



Statement before the
House Foreign Affairs Committee
Subcommittee on Asia and the Pacific

***“THE US RESPONSE TO NORTH KOREA’S
NUCLEAR PROVOCATIONS”***

A Testimony by:

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Chairman Salmon, Ranking Member Sherman and Distinguished Members of the Subcommittee:

I am honored to have this opportunity to discuss the US response to North Korea's nuclear provocations. I commend the Subcommittee for convening this timely hearing to assess whether US strategy toward North Korea is on the right track and what steps might be taken to advance the goal of eliminating North Korea's nuclear programs. My testimony today will focus primarily on the role of China in the overall effort to mount an effective strategy to dismantle North Korea's nuclear capabilities.

North Korea's fourth nuclear test conducted on January 5 is just the latest reminder of the danger posed to the international community by Pyongyang's nuclear programs. Regardless of how successful the test is judged to have been, it underscores that the policies pursued by the United States and other countries have failed to make progress toward the complete, verifiable and irreversible denuclearization of the Korean Peninsula. The US and its allies and partners have been unable to persuade North Korea that abandoning its nuclear weapons would enhance its security. On the contrary, Pyongyang has continued to take steps to further develop its nuclear and ballistic missile capabilities in defiance of numerous UN Security Council Resolutions.

A crucial element of US strategy to convince North Korea to give up its nuclear weapons is working with key members of the international community to tighten national and international sanctions. Cooperation from China, North Korea's main and almost sole remaining benefactor, is essential to achieving this goal. China is North Korea's biggest trading partner, accounting for 90 percent of North Korea's global trade. Official two-way trade between China and North Korea continues to grow, reaching \$6.97 billion in 2014. China is a treaty ally of Pyongyang and remains committed to rendering military and other assistance to North Korea in the event of armed attack. Beijing is the also most important source of North Korea's food, and energy, including kerosene for aircraft fuel. China provides over 70 percent of North Korea's crude oil requirements, some 80 percent of its consumer goods, and approximately 45 percent of its food. Chinese investment accounts for almost 95 percent of foreign direct investment in North Korea.

At the United Nations, China has agreed to increasingly punitive measures by the international community on Pyongyang since 2006, when North Korea undertook missile tests and first tested a nuclear weapon. Following North Korea's second nuclear test in May 2009 and its third test in February 2013, Beijing voted in favor of tightening sanctions. It also supported sanctions after an attempted satellite launch in December 2012. Yet China's support of all the above resolutions came at the price of a reduction in the scope of the sanctions. China's willingness to support UN sanctions has been strictly limited to the transfer or sale of military and WMD-related items. It has vigorously opposed imposing economic sanctions on North Korea, agreeing only to target luxury goods.

Moreover, China's enforcement of UN sanctions remains inadequate. North Korea has deep networks with Chinese companies and uses these relationships to procure prohibited items from

all over the world, routing them through China before onward shipment to North Korea. Designated North Korea entities continue to do business with Chinese companies and visit Chinese ports. North Koreans are reportedly still able to conduct banking transactions in small banks operating in northeast China along the border. China does not enforce the mandated ban on luxury goods. Chinese customs data shows that North Korea imported \$2.09 billion worth of luxury goods between 2012 and 2014.

In addition to blocking any economic sanctions from UN resolutions, China has also occasionally shielded North Korea from international criticism of its violations of human rights and its flagrant provocations against South Korea. In March 2010, Beijing refused to condemn Pyongyang despite conclusive evidence that demonstrated the North's responsibility for the sinking of a South Korean naval vessel. In February 2014, China criticized a UN report that detailed human rights atrocities in North Korea. In December 2015, China, along with Russia, attempted to block UN Security Council discussions on North Korea's human rights abuses.

There have been some indications, however, that Chinese President Xi Jinping is more willing than his predecessors to put pressure on North Korea. In recent years China has apparently stepped up interceptions of weapons-related materials being transshipped through China into North Korea. China has also undertaken periodic unilateral measures to signal its displeasure to Pyongyang. Soon after the February 2013 nuclear test, small steps were taken to restrict inter-banking arrangements with North Korea's main foreign exchange bank. In another sign of China's growing concern about North Korea's nuclear ambitions, the Chinese government published a long list of equipment and chemical substances banned from export to North Korea in September 2013.

