But because the Kim regime is abnormal like no other in the history of humankind, intent as it is on preserving itself through cultish control and the militarization of resources while its people starve to death, continuing to support the status quo in the Korean peninsula raises serious long-term questions of both practical and moral nature.

To what extent the Kim regime may negotiate in good faith in future disarmament talks or relax its totalitarian control of its population in the face of such a sustained two-pronged attack remains to be seen. But the sooner and more palpable a threat the cash-strapped regime is exposed to, and the more information about the outside world the downtrodden North Korean people are exposed to, the sooner that eventuality will be upon us. And we can be certain that the continued failure to exploit North Korea's systemic contradictions will only abet the Kim regime and enable it to extend its growing security threat to regions beyond its immediate environment.

This year marks the 60th anniversary of the end of the Korean War, a war in which this nation's sons and daughters, as it is inscribed on a plaque in the Korean War Veterans Memorial, "answered the call to defend a country they never knew and a people they never met." The North Korean regime's pursuit of nuclear weapons and extreme repression of its own people is virtually coeval with the entire history of the North Korean nation.

In an Orwellian world, "war is peace, freedom is slavery, and ignorance is strength." In the North Korean world, the past 60 years of de facto peace is war, a life of servitude to the state is freedom, and national strength is rooted in ignorance of the outside world. Today, as North Korea threatens the peace and security of the region yet again, we would do well to remember the noble resolve of those who fought back the North Korean invasion in 1950-53 and the precious gift they left behind: an extended period of peace and the foundation for building a free and prosperous South Korea. Those courageous soldiers have taught us above all that deterrence is peace, freedom is not free, and that to remember the past is a mark of national character and strength.

The great and noble efforts of Americans in the Korean War, the legacy of a 60-year friendship between the U.S. and South Korea, and U.S. strategic interests in Northeast Asia should no longer be sacrificed on the altar of diplomatic concessions and illusory peace. Now is rather the

time for prudent and pragmatic policymakers in both Washington and Seoul to pave the way for a permanent peace on the Korean peninsula through delivering the Kim regime a non-military-but-credible threat of devastating consequences, and, in so doing, improving the prospects for delivering the North Korean people from bondage. That would be to pay the greatest honor possible to all those who served in a war that is decidedly forgotten no more.

Chairman ROYCE. Thank you, Professor Lee.

STATEMENT OF THE HONORABLE JOSEPH R. DETRANI, PRESIDENT, INTELLIGENCE AND NATIONAL SECURITY ALLIANCE (FORMER DIRECTOR, NATIONAL COUNTER PROLIFERATION CENTER, OFFICE OF THE DIRECTOR OF NATIONAL INTELLIGENCE)

Mr. DETRANI. Mr. Chairman, Ranking Member Engel, thank you for the invitation, members of the committee. It is an honor being here with you.

Chairman ROYCE. Thank you, Ambassador, we appreciate your willingness to testify.

Mr. DETRANI. By way of background, in January 2003, North Korea pulled out of the NPT, the Non-Proliferation Treaty, and told the IAEA and monitors to leave the country. And that was after the United States told North Korea that we knew they had a clandestine uranium enrichment program, which was in violation of the NPT and other commitments they made with the Agreed Framework.

We started the Six Party process in August 2003. It was a two-pronged approach. By way of background, in 2003 with the first plenary session, we told the North Koreans we are looking at denuclearization but we are also looking at your illicit activities. We are looking at you counterfeiting our $100 bill, counterfeiting pharmaceuticals, getting very, very much involved with the counterfeiting of cigarettes, human rights issues for which we need transparency and you need to make progress on.

It was a dual approach. On September 19th—you cited that, sir. On September 19, 2005, we had a joint statement. We had two things on the 19th of September 2005. We had a joint statement committing North Korea to denuclearization—comprehensive, verifiable denuclearization in exchange for security assurances, economic assistance, and ultimately normalization. But for normalization, before we would even talk about that, they had to make progress on their illicit activities and human rights.

And on the same day, the 19th of September, on the Federal Registry, Treasury moved forward based on Section 311 of the Patriot Act, the predicate being money laundering—and that was what you cited, sir, Banco Delta Asia—where with Banco Delta Asia, the Macao authorities and the bank froze about $25 million of North Korean currency. The impact was immense, because the message to international financial institutions was very clear: If you do business with North Korea and they are involved in money laundering, you could be affected also. The impact was immense. The North Koreans were upset, for obvious reasons, because as you described, it caused significant pain.

That was a model. Unfortunately, we went back. Unfortunately, in the sense that we went back to negotiations and proceeded with negotiations, they eventually got the $25 million back when the Banco Delta Asia was in compliance with our laws, and we moved forward. But what happened was what you described, missile launches and nuclear tests in 2006, 2009, and 2012. So we are looking at four launches, three nuclear tests.

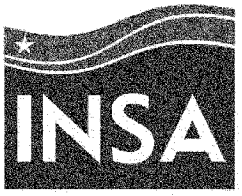
During this period of time we had three Security Council resolutions—U.N. Security Council resolutions looking at sanctioning them, they are moving their money. We have Executive orders from Treasury, Executive Order 13382, Executive Order 13551, which speaks to proliferation of weapons of mass destruction and their supporters, where we would sanction those who are involved with WMD proliferation and anyone supporting them: A state, a bank, any entity. So we were looking at it. We were pursuing it. And concurrent with that, we were looking at the proliferation security initiatives.

That means the United States with over 90 countries have come together to say that if North Korea puts anything on the high seas, and we have any information indicating that they are proliferating something, they are moving something they shouldn't be moving in violation to Security Council resolutions, we would interdict those shipments. We have had how many Hill enquiries, a number of these vessels were turned around at sea. A few of them were going to Myanmar, and they went back to port in North Korea because of the determination to do something with that.

But North Korea persists. North Korea persists with their human rights abuses; they persist with illicit activities, but they know very, very clearly if they want any progress, want any progress with the United States, certainly with the United States, illicit activities have to go by the wayside. This is causing them pain. And I concur fully with my colleagues here, and with your statement, Mr. Chairman. The sanctions are biting. They are biting. It is causing North Korea not to get access to the funds they need, not to move the money they need. They need to bite even more significantly, and they should have even more impact as we move forward with further, if you will, responses to their most recent nuclear test. There will be additional sanctions and additional activities.

So the message is clear to North Korea. They have two paths. There will be further sanctions and they will become more of a pariah state, and they will find it even much more difficult to survive if they continue on the present path. Or, they can come back to the September 2005 Joint Statement and look to becoming a more legitimate nation-state and getting into the financial institutions and to get their economy back in shape, while caring about the people. And a sign of going on, on that one and basic to all of that is comprehensive, verifiable denuclearization and the ceasing of all illicit activities, and transparency and progress on the human rights issues.

[The prepared statement of Mr. DeTrani follows:]



INTELLIGENCE AND
NATIONAL SECURITY
ALLIANCE

Ambassador Joseph R. DeTrani
President, Intelligence and National Security Alliance
House Committee on Foreign Affairs
March 5, 2013
North Korea's Criminal Activities: Financing the Regime

From 2003 to 2006 I was the Special Envoy for Six Party Talks (6PT) with North Korea and the U.S. Representative to the Korea Energy Development Organization (KEDO). For the following four years I was the North Korea Mission Manager with the ODNI; and from 2010 to 2012, I was the Director of the National Counterproliferation Center. Thus for the past ten years, I have been intimately involved with developments in North Korea.

In 2004, during one of the first bilateral meetings we had with North Korea, during a plenary session of the 6PT in Beijing, the North Korean representative stated that if the 6PT process was unable to produce an acceptable agreement, North Korea would build more nuclear weapons, test these nuclear weapons and consider selling nuclear technology. We stated clearly that there would be severe consequences if North Korea pursued such an agenda. In this and subsequent bilateral meetings, during scheduled plenary sessions, the North Korean representative often stated that the U.S. should accept North Korea as a nuclear weapons state, noting that North Korea would be a responsible nuclear weapons state. The North Korean representative was told that U.S. policy was clear: complete, verifiable, irreversible dismantlement (CVID) of North Korea's nuclear programs was and will always be U.S. policy. During these bilateral sessions, we told the North Korean representative that comprehensive denuclearization would permit North Korea to receive economic assistance and security assurances, and once North Korea ceased its illicit activities – counterfeiting the U.S. $100 bill, counterfeiting cigarettes and pharmaceuticals, trafficking in methamphetamines – and started to address its human rights violations in a transparent manner, diplomatic relations would be possible.

With this as background, it's clear that there has been no progress in resolving North Korea's nuclear issue. In September 2005, there was hope that these issues with North Korea could be resolved, when the six countries agreed to a Joint Statement committing North Korea to comprehensive denuclearization in exchange for security assurances; economic assistance; and when North Korea returned to the NPT as a non-nuclear weapons state, the discussion of the provision of a light water reactor. Kim Chong-Il had personally endorsed this agreement and on numerous occasions, to include during a visit to Beijing, stated his willingness to dismantle North Korea's nuclear programs. This optimism was dashed, however, when North Korea refused to commit to a written verification protocol to monitor North Korea's nuclear dismantlement efforts, after the U.S. removed North Korea from the list of state sponsors of terrorism.

Since the beginning of the 6PT process in 2003, North Korea has conducted three nuclear tests and four long range ballistic missile launches, all in violation of UN Security Council resolutions. Prior to the 6PT process, starting in the mid 1990's, North Korea embarked on a clandestine uranium enrichment program, in violation of NPT obligations and counter to the intent and spirit of the 1994 Agreed Framework. North Korea had denied having a uranium enrichment program but in 2010 they permitted a visiting U.S. scientist to visit a sophisticated uranium enrichment facility in Yongbyon. Although North Korea maintained that their uranium enrichment program was for civilian purposes and fuel for the light water reactor they were building, the U.S. assessment was that this facility and other non-disclosed uranium enrichment facilities in North Korea were for the manufacture of Highly Enriched Uranium (HEU), for nuclear weapons. This permitted North Korea to have two paths to fabricating nuclear weapons -- Plutonium and HEU.

In addition to enhancing their long range missile capabilities and their nuclear weapons programs, North Korea proliferated nuclear technology when they helped Syria build a nuclear weapons plutonium facility, similar to their 5 megawatt reactor in Yongbyon. This clandestine program started (*ca.* 1997) in Al Kabar, Syria. In 2007, just prior to going operational, Israel bombed and destroyed the facility. Additionally, North Korea has sold missiles and missile technology to Iran, Syria, Libya and any other country willing to buy their missiles.

