

THE BROOKINGS INSTITUTION
CENTER FOR EAST ASIA POLICY STUDIES

**STOPPING NORTH KOREA, INC.:
SANCTIONS EFFECTIVENESS AND UNINTENDED
CONSEQUENCES**

*The Brookings Institution
Saul/Zilkha Auditorium
Monday, November 7, 2016
Washington, D.C.*

[Transcript prepared from an audio recording]

* * * * *

ANDERSON COURT REPORTING
706 Duke Street, Suite 100 Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

PARTICIPANTS:**Moderator:**

RICHARD BUSH
Senior Fellow and Director, Center for East Asia Policy Studies
The Brookings Institution

Panelists:

JOHN PARK
Faculty Affiliate, Belfer Center for Science and International Affairs
Harvard University

JIM WALSH
Research Associate, Center for International Studies
Massachusetts Institute of Technology

Discussant:

JONATHAN POLLACK
Senior Fellow and Interim SK-Korea Foundation Chair in Korea Studies
The Brookings Institution

* * * * *

P R O C E E D I N G S

MR. BUSH: Thanks for joining us today for our program entitled Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences. I'm Richard Bush. I'm the Director of the Center for East Asia Policy Studies here at Brookings. We have an all-star lineup here to talk about this issue. I'm really impressed that such a large audience would come out for such a granular topic when there are other things going on in town, shows your dedication. I am really looking forward to the presentations. Sanctions are things that we as the United States do to make ourselves feel good, but that's not really the purpose. The purpose is to make the other guy feel bad. The question is a factual one, do the other guys feel bad. We have some of the best people here to talk about that.

John Park is a faculty affiliate at the Beifer Center for Science and International Affairs at Harvard. Jim Walsh is a research associate at the Center for International Studies at the Massachusetts Institute for Technology, and then my colleague, Jonathan Pollack, who is a senior fellow here at Brookings, and the Interim SK-Korea Foundation Chair in Korea Studies. You couldn't ask for a better set of people to talk about this issue than that. So, with that, I'm going to get out of the way and invite John and Jim to come up and do their presentations. (Applause)

MR. WALSH: Good afternoon, friends. Thank you for coming. John and I are going to play a little tag team, try to keep you awake. I'll do a few slides. He will do a few slides. We'll probably contradict each other, but that's okay. Richard mentioned what a terrific turn out it is, and I want to thank Richard and Jonathan for having us here. It is always terrific to be at this august institution, with so many smart people. We are really looking forward to getting some feedback.

This is an ongoing project. Three years now we have been interviewing North Korean defectors who work for state trading companies, the organizations that do procurement, the organizations whose job is to beat sanctions, and I expect John Park is going to continue this research. We want to hear from you. We can take it, you know. When we were on tour, as it were, I told our audiences, you know, criticize, go after us, doesn't matter. I'm used to it. My children and my wife criticize me every day. I can take it. You were

supposed to laugh then. When I raise my hand, that will be an indication that you should laugh. I can guess why there are so many people in the room today. My guess is that most of you don't care about North Korea, but you will do anything to avoid discussion of the election. (Laughter) This represents an opportunity, a safe space, if you will, for the next hour and a half. We don't have to talk about it. Listen, I feel your pain, I'm with you.

Nevertheless, the time has come to talk about the topic at hand. We start with a puzzle. It seems like it's every six months, every year, there is a new U.N. Security Council resolution that is passed. It's the strongest sanctions resolution ever passed in the history of North Korea sanctions. Each time and every time, it's the strongest ever. Yet, what we have found is the DPRK's missile tests have increased -- nuclear tests -- have increased in number, in variety, and sophistication. They have moved from liquid fuel rockets to solid fuel rockets. They are testing engines. They have failures. All missile and nuclear programs have failures, but they obviously are advancing in the face of what are the strongest sanctions in the history of DPRK sanctions activity by the UN.

How does one explain this? That is where we start. What we do in our study is we look at three questions.

Do sanctions against North Korea work? I think you can probably guess the answer to that one. If not, why not? What's going on here? You can't solve a problem unless you know what the problems are. Number two, what if, any unintended consequences, positive or negative, do sanctions against North Korea have? Sometimes in the Beltway, one way to sort of go after a policy is to say ah, there's an unintended consequence, you wanted to do this good thing but this bad thing is happening. That's not what we are doing here. We expect in all policies, there are unintended consequences, positive unintended consequences and negative unintended consequences. Some of them matter and some of them don't. What we try to do is map what these are so we can sort of make a better assessment of what we are doing. Finally, we ask the question what can be done to improve the effectiveness of sanctions. We think modestly that we have some new thinking on that, but we would love your feedback and counsel.

By way of background, sanctions, as Richard said, they are an increasingly important central piece of U.S. foreign policy, whether it is Russia or Iran or North Korea, virtually any entity, for reasons of blood diamonds to human rights, sanctions have become the answer to a problem.

What we do in the report is look at sanctions. We look at the general sanctions literature, what does social science have to say about sanctions, do they work, do they not work. Then we look at the question of sanctions on North Korea, in particular, what is the track record there, and what we find is there are some things missing here or there are some habits that have proven hard to die.

One of the habits methodologically speaking is we always focus on sanctions from the perspective of the country imposing sanctions from the sender of sanctions where they may send them to a target. We always look at it sort of from our perspective. What we decided to do is sort of look at it from the recipient or the target's perspective. How does North Korea see these sanctions? That is why we interviewed defectors who used to work for state trading companies, because again it was their job to beat these. We want to know how they think about the problem. In fact, what we look at this as is less of -- I'm a national security guy, I'm at the MIT Security Space Program, my inclination is to look at things with a national security lens, but we broke with that at John's wise urging and looked at this more as a business case study, and then put on our national security glasses at the end.

Initially what we are doing is looking at this as a business, North Korea, Inc., and we are attempting to document their practices, how do they get insurance, get financing, close the deal, write contracts. Their partners, who are they working with? They're not working alone. And the pathways. How does something get from point A to point B? We felt by doing that we would have a much better understanding of why we are having problems.

Before I turn it over to John, I think it is worthwhile to remind ourselves that sanctions are a complex instrument used for many different purposes, and often we have conversations that sort of conflate the purposes, and are unclear about what we are trying to achieve. I want to be crystal clear about what we

mean when we are talking about North Korea sanctions. Let us remind ourselves first that sanctions can have many different goals. One can be denial, that is to say sanctions imposed to prevent, to interdict a country so it cannot acquire weapons of mass destruction technologies and materials. Another, you can use sanctions for coercion, to inflict pain, to get an adversary to change their behavior.

You can impose sanctions for bargaining. We saw a lot of this during the Iran negotiations or the run up to the Iran negotiations, where you put on sanctions so you have chips to bargain, something to take away if the other side makes concessions. There are also sanctions just sort of normatively for punishment. I talked to colleagues in South Korea and Japan that just feel North Korea has done a lot of terrible things, human rights and all the rest, and they need to be punished. Finally, there are those who would argue we should impose sanctions to induce regime collapse or regime change.

This study is narrowly focused. It is focused solely on sanctions for the purpose of denying weapons technology and materials to North Korea. We do not really go into these other areas of coercion or regime change. We are looking at the problem, how do we keep the North Korean weapons programs from advancing beyond where they are now. How do we stop that, retard that, prevent that, and hopefully get to a point of freeze and roll back? When we talk about sanctions, that's the narrow parameters in which we are exploring these questions. Let me pause here, turn it over to my more handsome colleague who will describe to you some of the things we found.

MR. PARK: Thank you. Echoing what Jim mentioned, my thanks to Richard and Jonathan for having us today, and a special thanks to Jim. Jim used to be my boss, so to work with your boss is a very special thing. For some, it is usually a deal breaker, but I have benefitted enormously from the collaboration on this project that goes many years back, so a special thanks to Jim.

