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Foreign Policy in Focus

Sixty Years of Failed North Korea Sanctions

By Christine Ahn

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In response to the March 26 sinking of the South Korean ship, the *Cheonan*, allegedly by a North Korean submarine, the United States is poised to adopt even more stringent sanctions against North Korea. [Robert Einhorn](#), the U.S. State Department's special advisor for nonproliferation and arms control, recently announced in Seoul that after legal and other questions were sorted, sanctions would be in place "in the next several weeks."

Contrary to U.S. [assurances](#) that the North Korean people will not suffer, U.S. and international sanctions have already taken a toll on the development of the country and the people. Sanctions have already impeded foreign investment into North Korea and adversely affected business and humanitarian aid efforts of those who venture there. Perhaps most alarming to U.S. policymakers is how sanctions have served to push North Korea further under China's influence.

Piling on 60 Years of Sanctions

In the six decades following the start of the Korean War on June 25, 1950, the United States has built a [complex system of restrictions](#) on trade, finance, and investment related to North Korea. President Truman imposed a complete embargo on all exports to North Korea just three days after the war's outbreak, and sanctions have since been a mainstay of U.S. foreign policy toward the country. The United States, then, has had virtually no trade with North Korea for 60 years, which begs the question: what kind of leverage could this new round of sanctions possibly have?

Many [Korea experts](#) argue that these new prohibitions will not affect North Korea as intended, and sanctions policies will continue to fail to meet their objectives. For 60 years, Washington has tirelessly advocated that sanctions against the north will eventually incentivize the regime to change its foreign policy agenda and domestic behavior. This approach, however, has proven to have had [an negligible impact](#), largely because North Korea has offset many losses in trade with countries now banning exchanges with Pyongyang, namely Japan and South Korea, by increasing trade with China. China's reactions to sanction initiatives, noncommittal at best, have generally undermined the potential leverage U.S. sanctions could have against North Korea. Robert Einhorn himself noted that [China's support would be critical](#) for this new round of sanctions to have any teeth.

China has played a significant role in [propping up Pyongyang's](#) economy. Interested in assuring North Korea's stability as a buffer state, increasing leverage over the Korean peninsula, and expanding its influence in the region, China has a strategic interest preserving Northeast Asia's status quo. While China voted for UN Security Council resolutions against North Korea (1718 and 1874), has complied with provisions that concern North Korea's missile and nuclear programs, and made clear that the "lips and teeth" alliance has since long passed, [Beijing has refrained from imposing strict punitive measures](#) against Pyongyang. UN bans on luxury goods, for instance, have not been enforced, and China has maintained a robust trade relationship with North Korea since sanctions policies were implemented, with [Sino-DPRK trade steadily increasing](#) over the past decade. In 1995, China's imports and exports totaled \$549 million and by 2008, that figure had grown to \$2.7 billion. North Korean imports and exports have also increased considerably, with [exchanges with China](#) totaling \$488 million in 2000 and \$1.8 billion in 2007. This relationship is largely sustained by the large trade deficit China allows North Korea to run.

Although China has rendered previous sanctions ineffectual, the [new round of financial sanctions](#) targeting the banking sector may have a bit more bite. Targeting financial institutions and companies engaged in "offending" business activities, these new financial sanctions promise strict penalties for non-compliance. The international banking community's response to the U.S. financial sanction against Macau's Banco Delta Asia (BDA) sets an important precedent. The BDA sanctions had a considerable effect on North Korea's financial health, severely restricting access to capital, and the new round of U.S. financial sanctions may have a similar impact.

Affecting the North Korean People

Purportedly only leveled against the government, the new round of financial sanctions will unequivocally have second- and third-order effects, further burdening North Korea's already impoverished population. Indeed, financial sanctions have proven to deter other countries and companies from engaging in business activities with North Korea, and the persistent imposition and threat of hard-line economic sanctions policies has placed considerable constraints on North Korea's ability to attract foreign capital. Longtime North Korea aid worker [Kathi Zellweger](#), of the Swiss government's Agency for

Development and Cooperation, observes that sanctions limit development opportunities and deters many foreign investors from even entertaining business prospects in North Korea. According to [Cho Myung-Chul](#) of the Korea Institute for International Economic Policy in Seoul, foreign investors reportedly shy away from potentially lucrative ventures in North Korea because of the looming threat of U.S. sanctions.

Constraints on foreign capital and financial transactions will, for instance, severely limit infrastructure and development projects in the cash-strapped north – projects that would improve the living conditions in North Korea. Without financial resources, [energy generation](#) systems and distribution networks in desperate need of expansion and upgrades will remain antiquated. There is not enough energy to meet domestic demand at both the household and factory level. And the transportation sector continues to need maintenance and repair.

Sanctions against the north also prevent Pyongyang from developing a robust export market that could generate hard currency. In order to revive industry currently operating at very low capacities, North Korea would need to receive large injections of outside capital. With the increased risk premium on doing business with North Korea, however, investments in and loans to North Korea are seen as unstable business opportunities.

