

U.S.-China Economic and Security Review Commission

An Axis of Autocracy? China's Relations with Russia, Iran, and North Korea

Panel II: Economic Linkages and Sanctions Evasion

ANTHONY RUGGIERO

Senior Adjunct Fellow
Nonproliferation and Biodefense Program
Foundation for Defense of Democracies

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Hearing co-chairs Stivers and Friedberg, distinguished commissioners and staff of the U.S.-China Economic and Security Review Commission, and fellow panelists, it is an honor to participate in today's hearing.

The Kim family has used the same playbook since 1994: expand its nuclear weapons and ballistic missile programs, use ballistic missile launches and nuclear tests to create a sense of urgency, and negotiate a reduction in sanctions pressure. In every negotiated U.S.-North Korea agreement, the Kim family has only been willing to trade a temporary pause in Pyongyang's nuclear weapons and ballistic missile programs, which the Kim family can reverse at any time, for a reduction in sanctions pressure.

Kim Il Sung, North Korea's founder and the current leader's grandfather, created the playbook to convince the Clinton administration to negotiate the 1994 Agreed Framework, which reduced the military and sanctions pressure and froze, but did not end, Pyongyang's nuclear weapons program.

Kim Jong Il, the current leader's father, used the same techniques in 2002 after former President George W. Bush named North Korea as part of the Axis of Evil.¹ The subsequent negotiations produced the 2005 Joint Statement, which again provided sanctions relief but did not end Pyongyang's nuclear weapons program.

Kim Jong Un, North Korea's current leader, used the same playbook with former Presidents Barack Obama and Joe Biden. The Obama administration negotiated a short-lived interim deal, known as the Leap Day Deal, which followed the same pattern of providing sanctions relief for a freeze on missile and nuclear activities.

Kim probably assumed that President Donald Trump would react in the same way in his first term in office. But Trump chose a different path, using sanctions pressure to create leverage to open a pathway for the unprecedented Trump-Kim summits. Even though the summits opened the door for a negotiated settlement, after numerous engagements, a deal remained elusive. Kim believed that Trump was like his predecessors, overeager for a deal and willing to take a partial settlement. Trump did the right thing by walking away in Hanoi.

China's Role in North Korea's Sanctions Evasion

Throughout these U.S.-North Korea engagements, China has provided a lifeline to North Korea. Beijing supported the robust UN sanctions on North Korea but violated them almost immediately. Trump used his own playbook to disrupt Beijing's support for North Korea in his first term and, if Trump wants to reengage Kim, will need to do so again to create negotiations leverage.

A review of recent U.S. sanctions on North Korea shows that Pyongyang still relies on China to evade UN and U.S. sanctions. In December 2024, the Department of the Treasury explained that North Korea "continues to use agents and proxies to access the international financial system to

¹ President George W. Bush, "President Delivers State of the Union Address," *State of the Union address*, January 29, 2002. (<https://georgewbush-whitehouse.archives.gov/news/releases/2002/01/20020129-11.html>)

conduct illicit financial activities, including fraudulent IT work, digital asset heists, and money laundering, in support of its unlawful WMD and ballistic missile programs.”² Treasury’s Financial Crimes Enforcement Network highlighted that North Korean banking representatives “orchestrate schemes, set up shell companies, and manage bank accounts to move and disguise illicit funds that can then be used to finance the DPRK’s WMD and ballistic missile programs.”³ Many of these activities have a nexus inside China. If Beijing ended Pyongyang’s access to the Chinese financial system and commercial activities, it could disrupt North Korea’s nuclear weapons and ballistic missile activities as well as its support for Russia’s war in Ukraine.

On December 17, 2024, the Treasury Department sanctioned two UAE-based Chinese nationals and a UAE-based front company that worked with Sim Hyon Sop, a North Korean national based in China.⁴ Treasury noted that Sim is a North Korean banking representative who “orchestrates money laundering schemes to fund the regime.”⁵ Between early 2022 and approximately September 2023, Sim was able to use the protection of operating in China to launder several millions of dollars through “a combination of cryptocurrency cash-outs and money mules,” which were then used to purchase products and services for use by North Korea or its proxies.⁶

On December 16, 2024, the Biden administration sanctioned two North Korean individuals who were “directly involved in ballistic missile-related procurement transactions involving individuals and entities in the DPRK and the PRC, since at least 2018.”⁷ The State Department noted that these procurements were made possible by the North Koreans operating a business inside China. The procurements were focused on acquiring aluminum powder, which is used in rocket propellant for North Korea’s ballistic missile programs. The State Department did not sanction the Chinese banks, individuals, or companies that probably assisted the North Korea sanctions evasion network.

