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## THE POLITICAL ECONOMY OF SANCTIONS AGAINST NORTH KOREA\*

*Ruediger Frank*

*This article explores sanctions as a policy tool to coerce North Korea's behavior, such as by discontinuing its nuclear weapons program. It discusses the characteristics of sanctions as well as the practical experience with these restrictions on North Korea. It becomes clear that the concrete goals of coercion through sanctions and the relative power of the sending country to a large extent determine the outcome. Nevertheless, the general limitations of sanctions also apply, including the detrimental effects of unilateral and prolonged restrictions. It appears that the imposition of sanctions against the DPRK is unlikely to succeed. As an alternative way of changing the operating environment for North Korea, assistance deserves consideration. Despite many weaknesses, this instrument is relatively low in cost and risk, and can be applied continuously and flexibly.*

**Key words:** North Korea, sanctions, U.S. foreign policy in East Asia

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## Introduction

The international community faces the huge challenge of reacting to the situation in and around the Democratic People's Republic of Korea (DPRK or North Korea). For humanitarian reasons and because of security considerations, to remain passive is not an option. Although reality is in fact more complex, the discussion in academic and policy-making circles focuses on the dichotomous debate over whether sanctions or assistance are the proper way to coerce the North Korean leadership to behave in the desired way. Drawing on the extensive international experience with sanctions and on still incomplete but nevertheless growing evidence regarding the case of North Korea, this article attempts an objective analysis of both options, with a particular focus on sanctions.

The article concentrates only on North Korea. However, there is a vast body of literature on sanctions that in the last decade mostly focused on the case of Iraq. The active utilization of sanctions as a tool of international policy dates back to the aftermath of World War I, when U.S. President Woodrow Wilson suggested that the adoption of sanctions was a method by which the League of Nations could keep the world free of war. He described them as a "peaceful, silent, deadly remedy."<sup>1</sup> The most comprehensive study on the effects of actual sanctions is Hufbauer, Schott, and Elliott.<sup>2</sup> The essence of their analysis of 116 case studies since World War I is that historically, sanctions have a poor track record. The rare success of cases such as South Africa is associated with unique factors that are unlikely to be found elsewhere. Although they are applied most frequently, unilateral sanctions have the lowest chances for success.<sup>3</sup> Legal experts have raised the issue of the correspondence of sanctions

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1. Joy Gordon, "Economic Sanctions, Just War Doctrine, and the 'Fearful Spectacle of the Civilian Dead,'" *Cross Currents*, vol. 49, No. 3 (Fall, 1999), online at [www.crosscurrents.org/gordon.htm](http://www.crosscurrents.org/gordon.htm).
  2. Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered: History and Current Policy* (Washington, D.C.: Institute for International Economics, 1990).
  3. This and other issues have been dealt with in David Cortright and George A. Lopez, eds., *Economic Sanctions: Panacea or Peacebuilding in a Post-Cold War World* (Boulder, Colo.: Westview, 1995).

with international law, concluding that they, in most cases, stand on highly shaky ground.<sup>4</sup> Gordon argues in the same direction, equating sanctions with siege and describing them as a form of warfare.<sup>5</sup> Even the conservative Heritage Foundation cautions against the excessive utilization of sanctions as a tool of foreign policy and points to the adverse effects they can have on all involved parties.<sup>6</sup> A deep analysis of sanctions from a human-rights perspective including legal aspects is provided by the United Nations in its Bossuyt Report, criticizing the fact that there is “hardly any mention of human rights and humanitarian law norms” in the usual debate about sanctions.<sup>7</sup>

### **Sanctions as a Tool of International Policy**

Most sources agree that sanctions are measures taken by countries (sender) against other countries (target). Sanctions can be unilateral or multilateral, comprehensive or selective, military, economic or non-economic. The latter usually deny legitimacy or prestige through diplomatic, cultural, and travel restrictions.<sup>8</sup> Economic sanctions are typically defined as restrictions maintained by a government with respect to economic activity with foreign countries or persons, particularly for foreign policy reasons.<sup>9</sup> They mainly consist of trade/investment and financial sanctions.

The major involved parties in the case of North Korea are the United States as sender and North Korea as target, and the

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4. See, for example, Harry L. Clark, “U.S. Economic Sanctions: Background and Glossary of Terms,” International Economic Policy Advisory Committee (IEPAC), Washington, D.C.: Dewey Ballantine LLP (1999), online at [www.dbtrade.com](http://www.dbtrade.com).

5. Ibid.

6. Robert P. O’Quinn, *A User’s Guide to Economic Sanctions, Backgrounder #1126* (Washington, D.C.: The Heritage Foundation, 1997), online at [www.heritage.org/Research/PoliticalPhilosophy/BG1126.cfm](http://www.heritage.org/Research/PoliticalPhilosophy/BG1126.cfm).

7. Marc Bossuyt, *The Adverse Consequences of Economic Sanctions on the Enjoyment of Human Rights* (Geneva: United Nations Economic and Social Council, Commission on Human Rights, 2000), online at [www.unhchr.ch](http://www.unhchr.ch).

8. Ibid.

9. Clark, “U.S. Economic Sanctions.”

Republic of Korea (ROK or South Korea), the People's Republic of China (PRC), and Japan as interested parties that either support or oppose sanctions.<sup>10</sup>

## The Goals and Power Make the Difference

### *Imposing Sanctions*

Sender countries delineate three general categories of policy objectives for which economic sanctions may be applied: national security objectives, other foreign policy objectives, and international trade and investment dispute resolution. National security objectives include deterring aggression, curbing weapons proliferation, and punishing a country that condones or sponsors terrorism. Other frequently cited official goals are the observance of human rights and the promotion of democratization in the target country.

However, the issue of goals is more complex than it seems at first glance. Sanctions rarely achieve their official objectives.<sup>11</sup> Nevertheless, they seem to be becoming more and more frequent despite this bad record. One explanation for this contradictory evidence is that the real causes and effects of policies are rarely one-dimensional. The purpose of sanctions is not necessarily an actual change of the situation abroad.<sup>12</sup> A frequent aim is to please domestic constituencies or to make a public statement of displeasure: "Sanctions can provide a satisfying theatrical display, yet avoid the high costs of war." Moreover, governments most often have several policy goals. If the latter are contradictory, "sanctions will usually be weak and ultimately ineffective."<sup>13</sup>

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10. For an excellent analysis of the overall situation in and around North Korea, see Selig S. Harrison, *Korean Endgame: A Strategy for Reunification and U.S. Disengagement* (Princeton and Oxford: Princeton University Press, 2002).

11. Hufbauer, Schott and Elliott, *Economic Sanctions Reconsidered*.

12. Kimberly Ann Elliott and Gary Clyde Hufbauer, "Sanctions," *The Concise Encyclopedia of Economics* (1993), online at [www.econlib.org](http://www.econlib.org).