As Jim laid out the background and the foundations to our overall endeavor here, I wanted to emphasize again the case study approach followed by the analysis of the security implications. If you look at it, what we really try to do is map out the commercial ecosystem within which the North Korean entities did their

business inside of China.

In terms of the key findings, on a stand-alone basis, none of these are really earth shattering, but I present it to you as a picture. First and foremost, the really big story here is the innovation in terms of North Korean state trading companies' activities inside of the Chinese market via the greater use of more capable Chinese middlemen. These middlemen are for every extent and purposes the type of middlemen that you would partner up with if you're doing business in China. The story is one of normalcy. This is the story of globalization. This is a story of the Chinese national economy growing to a level where foreign companies set up manufacturing plants inside of China to prepare for this growing national economy and this national market inside of China. With that, greater opportunities for the North Korean entities to go out and procure is something that is in itself, the scale of it, is quite impressive.

As we look at this phenomenon, when we play out the notion of the cycle of the greater application of sanctions on North Korean entities, what happens to the marketplace is this elevates risk, and with that elevated risk, the private Chinese companies are now saying it's not so much we won't do business with you, this is too risky, rather for the elevated risk, you will have to compensate for us acceptance of this risk, and that translates into higher commission fees. As the North Korean entities pay out higher commission fees, you see a market mechanism where more capable private Chinese companies come out of the woodwork to do this procurement.

With this, we are seeing outsourcing of logistics by the private Chinese company to other Chinese companies, financing other elements of doing a transaction on behalf of the North Korean client. It's much more sophisticated than in the past. With this, we are seeing a phenomenon almost along the lines of financing of business deals. What this means is that you see the bulk payments of a particular transaction by the North Korean partner at the end of a transaction. What this means is the cash on delivery at the end lowers the risk of detection. You don't see the movement of finances or cash at the beginning parts of transactions, another part of hiding in the open of the phenomenon that takes place inside the market.

The second aspect is that we are seeing North Korean players, and if you look at it, there aren't that many of these types of individuals, embedding themselves in China. The significance of that is as these North Korean commercial officials reside in China, they get to learn the marketplace much better. Their development of this tacit knowledge translates into more effective transactions, increased sophistication in selecting and working with Chinese middlemen, and ultimately the ability to use a lot of the infrastructure that already resides in China, the Chinese financial system, the Chinese transportation infrastructure, other aspects of energy as it goes closer to the border and so forth.

A third finding is in relation to Southeast Asia, and particularly Singapore and Hong Kong. North Korean entities have used these jurisdictions in the past but what is different is if you look at the global hub of the port in Hong Kong, the sheer volume of traffic that goes through that particular port gives you a sense of how hiding in the open is very effective, and using these types of middlemen to do these transactions on behalf of North Korean clients becomes a force multiplier.

In the case of Singapore, we are seeing the drawdown of Switzerland as the money management capital of the world. A lot of it has to do with U.S. governmental efforts to crack down on these numbered accounts that were a big part of the illicit finance and other illicit activities happening in the financial community. A lot of that activity has migrated to Singapore now such that Singapore isn't the capital of Asia Pacific for money management but capital in terms of the international community. With that, the ability to do the illicit financial transactions in a place like Singapore, we are seeing more of that as well. Tying this altogether, in particular what enables these North Korean entities to reside in China for so long, in many cases they are dual hatted as diplomats, and presenting diplomatic credentials they are able to reside in these markets for years on end. The accumulation of this tacit knowledge that enables them to do their business transactions more effectively is a very important force multiplier there as well.

The key takeaway here is again it is a very small universe. We are looking at a small number of North Korean entities that are doing these types of transactions. Our colleagues at C4ADS, the Center for Advanced Defense Studies, recently issued a report in partnership with the Asan Institute called "In

China's Shadow." They mapped out North Korean overseas networks. Their notion was looking at the commercially available data and crunching that, using it as a large data type of project, and what they produced was this idea that really it's a small number of North Korean interlocutors and based on that, doing one degree of separation analysis, you can map out some of the Chinese interlocutors and players there. You get a sense of the business case study approach as well as use of technology, and piecing that together, there is, I think, great opportunity to map out this commercial ecosystem.

Here I wanted to take a step back and provide the broader context. One of the big benefits for North Korea is luck. They happen to be neighbors with the largest growing economy even with their setbacks, the Chinese national economy and what it has to offer is quite striking in terms of North Korean capabilities. Here I present the red line inter-Korean trade and the top line, the blue line, the China and North Korea trade. Inter-Korean trade has been relatively flat, but I think the key takeaway here is really looking at the China-North Korea trade spiking in the late 2000s.

In a lot of the analysis, the focus has been what has been happening inside North Korea, how has the North Korean economy changed, are there signs of revitalization, reform, and what not. Very little analysis has shifted to what North Korea, Inc., these elites, are doing inside of China. If you look at that picture, the notion of what is causing the spike, I think, is a very, very important part of the puzzle. From our estimation, Premiere Wen Jiabao's visit in October 2009 is something that really has to be taken into full consideration here. This trip was significant because if you look at it, it set out a party-to-party work plan in terms of building out and stabilizing the institution of the workers' party of Korea, with direct benefits for the procurement efforts as unintended consequences. Clearly, something that the Chinese authorities didn't want to happen, but in the broader economic and commercial interactions that happened, you are seeing within that channel a small percentage being used for illicit activities.

Here the main photo from that time period, in western media, we only saw Kim Jong-il sitting in the middle, and to his right, Premiere Wen Jiabao, and to his left, then Foreign Minister, Yang Jiechi. The other people weren't included, in many cases because no one knew who they were. To give you a quick

background in terms of these individuals, you had the chairman of the National Development and Reform Commission, Chinese Commerce Minister, the senior party chiefs of all the local Chinese provinces bordering North Korea, and senior military. You essentially have the highest level delegation China has sent abroad concluding a number of agreements. Western media tended to use a lot of this particular photo of the Communist Youth League. This notion that here was a revitalization of an alliance, but if anything, this was the beginning of deeper commercial interactions.

The three announcements that came out, economic development, tourism and education agreements being essentially the big landmark achievements, were dismissed as pure propaganda. In many respects, they created the legal infrastructure that the Chinese leadership signaled to their domestic constituency saying it's okay, it's legal to do business with North Korean entities, it's not illegal. With that, we see the uptake of commercial activities.

When you zero in on the geography of this, North Hamgyong province, in the second map here in the top right-hand corner, is where the mineral resources are in North Korea. We are talking about the coal, the iron ore, and some rare elements. When it came to the peak commodity price for coal, North Korean mines were coming on line as the peak prices were occurring. If you think of the money that was made through this type of interaction, the North Korean regime was able to amass considerable residual funds from this particular trade, that resides inside of China. As that became the basis to finance some of the procurement activities, you are seeing a pipeline, and again, the caveat here is the commercial channels between North Korea and China, the vast majority is benign trade, but once you build out that channel, we would argue that constitutes dual-use technology, and you can use that channel for the procurement of some of the high-end materials and technologies for the WMD programs.

At this point, I will turn this over to Jim to look at the positive and negative unintended consequences.

MR. WALSH: Thank you, John. Let me underline what John has said, and I think it is really, really important. The story he is telling is a story from 2009 on of evolution and innovation. This is not your

father's North Korea. In the old days, North Korean state trading company managers focused on the border region, might take a day trip across into China, come back. A lot of the goods were delivered by rusty North Korean or Russian freighters hugging the coast coming from the Middle East or elsewhere. That is all gone, almost all gone. The story that John tells is a story where it's not day trips across the border. Chinese [sic] trading companies are taking their families, those officials are taking their families and embedding in the Chinese heartland. Their kids are going to school, and they are treated just like an ex-pat business person, like any other ex-pat business person.