In March 2024, the Department of the Treasury sanctioned North Korean bank representatives operating in China and Russia.⁸ Treasury highlighted that Yu Pu Ung, one of the sanctioned representatives for U.S.- and UN-designated Tanchon Bank, is the linchpin in North Korea’s “illicit financial activities and is skilled at employing various schemes to avoid detection.”⁹ Yu and another representative used funds to supply WMD-related materials and provide funds to China-based representatives of North Korean weapons organizations.

² U.S. Department of the Treasury, Press Release, “Treasury Disrupts North Korean Digital Assets Money Laundering Network,” December 17, 2024. (<https://home.treasury.gov/news/press-releases/jy2752>)

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ U.S. Department of State, Press Release, “U.S. Sanctions on Entity and Individuals Providing Procurement Support to the DPRK’s Unlawful Ballistic Missile Program,” December 16, 2024. (<https://2021-2025.state.gov/u-s-sanctions-on-entity-and-individuals-providing-procurement-support-to-the-dprks-unlawful-ballistic-missile-program>)

⁸ U.S. Department of the Treasury, Press Release, “Treasury Sanctions Actors Financing the North Korean Weapons of Mass Destruction Program,” March 27, 2024. (<https://home.treasury.gov/news/press-releases/jy2215>)

⁹ Ibid.

In the same sanctions announcement, Treasury noted that Han Chol Man is a representative for the U.S.- and UN-designated Kumgang Bank in Shenyang, China. Han “coordinated or facilitated over \$1 million in payments between China and DPRK for several DPRK banks. During 2023, Han Chol Man coordinated over \$600,000 in payment orders with a bank that is subordinate to the U.S. and UN-designated Munitions Industry Department.”¹⁰ The Treasury Department did not sanction the Chinese banks, individuals, or companies that probably assisted the North Korea sanctions evasion networks.

A Way to Reverse the China-North Korea Relationship

North Korea is clearly benefiting from China’s lax enforcement of UN sanctions and the Biden administration’s unwillingness to enforce U.S. laws and sanctions on Pyongyang’s activities inside China. The United States can and should sanction Chinese companies, individuals, and even banks that are knowingly involved in North Korea’s sanctions evasion. Washington knows how to calibrate these actions to ensure that it targets the problematic activities and does not cause broader concerns in the Chinese financial system.

Beginning in 2016 and extending until Trump’s summits with Kim, the United States targeted Chinese companies, individuals, and banks aiding North Korea’s sanctions evasion. In one example, actions by the Departments of the Treasury and Justice showed that North Korea used Chinese banks from 2009 to 2017 to process more than \$1.3 billion in transactions through the U.S. financial system.¹¹

In 2017, Trump ended Bank of Dandong’s access to the U.S. financial system because it provided North Korea access to the U.S. and international financial systems.¹² Bank of Dandong was the 148th largest financial institution (out of 196) in China, but it had outsized influence, conducting more than \$2.5 billion in U.S. dollar transactions from May 2012 to May 2015.¹³

Trump’s action sent an unmistakable message: no more business as usual on North Korea. Beijing listened and supported expanded UN sanctions and told North Korean companies to close their operations in China.¹⁴

¹⁰ Ibid.

¹¹ U.S. Department of the Treasury, Press Release, “Treasury Imposes Sanctions on Supporters of North Korea’s Weapons of Mass Destruction Proliferation,” September 26, 2016. (<https://home.treasury.gov/news/press-releases/j15059>); U.S. Department of Justice, Press Release, “Four Chinese Nationals and China-Based Company Charged with Using Front Companies to Evade U.S. Sanctions Targeting North Korea’s Nuclear Weapons and Ballistic Missile Programs,” September 26, 2016. (<https://www.justice.gov/archives/opa/pr/four-chinese-nationals-and-china-based-company-charged-using-front-companies-evade-us>); United States of America v. Funds Associated with Mingzheng International Trading Limited, No. 1:17-cv-01166-KBJ (D.D.C. June 14, 2017). (<https://www.courthousenews.com/wp-content/uploads/2017/06/Mingheng.pdf>)

¹² U.S. Department of the Treasury, Press Release, “FinCEN Further Restricts North Korea’s Access to the U.S. Financial System and Warns U.S. Financial Institutions of North Korean Schemes,” November 2, 2017. (<https://home.treasury.gov/news/press-releases/sm0205>)