13. One example was Jimmy Carter's ban on exports of grain to the Soviet Union in response to the invasion of Afghanistan; the economic interests of American farmers were so strongly affected that Ronald Reagan

Another issue closely connected to sanctions leads us into the realm of realist/neorealist international relations theory.<sup>14</sup> Relations between nation-states are characterized by anarchy; agreements are concluded and broken as the involved parties see fit to serve their interests. The determining variable in this game is power; power decides which options exist for international policy. This is how we can interpret the fact that since the end of the cold war, the number of unilateral sanctions imposed by the United States has shown extraordinary growth, as discussed below.

Multilateral sanctions were relatively rare before 1990. The League of Nations imposed or threatened to impose economic sanctions four times in the 1920s and 1930s. The United Nations Security Council, obviously incapacitated due to cold war-related veto powers, imposed sanctions only twice (Rhodesia in 1966 and South Africa in 1977) in the forty-five years of its existence prior to the August 1990 embargo of Iraq. Of 104 sanctions episodes from World War II until 1990, when the United States was the undisputed Western superpower, Washington was a key player two-thirds of the time.<sup>15</sup> In 80 percent of U.S.-imposed sanctions, the policy was pursued with "no more than minor cooperation" from its allies or international organizations, i.e., unilaterally. The enormous growth in U.S. power after the collapse of the Soviet Union becomes evident when we consider that during the four years of President Bill Clinton's first term alone, U.S. laws and executive actions imposed new unilateral economic sanctions sixty-one times on a total of thirty-five countries. These countries were home to 2.3 billion people, or 42 percent of the world's population, and purchased exports of \$790 billion, or 19 percent of the global export market.<sup>16</sup>

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had to take back these sanctions three months after entering office. Ibid.

14. Among the most prominent sources are Edward Hallett Carr, *The Twenty Years' Crisis, 1919-1939: An Introduction to the Study of International Relations* (London: Macmillan, 1939); Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 1948); and Kenneth N. Waltz, "Realist Thought and Neorealist Theory," *Journal of International Affairs*, vol. 44, No. 1 (1990), pp. 21-37.
15. Kimberly Ann Elliott, "Factors Affecting the Success of Sanctions," in Cortright and Lopez, eds., *Economic Sanctions*, pp. 51-60.
16. O'Quinn, *A User's Guide to Economic Sanctions*.

A look at the UN regulations concerning sanctions helps to understand why the United States has shown such a strong inclination to impose unilateral sanctions rather than organize the necessary support for multilateral sanctions. It is not because of a lack of interest in international cooperation, but rather the contrary.<sup>17</sup> However, multilateral sanctions are simply too hard to achieve legally. According to Article 39 of the UN Charter, the Security Council is allowed to impose sanctions only to maintain or restore international peace and security; importantly, the threat may not be determined on the basis of ulterior political motives—there must be genuine “international concern” behind the sanctions, not the foreign or domestic policy considerations of a single state or group of states.<sup>18</sup> It requires a great amount of power to ignore these and other international rules, which, in the absence of enforcement mechanisms, are only morally binding.

### *The North Korea Case*

Returning to the North Korean case, we find that a number of basic goals are shared by most involved parties: To improve the human rights situation, to ensure peace on the peninsula, to prevent the proliferation of nuclear material and weapons, and to prepare for a smooth unification process in the future. In addition, the United States is concerned with the global “war on terrorism,” the emergence of a new economic and security order in East Asia, and its relationship with key partners such as China and Japan. From Seoul’s perspective, the fact that the DPRK is part of Korea plays an important role, not only because of national feelings and interests, but also because of the obvious fact that a military conflict or any other disastrous situation would have direct impact on the South. Among these many objectives, there is a natural order of priorities that determines the actual approach and explains the sometimes differing policies of both sides

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17. The U.S. undersecretary of the treasury asked UN member states to freeze the assets of eleven DPRK entities that the United States designated in 2005 as missile and weapons of mass destruction (WMD) proliferators. “U.S. Wants U.N. Members to Freeze Assets of N.K. Entities Designated by Washington,” *Yonhap* (Seoul), July 27, 2006.

18. For a detailed analysis of UN regulations on sanctions, see Bossuyt, *The Adverse Consequences of Economic Sanctions*.

despite many similarities in their foundations.

To simplify, we could argue that South Korea is more concerned with a complex set of interrelated micro-issues and operates from a national, at best regional perspective, whereas the United States looks at a limited number of larger “hard” issues from a regional and global angle, without being significantly influenced by “soft” considerations. Other nations find themselves on either side, or somewhere in between. Some have so far decided not to make a clear choice at all.

While the ROK and the United States agree in their desire to “heal” the North Korean “patient,” the one side prefers a slow and complex therapy,<sup>19</sup> and the other opts for radically removing the organs it regards as irreparably defective.<sup>20</sup> Because of different experiences, preferences and resources, the approaches vary greatly—even within both countries.<sup>21</sup> Discussion, well-intended though it might be, is unlikely to bridge the gap between the proponents of engagement and the supporters of a hard-line approach because *the difference is mainly in the goals*; the process to reach them is a dependent variable.

The international community is, naturally, most of all concerned with North Korea’s behavior in the nuclear question. As a working base for this article, it is suggested that the question of sanctions be considered with the normative goal of avoiding the outbreak of a nuclear crisis in which Korea would be involved either directly or indirectly.

If we assume that North Korea is faced with basically two behavioral options in the nuclear issue, then assistance would *encourage ending* the program, while sanctions would try to *discourage a continuation*. This makes both—sanctions and assistance—

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19. This refers, among others, to the “Sunshine policy” introduced by South Korean President Kim Dae-jung and continued by his successor, Roh Moo-hyun.

20. As one example, see David Rennie, “Rumsfeld Calls for Regime Change in North Korea,” *The Daily Telegraph*, April 22, 2003.

21. An exemplary case is the South Korean reaction to the North’s missile tests on July 5, 2006. According to a poll taken by R&R six days later, 50.6 percent of respondents felt threatened, while 49.4 percent did not. See “South Korea Divided on Missile Tests,” Angus Reid Global Scan, online at [www.angus-reid.com/polls/index.cfm/fuseaction/viewItem/itemID/12566](http://www.angus-reid.com/polls/index.cfm/fuseaction/viewItem/itemID/12566).



two equally valid policies from a theoretical point of view. The key question is, then, which policy is likely to be the most efficient in practice. The answer requires a consideration of effectiveness (does it work?) and feasibility (cost-benefit analysis).