Given North Korea's successful long range missile launch in December 2012 that put a small satellite in orbit, and the February 2013 nuclear test that was larger than two previous tests, it appears that North Korea's objective is to fabricate smaller nuclear weapons that eventually can be mated to ballistic missiles that could reach the continental U.S.

The three UN Security Council resolutions sanctioning North Korea for their nuclear tests and missile launches are causing considerable pain to the leadership in North Korea. The North Korean economy is barely functioning, with Pyongyang dependent on China for trade, fuel, and food assistance needed to sustain the government. Despite North Korea's significant economic problems, the Pyongyang government continues to spend billions of dollars on their nuclear and missile programs, under the banner of the "military first" policy.

If North Korea refuses to return to the 6PT and refuses to denuclearize, while enhancing their nuclear weapons and missile capabilities, other countries in East Asia most likely will consider having their own nuclear weapons capabilities. Indeed, the biggest threat globally, if North Korea retains its nuclear weapons, is nuclear proliferation. The possibility that nuclear weapons and/ or nuclear materials is obtained by a rogue state or non-state actors is of great concern. This message has been passed to the leadership in Pyongyang on numerous occasions.

Hopefully, China can help to convince the leadership in Pyongyang that the current escalatory path North Korea is pursuing will be disastrous for North Korea, the region and the international community. A potential nuclear arms race with the possibility of nuclear materials being acquired by terrorists and others will make the region and the world less secure. China is an ally of a North Korea that needs China's economic assistance. With the new leadership in Beijing, it's possible China will be able to convince Kim Chong-un to return to the 6PT and commit to eventual denuclearization, in line with the September 2005 Joint Statement. Kim Chong-Il made this commitment. Hopefully, Kim Chong-un will. Indeed, when Kim Chong-un succeeded his father last year, there was hope that this young leader would move North Korea in a positive direction and pursue denuclearization in return for international legitimacy and economic and security assurances. His first few months in power gave a number of us some optimism that the young Kim would move cautiously towards economic and political reform. He replaced many of the hardliners in the government and appointed a Korean People's Party official as the Army's Chief of the General Political Department, thus installing a Party official to oversee the military. Other appointments, like the elevation of his Uncle to a more prominent position in government, gave some of us a sense of optimism; a sense that realists would replace the hard liners. This appearance of liberalization was short-lived, however, when North Korea launched a TD-2 missile in April 2012, despite the February 29, 2012 Leap Day agreement with the U.S. that committed North Korea to a moratorium

on missile launches and nuclear tests in return for nutritional assistance. UN sanctions then followed, with North Korea defiantly launching another missile in December 2012 that succeeded in putting a satellite in orbit. This also resulted in additional sanctions, with North Korea then conducting its third nuclear test last month. With this considerable escalation were vitriolic statements from Pyongyang stating that North Korea would never give-up its nuclear weapons, claiming the U.S. maintains a hostile policy towards North Korea. It is likely North Korea will launch additional missiles and conduct additional nuclear tests, working towards smaller nuclear weapons with the hope of eventually being able to mate these nuclear weapons to missiles that can reach the U.S. In short, North Korea has escalated tension significantly over the last year.

A negotiated settlement of North Korea's nuclear programs is desirable and necessary. My personal view is that China should do what they did in April 2003 when they convened an emergency meeting of the U.S., North Korea and China to discuss the tension in the region and arrange for the 6PT process to be established, to defuse tension and hopefully resolve the extant issues. It is possible that China could convene another emergency meeting with North Korea and the U.S., that also includes South Korea. Such a meeting possibly could determine if North Korea is serious about eventual denuclearization for economic assistance and security assurances, pursuant to the September 2005 Joint Statement, and if reconvening the 6PT process is viable.

Chairman ROYCE. Ambassador DeTrani, thank you very much for your testimony. I wanted to go back to an observation that Professor Lee made. He noted that if sanctions are effectively imposed and hard currency is cut off, the rise in the number of disgruntled men in the party bureaucracy in the military would more than any conceivable variation on artful nuclear diplomacy give the Kim regime reasons to rethink its long-term strategy.

And in the same vein, looking back on your efforts, Dr. Asher, in the last administration, you say that the effect of the campaign "froze North Korea out of key aspects of the international financial system." And that that produced a "destabilizing internal effect that could have been magnified" to "compel North Korea to abandon its nuclear program." A pretty definitive statement.

I wondered if our panel might elaborate a little bit on the impact on the regime's financial lifelines and its effect on the regime's mindset, with an eye toward whether this could be done again if we went with legislation to try specifically to replicate what was done with Banco Delta Asia. I am working on legislation, and I wondered how Congress could help in this vein, and we will begin with Professor Lee.

Mr. LEE. Thank you, Mr. Chairman. The notion that sanctions are not necessarily effective because they do not necessarily lead to regime change or a fundamental change in the behavior of autocratic states, I would say is not particularly relevant to North Korea. I would argue that North Korea is uniquely vulnerable to targeted financial sanctions, because unlike any other authoritarian government in the world the regime is so dependent on such revenue streams, illicit streams of revenue.

So blocking, damming, if not all, even some of those streams of revenue would achieve secondary, tertiary effects in any sanctioned regime, which is to provide that regime, that target, with a psychological threat of prolonged sanctions that would lead to a rise, increase of the number of disgruntled men in the North Korean party, bureaucracy, military. This is an existential crisis for the regime.

How much does the regime depend on such illicit earnings? Well, we don't know for sure, but I know that Dr. Asher and others have estimated that as much as perhaps one-third or even as high as 40 percent of the regime's total trade, and probably a much higher sum in terms of the regime's cash earnings, are derived from such criminal activities. So North Korea is singularly vulnerable to such targeted sanctions I would say.

Chairman ROYCE. I will ask you, Dr. Asher, to chime in on that. I remember I was in North Korea in 2007, and afterwards had an opportunity to talk to a defector who had worked on their missile program. He told me how obtaining hard currency was so difficult that the whole production line at one point was shut down, I think he said, for 7 or 8 months because they couldn't get the hard currency to buy, on the black market, gyroscopes that they needed for the program. But let me ask you your thoughts.

Mr. ASHER. I think the key to the effectiveness of our program of action during the Bush administration's first term was that we created a very sophisticated model working with Ambassador DeTrani in his previous capacity and other members of the intel-

ligence community as well as doing a lot of open source research on businesses. Businesses have public records associated with them.

We understood that North Korea's financial lifelines were centered outside of North Korea. North Korea did not have its own internal banking system. It was largely resident in places in Southeast Asia, in Austria, and Hong Kong and Macao. Places that we could get to.

And given the fact that there was a disproportionate association between the high level regime finances of Kim Jong-il and his family, and illicit activities, we knew that by combining law enforcement as well as targeted regulatory actions involving the Patriot Act, we could affect those finances. And we did so in a way that was aiming at specific individuals, specific actors, specific institutions. We didn't just go willy-nilly at this. There is a sort of black art behind the way this was conducted. And I think that is why we had an effect.

I believe the same could be done today, but it is going to require a use of coercive force against Chinese institutions and actors and trading companies that will require considerable resolve by the administration.

Chairman ROYCE. Ambassador, your thoughts on that will close.

Mr. DETRANI. No, I agree with Dr. Asher and Dr. Lee. I think they are biting. I mentioned the Executive order, Treasury's Executive Order 13382, proliferation of WMD and their supporters. I mean entities like the Tanchon Bank, KOMID, the Korea Mining Trading Corporation. These entities are being sanctioned, but anyone dealing with them would come under the same ruling and have the same consequences dealing with it.

So yes, and in addition to the sanctions which are biting and are very, very important, I believe the Proliferation Security Intiative—by getting the countries, getting all our countries together to ensure that North Korea does not proliferate and does not receive the materials that are necessary to sustain their program is so vital. And I think we are moving, I think, pretty aggressively and with significant success in that area. And as Dr. Lee said, I think it is biting because eventually it is going to have consequences.

You have been there, Mr. Chairman. There are two North Koreas, the provinces where the leadership in Pyongyang really doesn't care that much, and Pyongyang itself. Well, eventually these sanctions are biting those elites, those in Pyongyang who rely on this flow; and that is going to cause some significant pressure on the leadership. And that, I think, is powerful.

Chairman ROYCE. Thank you. Mr. Engel?

Mr. ENGEL. When Chairman Royce and I were in Asia a few weeks ago, we raised with the Chinese leadership the situation in North Korea. I'm wondering if any of you have thoughts about China and the role it has been playing and the role that it might play in the future.

I mentioned before that this morning I heard that there was an agreement which China, ostensibly, was going along with, but we know that China has been propping up the regime for years. China is fearful that in case the regime were to collapse they would have

1 million North Korean refugees moving into China itself, and that China also would have a fear of South Korea dominating a united Korea and having a U.S. ally right up to its borders. I am wondering if any of you can give me your thoughts on China's actions and what we can expect.

Mr. DETRANI. Mr. Engel, I think China, and you mentioned that, I think China is a key player on the North Korean nuclear issue. Certainly very, very instrumental in hopefully getting some resolution. I think China has been working it. They modulate their approach because of what you cited, the potential for instability, refugees coming across the border, and the concern about the nuclear weapons. But I think our objectives are similar, denuclearization. It is not in China's interest to see a nuclear North Korea for the same reasons. If there is instability there are weapons there, and that stuff can get into the wrong hands.

One of the big issues we have and concerns we have is nuclear terrorism. The ability of some of this material—it was cited a minute ago by the chairman in his statement, al-Khobar, and you mentioned that also, sir, al-Khobar, what they did in Syria. I mean having this nuclear material in North Korea, it is not only North Korea having nuclear material and weapons, it is the potential for that proliferating. And China is very concerned about that.

So I think with China, and now with the new government coming in, Xi Jinping, and now with the new Security Council resolution and additional sanctions, I believe that hopefully we will turn a page, and we will be more in concert with them and approach this issue in a very deliberate way to include a dialogue with Pyongyang so they understand what the consequences are. So that there are no surprises here; they know what is ahead for them. And they have a decision to make as to what path they want to take.

Mr. ENGEL. Dr. Lee?

Mr. LEE. Over the years it has become something of a shibboleth in the policy world as well as in the academic world that the Chinese Communist Party will never give up on the Korean Workers Party, on the DPRK. Sixty years ago, or in 1950, China had compelling reasons to intervene, to take a great risk and confront the United States-led U.N. forces in the Korean War. Today, China has compelling reasons not to take that risk and to continue to develop its economy and grow richer by protecting the integrity of the international financial system.