This is a story of innovation, and it is good to be reminded, and we will get to this in a moment, that sanctions are an iterative game. The enemy gets a vote. We may take action X, but they are going to respond. They are going to try to get around whatever you come up with. We have a tendency to sort of repeat the same thing over and over again, whereas they are innovating in the face of what we do and getting around it. Measure, countermeasure, back and forth. If we are going to have some success here, we need to innovate as well and to think about it differently than we do today. As I said, the purpose of this project was in part to document practices, pathways, and partners, and also to look at the issue of unintended consequences, and we generated a list of different potential negative and positive unintended consequences, and ones, we just didn't know how to code them.

Among the negative ones, and John already alluded to this, this is sort of the headline for a lot of folks, we imposed sanctions, successfully, that meant we raised the cost of doing business, right, that was our goal, and what happened was the North Koreans monetized that risk, paid higher commission fees that drew more capable firms and in the net resulted in more sophisticated procurement. They paid more money, they got better partners, their better partners produced for them. That was a negative unintended consequence.

Other possibilities are incentivizing collaboration with bad actors, you know, my enemy's enemy is my friend. It might hinder more positive forms of engagement. There have been questions whether some of the OFAC rules that Treasury has will inhibit the ability to have track two's. I don't think that has really

happened so far, but we wanted to look at that as a possibility.

Whether by trying to go after Chairman Kim we would end up taking actions that would hurt the civilian population, who are already in a state of fragility, that is to say those elites who don't live in Pyongyang, that maybe we could trigger a North Korean collapse.

We say as policymakers, well, we will turn the dial two notches, we will get two notches worth of pressure. How confident are we that we are going to get two notches worth of pressure and not four or four and not six? I have doubts about our ability to do this with precision. I'm guessing there is a lot of interaction effects that we can't predict. We have a concern that by taking certain actions, we might actually trigger a collapse that people don't want to have.

There is an unintended consequence theoretically, theoretical possibility, that sanctions overreach backfires, and you have heard Secretary Lew discuss this in an OP-ED. If we keep going to sanctions over and over again, this creates incentives for other countries and other governments to come up with banking systems or ways of doing business so that we don't have them by the collar, and that we will stimulate this.

We looked at all of these. I would say the ones in red are the ones that we are most concerned about most. That is to say I think definitely the documentation shows we had the unintended consequence of actually strengthening North Korean procurement, because when we impose costs, they raise their fees, and the fees draw bigger, more capable fish. We need to factor that in when we design sanctions. The other one is we're not prepared to say yet that the sanctions have hurt the economy for average North Koreans, but certainly some of the proposals being discussed, whether it is remittances or other sorts of things, there are concerns there.

Some humanitarian groups have had more difficulty with some of the national laws in South Korea being able to operate in South Korea. These are firms doing health work or work in nutrition. We're not

prepared as a study to say this has kicked in, but we are prepared to say we need to keep an eye out for this.

Let's talk for a minute about sanctions with positive unintended consequences. Again, these come in all varieties. We looked to the extent to which these sanctions may have generated a market for compliance among larger financial firms in China. Also, the possibility that when the North Koreans send out all these people and they go and they live in China, these people get to see what the outside world is like, and they get to compare what their home is to the outside world, and maybe that is not such a bad thing.

Of the two, I think we definitely found that the first was the most prominent, not as widespread, but significant. That is to say among larger financial firms in China, these are the firms that want to do business in New York, they want to do business in Geneva and Zurich, that imposing sanctions created a market for compliance. The CEOs getting on the phone and saying we need a compliance department. We need to hire compliance officers. If you have children in their 20s, tell them to go into compliance because that is where the money is, my friends. They are hiring.

There is a whole cottage industry, including trade publications and all the rest, legal firms, that have all built up in China and elsewhere, on the part of firms that don't want to get their hands dirty inadvertently, and therefore forfeit the opportunities for doing business internationally. That's a positive thing, and we think that ought to be encouraged.

Finally, on the ones where we just don't know how to code them, there are two here. The notion that sanctions would introduce North Korea elites to markets. On the one hand, that is good, right? Let's say there is a transition in North Korea at some point. It would be great to have some technocrats who really knew how markets worked, and could go back and help with the economic transition back in the DPRK. The downside, of course, is while they are doing this, they are improving their skills and helping with the WMD programs, so it cuts both ways, at least short term and long term. The other one is sanctions are famous for fostering corruption. Admittedly, with North Korea, you are already starting at a pretty high

level here, right? You're only talking about fostering corruption at the margins, but the intellectual question for us is, you get more corruption because of sanctions. Is that a good thing or a bad thing? I can see a case being made either way. In any case, these ones that we don't know quite what to do with seem to be as prominent as the other unintended consequences.

Let me pause here, and John is going to come up and talk about some of our first set of recommendations.

MR. PARK: I hope this is keeping folks awake and not too distracting. The recommendations related to improving the effectiveness are based on a round of briefings we did in the region, in Seoul, Beijing, and Tokyo. We had an earlier draft of the report that became the basis of harvesting these types of reactions on some of these early ideas.

When we were preparing for the Beijing trip, we were bracing ourselves to in some instances be either locked out of a room or told in very strong words to leave because we swung for the fences, and engaging China via these national interests, clearly the Chinese are alarmed in terms of what is happening with the WMD programs on the Korean Peninsula, but their reactions are slightly different. I'll go back to the divergence their centers around some of the THAAD-related announcements, but we pitched this idea of utilizing Chinese domestic laws to look at disrupting North Korean state trading companies embedded in China, their relationship with private Chinese company middlemen upstream.

By "upstream" we mean before a deal had been done. Once a deal is done and once the procurement channels are triggered, and you see the private Chinese company using their other Chinese company interlocutors, logistically, that item is more or less considered to already be in North Korea. With this idea of disrupting upstream, the way we heard it is the Chinese government would not seal the border with North Korea. They would not end their trade with North Korea, but certainly they are interested in measures that sounded like, in the phrase that we coined, would sanitize their trade with North Korea.

This idea that the bulk of their trade with North Korea were the very things that they encouraged North

Koreans to do, shore up stability of the regime in the country, but that small percentage, as I mentioned before, this dual use technology consideration of the commercial channels, ways to sanitize a trade, the anti-corruption campaign being one candidate. We are cognizant that this is a direct tool used by the ruling leadership in their consolidation efforts, but for our purposes, this is an organization that is already in place, that can be directed to the corrupt party officials at the local levels to disrupt these partnerships.

Coincidence/correlation, soon after briefing, and this was after the release of the C4ADS report as well, this was where we read through our Google filter the headline that the Chinese authorities had detained the CEO of the Dandong Hongxiang Industrial Group, and she was charged with engaging in criminal activities with North Korean entities. In Chinese media, it was played out as someone who was a corrupt party official who had engaged in commercial activities. Western media depiction was here's someone who violated sanctions and she was caught.

Irrespective of the way it was framed, the notion that the Chinese authorities were using their domestic laws to break up these type of partnerships was very reassuring. The significance of something like that is as much as the October 2009 agreements were a signal from the Chinese leadership to their domestic constituency that it is okay to do business with North Korean entities, this particular measure had the effect of saying it's illegal to engage in these types of criminal activities where deals with procurement of items that can go into the North Korean WMD programs.

There are some data points. If you look closely, in 2013, a group of about six Chinese ministries issued what is called Technical Bulletin 59, a 236-page report, a very dense technical information. The title basically said Chinese nationals are prohibited from selling these items to North Koreans. We know that effort failed, because after 2013, North Korean ballistic missile testing and nuclear testing increased at a larger and more effective scale. This idea that the Chinese authorities used this case in a high profile manner and it did resonate in the sense of here is someone who was caught and who was being punished, being tried and punished for the criminal activities here, we thought were very encouraging movements.