### The Effectiveness of Sanctions against North Korea

If the goal is to make North Korea collapse quickly, to isolate and eventually eradicate its leadership, and to use this process for a realignment of forces in the region, then an economic suffocation through sanctions combined with diplomatic pressure and the use of hard means such as military intervention appears to be a rational strategy. Such a strategy is even more appropriate if the humanitarian costs of such an approach count but are not regarded as a priority; if a potential destabilization of the region is not a major problem as long as it does not involve a nuclear conflict; and if the national interests of Korea are of secondary importance. This would be the case if a direct, immediate, and serious threat should originate from North Korea that requires instant action. Under these conditions, the UN Security Council would be authorized to impose multilateral sanctions.<sup>22</sup> However, it should be considered that in most cases, sanctions simply do not work. As Bossuyt shows, even the most optimistic accounts of sanctions point to only about a third having at least partial success. Other analysts find a mere five-percent success rate, and a dismal two-percent success rate for sanctions against “authoritarian regimes.”<sup>23</sup>

Even if it worked, the costs of such a strategy would be high.<sup>24</sup> The distribution would, moreover, be uneven among involved nations. High costs alone will therefore not necessarily restrict actors from issuing sanctions. The total amount of these

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22. For a discussion of the legal requirements from a UN perspective, see Bossuyt, *The Adverse Consequences of Economic Sanctions*.

23. Ibid.

24. Gordon quotes sources that report hundreds of thousands of civilian casualties as a result of sanctions against Iraq, and points to the fact that these effects were greatest on women, children, and underprivileged classes. The wealthy and the ruling elite, though inconvenienced, were largely unaffected. Gordon, “Economic Sanctions.”

costs would certainly be higher if the process of actively destroying the North Korean regime should last for a longer period of time. Sanctions must be imposed quickly and decisively to maximize their impact.<sup>25</sup> The average cost to the target as a percentage of GNP in successful cases was 2.4 percent and in failures was only 1.0 percent, while successful sanctions lasted an average of only 2.9 years versus 8.0 years for failures. Therefore, if one agrees with the hard-line approach, it should be followed strictly and decisively; the words “hard-line” and “gradual” or “long-term” do not seem to match well. Furthermore, the longer sanctions last, the greater the chance that the targeted country finds ways to accommodate to the new situation. It will develop some kind of “sanction immunity” because it is able to bypass the sanctions, or because there are no international contacts left to intercept—an extreme scenario that, nevertheless, is not too far away from North Korean reality.

The experience of the collapse of socialism in the Soviet Union and Eastern Europe has created the (wrong) impression that a slow process of containment, sanctions, support of opposition forces, and showcase competition constitute a successful and low-cost strategy. The specific conditions in and around Korea, however, suggest that drawing a simplistic analogy between Europe and Asia would, as in many other cases, turn out to be superficial and misleading. A comparison of the North Korean case with Eastern Europe does have its merits, in particular when it comes to concrete, separate issues such as the u-curve effect of output under market reforms (transformational recession), an analysis of the social causes and effects of reforms, the question of a quick or a slow lifting of subsidies, the role of restructuring and reallocation, the organization of distribution after marketization, a proper organization of privatization (outsider vs. insider), and a proper wage policy.<sup>26</sup>

However, we should note that due to the processes of moneti-

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25. Elliott and Hufbauer, “Sanctions.”

26. A very good and concise analysis of the economic phenomena after the collapse of socialism in Eastern Europe is provided by Olivier Blanchard, *The Economics of Post-Communist Transition* (Oxford: Clarendon Press, 1997). Chris M. Hann, ed., *Postsocialism: Ideals, Ideologies and Practices in Eurasia* (London: Routledge, 2002) adds a sociological perspective to these events.

zation and opening to external trade and exchange witnessed in recent years,<sup>27</sup> North Korea is just reaching a stage that the Eastern European states actually never left after 1945. Is the DPRK, then, at least becoming a “normal” socialist state so that we can apply all the experience of other transitional economies? This is certainly not the case. Although North Korea is in principle a country like any other,<sup>28</sup> its perceptions are determined by a set of norms and values—also known as “institutional structure”—that in many respects differs greatly from any of the Eastern European cases.<sup>29</sup> It is hard to see how these differences could vindicate any direct analogy.

Returning to sanctions and their effectiveness, there is one serious and often overlooked methodological flaw that comes with suggestions for a direct, targeted policy toward North Korea. Economic sanctions or a detailed monitoring of economic aid suggest that by applying a limited set of policies, a concrete result may be reached within a given period of time. This might indeed be the case, just as central planning has often worked quite well despite its inherent inefficiencies. However, the chances are good that such an external “central planning of change in North Korea” will have the same unsatisfactory results as its socialist pendant and eventually end in failure. The reasons are in both cases imperfect information about the future and the inability to foresee all impacts of economic policies.

Another fundamental issue connected to sanctions is how to position sanctions within the arsenal of international conflict. North Korean leaders have repeatedly stressed that they would regard sanctions as an act of war. The UN notes that sanctions

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27. For more details on North Korea’s reforms, see Ruediger Frank, “Economic Reforms in North Korea (1998-2004): Systemic Restrictions, Quantitative Analysis, Ideological Background,” *Journal of the Asia Pacific Economy*, vol. 10, No. 3 (2005), pp. 278-311.

28. For an example of how standard economic theories can be applied to North Korea, see Ruediger Frank, “Can Economic Theory Demystify North Korea?” *Korea Review of International Studies*, vol. 9, No. 1 (2006), pp. 3-26.

29. It would be futile to attempt to outline this structure in a few sentences. However, we should consider the colonial past, the national division, the survival of one-person rule, the decades of isolation, and a very peculiar geostrategic and security situation as some of the unique factors.

represent a middle ground in international politics, since they are more severe than a verbal condemnation, but less severe than the use of force.<sup>30</sup> O'Quinn regards economic sanctions as "only a step below a blockade or other military action."<sup>31</sup> While Christiansen and Powers emphasize that sanctions are an alternative to wars and therefore have a peace-preserving effect,<sup>32</sup> Gordon strongly criticizes the tendency to discuss sanctions as though they were a mild sort of punishment, not an act of aggression. She argues that "sanctions, like siege, intend harm to civilians and therefore cannot be justified as a tool of warfare. . . . sanctions are themselves a form of violence. . . [and thus] require the same level of justification as other acts of warfare."<sup>33</sup> If sanctions would be legally regarded as a type of warfare, they would fall under related international regulations—making it, theoretically, possible to accuse the senders of sanctions of committing war crimes if they kill innocent people.

Following the logic of economics, a national economy that is a target of sanctions is left with fewer resources. Sanctions affect the supply side; provided that demand is more or less inelastic, which will be the case for basic goods such as food, energy, or medicine, the effects are obvious. As these goods become scarcer, their prices rise; in the case of Cuba, sanctions resulted in a quasi-tax of 30 percent on imported goods.<sup>34</sup> Rising prices imply that those with the least resources will see the chance of satisfying their needs dwindle. The most extreme result can be the exclusion from access to particular goods altogether. In other words, the poor will have less or no food, fuel, or medicine, while the rich just have to spend a higher proportion of their incomes.

Both effects are painful; however, the degree is markedly different. From the very outset, it is clear that the sender of sanctions deliberately inflicts damage on the innocent, hoping that their pain will translate into resistance against their leaders, who

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30. Bossuyt, *The Adverse Consequences of Economic Sanctions*.