There are several reasons for Beijing's unwillingness to support crippling economic sanctions against North Korea and for its continuing overall support for the Kim dynasty. From China's perspective, sanctions and other forms of pressure must be part of a broader strategy that includes positive inducements and dialogue. Such a "grand bargain" might include security assurances, economic assistance, and diplomatic recognition by the United States and Japan. Sanctions alone, the Chinese believe, are unlikely to persuade Pyongyang to denuclearize. Moreover, although China opposes Pyongyang's nuclear weapons program, its willingness to pressure North Korea to denuclearize is limited to measures that will not undermine stability in North Korea. Despite ample evidence that Chinese President Xi Jinping has great contempt for Kim Jung-un and his policies, Beijing remains wary of the risks to Chinese security of regime collapse in North Korea. One such threat is a chaotic influx of North Korean refugees into China. Even more worrisome to Beijing is the possibility that rapid Korean unification could result in the deployment of American troops north of the 38th parallel and an even more unfavorable balance of power in Northeast Asia. Beijing prefers that Korean unification be postponed until China can neutralize the US-ROK alliance. The bottom line is that at least for the time being, Beijing judges that the uncertain risks of unification are greater than the known burdens and dangers of the status quo.

In the face of only limited, episodic pressure from the international community, China will continue on its current course of calling for a nuclear-free Korean Peninsula, occasionally prodding Pyongyang to implement economic reform while working to prevent a regime collapse. On the diplomatic front, the Chinese will continue to attempt to create conditions for reconvening the Six Party Talks, which they insist is the only mechanism that can produce a peaceful, negotiated settlement to the North Korea nuclear issue. As long as rolling back Pyongyang's nuclear weapons program remains a relatively low priority in Washington, it is certain that China will not be compelled to change its calculus or its policy. Many Chinese experts have concluded that the US is willing to live with a nuclear-armed Korea as long as Pyongyang does not proliferate nuclear material outside its borders.

What Can the US Persuade China to Do and How?

The US-China relationship is increasingly competitive and in some areas is potentially antagonistic. Competition is especially intense in the Asia-Pacific region, where China seeks to weaken US alliances, undermine American credibility, and create an integrated, interconnected region with China at its center. Nevertheless, the U.S.-China relationship is not a zero-sum game. Cooperation between Beijing and Washington is possible where US and Chinese interests converge or overlap sufficiently to enable agreement on joint or parallel steps toward a common objective. In the case of North Korea, the US should not expect China to abandon its ally and forge a common strategy with Washington to squeeze North Korea until it gives up its nuclear weapons or collapses. But it may be possible to persuade Beijing to strictly comply with its existing international commitments, to further tighten sanctions on North Korea, and to reduce its support or make continued support contingent on specific actions by Pyongyang to return to its denuclearization pledges.

The first step that must be taken by the US to elicit greater Chinese cooperation is to attach high priority to North Korea on the bilateral agenda and especially in summit meetings between US and Chinese leaders. Washington must alter Beijing's perception that US strategy toward North Korea, which has been dubbed by many as "strategic patience," means that the Obama administration has put North Korea on the back burner and is willing to tolerate North Korea's defiance of international sanctions. Once the message is conveyed that cooperation on North Korea is a litmus test of the proposition that the US and China can work together where they share common interests, Washington should seek to achieve the following specific goals with China:

Compliance with Existing International Commitments

The US should publicly identify and consider sanctioning China for its failure to enforce UN sanctions. Under existing executive orders, the US president can take action against any entity suspected of helping North Korean nuclear, missile, and conventional military programs; criminal activities; money laundering or import of luxury goods. The president can also penalize

Chinese financial institutions and businesses that trade with North Korean entities on the sanctions list or export prohibited items.