Questionable Terms

The Obama administration proposes to publish a [blacklist](#) of North Korean companies and individuals suspected to have business activities involving weapons and luxury items. The construction of the blacklist is problematic, however. Korea scholar [Hazel Smith](#) has written that ships reported to have been transporting weapons materials were found, on investigation, to be abiding by international law. They were either legally trading goods or shipping dual-use items – goods that can be used for both civilian and military purposes.

Smith recalls a South Korean business representative being jailed for trading sodium cyanide — an imported material North Korea is reliant on for mining and agriculture — because it could theoretically be used to produce nerve gas.

Felix Abt, a Swiss businessman running a pharmaceutical company in North Korea during the mid-2000s, was unable to receive certain chemicals for his business and told [Time magazine](#), "someday you may find out that some product or even a tiny but unavoidable component is banned by a U.S. or UN sanction because it can, for example, also be used for military purposes."

The [list of dual-use imports](#) prohibited to enter Iraq because of U.S. sanctions reveals the breadth of items affected by sanctions policies. [Pencils](#) were restricted because graphite could theoretically be used to make bombs. Dual-use goods also included pesticides and fertilizers, water purification systems, and basic healthcare items like blood transfusion bags, syringes, and x-ray equipment.

Because many items essential to the livelihood of ordinary people appear on the dual-use list, the impact of the sanctions clearly go well beyond the government and the elite.

More than the United States

Although North Korea has managed to offset lost trade by increasing trade with China, the impact of loss trade with Japan, and now with South Korea, continues to affect Pyongyang's ability to recalibrate the economy. In 2001, trade between Japan and North Korea reached \$1.3 billion, with Japanese exporting some \$1.1 billion worth of goods, and importing \$226 million from North Korea. But by 2008, right before the 2009 missile tests, and passage of UNSC sanctions, Japan's imports of good from North Korea dropped to zero, and Japanese exports dropped down to \$7.6 million.

In South Korea, meanwhile, the reversal has been even more dramatic. As soon as Lee Myung Bak came into office in March 2008, [he began to cut direct governmental aid to North Korea](#). Lee not only reversed bilateral aid that had grown in previous administrations, but has also stymied the efforts of South Korean NGOs providing humanitarian aid to the North.

In May 2010, Lee announced South Korea would officially cut trade with North Korea, exempting the Kaesong Industrial complex and aid for North Korean children. In a nationally broadcast speech, Lee said, "Trade and exchanges between South and North Korea will be suspended." South Korea would also block North Korea from using its sea-lanes, which would force North Korean merchant ships to use alternative routes, requiring them to use more fuel. According to *International Herald Tribune* reporter [Choe Sang-Hun](#), "Cutting off trade with North Korea is the most punishing unilateral action the South could take against the impoverished North." South Korea imports \$230 million annually of seafood and other products, and North Korea earns \$50 million a year manufacturing clothes and other business with South Korean companies. In 2008, [inter-Korean trade reached \\$1.8 billion](#), with South Korea accounting for 32 percent of North Korea's trade volume.

But it's not just trade and governmental bilateral aid the Lee administration has halted.

According to Yi Yejung, Project Director for Inter-Korean Cooperation Division of the Korean Sharing Movement, the South Korean government banned humanitarian aid to North Korea after the Cheonan incident, despite government rhetoric that it will continue the aid for the most vulnerable people. "In short," says Yi, the "South Korean government is officially prohibiting NGOs from sending aid materials."

The Lee administration has also made it more difficult for South Korean aid groups to travel to the North. For example, in 2007, 2,962 individuals traveled to North Korea 65 times with the Korean Sharing Movement to provide humanitarian aid. In 2008, however, these numbers sharply dropped. Only 618 individuals were able to make humanitarian aid trips to North Korea 49 times. Last year, only 84 people were able to get clearance to go to North Korea 25 times. The government has also sent a chilling effect to those who

participate in humanitarian aid activities by investigating those who traveled as far back as in 2007.

According to one humanitarian aid worker, who asked not to be named given the organization's dependence on South Korean funding sources, "There are literally ships at Incheon port waiting with fertilizer, seed and building materials waiting to be shipped to North Korea." According to Kim Heung Kwang, a North Korean now living in South Korea trying to send cell phones, books, music and other information to North Korea through his organization, North Korea Intellectuals Solidarity, sanctions impede their efforts. "The prerequisite for this program is enough computers in North Korea," says Kim who uses USBs to transfer this knowledge. "But there are several regulations in place blocking our efforts. So I think that the United States needs to change its regulations on these matters."