31. O'Quinn, *A User's Guide to Economic Sanctions*.

32. Drew Christiansen and Gerard F. Powers, "Economic Sanctions and Just-War Doctrine," in David Cortright and George A. Lopez, eds., *Economic Sanctions: Panacea or Peacebuilding in a Post-Cold War World* (Boulder, Colo.: Westview Press, 1995), pp. 97-120.

33. Gordon, "Economic Sanctions."

34. Bossuyt, *The Adverse Consequences of Economic Sanctions*.

are the actual target of a sanction. "The 'theory' behind economic sanctions is that economic pressure on civilians will translate into pressure on the Government for change. This 'theory' is bankrupt both legally and practically."<sup>35</sup> The UN Secretary-General wrote in his Millennium Report that "those in power, perversely, often benefit from such sanctions by their ability to control and profit from black market activity, and by exploiting them as a pretext for eliminating domestic sources of political opposition."<sup>36</sup>

Acknowledging the problem of lack of discrimination and adverse effects, Elliott and Hufbauer suggest the application of so-called "smart sanctions."<sup>37</sup> In particular, they argue that financial sanctions have a number of advantages over trade sanctions: They are more difficult to evade, and their effects are less diffused throughout the targeted society. The usual argument is that "pet projects" or "personal pockets" of the leaders are affected by financial sanctions. The UN supports this approach in a desperate effort at avoiding the disastrous consequences of comprehensive, non-discriminatory sanctions, as mentioned above.<sup>38</sup>

This argument has a high populist appeal because it suggests that through financial sanctions, only the "bad guys" are hurt, and that these sanctions can indeed be limited to a specific circle of persons who have no possibility of passing the buck. The logic is highly debatable if applied to North Korea with its lack of international integration. A general ban on financial transactions with North Korea has the same effect as an embargo, since the flows of goods and capital are two sides of the same coin. Historical evidence suggests that a reduction of the available resources, no matter what its cause, will have the effect of a distribution of the remainder based on power; this means that still, the elite and the military will serve themselves first and that the weak will suffer.<sup>39</sup>

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35. Ibid.

36. Kofi Annan, *We, the Peoples. The Role of the United Nations in the 21st Century* (New York: United Nations, 2000), p. 50.

37. Elliott and Hufbauer, "Sanctions."

38. See Bossuyt, *The Adverse Consequences of Economic Sanctions*, and Annan, *We, the Peoples*.

39. Gordon, "Economic Sanctions."

In connection with this mechanism, sanctions function like a self-fulfilling prophecy.<sup>40</sup> The typical and hence expected reaction to restricted access to vital resources will be that those with more power (the military and the elite) receive sufficient amounts while the rest of the population does not; Gordon calls this “inverted discrimination” because the sanctions not only do not hurt those who allegedly deserve punishment, they hurt those who are innocent.<sup>41</sup> In the next step, sanctions are propagated by the sender as a way to bring down a regime or a leader, pointing at the unacceptably low standard of living and the gap of these standards between “deserving” and “undeserving” parts of the society. This technique is indeed applied to North Korea.<sup>42</sup>

In addition to not producing the desired results, evidence and logic suggest that sanctions will also have adverse effects. When the international sector of an economy is hit, there is the risk of retarding the growth of a domestic middle class and thereby slowing the indigenous process of democratization.<sup>43</sup> In many cases, there is a high risk that sanctions actually strengthen the regime that they were supposed to weaken. A typical response of a people in the face of sanctions is to “rally around the flag,” and support the leadership in the face of foreign coercion.<sup>44</sup> Again, evidence from North Korea suggests that this might indeed be taking place. During a private conversation, Erich Weingartner<sup>45</sup> provided one out of many reports that coin-

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40. This is not the only example. Sigal argues against putting too much pressure on North Korea: “The hard-liners believe Pyongyang is determined to arm and will never trade away its weapons. Their conviction is not just faith-based: it is a self-fulfilling prophecy.” Leon Sigal, “An Instinct for the Capillaries,” speech delivered at the Seoul-Washington Forum in Washington, May 1, 2006, online at Nautilus Institute, Policy Forum Online 06-36A, May 9th, 2006, [www.nautilus.org/fora/security/0636Sigal.html](http://www.nautilus.org/fora/security/0636Sigal.html).

41. Gordon, “Economic Sanctions.”

42. Sam Brownback, Republican Senator from Kansas, repeated in July 2006 an earlier remark by U.S. President Bush that “North Korea is a failed state ruled by a desperate dictator who starves his own people.” “Keep Up the Pressure,” *New York Sun*, July 7, 2006.

43. O’Quinn, *A User’s Guide to Economic Sanctions*.

44. Ivan Eland, “Economic Sanctions as Tools of Foreign Policy,” in Cortright and Lopez, eds., *Economic Sanctions*, pp. 29-52.

45. Canadian citizen; long-time resident in North Korea as head of a World

cide with the author's own observations; the general population in North Korea is led to believe that the source of the economic hardships it has to endure is to be sought externally, in particular in the United States.

In the case of North Korea sanctions are based on agreements in a cartel that is formed by an oligopoly of political players with a different set of goals. The problem with any cartel is that it will only be effective if all members are sufficiently convinced that nobody will cheat. But game theory tells us that the incentives to do so are usually very high; with a few exceptions, and for good reasons, the mean lifespan of cartels is only a few years at best.<sup>46</sup> Accordingly, even if we could agree that sanctions themselves can create the desired results, given the highly complex constellation of interests among the relevant six parties (the United States, ROK, PRC, Japan, Russia, and DPRK) and beyond, it would be quite naive to expect longevity of an anti-North Korean cartel.

Moreover, while we can indeed expect the North Korean leadership to respond to sanctions, it is questionable that we can predict the *direction* of this reaction. The sanctions will influence North Korea's future and the future of its economic reforms (see below); it must be doubted, however, that this influence will be along lines that are in the actual or perceived interest of every involved external party. This leads us to the costs of sanctions, an important variable that has to be considered before their application.

### The Costs of Sanctions

The economic "balance sheet" of sanctions obviously depends on the relationship between costs and benefits. However, this is not a simple equation. As outlined above, we can only point at *possible* costs; their actual evaluation, however, depends on their distribution as well as on the goals of the respective player. The

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Food Program department (1997-1999); and editor of CanKor, an information service on current North Korean affairs.

46. Gregory J. Werden and Marilyn J. Simon, "Why Price Fixers Should Go to Prison," *Antitrust Bulletin*, vol. 32, No. 4 (Winter, 1987), pp. 917-37.



latter can be quite obscure, as we have seen, and strongly depend on the individual prerogatives.

The last decades of experience with North Korea imply that the leadership will not let itself be forced down a path of externally prescribed reforms. The North Korean leader has shown no willingness so far to give up the nuclear program, to introduce Western-style democracy, to open the prisons, and to privatize the economy. Yet, senders of sanctions claim that they want to achieve one or the other of these goals. The sanctions would therefore only work if they are strong enough to enforce a replacement of the leadership; as emphasized above, a piecemeal approach will yield no results. Such a regime change would in all likelihood result in a destabilization of the political system and a quick unification.