There are numerous examples of Chinese non-compliance with UN sanctions on North Korea. For example, according to the 2015 report by the UNSCR 1874 Panel of Experts, Chinese companies have provided the autopilot component for drones sold to North Korea that have conducted reconnaissance activities over military facilities on Republic of Korea territory. The same report cites China as the source of ski lift equipment to a ski resort in North Korea. Apparently China claims that such equipment does not fall under the prohibited luxury goods specified in Security Council resolution 2094. In addition, the UN Panel of Experts report provides evidence that Chinese companies continue to do business with Ocean Maritime Management Company, Limited (OMM), which has been subject to UN sanctions since July 2014. Washington could publicly condemn China for permitting North Korea to use its airspace, land border, and waters to transfer illicit items to other countries in violation of UN Security Council resolutions.

In a few months, the UNSC Panel of Experts will release its 2016 report. It is expected to contain more instances of Chinese violations of UN sanctions. The US has been reluctant to publicly criticize China for these breaches because it needs to keep Beijing on board in order to isolate North Korea with unanimous Security Council resolutions and also to avoid undermining cooperation with China in other arenas. If it is now time to end “business as usual” with North Korea, as Secretary of State John Kerry has stated, then it is necessary for China to comply with all existing UN sanctions.

Expand Sanctions on North Korea

The US should press Beijing to agree to the designation of more North Korean individuals and entities in a new UN Security Council resolution. After Pyongyang’s April 2012 missile launch, the US, South Korea, Japan and the EU proposed adding 40 additional North Korean entities to the UN sanctions list, but China vetoed all but three. In 2013, US and South Korean authorities uncovered dozens of overseas bank accounts worth hundreds of millions of dollars that were linked to top North Korean leaders, which they proposed including in UN sanctions lists, but Beijing refused. China has also strongly opposed levying sanctions on high-level North Korean officials such as the head of the North Korea’s agency responsible for conducting its nuclear tests.

Implementation of Unilateral Steps to Curb Economic Interaction with North Korea

The US should encourage Beijing to use its leverage over North Korea in targeted ways to pressure for changes in its behavior. China could refuse to engage in new economic projects with North Korea until the government returns to negotiations in good faith. The Chinese government could direct Chinese companies to curtail business with North Korea. There are allegedly more than 200 Chinese companies that operate in North Korea in mining, industrial parts and

materials, agriculture and timber, transportation, apparel, consumer goods, iron and steel, and automotive vehicles and parts. Chinese companies could forego new investments for an indefinite period, not simply postpone new projects for a limited period of time as occurred after Pyongyang's third nuclear test in February 2013.

China could also halt the flow of Chinese tourists to North Korea, which has become a significant source of foreign exchange. In 2014 North Korea's estimated income from foreign tourists was between \$30.6 and \$43.6 million, with 95,000 of the approximately 100,000 tourists coming from China. In a drive backed by Kim Jong-un to expand the tourism sector, North Korea hopes to attract a million visitors by 2017 and two million by 2020.

Chinese banks could be vigorously discouraged from doing business with North Korea. As demonstrated when the US Department of the Treasury designated Banco Delta Asia as a "primary money laundering concern" under Section 311 of the USA PATRIOT Act in 2005, China can be incentivized to curb its financial transactions with North Korea when forced to choose between business as usual with North Korea and losing access to the US banking and financial system. The Chinese government should also be pressed to shut down the grey market in which Chinese private firms engage in transactions with North Korean state trade companies within China's national economy. Financial transactions are increasingly being undertaken outside major Chinese banks through third countries, Chinese local banks, or by avoiding the banking system altogether. China's local and central governments have turned a blind eye to these developments.

Tie Aid to Denuclearization Steps

The US should encourage China to leverage its assistance to North Korea to influence its behavior. To deter North Korean long-range missile launches and nuclear tests, China could agree to warn Pyongyang that future provocations would be followed by a cut back in Chinese aid. Beijing could also insist that Pyongyang return to its commitments under the September 2005 Six Party Talks agreement or face substantial reductions in deliveries of crude oil, kerosene, diesel, and gasoline. North Korea's economy would grind to a halt without energy assistance from China. Beijing has previously halted supplies of oil for limited periods. In March 2003, for example, China shut down the oil pipeline from Liaoning province to North Korea for three days shortly after Pyongyang test-fired missiles into waters between the Korean Peninsula and Japan. China has also significantly reduced exports to North Korea of kerosene for jet fuel in recent years, though whether this is part of strategy to pressure North Korea is unknown. According to customs statistics, China halted crude oil shipments to North Korea in December 2013, but there is evidence that a DPRK crude oil tanker has loaded oil in Dalian and made deliveries to North Korean refineries. Some observers also suspect that China is providing crude oil in the form of economic aid rather than as exports.