Sanctions Thwart Development

"The leaders are using the sanctions as a justification," Karin Janz recently told the [Times of India](#). Janz is the country director of the German NGO Welthungerhilfe and has for five years travelled extensively throughout nine North Korean provinces. "People believe the country is in a bad condition because of outside forces." Although the food situation is bad, says Janz, it's nowhere as bad as how the western media portrays it. Sanctions have adversely impacted North Korean agriculture, he says, because of its heavy reliance on imports such as farm machines and chemical fertilizers. Sanctions may have something to do with the government's new interest in sustainable agriculture with mandates to cooperatives to pursue organic farming, composting, and a reduced dependence on chemicals. Still, farms need substantial investment to get to a level of functionality, which requires capital.

One area that has had an infusion of capital is North Korea's cell phone industry. The Egyptian company Orascom Telecom has been providing cell phone service through its subsidiary Koryolink to 100,000 North Koreans living in Pyongyang and near Nampo port along the western peninsula. "In spite of assurances by Pyongyang that investments conducted through Taepung International Investment Group are not in violation of UN sanctions and a newly introduced advertisement campaigned to attract investors," writes [Felix Imonti](#), "few investors other than the Chinese are likely to follow Orascom Telecom into the Hermit Kingdom."

Many businesses don't publicize that they are doing business in North Korea. For example, little is known about North Korea's sizeable cartoon industry, which Walt Disney outsourced to edit *The Lion King* and *Pocahontas*. Even Samsung has its cell phones produced in North Korea, as does the German software developing company Nosotek through a joint venture in 2007.

One company has made its business in North Korea a centerpiece of marketing. Noko jeans, started by three Swedish marketers, are made in North Korea. They are specifically black because the North Koreans wouldn't allow blue jeans, a trademark of American

culture. In 2009, Noko jeans hit the department stores in Sweden, or they almost did. PUB, a Swedish department store [decided to pull the North Korean jeans](#) because it didn't want to be associated with North Korea. Although you can purchase the jeans online, for U.S.-based customers, the threat of losing your \$222 jeans to U.S. customs is real enough to discourage the purchase. The website reads, "You may order from our shop, but you will do so at your own risk. Goods from North Korea always has a risk of getting confiscated in the American customs. If you want to be 300 000% sure that this wont happen you can apply for at the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) [sic]."

The Key Player: China

As North Korea loses its trading partners and sources of humanitarian aid, one source remains constant and growing: China. In fact, China has made significant investments in North Korea's development. From [1995 to 2008](#), China provided the greatest amount of food aid to North Korea, providing nearly 27 percent of all food aid.

But it's not just food and fuel. China is working with an international investment group that North Korea has created to develop ports, railways, light industry, and agriculture. China is particularly interested in the Rason port in order to access steel and coal. China has already signed a lease to access North Korean port facilities until 2028 and Russia until 2060. On a February visit to Pyongyang, Wang Jiarui, China's chief of the Communist Party's international department, pledged \$10 billion to develop the infrastructure, equivalent to 70 percent of North Korea's estimated GDP.

On his May trip to China, Kim Jong Il declared, "North Korea welcomes corporate investment from China, as well as advancing the working level cooperation between the two sides." To attract investors, [the North Korean International Trade Office website](#) proclaims that the country has "the lowest labour costs in Asia" and the "lowest tax scheme in Asia," as well as listing 300 types of minerals and other natural resources. The North Korean government is attracting investors to the region by offering cheap North Korean labor valued at \$40 per month, a \$17 dollar discount from the wages paid to 42,000 North Korean workers in the Kaesong Industrial Park.

Engagement, Not Encirclement

Sanctions haven't achieved the intended goal of the senders: regime change. Instead, sanctions have only made the lives of North Koreans harder. As the Obama administration unveils its blacklist and plans to further tighten the noose around the North Korean regime, North Korea will fall increasingly under China's influence. Is it possible that the Obama administration can only envision a future for Northeast Asia that is more highly militarized and fraught with tensions with China?

The United States hasn't tried the alternative: engagement. In a recent [New Yorker](#) interview with John Delury, the project director of the report [North Korea Inside Out: The Case for Economic Engagement](#), concluded that engagement was the best route.

"The inconvenient truth of our report is that, if the U.S. seeks to improve the lot of the North Korean people, the best way to do so is by going through the regime, by actively engaging the regime." Despite all the concerns with North Korea's human rights record and nuclear tests, Delury asks, "How do you help the regime find an alternative means of survival and development, one in which the people grow more prosperous, and the regime achieves greater stability? The hard pill of an engagement approach is that you have to let the people and the regime prosper together."

Even a recent *Forbes* op-ed by Shaun Rein, the founder of the China Market Research Group, read, "More sanctions and increased naval exercises in the region won't help everyday North Koreans, and they won't make the Korean peninsula safer. In reality, they will only continue to empower Kim Jong-Il's regime while further impoverishing everyday North Koreans...The best way to create a stable and secure North Korea is to do the opposite of what we are doing now. We should lift our economic sanctions and invest more money in the country."