Mao Zedong was viewed 60 years ago as the leader of the Asian revolutionary movement. For China not to take action as the DPRK was falling would have had implications on his intention to liberate Taiwan, and China had a fall-back plan in the Soviet Union. Today, the emergence, the eventual emergence of one free Korea, a single, united Korea that is democratic, pro-U.S., and pro-China, of necessity—it will be pro-China—poses no threat to the Chinese. Of course, the Chinese won't move to destabilize Pyongyang on their own initiative, so we the United States can give China that incentive.

Mr. ENGEL. Thank you. Any thoughts about the negotiations that the North would like to have, ostensibly, with the United States? One of the things that stick in my mind when I met with North

Korean officials, again on two occasions, was that they seemed to be disinterested in the Six Party Talk and more interested in bilateral talks with the United States. Do you think that is still the case today? Dr. Lee or Ambassador, anyone?

Mr. DETRANI. I definitely think that is the case. It has always been the case. North Korea has made it very clear they want a dialogue with the United States, and the U.S. position has been that this is a regional and multilateral issue. But there are issues, like the illicit activities we were talking about, that are very unique to the United States.

In many ways, that is why the September 2005 Joint Statement has two pieces to it, resolving the nuclear issue, but also each country having a bilateral dialogue with the North Koreans on issues that are unique to their respective countries. And that has been our approach with the North Koreans, and they have reluctantly—given the fact they have no choice—accepted that reality. But they indeed would prefer just dealing with the United States.

Mr. ENGEL. Thank you. I am wondering if I could ask Dr. Asher a question, and I will conclude with this. In your written testimony you talked extensively about the link between North Korea and Iran. I am wondering if you could tell us a little bit, what is your assessment of the effectiveness in crippling the North Korean regime if sanctions similar to those we are implementing against Iran are enacted against North Korea?

Mr. ASHER. Yes, it is a very good question. It is quite startling to me that the sanctions that are imposed and the action programs that are imposed against North Korea pale in comparison with those being pursued against Iran today. North Korea is a country that is not a theoretical enriched uranium producing, bomb making nation, it is creating a large stockpile right now. It has a proven track record of exporting every single military program it has ever developed, including its nuclear weapons program, as was evidenced in Syria.

The fact that the CISADA (Comprehensive Iran Sanctions) eclipsed those imposed against North Korea, to me is a clear indication of why our policy is in some ways upside down. North Korea has a supply that Iran needs of basically untarnished, unvarnished, non-affected nuclear material and capabilities. We should have proposed, we did propose and we should have pursued an aggressive program of action against the North Korean nuclear network equivalent to which we pursued against the A.Q. Khan Network out of Pakistan. It was something that the Ambassador and I both believed fundamentally and we tried to convince the Bush administration to agree to. We failed to do that. As a result, North Korea is in a position to be relatively pristine in its ability to provide the supply that Iran and other nations may desire to fulfill their nuclear goals in the future.

Mr. ENGEL. Thank you. Thank you very much, Mr. Chairman.

Chairman ROYCE. Thank you, Ranking Member Engel. We now go to the chairman of the Middle East Subcommittee, Ileana Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. Thank you for convening this important hearing, and most importantly for getting such great panelists before us today.

Our approach over the years in dealing with North Korea has resulted in complete failure, administration after administration. North Korea has held America and the world hostage because Pyongyang continues to pursue its goal of nuclear armament, thumbing its nose at the world while leaving its citizens malnourished, suffering from disease, and indeed starving. North Korea uses the same dangerous tactic time and time again. It dangles the idea that it is willing to denuclearize as a bargaining chip, and then the Kims reneg on this. It was the Bush administration's inability to see that evil trick that led to the erroneous and dangerous decision to remove North Korea from the State Sponsor of Terrorism, SST list, despite the fact that illicit activities continued. As we have seen in the last few months, North Korea has only further advanced its nuclear and ballistic weapons capabilities.

I was vehemently against the Bush administration's decision to remove North Korea from the SST list, and have continued to call on the current administration to place North Korea back on the list for the sake of our national security and the security of our allies in the region including South Korea and Japan. The fact that North Korea warned today that it would cancel the Korean cease fire in retaliation for more sanctions only reaffirms the threat to our ally South Korea.

Kim Jong-un has made his priorities clear. North Korea is perfecting nuclear capabilities, supporting and equipping rogue regimes such as Iran and Syria. Such support to other state sponsors of terrorism, because I believe North Korea belongs on that list, should be more than enough for the United States to redesignate North Korea on that list. I have introduced a bipartisan bill, the North Korea Sanctions and Diplomatic Nonrecognition Act, that would do just that. How extensive do you think the cooperation between these rogue regimes has been, I would ask the witnesses. And if North Korea is allowed to keep its nuclear and the ballistic missile program and successfully shares this material and technology with Iran, the world is looking straight in the face of the most dangerous nuclear arms race that we could ever imagine.

We know that North Koreans need money, and one of the only ways that it can get that money is through these illicit activities, counterfeiting, drug trafficking, proliferation of nuclear and ballistic missiles techonology and expertise to other rogue regimes. If Iran is one of North Korea's main sources of hard currency, how effective have recent sanctions been in limiting Iran's access to cash, and what more needs to be done to ensure that it cannot continue to finance its, or North Korea's nuclear programs?

Another main source of aid for Pyongyang is the help from China and Russia. Now we know the news that China has reportedly agreed to support new sanctions at the U.N. on North Korea, however, there have been no final agreements on the language. Do you think that China will agree to meaningful measures, or will the Chinese water down the sanctions to protect North Korea? How can the U.S. convince China and Russia to stop protecting North Korea both at the U.N. and domestically?

We must begin to have a comprehensive approach to our sanctions capability when we attempt to cut off these regimes from their source of income. And that is why I introduced the Iran,

North Korea, and Syria Nonproliferation Accountability Act which will prohibit assistance to any foreign government that has provided assistance to Iran, North Korea, or Syria, that would increase sanctions on any person or entity transferring goods, services, or technology for the chemical, biological, or advanced conventional weapons program of Iran, North Korea, and Syria.

Now according to reports it may be possible that the Pyongyang's latest nuclear test was a test for Iran and North Korea. What are the possibilities that North Korea was testing an Iranian warhead, and would this be a game changer, and what implications would this mean for U.S. policy toward Iran and North Korea?

But I am more interested in Dr. Lee's recommendations for legislation that we could file or pressure that we could bring to bear to Treasury, Commerce, and other agencies, to enforce stronger sanctions. Do you believe that those can be done through Executive order, they should be done by Congress? Do you believe that listing North Korea as a State Sponsor of Terrorism would then include all of the sanctions legislation that you recommended or action that you recommended, Dr. Lee?

Mr. LEE. All of the above. But as Ambassador DeTrani mentioned, we have Executive Orders 13382 signed by President Bush in 2005, and 13351 signed by President Obama in 2010. The question is enforcement through the political will to enforce those measures to clamp down on proliferation activities and to punish third-country parties, institutions, Chinese banks and so forth.

Ms. ROS-LEHTINEN. Thank you very much. Political will. Thank you. Thank you, Mr. Chairman.

Chairman ROYCE. Yes, we will go down to Mr. Faleomavaega. He is the ranking member on the Asia and the Pacific Subcommittee.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman. Mr. Chairman, North Korea remains as Winston Churchill once said of the Soviet Union, "A riddle wrapped in a mystery inside an enigma." We have only the slightest glimpse of what its leaders are like or what they are thinking. This includes the new 28-year-old leader, President Kim Jong-un. That is why the opportunity presented itself when the basketball star named Dennis Rodman's recent visit should not be completely dismissed as trivial. By my calculation, Dennis Rodman has now spent more face time with North Korea's new leader than any other American.

As I recall, Mr. Chairman, we were dismissive of the invitation that the American's ping pong or table tennis team received to visit China, while playing in a tournament in Nagoya, Japan, in April 1971. China, with a legacy of the Korean War and ongoing great Cultural Revolution, was as much a pariah state then as North Korea is depicted today. However, it should be noted that this so-called "ping pong diplomacy" changed world history with the American President named Richard Nixon arriving in Beijing less than a year later. It is my understanding that President Kim Jong-un loves basketball. Sometimes sports, Mr. Chairman, can have a positive result on diplomacy.

As I noted in a recent article in a Korean newspaper, as only Nixon can go to China, it now seems, in my opinion, at the height of the renewed tensions of the Korean Peninsula, in my opinion, only South Korean President Park Geun-hye can also move to seek

national reconciliation between the two Koreas. She took a first step toward that reconciliation process by going to North Korea in 2002 to meet with Kim Jong-il, the man widely suspected as being responsible for the death of her own mother. Why did President Park embark on that journey for peace? In my opinion, she did it for love of country and for the tens of thousands of families divided by a demilitarized zone mandated by more powerful nations almost 70 years ago.

Yes, the South Korean people are concerned about the nuclearization of the Korean Peninsula, but once again they will be the victims not of their choice. A resulting second suicidal war, and a nuclear one at that, would see the Korean people once again pay the greatest price with untold human suffering in a lose-lose situation for both North and South Korea. In my opinion, the leaders of both North and South Korea need to step up to the challenge. Step up to the plate to seek ways to resolve their differences, and to do so in their own way and not be dictated by other countries.

Previous American Presidents have all called for a nuclear-free Korean Peninsula, but all the rhetoric has not stopped North Korea from the development of a nuclear weapons program nor have all the sanctions. China, a permanent member of the United Nations Security Council, shares an 800-mile long border with North Korea. It remains Beijing's primary goal to preserve a friendly relationship with North Korea for obvious reasons and at whatever the cost.

Adding more sanctions, in my opinion, Mr. Chairman, may threaten Pyongyang's survival but will not be seen as being in China's best interest. Therefore, China does not vigorously enforce sanctions and in doing so, sanctions, in my opinion, are largely meaningless. Indeed, financial sanctions aimed at Chinese banking institutions which do business with North Korea seem rather presumptuous coming from a country like ours which owes China a debt of some $1.3 trillion according to the latest report on national debt to other countries.

Mr. Chairman, can you imagine that a heated situation among countries in Asia setting off a nuclear arms race where these frontline states will develop and acquire their own nuclear weapons, nuclear arsenals in Japan, in South Korea, in Taiwan, in Indonesia, and Vietnam, in the Philippines, and Malaysia—it is not a scenario that conjures up a peaceful, prosperous Asia. The same can be said of countries in the Middle East. Iran fears Israel's capability, nuclear capability. They're bringing by fear among the Arab countries. I mean the chain reaction continues. Where is nonproliferation in all this?