On the capacity building front, I think it is important to recognize the important work that is being done by the U.N. Panel of Experts. As an investigation, ongoing investigation, and a body that gathers this type of evidence, there is a great deal of facts and figures and exhibits in terms of manifests that have been forged and other pieces that I think are very important in this broad effort to do this evidence-based analysis of North Korean procurement activities.

With respect to what we mentioned about embedding, this notion of very carefully monitoring North Korean embassies where there is this misuse of diplomatic privileges, it is another important element of disrupting this type of partnership between North Korean state trading companies and local players. Once you remove the North Korean element, it takes a while for the replacement to come in and learn about the market again, so you are essentially buying time with those types of measures.

There was an encouraging piece of development earlier last spring. We saw the government of Vietnam expel two North Korean diplomats engaged in illegal criminal transactions that were geared towards some of the weapons and other illicit activities. Those types of precedents, I think, are important, and something that can be certainly expanded upon.

Let me turn back to Jim to look at the compliance culture.

MR. WALSH: Thank you, John. This is the last couple of slides, and then we will go on to questions and answers.

Again, the U.S. should work with China so it can use its domestic laws to go after North Korea Inc., whether it is anti-corruption laws, anti-counterfeiting laws, anti-drug laws. John talked about capacity building, building the capacity of national governments to be able to track trade, building the capacity of our local embassies to match and compete with the DPRK's embassies in countries so that we can try to disrupt what they are doing. Maybe that means outreach to the Korean speaking business community in some of these countries.

We have a couple of other categories here. One, building on that positive unintended consequence that we observed, we say take some steps that would further encourage this culture of compliance. Remember, the more firms that are affirmatively trying to stay away from North Korea that shrinks the pool allows you to focus on the ones who are happy to engage in illicit activity. We want to see the prosecution of some high profile cases, something that ends up on the front page of the local newspaper in Malaysia, in Singapore, so CEOs pick up the phone and say are we vulnerable to this, what can we do to make sure we don't get ensnared, and to experiment with the use of incentives.

One thing that John has really taught me in all this is thinking about this as a business problem, as a market problem, less of a national security thing. We have a lot of money. China has a lot of money. The DPRK, they don't have so much. If we are in a business market environment, we should be using our comparative advantage, cash, to undermine the operations of North Korea, Inc. We should be giving money to those who provide intelligence, who defect, who want to rat out one of their competitors who happens to be a Chinese middleman. There are lots of ways in a market environment, no one is doing this because they have a strong commitment to ideological values. All these players are in it for the cash. We should be able to use cash to our advantage, and that means not simply punishing but rewarding.

We have a set of recommendations we would make that go directly after North Korea, Inc., and in an attempt to sort of get around this problem of well, we imposed costs so they raise these, so bigger fish joined them. If we can disrupt them directly, then we avoid that bad unintended consequence. Those recommendations focus on shrinking the scope, the size, and the tenure of the operations of state trading companies. As John alluded to, if they have to re-up every year, or they are sent home and have to come back two years later, all that disruption matters.

Finally, and this is the last slide, because we are academics, of course, we have to have a set of recommendations about information collection and analysis, how we think about the problem, what is the information that we don't have that we would want to have to try to solve this problem. Not surprisingly, we say we should look at this as a business case study, and I'm happy to say the U.S. Government has been

very responsive to these recommendations. We should have games of simulations, but the players shouldn't be policymakers, or some of them should be, maybe some Treasury folks and some Customs officials, but they should be mainly business people from the region, and they are set up in a simulation where the job of one country or one team is to import something, and the job of other team is to block it, and to try to learn from that interactive way of the problem.

We say we should use these state trading company managers who have defected. We should go back to them and say well, if we did this, how would you get around it. They might have some interesting things to say about how we might be able to improve sanctions. We also want to think differently about and have different models of analysis. John has used the phrase several times now about the commercial ecosystem. It's not North Korea by itself. It's North Korea and East Asia, where there are a lot of big forces at work, of globalization and trade. We need to understand and think about it as an ecosystem problem. We need to address this -- this is not your father's proliferator. In the old days, the simple days, the proliferator would have a dedicated program that would be siloed off. This is a situation where procurement is mixed, where there are legitimate goods being procured through a mix with illegitimate goods. You need to think about it differently.

I will just skip to No. 11 and say last, we are pleading for an evidence-based outcomes focused evaluation. Right now, our standard of success when it comes to North Korea sanctions is whether we pass the sanctions bill. If we pass the sanctions bill, then that's resolution and that is a success. That is like judging a medicine by the number of prescriptions that are written, rather than actually testing the effectiveness of the drug. We need to get real about whether we are being effective and why we are not being effective, and where in some cases we are actually making the problem worse.

We have found a lot of interest in this on the part of the U.S. Government and other governments, and we are encouraged by the response that at least some of these things are going to be acted on. Let me stop here and say again, underline, our thanks for being here at this wonderful institution, and that we look forward to again having a dialogue now learning from you, your criticisms and your suggestions, because

we plan to continue this, continue cohorts of interviews and continue to try to work this problem. We look forward to hearing what you have to say. Thank you very much. (Applause)

MR. POLLACK: Thank you all for coming here today. When we planned this event, we did it with a clear design in mind. We knew this would be the day before the U.S. election, and we thought we all needed a distraction from following other trends.

This piece of research and as well the recent study published by Asan and the C4ADS, which is a new one for me, research organizations kind of sprout, come out of nowhere, but to be serious, they have in combination appreciably enhanced our understanding, but still very, very imperfect understanding of the phenomena under review. North Korea is a unique kind of problem analytically from the point of view of available data and the like, and yet in an ironic way, by looking at the critical role of North Korean activities in China in various ways and now increasingly in other locations, we can acquire, I think, as Richard noted before, a more granular understanding of the phenomena under review.

It is a provocative paper, and one that the authors should be congratulated about, and yet at the same time it raises in my mind at least a number of other questions, beginning with a very fundamental one. We know that North Korea has lived by its wits for a very, very long time in various contexts. I like to observe that for all of those who anticipate the end of North Korea, when I wake up in the morning and I turn my computer on, they are still there, and that ought to sober us, chasten us to an extent about assumptions that we make.

Yet, even on the phenomenon of North Korea, Inc., it is a clever title, but it would seem to me that what we know about the behavior of the North is that if you have sanctions somewhere within the system to engage in commercial behavior, whether this is all highly coordinated as distinct from different entities within the system that may be pursuing this on the one hand to curry favor with those above them within the system, but at the same time, for gains of their own. That is something that I think warrants some clarification.

I would note also, and this isn't to fault them, but if I'm correct, the interviews with the state trading corporation personnel, it's a small number to be sure, we are assuming, of course, their credibility and so forth, they date from 2014, if I'm right. We're talking here about a moving target, something that is evolving all the time, what conclusions or inferences might you draw and what is observable what is now a significant period of time since you conducted the interviews.

I noticed in one of your charts your data on trade between North Korea and China stopped in 2011. If you were to extend that out for another three/four years, would we see something -- I think I know the answer but I am going to let you guys give us the answer -- there has been a plateauing on the trade, which could reflect any number of phenomena, but at the same time, might highlight some of the inherent constraints that North Korea may face over time. You have alluded to the fact that monetization of this activity means a much higher premium has to be placed, has to be paid to various Chinese interlocutors. That may be true, but are there upper bounds beyond which they cannot go.

I will acknowledge that one of the true puzzles about North Korea today is that there clearly is the generation of significant wealth there, at least within Pyongyang, how much it extends beyond Pyongyang, we can discuss, but part of me still wants to know where is that money coming from. Is there any way we can connect those dots? What this study demonstrates, and it opens up our understanding here, and of course, the Asan study as well does this in a very, very detailed way using metadata and the like, again, how little we really understand about how North Koreans operate in this larger hostile world that they confront.