¹³ Proposal of Special Measure Against Bank of Dandong as a Financial Institution of Primary Money Laundering Concern, Department of the Treasury, 82 Federal Register 31537, July 7, 2017. (https://www.fincen.gov/sites/default/files/federal_register_notices/2017-07-07/2017-14026.pdf)

¹⁴ “China to shut down North Korean companies,” *BBC* (UK), September 28, 2017. (<https://www.bbc.com/news/world-asia-41431057>)

The Axis of Sanctions Evasion: North Korea, Iran, China, and Russia

China's support for North Korea's sanctions evasion has provided Kim with a steady revenue stream that protects his strategic priorities: the nuclear weapons and ballistic missile programs, the military, and the elites.¹⁵ This has allowed Kim to provide ammunition, artillery, and troops for Russia's war in Ukraine. In exchange, Moscow has promised cooperation on missiles, space, and other military activities.¹⁶

Kim Yong Bok, a senior general of the Korean People's Army; and Ri Chang Ho, head of the Reconnaissance General Bureau (RGB), have accompanied North Korean troops in Ukraine.¹⁷ Treasury sanctioned Kim and Ri in December 2024 and noted that Ri "has conducted revenue generating activities and securing funds in support of the DPRK's WMD activities."¹⁸ In 2023, Treasury described RGB as North Korea's "primary intelligence bureau and main entity responsible for the country's malicious cyber activities."¹⁹

Ri could be using his presence in Ukraine to increase North Korea's intelligence on military tactics. Two senior Ukrainian sources told Reuters earlier this month that North Korean ballistic missiles fired by Russian forces at Ukraine since late December have been more accurate than the missiles fired over the last year.²⁰ This is particularly important for American and allied troops stationed in South Korea and Japan where North Korea would use ballistic missiles in a conflict.

On January 15, 2025, Treasury sanctioned a sanctions evasion scheme in which China and Russia facilitated cross-border payments for sensitive goods.²¹ Treasury highlighted that the scheme had support from officials in China and Russia. Both parties established "regional clearing platforms (RCPs) in both Russia and China to act as counterparties to allow for cross-border payments for sensitive goods," which allowed the "non-cash mutual settlement for payments for so-called sanctioned goods."²²

¹⁵ Anthony Ruggiero, "The Robust North Korea Sanctions Mirage," *38 North*, February 13, 2024.

(<https://www.fdd.org/analysis/2024/02/13/the-robust-north-korea-sanctions-mirage>)

¹⁶ Anthony Ruggiero, "Treasury's New North Korea Sanctions Highlight the Problem With North Korea Sanctions," *Foundation for Defense of Democracies*, November 30, 2023. (<https://www.fdd.org/analysis/2023/11/30/treasury-s-new-north-korea-sanctions-highlight-the-problem-with-north-korea-sanctions>)

¹⁷ U.S. Department of the Treasury, Press Release, "Treasury Sanctions Key Facilitators Behind North Korea's Illicit Financial Activities and Military Support to Russia," December 16, 2024. (<https://home.treasury.gov/news/press-releases/jy2751>)

¹⁸ Ibid.

¹⁹ U.S. Department of the Treasury, Press Release, "Treasury Targets Actors Facilitating Illicit DPRK Financial Activity in Support of Weapons Programs," April 24, 2023. (<https://home.treasury.gov/news/press-releases/jy1435>)

²⁰ Tom Balmforth, "Exclusive: Ukraine sees marked improvement in accuracy of Russia's North Korean missiles," *Reuters*, February 6, 2025. (<https://www.reuters.com/business/aerospace-defense/ukraine-sees-marked-improvement-accuracy-russias-north-korean-missiles-2025-02-06>)

²¹ U.S. Department of the Treasury, Press Release, "Treasury Disrupts Russia's Sanctions Evasion Schemes," January 15, 2025. (<https://home.treasury.gov/news/press-releases/jy2785>)

²² Ibid.

The Russia-China cooperation has extended to Moscow's support for Beijing's nuclear weapons program. In March 2023, the Department of Defense highlighted that Russia shipped highly enriched uranium to China to produce plutonium that will be used in Beijing's nuclear weapons program.²³ The Defense Department reported in December that Beijing "will have over 1,000 operational nuclear warheads by 2030, much of which will be deployed at higher readiness levels."²⁴

The Trump administration's first sanctions issued on February 6 targeted Iran-China sanctions evasion activities. The Treasury Department noted that an international network facilitated the shipment of Iranian crude oil to China worth hundreds of millions of dollars.²⁵ Treasury noted that the scheme provides Tehran with billions of dollars in profits that are used "to fund its destabilizing regional activities and support of multiple regional terrorist groups, including Hamas, the Houthis, and Hizballah."