If I will add one thing, Mr. Chairman, and let me make this one point clear, North Korea is already a nuclear state. Having its capacity now of a stockpile of some eight nuclear weapons, and I suspect it now has the capability to produce even more nuclear weapons. My time is up, Mr. Chairman. Thank you.

Chairman ROYCE. If I could just ask, were you addressing the chairman when you said Iran fears Israel and therefore is developing a nuclear weapons capability?

Mr. FALEOMAVAEGA. Yes, my point, Mr. Chairman, I wanted to say that this is what makes a sense of hypocrisy and a double standard of the whole nonproliferation policy. Why is it that we

continue to allow the five permanent members of the Security Council to hold on to their nuclear weapons, nuclear bombs, and then telling the rest of the world you cannot have them? And this is where, in my opinion, I may be wrong, why this sense of strain and tension among the haves and have-nots? And that is what——

Chairman ROYCE. I understand. But to quote former President Kennedy, sometimes the difference is attitude. The difference between states that are using something for defense, but other states that have avowed an intent to use it for offensive capability. And since you had addressed the question to me I——

Mr. FALEOMAVAEGA. And I might add, Mr. Chairman, we have a saying at the islands, "E le falala fua le niu," which means the coconut tree leaves do not move for nothing. There is a reason. There is a cause. And I think this is perhaps one of the issues to the whole nonproliferation movement and what we are trying to do is that what is the cause? What is causing countries like Iran and North Korea to cling onto their nuclear weapons system? And that was the basis of my—thank you, Mr. Chairman.

Chairman ROYCE. Thank you. We are going to go now to Mr. Chabot who is the chairman of the Subcommittee on Asia and the Pacific.

Mr. CHABOT. Thank you, Mr. Chairman, and thank you for calling this very timely hearing. I look forward to working with you in an effort to create stronger and more effective sanctions on the North Korean regime. I think most of us agree that more needs to be done, aside from the issuance of strongly worded responses from the administration, the usual routine condemnation from the United Nations, and perhaps a slight tightening of sanctions from our Western allies.

We know that the primary opposition to our efforts comes from North Korea's prime benefactor Communist China, and that without substantial cooperation from Beijing, our efforts to curtail this illicit activity of the Kim regime will be greatly hindered. This morning it was reported that the U.S. and China reached a deal in the United Nations on a new set of sanctions against North Korea. It is not clear what the new measures include beyond possibly adding new companies and individuals to the financial and travel ban list.

Professor Lee, you discuss how the use of Executive Orders 13382 and 13551 could actually freeze the assets of Chinese entities assisting North Korean proliferation activities, and that this pressure would induce Beijing, hopefully, to cooperate. Do you think this is an effective way to persuade China to work with the international community to pressure Pyongyang, or do you think it would cause a more negative reaction from China's new leadership? China has already said it will not embargo oil for fear that if the North Korean economy collapsed it could send waves of refugees to China. What is the most effective way for China to work with the international community and pressure the Kim regime while also protecting its borders?

Mr. LEE. Thank you very much. The Chinese are supremely pragmatic. There is a reason, in my humble opinion, that the Chinese civilization is the oldest in the world on point of continuity, and it is due to their resilience, hard work, and profound prag-

matism. If the Chinese were given financial disincentives, reasons, to put it crudely to lose money, I think that would be more effective in gaining China's attention than other channels of diplomatic action.

Mr. CHABOT. Thank you very much. Dr. Asher, let me ask you. North Korea earns a very large share of its income from illicit activities as you had mentioned. How important is it to the regime's survival and its military capabilities? Has the percentage of GDP originating from criminal activities changed in recent years? Does it remain at similar levels? What would you suggest that the administration and Congress do in this area that would actually do some good?

Mr. ASHER. I have no doubt that the interagency effort that we ran with over 15 government partners around the world and 14 U.S. different agencies, including multiple Department of Justice agencies, to investigate and implicate and indict North Korean entities, including members of the leadership and leadership organs, in the conduct of a wide range of illicit activities, everything from counterfeiting to cocaine trafficking to counterfeit cigarettes, methamphetamine trafficking including into the United States—you might be aware that we had a sting operation going on within the Gambino crime family through our agent Jack Garcia, the 320-pound undercover FBI agent who was also in touch with North Korea, which we learned in the process that it was truly a Soprano State given their affinity for the partnership they formed with that crime family—I think we had a strategic level effect on their criminality.

I think we cut the percentage of GDP considerably. I think we scared them. And when we say "them," I mean the leadership of North Korea all the way up to the level of Kim Jong-il. But then in 2006 those efforts were abandoned by the Bush administration. And we have seen, based on what I have heard from defectors and from government colleagues, a slow recovery in the illicit activities of the North Korean regime.

We have seen an even more protracted increase in the weapons of mass destruction proliferation activity, I believe, behind the scenes. These are not always in the same pots, but ultimately everyone has to kick up revolutionary funds to Kim Jong-il, and almost exclusively the source of those funds can be some type of illicit conduct. Conventional trade is just not very profitable for North Korea.

Mr. CHABOT. Thank you very much. My time has expired. Thank you, Mr. Chairman.

Chairman ROYCE. Thank you. We go to Mr. Brad Sherman, ranking member on the Terrorism, Nonproliferation, and Trade Subcommittee.

Mr. SHERMAN. Thank you. I usually agree with my colleague from American Samoa, but I do want to address briefly his view that there is hypocrisy in America's nonproliferation policy. The world has avoided the destruction that many predicted when the nuclear genie was unleashed in 1945, chiefly because of the Nonproliferation Treaty. Iran and North Korea are in violation of that treaty. The five permanent nations on the Security Council are in

full compliance because they signed as nuclear states, and India, Pakistan, and Israel are nonsignatories.

Defending that treaty is critical, since without it I am sure there would be dozens of nuclear states and we would have experienced several nuclear wars by now. I would also point out that Iran has no legitimate fears, not even illegitimate fears of Israel. They do not share a border. Israel has not called for a world without a Persia. Iran's nuclear program is not defensive.

In fact, there are striking similarities between Iran and North Korea, but one striking difference is the degree of ambition. You have described a regime in North Korea that seems to be, and their number one goal seems to be make sure that fine Scotch is available to the elite. Iran has sought to influence affairs around the world, bombed the Jewish Community Center in Buenos Aires, which I believe is as far as you can get from Iran without going into outer space. So Iran both by action and rhetoric is intent on affecting things far outside its borders in ways that we would find unacceptable.

I am going to ask our witnesses a question I will preview for a second, and that is, in terms of billions of dollars I want to break down North Korea's sources of foreign capital or funds into the following categories: Their military and nuclear exports; their illicit but nonlethal exports; their illicit activities, and in that I would include goods that are licit except for the fact that they are mislabeled and sold as made in some other country but actually made in North Korea or the Kaesong economic zone; the subsidies they receive from China including the reduced price on oil; and then finally, aid, which I realize is not completely under the control of the North Korean Government.

But before I ask for that question I would say that it is going to be very hard to force this regime to change its behavior and to give up its nuclear weapons, because among other things that is what Gaddafi did. The sins of Ghadafi's past visited him notwithstanding his promise and his change in behavior. He did not have nuclear weapons and he is no longer with us. That is a good thing except to the extent that it shows the North Koreans what can happen.

With that why don't I hear from the witnesses? Can you try to tell me roughly in terms of billions of dollars how that money shakes down? Does anybody have an answer? Dr. Lee?

Mr. LEE. As you know, it is very hard to pin down numbers. There have been reports over the years that North Korea makes several hundreds of millions of dollars in the sales of weapons.

Mr. SHERMAN. So less than a billion but hundreds of millions?

Mr. LEE. Less than a billion. But the North Korean economy is very small. In terms of per capita GDP it is one of the lowest in the world. The only country in the Asia Pacific that has a smaller economy in terms of per capita GDP is Burma, and North Korea's economy compares unfavorably with many countries of Africa. It is a $40-billion economy.

When North Korea was exporting, say, around the year 2000, only about $½ billion worth of goods, and this is soon after the famine years, South Korea gave North Korea, unconditionally, cash and other blandishments, including food, fertilizer, worth hundreds

of millions of dollars per year. And over the course of 10 years during the so-called Sunshine Policy years, South Korea gave North Korea, unconditionally, over $10 billion in aid. Now I don't want to say that was a neccesary condition to prolonging the regime, to preserving the North Korean regime, but it was a factor. That kind of unconditional, nondiscriminating aid I don't think is in the best interest of the international community.

South Korea still has a major joint economic venture with North Korea as you mentioned, the Kaesong Industrial Complex. The total sum that North Korea makes from that enterprise is perhaps about $20 million or so a year, not a huge sum. But as you raise, there are questions of Kaesong produced goods, North Korean made goods that are sold outside the Korean Peninsula.

Mr. SHERMAN. And how much do they get from China?

Mr. LEE. Well, probably over $1 billion worth of goods per year, which is a drop in the bucket for the Chinese economy.

Mr. DETRANI. If I may, Mr. Sherman, the missile side of the ledger in North Korea has made significant money from selling missiles, and when they have missile launches, it is a marketing approach to telling everyone these things work and so forth. But with the Proliferation Security Initiative and things tightening up, the markets are not there for North Korea; so they are hurting with respect to missile sales. They must have made quite a bit of money with the al-Khobar program that was selling a missile nuclear technology to Syria; a five megawatt reactor similar to Yongbyon. So there is a bit of pressure, or more than a bit of pressure on North Korea with respect to foreign reserves and getting the capital necessary to sustain that element of lifestyle for the elites in Pyongyang.

And I think on the China side, I think things are tightening up from China. The largesse from China is not there. I think China is looking at things very closely. So I think the Kim Jong-un government is looking at some significant financial problems.

Mr. ASHER. One very quick point. North Korea has been aggressively exporting monetary and nonmonetary gold. And if you are trying to tighten up the financial effect against North Korea you need to look at these tradable precious metals as a sanctioned item. They are typically marked with a North Korean emblem, and when they are not, the gold can be assayed precisely as to where its origin emanates from. So you could create a verification and compliance regime that could screen out the gold exports, which might be generating as much as a billion-plus a year for North Korea.