Even if a conflict and a humanitarian catastrophe can be prevented in this context, there remains the cost of a fast rehabilitation of a country with the combined population of Austria, Denmark, Norway, and Switzerland. These costs will first and foremost have to be borne by the South of a then unified Korea. Other state or private international players will certainly be ready to assist, but this help will come at a price. These economic and humanitarian costs explain the hesitant attitude of South Korea toward putting too much pressure on North Korea.<sup>47</sup> Of course there is always the chance that a cornered regime will undertake a last-ditch military effort if it has nothing more to lose.

From the perspective of national interest it is understandable that these costs are of much smaller relevance for the United States, which has shown a certain indifference to similar situations in the past.<sup>48</sup> However, the risk of conflict and a huge num-

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47. Prime Minister Han Myong-sook has made clear that Seoul does not agree with Washington and Tokyo about slapping additional sanctions on the DPRK to enforce a ban on proliferation of missile technology. "PM Beggars to Differ with Japan, U.S. Over N. Korea," *Chosun Ilbo* (Seoul), August 4, 2006.

48. Among the most prominent examples is an interview of Madeleine Albright, Secretary of State, by Leslie Stahl of "60 Minutes" on May 12, 1996. Stahl asked: "We have heard that a half million children have died. I mean, that's more children than died in Hiroshima. And—and you know, is the price worth it?" To which Albright reportedly replied: "I think this is a very hard choice, but the price—we think the price is



ber of civilian casualties alone make the costs of sanctions prohibitively high for neighboring countries such as South Korea and will lead anybody who assigns a high value to Korean lives from a humanitarian point of view to the same conclusion.<sup>49</sup>

The political costs of sanctions are equally significant. Technically speaking, a sanction means denial of otherwise possible options. The latter certainly play a role in a calculation of the costs of sanctions. If they include a limit to foreign trade,<sup>50</sup> which usually is the case, then the positive effects of this trade will not materialize. In addition to the economic issues mentioned above (lack of resources that will hit the poor first), there will be less interpersonal exchange, less interdependence, less understanding of international norms in North Korea. Those parties who hope for internal changes in that country will perceive this as a high cost. Moreover, as shown above, sanctions invite evasion; curbing legal businesses will not necessarily cause, but will certainly encourage or catalyze illegal transactions.<sup>51</sup> These constitute huge costs socially (drugs), economically (counterfeit currency) and militarily (proliferation of weapons).

Sanctions aim at discouraging a certain type of behavior via

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worth it.”

49. According to its Resolution 1997/35 of August 28, 1997 (“Adverse consequences of economic sanctions on the enjoyment of human rights”), the UN Sub-commission on Human Rights expressed a number of concerns about economic sanctions because they most seriously affect the innocent population, especially the most vulnerable; aggravate imbalances in income distribution; and generate illegal and unethical business practices. See Bossuyt, *The Adverse Consequences of Economic Sanctions*.
50. Limiting or curbing financial transactions will have the same effect, because trade involves payment.
51. It is noticeable that most serious allegations against North Korea regarding illicit activities originate in the 1990s, coinciding with the collapse of the country’s external trading system and the worsening situation of the DPRK’s national economy. (As one example, see Peter A. Prahar, “North Korea: Illicit Activity Funding the Regime,” Statement before the Subcommittee on Federal Financial Management, Government Information, and International Security, Senate Homeland Security and Government Affairs Committee, April 25, 2006, online at [http://hsgac.senate.gov/\\_files/042506Prahar.pdf](http://hsgac.senate.gov/_files/042506Prahar.pdf).) If we assume that the allegations against Pyongyang are at least partially correct, this would support the argument that illicit activities are a function of economic despair.

punishment. But while the intention is to punish the “bad” behavior associated with the nuclear issue, the actual result might rather be a discouragement of “good” behavior, such as marketization and intensified contacts with the outside world.<sup>52</sup> In that case, sanctions would not only be inefficient; they would actually backfire and destroy the seeds of hope for a normalization of North Korea that is the precondition for a sustainable, indigenous, long-term solution of a multitude of issues surrounding that country.

### **Preconditions for Successful Sanctions**

After an analysis of 116 case studies between World War I and the 1990 UN embargo of Iraq, Elliott and Hufbauer identify the following conditions under which economic sanctions tend to be most effective at modifying the target country’s behavior:<sup>53</sup>

- When the goal is relatively modest.
- When the target country is much smaller than the country imposing sanctions, is economically weak, and is politically unstable. (The average sender’s economy in the 116 cases studied was 187 times larger than that of the average target.)
- When the sender and target are friendly toward one another and conduct substantial trade. (The sender accounted for 28 percent of the average target’s trade in cases of successful sanctions, but only 19 percent in cases of failures.)
- When the sanctions are imposed quickly and decisively to maximize impact. (The average cost to the target as a percentage of GNP in success cases was 2.4 percent and in failures was only 1.0 percent, while successful sanctions lasted an average of only 2.9 years versus 8.0 years for failures.)

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52. Sigal (“An Instinct for the Capillaries”) names the termination of the Korean Peninsula Energy Development Organization (KEDO, an international project under the 1994 Agreed Framework to construct light water reactors in North Korea to replace the ones that could provide weapons-grade material) as one example among many. He concludes that the United States under George W. Bush shows a tendency to focus on punishing bad behavior while not adequately rewarding good behavior.

53. Elliott and Hufbauer, “Sanctions.”

- When the sender avoids high costs to itself.

Based on this list of conditions, the authors—not surprisingly—conclude that effective sanctions will be achieved only rarely. Although the calculation of the costs of sanctions is a complex issue given the strongly differing goals and values associated with single scenarios, it is indisputable that any action involves certain costs. If their effect on North Korea is nil, then it is self-evident that the costs necessarily exceed the benefits.

Provided that the analysis so far is correct, sanctions are not the most promising option to change the situation in and around North Korea. However, will passivity solve the problem? The very real threat of nuclear weapons and the very real humanitarian disaster make it impossible to just leave the DPRK alone. This leads us to the consideration of assistance as an alternative active strategy.

### **Effectiveness and Efficiency of Assistance**

From a theoretical point of view, sanctions and assistance are very similar. A sanction denies North Korea something that the country would otherwise be able to get; assistance provides North Korea with something it would otherwise not get. Development assistance and sanctions both artificially change the operating environment for North Korea with the goal of promoting a certain kind of behavior. Assistance is a form of anti-sanction.