I'm in no way trying to dissuade you from doing more. It is only to highlight how much we really require of added insight.

A couple of other points, and then I will stop. One, obviously, relates to China, even though you are analyzing essentially North Korean behavior within an ecosystem international and China specific, but when we look at China, that, too, is a moving target in terms of attitudes toward North Korea.

John, I would have to quibble with one insight. I remember writing about this at the time when Wen Jiabao traveled to North Korea in 2009, that struck me at the time as a very big deal because of the composition of the delegation, kind of a normalization, if you will. What is the context of that? It was the year after Kim Jong-il had a serious stroke, and in retrospect, I think the Chinese were making an investment. You could argue that it was a way or foot in the door they thought into the North Korean system, on the presumption that Kim's days were numbered, and they were.

The very fact it has not worked out according to plan or rather that the interlocutors that the Chinese had in those earlier years, particularly, of course, Jang Song-taek is no longer with us, for reasons we all know, so it raises the question as the Chinese estimate the risks, the opportunities, the degrees of investment, political, economic and otherwise, could we imagine under some circumstances reassessments in Beijing even if for, if you will, for official media statements and the like, that may be somewhat obscured, if I might quote Sarah Palin, how's that hopey-changey thing working out for you now. That is where there is a lot of sobriety in China. What your study can do, and I think the Asan study did in a very, very significant way, is to offer exposure to China, not so much to shame China but to maybe even at some level educate the Chinese themselves.

There is a presumption if Liaoning Hongxiang has this big building in Dandong, that obviously everyone in Beijing, in the Politburo, must know about all this activity. I'm not so sure about all of that. There really is a sense of how do we mix and match and model all these disparate activities that we see in this most extraordinary of systems, and I don't mean that as a compliment. I think I will stop there rather than take more time. Again, my congratulations to all of you on a very creative piece of research from which I really, really benefitted a lot.

MR. BUSH: Jim and John, do you want to respond to anything that Jonathan said before we take questions?

MR. WALSH: I do, I want to endorse it all or most all of it. I won't cover everything you said.

MR. POLLACK: One other thing I forgot to mention. In policy terms, you are advocating a level of involvement, qualitative and quantitative, on this issue, that vastly exceeds anything that the United States Government has done to this point. That is not to discourage that, but it is only to highlight what would really be required for many of the embedded recommendations you have in your study.

Can we practice what we preach because if we argue that this is this extraordinary danger to the non-proliferation system, to regional security, maybe to global security, there is the sense in which the words don't match the level of conduct. How would you recommend as we go into a new Administration that they pursue it?

MR. WALSH: Let me say -- I took good notes here which will prove helpful to me later. On a couple of general themes, Jonathan, I think rightly says, and it is certainly an underlying principle of our findings, that this is a dynamic situation. He asks have we conducted more interviews past 2014. I think the answer is we are hoping to. This was a snapshot, and in an ideal world, we would have a time series that we would be able to compare over time.

The core point is the important one, from 2009 on and from probably 2014 on, this is a dynamic situation that changes, and we have to -- our fundamental recommendation is we have to stop doing the same thing over and over again, and actually respond to what the adversary is doing.

I would point out the nature of this iterative game gives us certain opportunities. When North Korea does things to evade sanctions, their policies carry unintended positive and negative consequences. By that, I mean in part it creates new vulnerabilities. If you move all your cash in provincial banks in China because you are trying to get around financing laws or whatever, that creates a vulnerability. We need to be watching what they do because some of the actions they take to get around what we are doing will create new opportunities. I want to underscore absolutely that it is dynamic.

It is a great question to ask whether the state trading companies are highly coordinated or for a long time,

every boat on its bottom or whatever that phrase is, where everyone had to produce cash, had to contribute their own cash to the system, I think that is an excellent question. My sense, and this is only based on very little data in the press, that there seems to have been an attempt to reign this in, reign in people on the border who were private citizens doing procurement for themselves as it were.

MR. POLLACK: By the North Koreans?

MR. WALSH: Yes, by the North Koreans. I have only seen a couple of reports to that effect, I wouldn't put too much emphasis on it. I agree with the core finding that it is a dynamic thing and you have to chart it over time, you just can't check a box and do the same thing over and over again. I would agree, we understand very little. We understand a lot more than we used to, there is a lot more information on North Korea than there was even a decade ago, but it is still the most opaque country in the world. We know more about every other country in the world than we do about North Korea. There is lots of research to keep us employed at least through retirement.

Can I imagine reassessments in Beijing? I'm not a China specialist and I would defer to those of you who are, I'm reminded that China invented bureaucracy, that it is a big place with lots of interests at the provincial level and elsewhere. My guess is that different parts of the Chinese government feel differently about North Korea, some are much more sympathetic, some are less sympathetic. Some have a vision for China where they see North Korea as a problem, an obstacle, something undermining where they want to be. Others look to a prism of loyalty or a history or organizational interest. I think there will be contestation, and who will win, I don't know, but I can tell you that every time we do something -- I live in Massachusetts, so I can say this out loud here.

When we do something like THAAD, where "we are sharpening the choices for China," all that does is confirm for those in the bureaucracy who were suspicious of the U.S. that we are all about encirclement and containment, and then when we do something like THAAD, and there is someone else in the room that says, well, we should really work with the U.S. and try to sanitize this trade, use domestic laws to

break up North Korea, Inc. They suddenly are in a much weaker position politically because we have done something that has helped their opponents. They may reassess but the result of that reassessment will depend on part on what we do, and whether we create advocates or adversaries in that decision-making process.

I think you are right about the value of this in part can be not necessarily for shaming but help create greater awareness of what's happening in this big country we call China. I think you are absolutely right about that.

On level of involvement, I would say Jonathan is absolutely right, we advocate doing things that would require more work than really has ever been done, but I would say especially to young people out there, timing is everything.

One positive thing I can say about Chairman Kim is he has been very good for this report. I told you about sanctions creating markets for compliance, all these tests that created a market for new ideas on North Korea, and I think we wouldn't have gotten in half the doors, see half of the officials that we have seen if it wasn't for the fact that these tests had created the demand for new thinking.

MR. PARK: If I could just add to what Jim mentioned, and thank you very much. One part that I specifically want to respond to, it is a very important observation, it is unprecedented, the type of cooperation that we are espousing. But the three encouraging things, I would frame it as three anti's, so anti-corruption, anti-narcotics, and anti-money laundering, counterfeiting, I should say. To Jim's earlier point about looking at our national interest and viewing it from that perspective, there is an alignment. There is a precedent in terms of U.S.-China cooperation on the anti-narcotics front. In the early 2000s, as we saw the flow of opiates coming in from Afghanistan, there was U.S.-China cooperation on it, very discrete, and from my understanding, pretty effective.

The open secret is that there is a narcotics problem on the China-North Korea border. The North Korean

pharmaceutical industry, they are pumping in something called “Ice,” which is a low cost and apparently very effective form of Meth that is going into parts of China as well. We know this is a problem because there are parallel detention system, one is for those who are labeled as North Korean migrant workers who are caught, detained, and sent back to North Korea, and a separate parallel detention center for anyone engaged in this narcotics activity.

To the part about counterfeiting, when Jim and I were in Beijing, the point came up, the Chinese authorities were detecting more of counterfeit Chinese currency. You have the North Korean top of the class expertise in the super notes, the counterfeiting of U.S. hundred dollar bills, the transferability of the skill set to the Chinese currency. You have these national interests that overlap, that are the building blocks, and it really is up to policymakers how you align them. With that notion of looking at this ongoing problem of North Korean WMD program, the goal and our particular focus on denial strategies, the Chinese and American authorities are in complete agreement, it is the means and the focus on sanctions that have created sort of a backlash.

The final point I would mention, this will probably come up in the Q&A, the indications of the Iran play book now being applied to North Korea, it seems like there is a doubling down on that approach, in many cases, minimizing, I think, unfortunately, push aside some of these early opportunities.