Our estimate in 2005 of North Korea's illicit earnings or at large was between $800 million and $1 billion. And that was over the illegal acts. I do think that that has declined considerably, however, I think it is increasing.

Chairman ROYCE. Thank you for the idea, Dr. Asher. It is a good one. We will go to Mr. Marino.

Mr. MARINO. Thank you, Chairman. Good afternoon, gentlemen, and thank you for being here. First of all, let me say that I personally do not consider a retired basketball player showing up at his own PR promotion in a wedding dress a serious, credible Ambassador representing the United States.

And secondly, as far as the terrorist state of Iran is concerned, the U.S. to be sure will continue to stand shoulder-to-shoulder with our Israeli friends and do whatever we have to do to protect Israel and the world from the fanatics who control Iran.

Now my question is, in looking at this from six-degree of separation perspective, and I know you have been asked what can we specifically do, I am going to ask basically the same question again from a different angle. Can each of you address which countries and which businesses within those countries do business directly or indirectly with North Korea? Obviously that China is at the top of that list, and we do a great deal of business with China, and they hold most of our outside debt. It is complex. I know there is no single answer, but can you elaborate more on the specifics about what we do with those individuals, those other countries and businesses? And Ambassador, and just down the line.

Mr. DETRANI. If I may, China as you said, sir, is key. I mean literally, with respect to trade and investment, it is China. The European Union in the past had considerable interaction with North Korea. I think that has diminished significantly given North Korea's bad behavior. So my simple answer is China. And without China, in my view, the North Korean economy just crumbles.

Mr. MARINO. Agreed. Dr. Lee?

Mr. LEE. We do know of specific North Korean institutions that engage in proliferation and other illicit activities. There is a long list. Executive Order 13382 mentions 30 or so North Korean entities including individuals. And the most recent U.N. Security Council Resolution 2087 adopted in January lists four North Korean individuals by name, Paek Chang-Ho, Chang Myong-Chin, Ra Ky'ong-Su and Kim Kwang-il. A couple of those are associated with North Korea's so-called space program, science and technology. The other two are associated with a North Korean company, Tanchon Commercial Bank, which has a long history of engaging in illicit activities.

There is also in the U.N. Security Council Resolution 2087 a freeze on the assets owned by a North Korean bank, Dongbang Bank, East Land Bank. So the problem is not necessarily identifying sufficient number of targets but implementing those targets.

Mr. MARINO. Dr. Asher, I am going to expand just a little bit. Let us talk about the realities. What ramifications will the United States face in taking action against countries and businesses that are doing business or promoting North Korea whether that is through China or some other entity? What are we looking at?

Mr. ASHER. Objectively, it was only when we designated Banco Delta Asia in September 2005 that the Chinese finally began to act against both proliferation and illicit activity. They acted quite decisively. They sprang to life as a partner of ours for about a year, and then once we remedied that action it ended. I saw absolutely no blowback effects against the broader relationship with China over the designation of that bank. In fact, the Chinese were extremely scared that we were going to designate other banks where we made them aware that we had observed the exact same activities except at a larger scale.

They acted in a very businesslike fashion, like the professor suggested. Their pragmatism reigned supreme. They didn't threaten to

sell off their Treasury bond holdings or anything extreme, which I think would be self-defeating actually, and we got a responsible response from the Chinese Government. I believe that if we were to reimpose certain measures in a clear and consistent and transparent fashion of holding Chinese entities and other foreign trading entities responsible for their complicit activities or cooperative activities with North Koreans, they would shun their North Korean partners.

Mr. MARINO. Thank you. And I yield back my 9 seconds.

Chairman ROYCE. Thank you. We go to Lois Frankel.

Ms. FRANKEL. Thank you, Mr. Chair, and thank you, Panel, for your discussion today. I know we have heard some, it is quite horrifying to hear so many of the things you are talking about—human right violations, illicit activities of the counterfeiting of money, cigarettes, drugs. But the increasing nuclear capacity is disturbing, as is assisting Iran in its procurement of a nuclear weapon.

My question to each of you is though, what is the end game? What do we in the end do we want to accomplish? North Korea has 21 million people. It is in a strategic location. If we could cure these ills, what is the end game that we are looking for?

Mr. ASHER. Our policy is a complete verified, irreversible disarmament of the North Korean nuclear program, but I think that has become unfortunately instead, a fantasy. We all wish that could be the case. I believe that we need to take a range of measures to try to actively undermine the North Korean nuclear program, measures which I am not going to talk about in any detail, but one can guess what those are.

It begins with an aggressive counterproliferation, counter network operations initiative equivalent to what we had against the A.Q. Khan Network. It would extend into any sort of special measures which could be taken to try to interfere with the integrity of North Korea's facilities as they threaten to be engaged in producing proliferation-grade material. And we are going to have to look at North Korea's Embassies and offices around the world and whether they should be allowed to have diplomatic sovereignty if they are engaged in commercial conduct, specifically the sale of weapons of mass destruction, which is not something which is necessarily allowed under the Geneva Convention's governing diplomatic conduct.

Mr. LEE. The ultimate end game, in my view, is to encourage, take action to facilitate the emergence of a single, free Korean state. And this is a long-term project obviously. This year, again, marks the 60th anniversary of the Korean War, and I think the best way to honor those brave souls who answered the call to defend a country they never knew, a people they never met, as it is eloquently inscribed at the plaque in the Korean War Veterans Memorial, is for pragmatic and prudent policy makers in Washington and Seoul to come together to lay the foundation for a genuine, a permanent peace in the Korean Peninsula, and to deliver the long-suffering North Korean people from bondage.

Mr. DETRANI. I think the first step is to come back to the September 2005 Joint Statement. We had Kim Jong-il commit to it. We had Kim Jong-il and Beijing committing to comprehensive denu-

clearization. Kim Jong-un has never said he is prepared to denuclearize or he is committed to the September 2005 joint statement—Kim Jong-un needs to commit to that joint statement as his father did, and commit to denuclearization.

A nuclear North Korea given all the reasons we discussed this morning, with the potential for proliferation, and what it means to the NPT, the whole regime, the nuclear proliferation regime and the nuclear arms race that would engender if they retained those weapons, it is just not tolerable. And that should be, and one would hope that is where the DPRK is, that is the ultimate. But for that they need security assurances, economic assistance. Ultimately, when they get their act together on illicit activities they could then become a normal state. Then the two Koreas, the unification issue, because this is one Korea, this is the Korean Peninsula and so forth.

But I think the first step has to be coming back to something they committed to in 2005, and they have conveniently walked away from it saying now they are a nuclear weapons state, and we are talking about, if you will, disarmament issues. Well, it is not nonproliferation of disarmament. It is denuclearization.

Ms. FRANKEL. Thank you. And Mr. Chair, I yield back.

Chairman ROYCE. Thank you. We go now to Mr. Weber. Randy?

Mr. WEBER. I don't remember which one of you it was that suggested, maybe it was you Dr. Lee, that we give the Treasury investigative authority. Can you restate, make that argument again? I want to follow that through and then I have a question for you.

Mr. LEE. I think the United States should pass a bill that allows for the expansion of designation of prohibitive activity. That is, additional actions that would come under this new bill as prohibited, including actions furthering North Korea's proliferation, illicit activities, import of luxury goods, cash transactions—bulk cash smuggling basically—sales of lethal military equipment, small arms as well, and also actions that further perpetrate the continuation of crimes against humanity.

Also I would urge Congress to pass a new bill that gives Treasury investigative powers that requires the Treasury Department to investigate suspicious actions, reports of suspicious activity.

Mr. WEBER. That is the question I have, but that is on the monetary part of it. That is not in any kind of violations of human rights, is that right?

Mr. LEE. Well, any activity that is linked to violations of human rights, I would call for that as well. But the focus, yes, is on monetary illicit activity.

Mr. WEBER. Through the Treasury. But aren't those types of activities that you outlined already a part of what we watch pretty closely?

Mr. LEE. Yes, but making it a law, bounding, requiring the Treasury Department to actually take action, I think, would make a difference.

Mr. WEBER. Okay. That is my only question. Thank you, Mr. Chairman.

Chairman ROYCE. Thank you. We go now to Congresswoman Gabbard.

Ms. GABBARD. Thank you very much, Mr. Chairman. Thank you to our panel here for being here today. I represent the 2nd Congressional District in Hawaii which as we have seen through the last couple of launches, experts have testified that Hawaii along with some of our northwestern states are within range, within missile range of North Korea. So this is an issue that is very real for us not only as a state, but also because of our military presence there and strategic location within our national defense.

I am wondering your view on what the current estimate is, realistically, of when North Korea may have a warhead missile combination that could strike the United States, as well as your assessment of our missile defense and what we can do to prevent this from occurring or at least slowing down their progress.

Mr. DETRANI. Well, I believe they are quite a ways from having that capability, Congresswoman. We are talking about miniaturization, miniaturizing that nuclear weapon and mating it to a delivery system and having that delivery system be successful in reentry, bringing that warhead into a target area. I think they are quite a distance from that. They are working toward it.

I think this launch in December was significant, putting a satellite in orbit. I think this nuclear test was significant. It was quite a bit larger, much more significant than the one previous to that in 2009. So they are making progress, but I believe they are quite a ways. The testing has to be done. The mating is very difficult. So the science is there. It doesn't mean they are not seeking that. Obviously they are seeking that. But I think the distance is quite a ways.

I think on missile defense, I think, with our capabilities, I think they are very robust. We are not talking about a significant arsenal. We are talking about four to six weapons, we are saying, and given the uranium enrichment program we could add additional weapons to that. So we are talking about a finite number of potential nuclear weapons that could be delivered again way down the road. I think we would be well prepared.

Ms. GABBARD. Thank you.

Mr. LEE. I replied to Congresswoman Frankel's question thus. The end game for the United States and for South Korea should be to seek the emergence of a united, free, open, democratic Korea with its official seat of government in Seoul. North Korea's end game is also unification under its own initiative. That is the ongoing North Korean revolution, and it is stated explicitly. Now, as hard for us as that may be to conceive, to imagine—North Korea suffers against South Korea, lags behind in every index of measuring state power except for military power—that is the ultimate objective of the North Korean state.

And one key stepping stone in achieving that eventual unification, communization, is to evict the U.S. troops from South Korea. And this is tied to North Korea's nuclear and long-range missile programs. That is, if North Korea were able to demonstrate that it has achieved that capability to marry a nuclear warhead to an intercontinental ballistic missile, North Korea's bargaining power would be enhanced tremendously. And, in my view, the ultimate goal of the North Korean regime by systematically pursuing such

weapons development program is not necessarily to attack the United States.