Assistance is, however, the softer way of coercion.<sup>54</sup> This approach will naturally be the choice of players who either have a stake in a stable and peaceful situation in North Korea, or who do not feel strong enough to be able to use the chaos triggered by a destabilization to their advantage. The basic logic of assistance is that it supports desirable developments. These include a discontinuation of the nuclear program—one of the policy goals

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54. This is very nicely exemplified by the tale from which the term “Sunshine policy” emanated. The wind and the sun claim to be able to make a man take off his coat; but while the brute force of the wind has no effect, the warm rays of the sun are successful.

that most parties would subscribe to. Under which conditions could such a discontinuation be reasonably expected?

The answer depends on our analysis of the value of the nuclear program in the eyes of the North Korean decision makers. As North Korean statements and external analysis suggest, it has mainly three functions: to provide security to the current regime, to serve as a bargaining chip in negotiations including those on economic assistance, and to provide an independent source of much needed energy.<sup>55</sup> To induce an abandonment of the program we would therefore require an alternative security guarantee, an alternative means of income, and an alternative source of energy.

The most complicated issue seems to be the alternative security guarantee. North Korean statements point at a high degree of distrust in international agreements and international bodies.<sup>56</sup> Assistance can, however, to a certain degree deliver alternative means of income. Most importantly, it can help to create sustainable *domestic* sources of revenue and energy that would make external interference obsolete and hence constitute a move toward a normalization of North Korea. Permanent receivership is neither in the interest of Korea nor of most international donors. This normalization and the prosperity arising from a growing economy will have substantial effects on the society. Most prominently, they will support the emergence of a middle class, a group of people with substantial economic power who benefit from the status quo. They would have a lot to lose from an escalation of the situation and could become a stabilizing element, not necessarily making the top leadership give up the nuclear program, but reducing the incentives for proliferation and actual utilization of these weapons.<sup>57</sup>

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55. These include South Korean President Roh Moo-hyun, who according to the *Dong-A-Ilbo* (Seoul, May 30, 2006) declared during a meeting with the Korean Veterans Association that North Korea is not developing nuclear weapons for a preemptive attack, but rather to defend itself.

56. Korean Central Broadcasting Station ("DPRK Armed Forces Minister Condemns UNSC Resolution on Missile Launch," July 27, 2006) quotes Kim Il Chol as saying: "neither the UN nor anybody else can protect us . . . one can defend the nation's dignity and the country's sovereignty and independence only when it has its own powerful strength."

57. It might be a good idea at this point to remember the role played by the

Supporters of assistance instantly face the question whether it is realistic to expect any substantial and peaceful change by North Korea. The major analytical works on socialism agree that because of its inherent characteristics, the economic inefficiency of the socialist system is endemic.<sup>58</sup> In other words, making socialism work is an illusion. The only sustainable way is reform, in the sense that the system of ownership, management, and political power is changed radically. From a short-term perspective, this does not appear to be a realistic scenario if applied to North Korea.

But Rome was not built in a day. When the author of this article in autumn 2002 publicly emphasized that major, substantial changes were going on in North Korea, he encountered strong disbelief. Meanwhile, most observers agree that North Korea is indeed experiencing tremendous change, although opinions differ over the future of this process and over its motivations. We should not forget that few observers in 1979 believed that China would undergo a so far largely successful gradual transformation. China's case does not necessarily show North Korea's future, but it demonstrates what is possible.<sup>59</sup>

There are hard facts supporting the diagnosis of change in North Korea. The currency system has been reformed to replace three domestic currencies by only one, and the *won* has been devalued by about 7,500 percent in 2002 against the U.S. dollar.<sup>60</sup> After years of experience and information gathering, we can be more and more certain about a monetization of the North Korean

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middle class in South Korea's democratization. See, for example, Carl Saxer, *From Transition to Power Alternation: Democracy in South Korea, 1987-1997* (New York and London: Routledge, 2002).

58. Janos Kornai, *The Socialist System: The Political Economy of Communism* (Princeton, N.J.: Princeton University Press, 1992).

59. For a good summary of the Chinese reforms, in particular in comparison with the case of Vietnam, see John McMillan and Barry Naughton, *Reforming Asian Socialism: The Growth of Market Institutions* (Ann Arbor, Mich.: University of Michigan Press, 1996); A fascinating book is George Totten and Zhou Shulian, eds., *China's Economic Reform: Administering the Introduction of the Market Mechanism* (Boulder, Colo.: Westview Press, 1992) because it contains the original Chinese perspective of the late 1980s in the period between clinging to old phrases and acknowledging the unfolding market economy.

60. Frank, "Economic Reforms in North Korea."

economy, a move that has enormous consequences for the functioning of the whole society. Cooperation with the outside world in Gaeseong,<sup>61</sup> but also at an increasing number of seminars on the principles of a market economy,<sup>62</sup> show a certain willingness to learn, albeit in the politically correct spirit of “Eastern Way, Western Technology.” Foreign trade keeps growing, as does the number of visitors to North Korea from the South and elsewhere. The leadership visits China and lauds the success of its transformation, and the propaganda goes as far as it can to prepare North Koreans for a “new era.”<sup>63</sup> North Korea had its “opening” drives before, but these were oriented mainly towards “fellow countrymen” abroad.<sup>64</sup> This time, the scope is much larger, the exchange more intense, the number of contacts bigger; hence, the effects are much broader and deeper. Some evidence even suggests that the improved situation has affected illicit activities.<sup>65</sup>

The reasons for these developments are of course not a sudden change of mind in the top North Korean leadership on the

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61. This zone, which resulted from the 2000 summit meeting between Kim Dae-jung and Kim Jong Il, is much more successful than its predecessor to the Northeast (the Rason zone). The author had a chance to visit the zone twice in 2004 and 2005 and was stunned by the fast and far-reaching developments observed there.
  62. The Europeans have organized a large number of such training programs, both in North Korea and outside, for example in Stockholm or Geneva. The author has participated in three of them. See, for example, the report by the Friedrich Naumann Foundation at [www.fnfasia.org/news/koreanews/2004-09-14-economicreform.htm](http://www.fnfasia.org/news/koreanews/2004-09-14-economicreform.htm).
  63. An often repeated phrase comes from the January 4, 2001 issue of the *Rodong Sinmun*, in which Kim Jong Il told his people that the 21st century is a new era of change, and that no one should follow the outdated modes of the 1960s.
  64. The Joint Venture Law of 1984, for example, targeted mainly friendly Japanese of Korean ethnicity.
  65. Prahar (“North Korea: Illicit Activity Funding the Regime”) notes that reports about the North Korean narcotics trade have substantially reduced since 2003. He concludes that the reason might be refined strategies. However, another explanation could be that since the reforms of 2002 and the ever-increasing economic cooperation with South Korea and China, the need to take the risk of such illegal activities has been reduced by the emergence of more and more opportunities for generating legal hard currency income and an overall improving economic situation in North Korea.

abolishment of socialism and the introduction of capitalism. There are very real necessities that have led to this new policy. Still, although not entirely voluntarily, the leadership in North Korea has decided to take the risk and to start top-down experiments with a market economy because the decision makers have understood that such a policy is in their interest. There is no evidence that the changes have been triggered by a grassroots movement and had to be rubber-stamped by an overwhelmed leadership.