MR. BUSH: Thanks to all of you. We will now go to Q&A. We have about half an hour. Once I call on you, please wait for the mic, identify yourself, and the person to whom your question is posed. I saw Stanley Roth first, in the middle of the room.

MR. ROTH: Hi, Stanley Roth, no affiliation. I have a comment and a question. The comment is I found the remarks about THAAD kind of outrageous. The notion that China which for decades has given priority to the survival of the regime over any other consideration is going to be overly influenced by that, to me, this is a talking point, not a serious argument for the deployment of a defensive system, and I think it is an overly bureaucratic analysis to say gee, it weakens the friends of the people who want to be more

forthcoming but playing their game.

The question, I thought the report/study, which I have not read, but just listening to it, was absolutely fascinating for proposing some alternatives, and I totally endorse us not doing the same thing again, but I ask particularly in the interviews of defectors, if there was any insight on the threshold question? Before you do this tremendous amount of work to impose better sanctions, did the defectors have any view of whether sanctions mattered, that even if they were done the way you described it would influence the regime, which cares not for its own people but only for the party, and some in the military, or could we do everything right and still be no better off in terms of changing North Korean policy?

MR. PARK: To your point, and thank you very much for the question, with respect to the defectors, it is always problematic interviewing defectors, particularly as it relates to political aspects of the regime. One of the benefits for us was if you have done business, you can tell. Our questions were very technical in terms of a different type of PRC, profit equals revenue minus cost, so drilling in on revenue generation, on cost management, fixed/variable costs, things along those lines, different types of contracts.

Once you get into those weeds, it becomes pretty clear if someone has done business before or not. With that, as we zeroed in on their commercial activities, to your point about threshold, what we discovered in some instances, it did initially create that setback, it was difficult for them to do the type of business. The way they described it was that the previous way of doing it was somewhat inefficient, it wasn't prioritized, it was a fight for resources, but as they became affected by the sanctions, it was almost this notion where they were forced to figure out a better way of doing it, and that is the part in the secondary and tertiary effects of the application of sanctions. This is, I think, an area that really has to be brought to the attention, particularly to the group that wants to apply the Iran playbook to the North Korean actors here.

The threshold question is translated for them in terms of elevated risks, and this is where the market mechanism kicks in, where the Chinese middlemen are the ones who kind of solve that problem for them by saying we want more commission fees, and the item we are about to procure for you has suddenly gone

up in price. With that kind of mechanism, you are seeing more efficient and effective procurement patterns, but that actually shifts into the open space. They are doing a lot of this type of action in the open, where we are not going to see these -- as Jim mentioned -- these freighters bringing these components back to North Korea, a lot of it is done through the quite large volume of trade happening between the two countries.

MR. WALSH: On the threshold question, I also understand it to mean -- one question is did it matter before, and I think the answer is it did matter, that is why we saw this sort of paradox, where you get the higher commission fees, but then I also took the question to be if we did everything we recommended, would it matter. I don't know the answer to that question. I think the recommendations we have about the way of thinking about the problem would have an impact, because we are saying I think we know the way we have been doing it is failing, I think we can say that, and we are saying in addition to taking particular policy actions, getting the Chinese to use national laws to break up North Korea, Inc., that is building capacity.

Then we say we need to think about the problem, we need to be collecting different types of information, we need to be measuring effectiveness with different metrics. I'm more confident on that second set than the former set, but again, I'm encouraged, too, that the North Koreans [sic] -- that the Chinese reacted positively, the ones we met reacted positively to what we said, and then we saw some arrest. Whether this will last, I don't know. I will keep an open mind on that.

On being outrageous, that is awesome. It would be a waste of my time because I have traveled all this way and not to have said something that was outrageous, so let me expand on it for a moment. What is THAAD? THAAD is not an ally reassurance. Let's get that straight first of all. The South Koreans weren't begging for THAAD. This has caused them various political problems though, they will still be able to do it, but this wasn't a talking point where they were coming in every day, where is our THAAD. We wanted them to have it. It's not ally reassurance. What is it? It's not going to stop a sea-launched medium range ballistic missile because it is not designed for that. I agree that it doesn't pose in its current form a threat

to the D-2s or China's nuclear force.

The Chinese who are worried about it, and clearly there are Chinese who are worried about it, worry about it because they think this is the opening move. First, it is this, and then it gets upgraded, then it gets upgraded, and then if it's really pointed at China. I've had conversations with officials, I don't know whether they represent a majority view, minority view, whatever, outlier view, who have said this is aimed at China. They said that to me.

QUESTIONER: Which country?

MR. WALSH: This country.

MR. BUSH: If I could call a time out, because we could spend the rest of our time talking about THAAD. We will move on to the third row.

MS. OSWALD: Hi, Rachel Oswald, reporter at Congressional Quarterly. In the event of a Clinton Administration, what advice would you give to them as they are doing a priorities review, specifically it seemed what I was hearing today was talk about better enforcement of sanctions, that we already have ample authorities on the books, and if we are talking about better enforcement, what resources are needed at Treasury and other bureaus? There was a lot of interesting information about ways to more creatively analyze these Chinese middlemen. It is so interesting. I was thinking gosh, why haven't we done this before. Of course, we should be thinking about unintended consequences. What in the U.S. bureaucracy has kept us from being more aware of these aspects?

MR. PARK: In terms of sanctions research, it is a fantastic way to get insights in terms of how particular policymaking groups use the measures to begin with. I think what we have seen in the course of the research are two types. One, groups of policy advisors who really believe and policymakers who really believe sanctions work, but it requires more coordination, and the notion that we have to be more patient,

more diligent. The second group, they come out and say sanctions don't work, but in terms of political messaging and the notion of making it look like they are doing something, particularly domestic constituencies and allies, it is very important.

To your question about as we look at a new team coming in and the priorities review, the Chinese authorities in their domestic lane have been doing things, but I don't think that part has been as investigated as closely as it could be and should be, because there are opportunities there.

Right now, the notion of sanctions is usually discussed from the language of no question it is the top priority. It then becomes a question about dosage. I don't want to put words into Jim's mouth, but the one way to look at it is for our report, we are looking at sanctions as the number two tool, and then the top part, looking at these areas where the cooperation of the Chinese authorities to fully explore their domestic tools in terms of what they are already doing and what more can be done. I think that is an area where there is room for more work, and I think in terms of mechanisms, something like the strategic and economic dialogue could be one area where we could start there and then break out working groups exploring it further. There are the mechanisms. I think it is a question of the political will to further explore it. A lot of this work being discrete is actually very helpful, and the fact that the Chinese would come out and have more announcements like Dandong Hongxiang, I think that is a great thing, let them take the credit for it.

The end result would be increased denial or disruption of these very, very troubling partnerships between private Chinese companies and North Korean state trading companies.

MR. WALSH: I would say just very briefly on that, I think there are some bureaucratic silo issues on our recommendations that we need to bolster our embassy staff with people from Treasury or FBI or whatever. That is a bureaucratic issue and a money issue. It has also been a money issue, there was a proposal to train more people to speak Korean. For Iran, when we were dealing with Iran, there was money allocated to train more people in Farsi. That got funding. The Korean language training hasn't.

The poor embassies, I don't want to blame them because they are having to manage counterterrorism to trade, they are trying to manage a thousand things, and people are pulling on them. I do think we need higher level integration between some of these agencies and on the ground at the embassy.

I will say big picture, there is a notion in this town that we can coerce China's cooperation. I find that whole phrase somewhat intentioned, to coerce cooperation. You can compel states to do stuff, you can coerce them to do stuff, coercing to cooperate seems a longer bridge to build. I'm not saying we should give in and do whatever the Chinese want to do, but I'm partly a realist with a capital R. I believe states will act in national interest, I believe in balanced power. I believe in some of these fundamental principles. Frankly, the Chinese are worried about their social stability, and that includes those three provinces with North Korea. They don't want to see collapse. Is there anything that we can threaten that is going to make them more worried about the threat than the worry about collapse? I don't think so.