North Korea is not suicidal. Self-preservation is its ultimate objective. But it seeks to be able to negotiate vis-à-vis the United States from a position of strength on a host of matters, political matters, economic matters, and specifically on the matter of the continued presence of U.S. troops in South Korea that has played over the past 60 years, the most important, the essential road in keeping the peace in the Korean Peninsula.

We have had de facto peace in Korea, unstable at times, but it has been the longest period of peace in the Korean Peninsula, in and around the Korean Peninsula since the mid-19th century. And that is thanks to the continued presence of the U.S. troops. And North Korea's objective is to get those troops out.

Ms. GABBARD. Thank you. Thank you very much, Mr. Chairman.

Chairman ROYCE. Thank you. I grant your point, Professor Lee. I would just interject one point, and that is, you do have a habit here though to consider as well on the part of the government in North Korea, and that is the habit of proliferation. And so far they have proliferated every other weapons program they have gotten a handle on, including to Syria. So in this particular instance you have seismic activity which would indicate that yes, it is a much greater yield in terms of this explosion, and at the same time it is a smaller warhead. So they must be getting closer in terms of that capability of placing it on that three-stage ICBM that they have already mastered.

We go now to Mr. Rohrabacher who is the ranking member on Europe, Eurasia, and Emerging Threats.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. And I would like to thank you personally as well as thank Chairwoman Ileana Ros-Lehtinen for the strong leadership that both of you have provided on this issue of North Korea. I remember many years ago when I first was elected and became a member of this committee, there was the debate as to what policies we should have, and the Six Party Talks and whether we were going to give North Korea aid or not.

Can someone fill me in on, we see here that South Korea has given North Korea $10 billion in aid. Over the years the United States has provided food and oil, or fuel for North Korea. How much have we provided North Korea in that type of assistance? Anyone on the panel have a number on that?

Mr. DETRANI. Well, on the food, I think the U.S. was the greatest donor nation on humanitarian food aid for an extended period of time to North Korea, and on the fuel, heavy fuel oil pursuant to the Agreed Framework with the Korean Energy Development Corporation, we provided significant amounts of heavy fuel oil——

Mr. ROHRABACHER. Well, I know that both of them are significant. Does anyone have a number for me? Are we talking about billions of dollars worth of food and oil?

Mr. DETRANI. I would think we are close to that. Please, Professor Lee.

Mr. LEE. According to the Congressional Research Service, a little over 1 billion.

Mr. ROHRABACHER. In food and oil?

Mr. LEE. Yes.

Mr. ROHRABACHER. Okay, so we have provided over $1 billion of food and oil for North Korea over these last few years. Let me just note that I remember that several Members of Congress, me included, were very vocally opposed to this policy suggesting that it would be counterproductive and would be seen as a sign of weakness and actually would not bring about change in North Korea. And in fact, I think we have been proven correct in those aggressive oppositions to that policy.

Let me just say we act like idiots. I mean the idiots are the people who do favors for their enemies. And when you act like idiots you have got to expect to be treated like an idiot by your enemy. And that is what is going on here with North Korea. They have been playing us, frankly, ever since we decided to start giving them money, and the fact that South Korea was willing to give them over $10 billion in aid. And now we see that this regime is what, is declaring that the truce is no longer going to be in place? I mean this is a slap in the face to the useful idiots all over the world that think you can buy off totalitarian enemies by being friends with them.

And let me just suggest also, and this is to my dear friend Mr. Faleomavaega who, I might add, is a Vietnam veteran who is a heroic individual, but I am sorry that I think coconuts make good pina coladas but they make really bad policy. And it seems to me that what we—and one last thought before I get to my question, and that is, thank God we have missile defense. Over the years at the same time we are fighting to make sure we don't give our enemies money which they now have used to develop nuclear weapons, at the very least we fought through a missile defense system which may provide us some security in the United States against missiles launched from North Korea to Southern California. So thank God that we overrode that opposition to missile defense which was very strong in this Congress.

And finally, I would just like to ask about China. Do you folks, Dr. Lee, you tended not to, sort of to poo-poo this but—and I agree with you. Regime change and one singular Korea has to be the goal. But isn't China really pulling a lot of strings up there in North Korea, and aren't they the ones who hold the key to changing the direction in North Korea? The peaceful change of direction.

Mr. LEE. Indeed. The Chinese, again, won't take any kind of initiative to destabilize the DPRK and sees the continued existence of North Korea to be in their national interest. Having that North Korea card to play vis-à-vis the United States over the long term and having that buffer zone, China sees that to be in its interest.

Mr. ROHRABACHER. Let me note right here. So you would have us assume that when we hear things like, there is going to be no more truce and we are doing these—that the Chinese are actually in agreement with the North Koreans on that type of hostile act?

Mr. LEE. The Chinese are not very pleased with North Korea because North Korea has always defied China. Even being such a beneficiary of Chinese largesse, North Korea has never caved into Chinese pressure throughout the past 60 years or so. The Chinese have reasons to be a bit displeased toward Pyongyang. But all vec-

tors of national interest do not go on the same trajectory forever. They can diverge.

And if we come to a situation whereby the Chinese leadership has to make a decision, to wave goodbye to the DPRK or to take a major risk in confronting the United States and other powers in the region, I think pragmatism would prevail.

Mr. ROHRABACHER. Thank you.

Chairman ROYCE. Thank you, Chairman Rohrabacher. We now go to Grace Meng.

Ms. MENG. Thank you, Mr. Chairman, and Ranking Member. Thank you to our witnesses for being here today. My question is to any or each of you.

Former South Korean President Lee Myung-bak made many aspects of his overall approach to North Korea contingent upon progress toward denuclearizing North Korea. How can the new President Park link North-South Korean cooperation to progress on reducing nuclear and missile threats? Alternatively, what is your evaluation of Kim Jong-un's first year in power, and do you see any of his policies as deviating from his father's or toward any type of reform?

Mr. ASHER. I will say very briefly, I think that he is on a course of much more aggressive action than his father, largely because he is in a position of relative weakness. As a 28-year-old he is not the eldest son. And he is in a position also where his revolutionary state requires a lot of resources. And as we have heard, they are economically in increased trouble and they are unwilling to go through some sort of conventional economic reform even though he has announced that as a priority. They just haven't demonstrated any serious intent to do this.

So that leaves them in the situation where they are sort of riding a nuclear tiger, and once you are on that tiger it is hard to get off. So I am concerned that his next steps in the next year are going to be more provocative than we have even seen up until now. Perhaps after that we will have a diplomatic opportunity, but along the way it could get quite rough.

Mr. LEE. In my view, one common misperception about North Korean behavior is that the regime merely reacts to external stimuli. That the regime reacts in a negative way to sanctions or even Security Council resolutions and so forth. North Korea has been, I would argue strongly, the far more proactive party in dealing with the U.S. and South Korea throughout the entire history of the Cold War and to this present day. North Korea will strategically provoke in a controlled, limited way, occasionally launching deadly attacks against South Korea and the United States, but in a controlled, limited way. Because, again, North Korea is not suicidal.

So this pattern of provocations will continue whether we are nice to North Korea or we are firm on principles vis-à-vis Pyongyang. If we were to tighten down sanctions, put more pressure on the regime, it is quite plausible, perhaps even likely, that North Korea will react in a negative way, perhaps even launch a limited attack on the West Sea or elsewhere in and around the Korean Peninsula. But such provocations are a part of North Korea's long-term strategy. They will happen regardless of how generous we are.

We had two naval skirmishes during the Sunshine Policy years despite South Korea's very generous engagement policy toward North Korea in the mid-2000s. We had a missile test, a long-range missile test in July, July 4, not so coincidentally, in 2006. And then later that year, North Korea's first nuclear test, thus raising the stakes dramatically. It will continue. So to shy away from a principled approach, I don't think would be more effective than pursuing a policy of unconditional aid.

Mr. DETRANI. Let me just say, in North Korea, I think we all agree it is very opaque, the dynamics within the leadership, what is happening certainly with succession, this younger son coming in, Kim Jong-un. He had to feel under great pressure coming in, but he made some very significant decisions when he came in, personnel decisions. He removed a number of so-called hardliners, put some people in place in positions that were probably not expected by many of us. He put the party basically in charge of looking over the military. He moved his uncle up the ladder and so forth.

So those first 3 months, seemingly he was moving in a direction, but that has been reversed. And I agree with my colleagues. I think what we are seeing now is the playbook of Kim Jong-il, and that is unfortunate, because I think during the first 3 months there was some optimism. Guarded optimism that maybe he is moving in that direction, maybe he is looking for not the military first but he is looking for some sort of reforms and rapprochement that may be going to this event in 2005. We are not seeing that now.

And I agree, I think with further sanctions there will be further reactions, and I think that would be intensifying and I think that would be disastrous for the DPRK. And he probably knows that, and I think that has been communicated to him and he needs to understand that.

Mr. LEE. May I just quickly add, Kim Jong-un has been clamping down on border crossers, and the number of North Korean defectors who have made their way to the South has decreased by 100 percent. That is, the number of defectors coming to South Korea in 2012 is less than 50 percent of what it was in 2011. So that is another indication that Kim Jong-un is even more repressive than his father.

Chairman ROYCE. We will go now to Mr. DeSantis.

Mr. DESANTIS. Thank you, Mr. Chairman. Thank you for your testimony and for answering our questions, and I do think this hearing has been useful. I think it is very important that we adopt policies to combat the illicit activity of this criminal regime.

With respect to Kim Jong-un, and this is after hearing your responses of the panelists, with the decisions he has made particularly after the first few months, is it the sense that he has actually solidified his hold on power vis-à-vis when he first came in? And well, can we just start with the Ambassador and go down the line?

Mr. DETRANI. I would say, sir, yes. I think, solidify, I wouldn't go that far. I would say I think he feels comfortable with his decisions. He has made a number of decisions. He has moved his minister of defense a few times. He has changed the number of ministers there. He has moved people around quite a bit.

But I think the people around him, and I think even with the most recent visit of Dennis Rodman, we see some of those key play-

ers. A number of those key players are those who have interacted with the U.S., Kim Kye Gwan and others. Is that messaging? Probably it is a bit of messaging to the U.S. So I think he is feeling comfortable with the people around him, and I think the people around him now are more of the hardliners that one would have thought maybe 8–10 or 12 months ago he was trying to put on the sidelines.