The changes in North Korea might be just another example of an ill-fated attempt at perfecting a defective system. On the other hand, neither theory nor practice provides convincing evidence that there is no chance for a peaceful transformation.

### **Current Situation and Recent Experience: Sanctions**

Economic sanctions against North Korea are not new and include a great variety of options. Among the more recent examples are the Japanese regulations on pollution insurance for ships calling at Japanese ports, which de facto constitute a sanction against North Korean vessels (100 of which had made more than 1,200 calls at Japanese ports in 2002),<sup>66</sup> the Japanese restrictions on ferry services and on cash remittances by pro-North Korean residents to Pyongyang, the U.S. ban on the import of double-use technology into the Gaeseong Zone, and financial sanctions.

As far as we can tell, the Japanese sanctions at the beginning really hit a nerve because transfers from pro-North Korean residents in Japan constituted a major source of hard currency revenue. In the meantime, other ways have been found. But while North Korea's overall trade grows, trade with Japan last year declined by 20 percent. This will not hurt the Japanese economy; however, it certainly limits the Japanese access to information about North Korea as well as Japan's leverage over a country that directly and indirectly determines Japan's future. In terms of bargaining power, Japan shot itself in the foot.

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66. Mark Manyin, "Japan-North Korea Relations: Selected Issues," CRS Report for Congress Congressional Research Service, Washington, D.C., The Library of Congress (2003).



The most prominent among the recent sanctions was the threat by the United States to restrict business with U.S. lenders if a bank is found guilty of being involved in North Korea's financial transactions, which are per se regarded as potentially illegal. On September 15, 2005, the U.S. Treasury Department issued a statement designating the Macao-based Banco Delta Asia SARL as a "primary money laundering concern" for North Korea pursuant to section 311 of the USA Patriot Act. As Caryl notes, this was not a sanction, just the announcement of a suspicion.<sup>67</sup> Nevertheless, the results of this mere statement were disastrous for the bank in question.<sup>68</sup> An unnamed U.S. official told *Newsweek* that there was "some reason to believe" that at least nine suspicious accounts "handled personal business for Kim Jong Il or members of his immediate circle."<sup>69</sup> Soon thereafter, other banks around the world also cut ties with North Korea "for fear that the United States might retaliate."

The somewhat ambiguous justification of these sanctions is not a major issue here, but should at least be mentioned.<sup>70</sup> A number of analysts have raised doubts about whether all allegations against North Korea are indeed well founded. McCormack does not deny possible North Korean state involvement in illegal activities, but contends that related revelations are not supported by evidence and are actually part of a strategic initiative by the United

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67. Christian Caryl, "Pocketbook Policing," *Newsweek International*, April 10-17, 2006, online at [www.msnbc.msn.com/id/12114822/site/newsweek/](http://www.msnbc.msn.com/id/12114822/site/newsweek/).

68. The expectation of coming sanctions was enough to initiate a run on that bank that cost it 40 percent of its deposits within a week. To save itself, the bank had no choice but to cut all connections with North Korea and to freeze about fifty accounts held by North Korean companies and institutions. Caryl, "Pocketbook Policing."

69. *Ibid.*

70. Prahar ("North Korea: Illicit Activity Funding the Regime") quotes the U.S. Department of State saying that it is "likely, but not certain," that the North Korean government sponsors criminal activities, including narcotics production and trafficking. The sources for this assessment are police and press reports, defector statements, embassy and intelligence reporting of various governments, and the findings of trademark-holder investigations. However, it is frequently impossible to get beyond an initial report. (Prahar is the Director, Asia, Africa and Europe Programs, Bureau for International Narcotics and Law Enforcement Affairs, U.S. Department of State.)



States: "Since nobody would defend North Korea on its human rights record and few would deny the possibility of its involvement in crime, these were issues on which Washington could expect to be able to mobilize support and on which diplomatic resolution was highly unlikely."<sup>71</sup> Mihm points out the "superb quality" of much North Korean contraband: "It's an impressive product line for a regime that can barely feed its people."<sup>72</sup>

In October 2005, the manager of a South Korean enterprise in Gaeseong complained during a private conversation with the author at this site that to make a phone call to Seoul, he had to have it re-routed via China at the final cost of \$3.60 per minute because the United States blocked the installation of a direct connection due to concerns over dual-use technologies. The consequences were fewer calls, no Internet connection, and more isolation. One month later, the United States finally agreed to Korea Telecom's construction of a direct phone connection between the Gaeseong zone and South Korea. The sanctions did not primarily affect the North Koreans; they hit the South Koreans and made it easier for the North to control the flow of information in and out of the zone. Eventually, they had to be lifted anyway. All that's left is a bitter taste in the mouth of South Korean investors, who wonder who is the biggest obstacle to market economy exchanges with the communist North.

The United States has a rather long history of sanctions against North Korea, and these are increasingly becoming institutionalized. The U.S. Department of State has initiated the North Korea Working Group and later the Illicit Activities Initiative to ensure that the information that is collected on various levels of law enforcement is coordinated with diplomatic and military sources and made available to the policy-making authorities. The Illicit Activities Initiative includes several interdepartmental committees, managed by the State Department's Office of Korean Affairs in the Bureau of East Asian and Pacific Affairs, with reporting responsibilities to senior officials at each member agency

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71. Gavan McCormack, "Criminal States: Soprano vs. Baritone—North Korea and the US," *Japan Focus* (2006), online at <http://japanfocus.org/products/details/2189>.

72. Stephen Mihm, "No Ordinary Counterfeit," *New York Times*, July 23, 2006, online ed.

(including the Treasury Department, Department of Justice, Secret Service, the Bureau of Alcohol, Tobacco, Firearms and Explosives, and the Drug Enforcement Administration). There is an individual committee dealing with each element of alleged DPRK criminality, including smuggling, narcotics trafficking, and counterfeiting, as well as abuse of diplomatic privileges.<sup>73</sup>

The goal of the American sanctions seems to be clear. Stephen Mihm quotes a conversation with Kenneth Quinones during which he was told that the hawks in the Bush administration “are attempting to use these sanctions” to “bring down the regime.”<sup>74</sup> This position is supported by McCormack, who argues that late in 2005, following what David Asher referred to as a “strategic decision” at the highest level, policy direction in Washington fell into the hands of the “regime change” group: “Under the direction of Vice President Dick Cheney, with Undersecretary for Arms Control Bob Joseph as coordinator, and in accordance with the national security provisions of the Patriot Act designed for the struggle against terrorism, they set out to squeeze North Korea on every front, especially in regard to its alleged illegal activities and its human rights record.”<sup>75</sup> Leon Sigal quotes Cheney in connection with the February 2004 round of the Six Party Talks: “We don’t negotiate with evil. . . We defeat it.”<sup>76</sup>

A widely publicized instance of economic sanctions against North Korea is the case of the Swiss Kohas AG. In early 2006, the U.S. Treasury announced that it was imposing sanctions against this firm for acting as a “technology broker” for the North Korean military and for being suspected of involvement in “the proliferation of goods with weapons-related applications.”<sup>77</sup> The same source claims that “numerous U.S. government agencies, including the Federal Bureau of Investigation, the treasury and state departments, and the Central Intelligence Agency, have been working for three years to curtail Pyongyang’s vast network of black-market activities . . . and to cut off the financial conduits by which the proceeds are laundered.”