We sanction a billion of their banks, is that more of a threat than North Korean collapse, to have a failed nuclear weapons state on your border? I don't think so. If China is the center of gravity here, nothing gets done, this problem doesn't get solved unless they are willing participants, we have to find a way, we're going to disagree, but we have to find a way to get on the same page about some of these things. Great powers have to cooperate to solve problems. Us wagging our finger or trying to spank them is not going to get the job done.

MR. BUSH: Jonathan?

MR. POLLACK: No.

MR. BUSH: Just to offer a supplement to the answer, there are parts of the U.S. Government on which poor schmucks like us don't know and will never know, and that is probably a good thing. The gentleman on the aisle in the middle, and then Mike.

MR. WOLF: Thank you. I am Albert Wolf from Representative Steve Chabot's office. I'm just asking this for myself. I thought it was a terrific paper. I wanted to ask two questions, and both obviously about sanctions.

The first is about there is a long academic literature that argues that for authoritarian regimes in general and for import substituting regimes, in particular, they benefit from sanctions. They even love it. We can go through it. I'm just curious, you spent a lot of time talking about these Chinese middlemen, how much do you find that to be true in the North Korean case?

The second thing I wanted to ask about is in the past eight years, we haven't talked at all or very much in the policy world or academia about sort of supply side sanctions, proliferation security initiatives, doing things to beef up the MTCR, various export control sanctions, I'm just wondering what your thoughts are on doing anything about those measures to do anything about the North Korean program.

Finally, the Woodrow Wilson Center came out with -- they found a ton of archival work that showed or suggested that the North Koreans basically hate the Chinese, that they hate being under their thumb, and I'm wondering what your take is on that, whether you think it is accurate, and if so, does this call for a more bilateral approach to North Korea with the U.S.? Thank you very much for letting me ask those long questions.

MR. PARK: Thank you very much, Albert. To your first question about authoritarian regimes and import substitution, sideway to address your question - one thing that we did early on is when we talked about North Korea, you can think of it as a pyramid, the bottom 99 percent wasn't a focus of the research, and we zeroed in on the top part, the one percent. That is essentially the North Korea, Inc. population.

To respond to your question, if you look at that one percent pyramid and then expand that and analyze the different groups within the one percent, you have something like uber elites and then bottom of that pyramid as well. Within that community, the application of sanctions for the uber elites, they have

freedom of movement, they can travel back and forth, Southeast Asia, China, and so forth. You see this phenomenon where they import luxury items that are banned wholesale and then they mark it up pretty much with no limit because they don't have any competition, to sell to the lower rung of the one percent and then to the top echelon of the 99 percent. There is a market mechanism that I think has to be further studied, but that is a direct result of the application of sanctions that are targeted on banning luxury items. As we mentioned earlier, if you view some of these commercial channels as a dual use technology, once you get that mechanism going to importing banned luxury items, the concern is what else is they are using that channel for.

To your point about the Chinese middlemen, just to give you a little more color from the research interviews, this was a trial and error function. Private Chinese companies would rip off some of the North Korean state trading companies, North Korean state trading companies learned from that mistake, and that was part of the tacit knowledge of residing and embedding in local markets. The notion that sanctions can actually help in terms of should bring improvements of this type of phenomena, there is something unique about that, and I think it gives a sense of how authoritarian regimes in situations like the ones between China and North Korea are very different from threatening to sanction a country that is integrated in the international community, where those types of measures can be enormously effective.

MR. WALSH: You are absolutely right about that literature. I think the main benefit for North Korea as an authoritarian state vis-à-vis sanctions is they don't have to worry about popular reaction. Iran is not a fully Democratic state. It has Democratic aspects and authoritarian aspects. The supreme leader can't completely ignore the population. I think Chairman Kim has a lot more leeway to ignore the population. I think you might get some import substitution. It seems like it is so fragile as a state, I would say in terms of relative weight of variables, it is the price of coal and commodities that probably matter more than anything else in terms of what their level of development and wealth will be.

On the PSI and MTCR, the supply side, totally support those, absolutely support those. Anything we can do, the more the better. I think the South Koreans have been very creative in their diplomacy, going to all

these governments and trying to get them on board, very innovative, very supportive.

But again, most of the trade is with China. There is no solving this problem without dealing with China. It is China, China, China. If you solve the China thing, then you solve a problem. If you don't solve the China thing, you don't solve the problem, even though I think it is worth any amount of denial, it is worthwhile, so all those things are to be recommended.

Do the North Koreans hate the Chinese? In my experience, the answer is yes. When I was in North Korea, they would say on one side they are brothers in blood through the revolution, whatever, and then they would say things like you guys are all great powers, the U.S. and China are going to cut a deal, we are mice surrounded by elephants, you're going to screw us. I think this is a relationship based on national interests, and there is not a lot of love here. Both sides are crystal clear about what the national interest is, and I think the North Koreans are very, very good at seeing how their vulnerability can be used as leverage against others.

MR. BUSH: Do you have a comment? Okay. Mike?

MR. MOSSETIG: Hi Mike Mossetig, PBS Online News Hour. Jim, first of all, in your previous answer, you addressed the most burning political question in Washington by suggesting we send the FBI Director to North Korea. I want to ask all three of you, particularly since Jim mentioned the Iran play book thing, if the key issue is getting China or how does one move China from what seems to be their position, and all three of you I want to address this to, how does one persuade them that there is something other than the stability of the North Korean regime as their primary objective, as we pursue proliferation diplomacy?

MR. POLLACK: I think it is very, very important here not to be distracted by sometimes what are official Chinese commentary. We have to listen to the other voices, sometimes authoritative voices, that are embedded in the system, but for whatever set of reasons, political or otherwise, they don't have the latitude yet to fully make their case.

I think fundamentally, one of the weaknesses of our broad policy is we assume the way to force choices on Pyongyang goes through Beijing. If that is the case, or at least something that you want to tinker with as a possibility, you have to ask are there better ways that we can in essence engage China privately and confidentially, and let me emphasize confidentially. That is part of the problem, frankly, that everyone talks too much about this. (Laughter) If we are going to have a successful different kind of strategy to deal with this problem of North Korea, if I can call it just a problem, it is something much more than simply a problem, it will require enormous discipline with our own policy process. It will require us not to publicly shame the Chinese.

It will require an open acknowledgement that the failures on strategy towards North Korea are shared failures, and begins with the very character of the system itself, and most fundamentally, and here again I do see things that point in this direction, it is the growing recognition in China that North Korea represents to China a security danger. In the past, that was very, very rarely intimated. Over time, it seeps into a lot of the conversations we have, and even into some of their public statements. That needs to be nurtured, but it has to begin, I think, with a fresh start with the next Administration under President Next, that will be very, very carefully calibrated and not with all the emphasis on the banner headlines. You will get nowhere fast with China on that basis.

MR. WALSH: I endorse all those comments, especially the need for discretion. You know, we are not going to persuade China to squeeze North Korea, cut off coal and iron ore and exports, or squeeze them to the point where it would risk their collapse. That ain't going to happen. The Chinese have been super clear that they support de-nuclearization. North Korea causes them a lot of foreign policy headaches. If it wasn't for the fact their collapse would threaten the single most important vital interest that China is, we would probably be able to get a lot more done on this.

The question is we are not going to be able to go all that way, but I think they are probably willing to try, at least some part of the bureaucracy is willing to entertain the notion that there could be coordination to

stop WMD procurement, that is denial, sanctions as denial, as opposed to coercion or bargaining chips or those other things that I outlined.