Mr. LEE. I think it is a common perception, the notion that there is some kind of policy difference or even conflict between the leadership and the North Korean military. No doubt there are competing interests in any government, but the North Korean system is unique in that the near total monopoly of power by the clan, by the Kim family and the party over the rest of the nation including the military, has been nearly perfected.

And the North Korean founder, the founder of North Korea, Kim il-Sung, learned this from Chairman Mao of China. Make sure that the party controls the military, that the party maintain power to appoint and promote generals, making key personnel decisions. And that is a pattern that North Korea has adopted from China and has implemented for many years. So I don't think there is a high chance of any kind of coup d'etat or a direct challenge to Kim Jong-un anytime soon. But over the course of 10 years, 20 years, 30 years from now, I think that likelihood would only increase with time.

Mr. ASHER. I agree with the professor and with Ambassador DeTrani. But in my mind, and only until Kim Jong-un's interior reality, his base of power, his very survival is imperiled do I think that he will consider any serious strategic deviation toward opening his system. It is basically, the system is inherently hard line. There is no incentive, really, for strategic accommodation unfortunately. We have looked at it for years. We have been doing analysis of this for over 20 years of our lives, and negotiating the Six Party Talks, then we have tried everything to really try to understand the opportunity for diplomacy, which I am a sincere believer in. But I think that there is just no credible solution diplomatically unless this regime feels at the highest of levels that it is imperiled.

I think when they face peril, because I do not believe they are suicidal, I agree with you, Professor, I think they will make a strategic choice. I think one of the ways we are going to have to put them under peril though is by coercing our Chinese counterparts, and in other ways by directing a program of action against that interior reality that surrounds the newfound leader of North Korea in a way that he is going to have to make some hard choices.

But as things stand I think his choice is going to be to up the escalation. That is sort of the initial indication, and that is what is giving his people the sort of bread and circus effects of space tests and nuclear tests that are making North Korea look all the more powerful in the world.

Mr. DESANTIS. And Professor Lee, you mentioned how the systematic oppression of the people in North Korea by the regime is actually one of its weaknesses, and maybe that is in the long term like you just said. How can this weakness be used against the regime, and is this something, is there any possibility that you would

ever see something coming from the population? It just seems like the regime has an iron fist over its people.

Mr. LEE. Today there is no doubt that North Korea operates vast gulags. Political prisoner concentration camps that are larger in size than entire towns or cities like Los Angeles or Houston. This the regime tries its best to shield from view. North Korea is the only country in the world that with a serious face maintains there are no human rights issues inside their country. So they are a bit sensitive.

I think raising global awareness on North Korea's extreme human rights violations and redoubling our efforts to transmit information into North Korea is not only the right thing to do in terms of principle, but I think there is a practical value to it. Today, close to 50 percent of North Koreans surveyed, who have come to the South, say that they had come into contact with outside information. Information about the outside world through listening to radio, through watching South Korean DVDs, or DVDs of South Korean soap opera, movies, songs and so forth.

So it is an incentive for the North Korean people: The more they learn about the outside world and their relative miserable conditions, the greater desire, the greater incentive to take a risk to escape their repressive country they will have.

Mr. DESANTIS. Thank you. Thank you, Mr. Chairman.

Chairman ROYCE. We go down to Mr. Deutch, ranking member of the Middle East Subcommittee.

Mr. DEUTCH. Thank you, Mr. Chairman. I would just like to follow on the excellent line of questions of my colleague from Florida, Mr. DeSantis, and Dr. Lee, your last response.

It is little wonder, I think, just as on cable news shows, Dennis Rodman's visit to North Korea got some attention here. What is so disconcerting is that Rodman, the coverage of his visit even on cable television, even on the so-called news shows, didn't focus on anything other than the fact that he is a celebrity who was visiting. There was little coverage at all during his visit of exactly what you and Mr. DeSantis just brought up, and that is the fact that North Korea is the worst human rights violators in the world.

According to Human Rights Watch, there are hundreds of thousands of North Koreans including children in prison camps. Arbitrary arrests, lack of due process, and torture are pervasive. We didn't hear about this in all of the coverage of this visit. There is no independent media. There is no functioning civil society. There is no religious freedom. And government policies have continually subjected the North Koreans to food shortages and to famine.

Dr. Lee, if I could ask you to follow up on your last exchange, how do we change the narrative about North Korea so that the human rights situation is also at the forefront of all of our discussions? What do we do to make sure that we highlight this abysmal record as we talk about the future of North Korea, and what can the U.N. do to enable more of the naming and shaming that a lot of us think might be so helpful in really pursuing this agenda? Dr. Lee?

Mr. LEE. The Rome Statute of the International Criminal Court defines crimes against humanity in this way: Systematic and widespread attack against the civilian population with knowledge of at-

tack, with intent. What kind of attacks? Well, it defines 10 categories. Things like murder, extermination, enslavement, deportation, torture, and other forms of severe deprivation of physical liberty, crimes of sexual nature, persecution based on political, national, racial, ethnic, gender, religious grounds, and so forth. The only crime that North Korea does not fulfill perfectly is the crime of apartheid, institutionalized racial oppression, because North Korea has a high degree of ethnic homogeneity.

It is global news. It is newsworthy, what North Korea has perpetrated over the last 60 years or more. But in my view, the reason that it does not get sufficient coverage in the news is because we don't see gruesome scenes of people dying and so forth on TV.

Mr. DEUTCH. Dr. Lee, I have approximately 2 minutes left. Let us use this opportunity. You spoke about the crimes that are being violated and you spoke generally about the gulags. Take the last 1½ minutes, describe them in some detail, please, so that we can highlight these atrocities.

Mr. LEE. The gruesome things that go on in the gulags are so gruesome they come across as unbelievable. There is a memoir that came out last year called "Escape from Camp 14," and it details the life of a young man who was born inside one of these camps who was brainwashed into ratting on his own family, and ratted on his mother and older brother who had intentions of escaping, and witnessed the eventual public execution of his mother and brother and felt no remorse, no kind of emotion, whatsoever, because he was such a product of such a dehumanizing environment.

These are matters that insult our basic morality that need to be told at greater length, reach a wider audience. And I think the media and intellectuals and governments have a basic duty to portray the North Korean regime as the criminal, oppressive regime that it is. And to discourage people from continuing to view North Korea as an oddity, a bizarre country run by a bizarre dictator. It is not an abstraction. It is a threat to humanity and we have to focus on purveying and sending that message.

Mr. DEUTCH. I am grateful for that, Mr. Lee. Mr. Chairman, I am grateful for you holding this hearing.

Chairman ROYCE. Thank you. And I do want to recommend for the members, and actually for the audience as well, Shin Donghyuk's book, "Escape From Camp 14." I have had a chance to meet with him, to interview him. And for those who question whether or not this is true, I saw the scars on his back from his torture.

And this is a riveting account of how dehumanizing it is in a totalitarian system to live your life because of the presumed sins of your parents, in a situation where there is no hope. But this is one young man who did escape and did tell that story. And we owe it to ourselves, really, to familiarize ourselves with what is happening there. My father took photographs when they liberated Dachau. He had his brother's camera. The photos taken there are eerily reminiscent of these photos that you see that come out of these camps in North Korea where family members are held as well, including young children.

But we go now to Mr. Messer, for your questioning.

Mr. MESSER. Thank you, Mr. Chairman, members of the panel. Building on that line of questioning, it is of course ironic that we

are here this week having this hearing in the same week that we hear about Dennis Rodman's trip to North Korea and that on face would be a joke, something no one would care about. But it is not a joke, because frankly it trivializes a circumstance that ought not to be at all trivial. You mentioned the human rights violations, nuclear proliferation, organized crime. And it is important that we keep the public sentiment in America focused on this important topic to stay strong on the challenges that we face with North Korea.

But I want to turn to another area of public sentiment. Dr. Lee, you mentioned several actions you would like to see South Korean leadership put forward. Of course those actions are somewhat dependent on public sentiment in South Korea. And I would ask you or any others on the panel to expand upon what the current public sentiment is in South Korea toward North Korea. Has that changed any in recent years?

Mr. LEE. I think the South Korean perception of North Korea has changed in the wake of North Korea's two deadly attacks against South Korea in 2010. The sinking of the Cheonan in March, and the shelling of the inhabited island, Yeonpyeong Island, in November. At the same time, fundamentally, South Koreans have grown rich over the past couple of generations. They do not want to risk losing their assets, their wealth, and their security, and do not support escalating tension with North Korea. And North Korea does its best to exploit such sentiments in South Korea.

In my view, the South Korean Government should make North Korean human rights a high priority. And Madam President Park Geun-hye as a candidate on November 5 last year, in her foreign policy platform statement, explicitly said that she would do her best to address the human rights situation, to reinforce resettlement programs for North Korean defectors coming to South Korea, finally passed a North Korean human rights act and so forth. And 3 days later North Korea gave her a "ringing endorsement." That is, North Korea came out and harshly criticized Park Geun-hye for having the temerity to mention words like "defectors" and "human rights." Again that indicates that North Korea is sensitive to its gross human rights violations.

Ms. ROS-LEHTINEN [presiding]. Thank you very much. Mr. Connolly is recognized from Virginia.

Mr. CONNOLLY. Thank you, Madam Chairman. Dr. Lee, I was struck by your testimony where you went sort of through a litany of overtures from the West, from the United States, from South Korea, all of which in a sense were rebuffed if you look at subsequent North Korean behavior in terms of violent incidents, military incidents, terrorist incidents, and the furtherance of the nuclear development.

Is the suggestion, or is the inference to be drawn from that litany that we are wasting our time making overtures to the regime itself?

Mr. LEE. North Korea views itself as the party wielding the proverbial carrot and stick. North Korea is the more proactive party, I would say again. Now that does not mean that we should completely abandon talking to North Korea. Of course, the Dennis Rodman affair, a few weeks from now we will come to view that as the

way that we have come to view developments out of North Korea last July when Kim Jong-un apparently enjoyed a performance featuring Disney characters and rock music and so forth. Trivial personal preference.

That is not to say that the Rodman affair was completely without utility. We learned that Kim Jong-un's spoken English is limited. There is some intelligence value, I suppose; although please feel free to criticize me that I am setting the bar low.

Mr. CONNOLLY. But Professor, I am sorry because I am running out of time. But my question had to do with, I thought you were suggesting, and you may be right, that frankly the overtures make us feel good but they lack efficacy if you are looking for results.

Mr. LEE. That is right.