Stop Blocking International Pressure on North Korea on Human Rights

The US should press China to not obstruct discussion in United Nations bodies on human rights abuses in North Korea. It is apparent that the Kim Jung-un regime is sensitive to human rights, especially the possibility that its leader may face official international condemnation. This is a potential source of leverage that the Obama administration should seek to use to influence North Korea. China should also be called on to end its practice of sending North Korean refugees back to their country, where they can face imprisonment and torture.

Cooperation to Reduce North Korea's Illicit Activity

The US should put pressure on China to work with the US, Japan, South Korea, and other countries to require inspections of all vessels and aircraft arriving from North Korea. Stepped up inspections could significantly reduce Pyongyang's illicit shipments of drugs and counterfeit money, as well as the North's ability to procure materials for its missile and nuclear weapons programs. The US should also renew efforts to urge China to join the Proliferation Security Initiative (PSI) which was created in 2003 to interdict shipments of WMD and related materials to terrorists and countries of proliferation concern. Beijing's main objection to PSI is that its members might be subject to interdiction in situations that China considers to be "innocent passage," which it argues constitutes a violation of international law. Although China has refused to join PSI, the Chinese government has stated clearly that it shares the non-proliferation goal PSI.

Improved Prospects for Gaining Chinese Cooperation

Securing cooperation from China to increase pressure on North Korea may be more feasible than in the past. While Beijing will likely continue to oppose crippling economic sanctions that pose a risk of bringing down Kim Jong-un's regime, there are moderately good prospects for gaining Chinese support for a range of steps to intensify pressure on Pyongyang on the nuclear front. As a result of the rapid improvement in Chinese ties with South Korea and the growth in Chinese confidence in its own rising power, Beijing may be less committed than in the past to preserving a buffer between Chinese territory and democratic, pro-American South Korea at all costs. The strategic liability of North Korea as an ally is likely becoming abundantly clear to Beijing. North Korea's nuclear weapons development and other provocations have provided the US and its allies the rationale to increase missile defense deployments, stage more frequent and more robust military exercises, strengthen regional alliances, enhance trilateral cooperation among the US, Japan and the ROK, and deepen the US rebalance to Asia. China's leaders are likely painfully aware that if the North retains and continues to expand its nuclear weapons arsenal, Japan, South Korea and possibly other countries in the region might seek their own nuclear weapons capability.

Xi Jinping is a decisive and bold leader who has a clear vision of what is needed to achieve what he calls the Chinese Dream—the great rejuvenation of the Chinese nation. Under Xi's leadership, China has embarked on an effort to end the "special relationship" of the past between

Beijing and Pyongyang and replace it with a “normal” state-to-state relationship that better serves Chinese interests. Xi has unabashedly demonstrated a preference for closer relations with Seoul over Pyongyang, meeting six times with ROK President Park Geun-hye while snubbing Kim Jong-un. Xi has little patience for Kim, who is less predictable than his father and more willing to defy North Korea’s primary patron. Widely viewed as the most powerful leader China has had since Deng Xiaoping, Xi likely has sufficient clout to overrule opposition from potent constituencies in China that would resist a tougher stance toward North Korea, especially in the party and the military.

A major obstacle to greater US-Chinese cooperation on North Korea is China’s skepticism that the US has an effective strategy and the political will to implement it. To gain greater cooperation from China, the US will need to put forward a concrete plan that contains incentives to Pyongyang to dismantle its nuclear programs in addition to coercive measures to apply if it refuses. Beijing is not prepared to assume sole responsibility for addressing the North Korea nuclear problem, but it might work with a US administration that is determined to resolve the North Korea nuclear threat once and for all.