Every time the North Koreans launch a weapon, it pulls the U.S. closer to their allies, it keeps them in reach. There is nothing good here for China. They have been quite forthright in saying they want de-nuclearization, so we should work with them on freezing the program where it is so it doesn't get any bigger. They are passed a certain threshold, but they don't have a secure second strike. Let's work with them so this program is retarded and slowed down and stopped until we have a political opportunity to begin to freeze it and roll it back. That is where our interests are the same. We shouldn't have to persuade them. They see that. John has said, they don't want the North Koreans to counterfeit all those funds, to pour in drugs, add to all their other problems. I think we could have a discussion, a rational discussion, about what our mutual interests are here, and that won't lead to big radical changes, but it could lead to some important progress.

MR. BUSH: John? Okay. The gentleman over there in the middle on the wall.

QUESTIONER: Hi, my name is Ben, I am from the Carnegie Endowment for International Peace. I had a question. From China's perspective, is there a red line in terms of North Korea's nuclear weapons program? Is there a red line where when North Korea crosses that line of nuclear weapons development, China will really squeeze down the North Korea regime? Thank you.

MR. POLLACK: I was just going to say the Foreign Minister Wang Yi actually used the red line label at his annual press conference after the National People's Conference several years ago. He didn't say, however, what that red line was, but he did use the phrase, which I found quite interesting. There is some awareness, but they have not really specified it. I suppose you could say if North Korea decided to specifically target its weapons against China, it might give them some pause, but in fact, I would argue that North Korea's fundamental nuclear weapons strategy is what President de Gaulle used to call a strategy that is directed at everyone, including China. Anything we can do to sort of get some serious

conversation with China on that basis, to recognize that it is a region-wide and potentially more than region-wide problem that needs to be analyzed.

If I could just add one other point here, we are talking about the U.S. and China here. We haven't talked a lot about the ROK. One of the problems right now, to say the least, is as President Park's approval rating drops stunningly in authoritative polls, to 5 percent, we need a credible, strong response from the Korean government, and they need to be involved deeply in these discussions because it is after all the Korean Peninsula, not the American Peninsula, not the Chinese Peninsula, certainly not the Japanese Peninsula. That is one of the other added dilemmas. We have a very, very weakened government to say the least entering its last year in power if it can persist, and it just adds more of the complexity to this as we go into a new Administration here in the United States.

MR. PARK: Interestingly, I think, when you framed that question of the red line for the Chinese, it is probably directed to South Korea and the United States over THAAD. Some of the terminology that we heard over the summer as well, THAAD and what THAAD represents. That visceral reaction from the Chinese side, and also the Chinese pressure on South Korea over THAAD is, I think, a top priority for the new Administration coming in as well.

Directly to your point about this notion of a red line as it pertains from China to North Korea, right now, North Korea's WMD programs, ballistic missile tests and nuclear tests, but particularly ballistic missile tests, are framed by countries as well as the U.N. Security Council resolutions as a threat to international security. These long range ballistic missile tests, the last long range went all the way north of the Philippines. For a country that is still building in terms of their technology aspect of long range missile guidance and so forth, if something were to happen and it flew astray and it was framed as a threat to international safety, missile debris field that goes to Chinese territorial waters or something like that, I think that is where the Chinese reaction would change, and then this notion of applying pressure through their own means directly to North Korea to cease and desist that type of testing, that would be different. That would be new.

MR. POLLACK: Despite all of North Korea's outrageous behavior, there are two norms that they have yet to violate with respect to nuclear weapons development, and they could. The first would be an atmospheric test of their boosted weapon, it's not a thermonuclear weapon, but it is a hydrogen weapon, and I wouldn't preclude that under all circumstances because if you are going to prove what you claim to have, there is only one way to do it, and the other, of course, and this is related to some extent to what John just talked about, would be the possibility of a missile test with a nuclear warhead on top, but again, something launched from North Korea. There is a window straight southward that you could use for those purposes. There has not been an atmospheric test or missile test in 36 years, 1980 was the last Chinese test. It might be that is something that would really provoke much sharper reactions from China because that would be something almost unprecedented, even assuming it worked. If it didn't work, well, let's not go there.

MR. BUSH: This may be the last question.

QUESTIONER: Hi. (Inaudible) research fellow at the Ploughshares Fund. It seems to me that one unintended consequence that you didn't mention is at least it seems that North Korea is also responding to sanctions by having more nuclear and missile tests, to show they are not having an effect. Don't you think this is also the problem of U.S. diplomacy? I understand you are focusing on sanctions, but can you really distinguish the two? Especially because diplomacy seems to be focused on denuclearization and from the sanctions perspective, realistically it's already too late and you are talking about a freeze. Do you think this dual track of sanctions and diplomacy is really working?

MR. WALSH: Let me just briefly say that I'm often asked questions, why is North Korea doing X. I am almost never able to answer that question because there are way more theories than there are facts. Why did North Korea conduct a given test? Well, it's an anniversary, they are in the middle of a testing program. They want to show that sanctions don't matter. I had someone on the U.N. panel of experts say they thought they were increasing tests because they were afraid sanctions would matter, and they want to get in as many as possible before they run out of stuff.

I have no idea. I can only judge by the number and quality of what is happening. Obviously, we are supporters -- speaking for myself, I am a supporter of diplomacy. I don't think it's too late for denuclearization. I have heard the North Koreans say everything, literally everything about their nuclear, we are going to use it, we're not going to use it, we are going to have it, we're not going to have it. I never say never with respect to North Korea, even with denuclearization.

I do think this about diplomacy, and I will end with this, that the irony here from a bargaining theory and great power politics, we need China to cooperate with us but simultaneously, here's the trick of the thing. They have to cooperate with us while they maintain an adequate if not reasonable relationship with North Korea. If we are going to have any diplomatic agreement that works, the North Koreans aren't going to believe that we are going to follow through on side of our agreements, whether they are justified on saying that or not, they are not. They need, like anyone in their bargaining space would need, a great power guarantor that says if you agree to do all this stuff, don't worry, you will get the rewards. Don't worry, we will take care of you. There is only one country that could be a great power guarantor for a nuclear agreement with North Korea, and that country is China. If their relationship goes down the toilet, any diplomatic alternative goes with it.

It is really threading a needle here politically. That is why John and I like this idea of using Chinese domestic law aimed at Chinese Nationals, so they don't have to sort of spit on the North Koreans even as they go after their WMD procurement to maintain this political relationship.

MR. POLLACK: If I could just add, Jim, it is kind of ironic, what you just said, and you gave a different answer than I thought you were going to give because if you believe what the North Koreans say, the great power guarantor they want is the United States of America.

MR. WALSH: Yes.

MR. BUSH: In the back. Is it a short question?

QUESTIONER: I want to ask about another aspect of criminality by North Korea, and that is its crimes against humanity. Can that be used as a point of leverage against China in that they are aiding and abetting in ways with these crimes?

MR. PARK: I just want to defer it, it is not to deflect answering it, but for the scope of this project, as Jim mentioned, the different applications of sanctions, to your question, that was one of the applications of sanctions. We looked very specifically at denial strategies, and ways to boost different policy tools so that this type of activities slowed down or halted.

MR. WALSH: Obviously, this is super important. Crimes against humanity, the phrase sort of speaks for itself. I take this very seriously. I don't have anything to offer on this about Chinese views about human rights, foreign policy, or about human rights more generally. I just stayed in my lane and worked on the nuclear. I want to recognize this is obviously fundamentally important to us as an international society. I'm sympathetic, but I don't have an answer.

MR. BUSH: We have had programs on that subject in the past. We will have more in the future, I promise you. One is in the works.

I want to thank you all for the work that you do in your lane. It's really nice to see people passionate about their subject. There is a lot of work still yet to do, and we are all better off if you are doing it. Thank you very much. Thank you all for coming. (Applause)

* * * * *