Mr. CONNOLLY. Well, the other thing I was struck by was you mentioned several times the pragmatism of the Chinese. That the Chinese are at the end of the day pragmatic. And yet if one looks at their continuing support for this pariah regime, it is hard to see pragmatism there especially as the Chinese get more and more intricately involved in market oriented investments, including here, North Korea seems to be a throwback, a cultish, pariah state throwback that can only over time embarrass the Chinese, and in fact, prove to be a liability on the Korean Peninsula, not an asset, not a buffer. If it made sense in the Cold War, it makes no sense, it would seem, in today's context. And therefore, it is hard to see that as a pragmatic policy on the part of the Chinese. And I wonder if you would comment on that, and I would welcome the other two panelists to as well in the limited time we have.

Mr. LEE. Very briefly, I do believe that China will eventually come to view North Korea as more a liability. But that time, in my view, has not come yet.

Mr. DETRANI. I totally agree. I think China is very close to that point. China has been trying to mediate sides, and China is realizing Kim Jong-un is going beyond the pale. So I think we will see more activity on the part of China to bring them back into the fold.

Mr. CONNOLLY. And if I could interject. I think if Dr. Lee is right, and I think he is, China is the key here, because we are not going to change directly North Korean behavior. I am sorry. Dr. Asher?

Mr. ASHER. I just think we have to change Chinese behavior to change North Korean behavior, and I say that with respect. I spent a lot of time in China. I am not anti-Chinese. But as a pragmatic American diplomat I see no choice but to impose greater consequences on China's complicity and cooperation in North Korea's regime and its nuclear program and missile programs.

Mr. CONNOLLY. Thank you. Right on time, Madam Chairman.

Ms. ROS-LEHTINEN. Thank you always. We can count on you, Mr. Connolly. And we are so pleased to hear from Mr. Bera now for his questioning time.

Mr. BERA. Madam Chairman, I want to thank you and thank the panelists for being here. I think each of you have commented on this line in the sand scenario, where we draw a line in the sand and North Korea steps over it, we draw another line in the sand. So there is a policy on the part of the North Korean Government to always provoke.

Knowing that and knowing that they will continue this policy of provocation, when we look at Kim Jong-un and those around him, are there members in the North Korean Government or in Kim Jong-un's inner circle who are sympathetic to this path of nonproliferation or disarmament in order to help the North Koreans? And is there anyone who we could work with or we can compel the Chinese to work with?

Mr. DETRANI. Let me just comment. I don't know if anyone is sympathetic, per se, but I think there are some around Kim Jong-un who have been exposed to the West and exposed to China; exposed to Deng Xiaoping with his economic reforms in China, and how China went from the Cultural Revolution to where they are today. I think that has to be powerful.

Dr. Lee mentioned what is happening in the Republic of Korea. That message has to be powerful. So yes, I believe there are some around Kim Jong-un who are witnessing this and realize North Korea needs to be moving in that direction.

Mr. BERA. And so I will ask a follow-up question. Knowing that we have a stated policy, or many of us do including the administration, of unequivocally making sure that Iran does not acquire nuclear technology, and extrapolating on that I would say it is our unequivocal policy to make sure North Korea does not sell nuclear technology to Iran. Knowing that we cannot allow this, what would your recommendations be to make sure that China understands that that is an unmovable line in the sand and does engage in a way that does not allow North Korea to——

Mr. ASHER. Okay. I think that the Chinese in the middle, the Chinese companies that are operating on a beneficial basis or a front company basis for North Korean entities, need to be held accountable for being North Korean entities even if they are Chinese run and operated.

There was a case where Shenyang Aircraft Company was publicly outed in a German court for procuring a sensitive aluminum tube technology for North Korea's nuclear program, and of course they denied, oh, we didn't know how that happened. It was just an accident. But when China's most sensitive and important military company is involved in fronting for the North Korea nuclear program, I think we have to take notice, and we have to assume that that sort of activity continues.

Now was that orchestrated by the leadership of the Chinese Government? I don't know. But to me it doesn't really matter. The way we have applied the Iran sanctions, and I think this committee's leadership has been critical on that, is to hold people accountable for their actions not for their intentions. And I think that is going to be a policy we are going to have to apply toward the Chinese.

Mr. DETRANI. Could I just comment on that, sir? There is a robust dialogue with the People's Republic of China in Beijing on these issues, these nonproliferation issues, certainly North Korea and North Korea's behavior and the concern about proliferation and so forth. And I mean a lot of information is being shared back and forth, so I think there is a dialogue, a very rich dialogue, and hopefully we will see greater traction on both sides.

Mr. BERA. Great. Thank you for your answers.

Ms. ROS-LEHTINEN. Thank you very much. And although we have no further requests for time, I would like to yield to my colleague Mr. Faleomavaega who would like to make a statement of clarification. The gentleman is recognized.

Mr. FALEOMAVAEGA. Thank you, Madam Chair. I just wanted to offer a couple of comments about what was mentioned that my name was mentioned there. My good friend from California, Congressman Sherman, said that he doesn't agree with my observation about the U.S. taking a hypocritical role on the nonproliferation issue. I want to be clear on this. It is not the United States, it is the whole concept of nonproliferation where the United States is a member of the nuclear super members of the Security Council.

I want to commend President Obama for his efforts to try to limit or lessen the number of nuclear weapons that we now have in country. It is my understanding we now have enough nuclear weapons around the world, enough to blow this planet 10 times over. And I believe, and correct me, I think already that we have what, currently about 5,000 nuclear weapons in stockpile. The Russians have a little more. The British and the French have a couple of hundred here and there. So my point about this is the hypocrisy of the concept and not of my country, the United States.

Secondly, my good friend Mr. Marino made reference to Dennis Rodman's visit to North Korea. He did not go there to represent the United States. Yes, he is a great basketball player who happens to be a U.S. citizen. But I don't think that anywhere Mr. Rodman has ever given any indication that he was there representing President Obama or anybody in our Government. I think we need to be clear on that.

Then my friend from California, Mr. Rohrabacher, I don't know what he meant about coconuts. Yes, I am from the islands, we eat a lot of coconuts. Perhaps my colleagues in the committee could try and taste some of the coconuts. It is very juicy, delicious, nutritious. Maybe we need to take some of the coconuts and see that perhaps we can find better ways.

One point of observation I want to say to our friends here. Last year, months ago, we had a hearing. We were talking about North Korea. Up and down the whole thing, North Korea this, North Korea that, and not one of our expert witnesses ever said anything about South Korea. If South Korea does not have any meaning or relevance to the issue when we talk about North Korea; this has been my concern. My concern, personally, Madam Chair, the only way we are going to resolve the problem is that the leaders of the people of North and South Korea have got to do it themselves. Because what happens, 23 million people live in North Korea, but 12 million Koreans live in Seoul, only 30 miles away from the demilitarized zone.

So where do you think that it is so simple that by giving sanctions that all of this is going to solve the problem? It is not. But I do want to commend our witnesses for the tremendous advice and the expertise that they have offered us, and thank you, Madam Chair.

Ms. ROS-LEHTINEN. Thank you for that statement. And in South Florida we share a lot of information through what Jimmy Buffett calls the "coconut telegraph," so it is very important. And I want

to commend the chairman for an excellent hearing, wonderful witnesses, and great suggestions for the legislation. And with that the committee is adjourned.

[Whereupon, at 12:10 p.m., the committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

FULL COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515-6128

Edward R. Royce (R-CA), Chairman

February 26, 2013

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held in Room 2172 of the Rayburn House Office Building (and available live via the Committee website at http://www.ForeignAffairs.house.gov):

DATE: Tuesday, March 5, 2013

TIME: 10:00 a.m.

SUBJECT: North Korea's Criminal Activities: Financing the Regime

WITNESSES: David Asher, Ph.D.
Non-Resident Senior Fellow
Center for a New American Security
(Former Senior Adviser, East Asian and Pacific Affairs, and Coordinator, North Korea Working Group, U.S. Department of State)

Sung-Yoon Lee, Ph.D.
Assistant Professor in Korean Studies
The Fletcher School of Law and Diplomacy
Tufts University

The Honorable Joseph R. DeTrani
President
Intelligence and National Security Alliance
(*Former Director, National Counter Proliferation Center, Office of the Director of National Intelligence*)

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Tuesday* **Date** *03/05/13* **Room** *2172*

Starting Time *10:07 a.m.* **Ending Time** *12:10 p.m.*

Recesses *0* (____to ____) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)

Chairman Royce, Rep. Ros-Lehtinen

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑
Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

North Korea's Criminal Activities: Financing the Regime

COMMITTEE MEMBERS PRESENT:

See attached attendance sheet.

NON-COMMITTEE MEMBERS PRESENT:

None

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

None

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *12:10 p.m.*

Jean Marter, Director of Committee Operations

Hearing/Briefing Title:

FULL COMMITTEE "North Korea's Criminal Activities: Financing the Regime"

Date: *MARCH 5, 2013*

Present	*Member*
X	Edward R. Royce, CA
X	Christopher H. Smith, NJ
X	Ileana Ros-Lehtinen, FL
X	Dana Rohrabacher, CA
X	Steve Chabot, OH
	Joe Wilson, SC
	Michael T. McCaul, TX
X	Ted Poe, TX
X	Matt Salmon, AZ
X	Tom Marino, PA
	Jeff Duncan, SC
X	Adam Kinzinger, IL
X	Mo Brooks, AL
X	Tom Cotton, AR
X	Paul Cook, CA
X	George Holding, NC
X	Randy K. Weber, Sr., TX
X	Scott Perry, PA
	Steve Stockman, TX
X	Ron DeSantis, FL
X	Trey Radel, FL
	Doug Collins, GA
X	Mark Meadows, NC
	Ted S. Yoho, FL
X	Luke Messer, IN

Present	*Member*
X	Eliot L. Engel, NY
X	Eni F.H. Faleomavaega, AS
X	Brad Sherman, CA
	Gregory W. Meeks, NY
	Albio Sires, NJ
X	Gerald E. Connolly, VA
X	Theodore E. Deutch, FL
	Brian Higgins, NY
X	Karen Bass, CA
X	William Keating, MA
X	David Cicilline, RI
	Alan Grayson, FL
	Juan Vargas, CA
	Bradley S. Schneider, IL
X	Joseph P. Kennedy III, MA
X	Ami Bera, CA
X	Alan S. Lowenthal, CA
X	Grace Meng, NY
X	Lois Frankel, FL
X	Tulsi Gabbard, HI
X	Joaquin Castro, TX

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