China and Russia have used their UN Security Council vetoes to protect North Korea and Iran. In March 2024, Moscow vetoed a resolution to extend the UN Panel of Experts that monitors the implementation of UN sanctions on North Korea.²⁶ China abstained from the vote, but Chinese and Russian appointees to the panel routinely undermined its reporting.²⁷ China and Russia will probably use their vetoes to prevent action in the UN Security Council to address the Iran nuclear issue.

Recommendations

1. *Develop a comprehensive strategy to disrupt China's support to North Korea.* A consistent theme in my testimony is the role of the Chinese financial and commercial sectors in supporting North Korea's sanctions evasion. The strategy should investigate the role of Chinese banks, individuals, and companies and how the administration will use diplomatic, economic, and military pressure on North Korea, China, and other sanctions evaders to address these activities.
2. *Disrupt North Korea's revenue generation by enforcing North Korea sanctions laws.* Kim will continue to support Russia and other members of the axis while the regime has the revenue to continue his strategic priorities. Congress passed three North Korea

²³ David Vergun, "Russia Reportedly Supplying Enriched Uranium to China," *DoD News*, March 8, 2023. (<https://www.defense.gov/News/News-Stories/Article/Article/3323381/russia-reportedly-supplying-enriched-uranium-to-china>)

²⁴ U.S. Department of Defense, "Military and Security Developments Involving the People's Republic of China," December 2024. (<https://media.defense.gov/2024/Dec/18/2003615520/-1/-1/0/MILITARY-AND-SECURITY-DEVELOPMENTS-INVOLVING-THE-PEOPLES-REPUBLIC-OF-CHINA-2024.PDF>)

²⁵ U.S. Department of the Treasury, Press Release, "Treasury Targets Oil Network Generating Hundreds of Millions of Dollars for Iran's Military," February 6, 2025. (<https://home.treasury.gov/news/press-releases/sb0015>)

²⁶ Anthony Ruggiero and Andrea Stricker, "Russian Veto Kills UN Body Monitoring North Korea Sanctions," *Foundation for Defense of Democracies*, April 2, 2024. (<https://www.fdd.org/analysis/2024/04/02/russian-veto-kills-un-body-monitoring-north-korea-sanctions>)

²⁷ Andrea Stricker, "Russia and China Obstruct UN Reporting on North Korea," *Foundation for Defense of Democracies*, October 21, 2020. (<https://www.fdd.org/analysis/2020/10/21/russia-and-china-obstruct-un-reporting-on-north-korea>)

sanctions laws in 2016, 2017, and 2018, with overwhelming bipartisan majorities.²⁸ If properly implemented, these laws would deprive the Kim regime of revenue it uses to continue its nuclear weapons and ballistic missile programs. The administration should focus on North Korea's revenue-generating activities, including cyber activities, overseas laborers, and the use of highly skilled information technology workers.²⁹ But successive administrations have not adequately enforced the laws. Congress should conduct rigorous oversight of these laws and the administration's North Korea policy.

Hearing co-chairs Friedberg and Stivers and distinguished commissioners, thank you for the opportunity to testify on this important topic.

²⁸ North Korea Sanctions and Policy Enhancement Act of 2016, Pub. L. 114-122, 130 Stat. 93, 22 U.S.C. §9201. (<https://www.govinfo.gov/content/pkg/COMPS-11985/pdf/COMPS-11985.pdf>); Korean Interdiction and Modernization of Sanctions Act, Pub. L. 115-44, 131 Stat. 886, 22 U.S.C. §9401. (<https://congress.gov/115/plaws/publ44/PLAW-115publ44.pdf>); Otto Warmbier North Korea Nuclear Sanctions and Enforcement Act of 2019, Pub. L. 116-92, 133 Stat. 2243, 22 U.S.C. §9201. (<https://ofac.treasury.gov/media/43261/download?inline>)

²⁹ U.S. Department of the Treasury, Press Release, "Treasury Targets IT Worker Network Generating Revenue for DPRK Weapons Programs," January 16, 2025. (<https://home.treasury.gov/news/press-releases/jy2790>)