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73. Ibid.

74. Ibid.

75. McCormack, “Criminal States.”

76. Sigal, “An Instinct for the Capillaries.”

77. Caryl, “Pocketbook Policing.”

The recent ban on financial transactions with North Korea has certainly hurt, and American officials have been surprised by their own success. However, this sanction, too, might turn out to be both ineffective in the long run and a double-edged sword. As many foreign businesspeople have complained, the sanctions have damaged their businesses. North Korea has in the past shown that it will be able to bypass a sanction; it is not a matter of if, but when and how, it will establish new financial networks.<sup>78</sup> This time, however, they might be less transparent and more difficult to intercept. This corresponds with one century of experience with sanctions. Evidence shows that total embargoes are rare; usually, only specific goods are affected.<sup>79</sup> Accordingly, the economy-wide impact of the sanction may be quite limited. In particular unilateral sanctions will have the effect that trade may only be diverted rather than cut off. As O'Quinn bemoans, when U.S. economic sanctions are unilateral, "European and Japanese rivals replace American suppliers and develop long-term customer relationships."<sup>80</sup> In the case of North Korea, we could add a few more countries of origin. Those who opened a bottle of champagne over the unexpected success of the sanctions on North Korea's financial transactions might one day realize that they have wasted one of the few available "incentives" more or less aimlessly. Or, as Sigal argues, "leverage without negotiations makes no sense."<sup>81</sup>

North Korea needs hard currency. If sanctions limit the options for earning hard currency by legal means, this will change the cost-benefit balance of illegal transactions. In other words, it will become more feasible for North Korea to engage in trade with narcotics, weapons, and counterfeit money.<sup>82</sup> Let

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78. The Seoul *Chosun Ilbo* ("North Korea No Longer Takes Dollars," July 26, 2006) reported that the DPRK has asked Hyundai Asan to pay for the Mt. Kumgang tours in euros instead of U.S. dollars, obviously because of the difficulties of depositing the cash in international bank accounts.

79. Elliott and Hufbauer, "Sanctions."

80. O'Quinn, *A User's Guide to Economic Sanctions*.

81. Leon Sigal, "An Instinct for the Capillaries."

82. As shown above, the increase in these activities coincides with a collapse of legal trade channels and a worsening situation of the North Korean national economy. See also Prahar "North Korea: Illicit Activity Funding the Regime."

us not forget that the fight against these kinds of activities usually is the official justification of sanctions. However, one does not have to be a Nobel laureate to understand that they will in all likelihood have the opposite effect. North Korea is a system based on ideology and typically claims moral superiority. The leaders in such a system do care about reputation. They do not conduct illegal activities simply because they like being called evil, but because they see few other options. A hungry person will continue to steal food no matter how often he is punished; giving him a legal job might be the better solution.

One of the biggest problems with long-lasting programs of sanctions is that there is only limited supply. Just as the Bank of Japan had to realize in the late 1990s when the interest rate came close to zero after years of half-hearted efforts to boost the economy, the options for sanctions, too, are exhaustible. This corresponds with the conclusions reached by Hufbauer, Schott, and Elliott: The longer sanctions last, the smaller their chance for success.

### **Current Situation and Recent Experience: Assistance**

Assistance can be applied almost indefinitely, but will it deliver the desired results? There is a quite extensive and not always positive global experience with assistance. The reasons are manifold. Ironically, successful assistance makes itself obsolete. Although assistance is rarely given without concrete intentions, it usually involves one-way transfers (unilateral costs) and is usually not accompanied by strong control over its utilization. For instance, even if we make sure that a particular kilogram of food aid reaches “deserving” people, this food can—and will—serve as a mere substitute for food from other sources that can now be distributed to anybody, including “non-deserving” groups, a term that itself is highly controversial (is it okay if an 18-year old conscript starves to death?).<sup>83</sup>

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83. See Ruediger Frank, “Food Aid to North Korea or How to Ride a Trojan Horse to Death,” *Nautilus Institute, Policy Forum Online* 05-75 A, September 13, 2005, online at [www.nautilus.org/fora/security/0575Frank.html](http://www.nautilus.org/fora/security/0575Frank.html). Also see, in particular, the discussion by Stephan Haggard and

When emotions and ethics come into play, it is helpful to look at the facts. What have we got from about ten years of assistance to North Korea? As it seems, the food situation is still tense, but there has been no new large-scale famine. From a humanitarian point of view, that is a success that many aid workers in Africa have been awaiting for decades. Domestic destabilization—something that always comes at the expense of the weak—has been prevented. As Hazel Smith emphasizes,<sup>84</sup> we now do have a substantial amount of empirical and qualitative knowledge about North Korea, although we are of course not satisfied. She notes that there has been “an explosion of . . . usable quantitative and qualitative data” on North Korea since what I call the “second wave” of assistance started around the mid-1990s.<sup>85</sup> The World Food Program alone was able to visit about 160 counties out of a total of 203 regularly. The 400 to 500 visits per month look quite impressive indeed if contrasted with the remarks by the former U.S. Ambassador to Seoul, Donald Gregg, who repeatedly described North Korea as the “largest intelligence failure in the history of American espionage.”<sup>86</sup> He did so mainly because of the CIA’s inability to have sources on the ground.

Maybe it is a mere twist of faith, but the adjustments/changes/reforms/transformation—however we decide to call them—coincide with the beginning of international assistance. The invisible impact of individual encounters with the outside world on North Koreans, again mostly in the context of assistance, is hard to measure; but they may have higher and deeper long-term significance than any of the visible changes.<sup>87</sup> The

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Marcus Noland and the response by Frank, online at [www.nautilus.org/fora/security/0575ADiscussion.html](http://www.nautilus.org/fora/security/0575ADiscussion.html).

84. Hazel Smith, “Intelligence Failure and Famine in North Korea,” in *Jane’s Intelligence Review* (April, 2004), pp. 40-43, 51.

85. The first wave would have been the 1950s postwar reconstruction by the socialist camp; see Ruediger Frank, *The GDR and North Korea: The Reconstruction of Hamhung 1954-1962* (in German; Aachen: Shaker Verlag 1996).

86. R. Nolan, “Global Q&A: Engaging North Korea—A Conversation with Amb. Donald Gregg,” in Foreign Policy Association Resource Library (2002), available at [www.fpa.org](http://www.fpa.org).

87. For some details on the less visible, but important changes, see Ruediger

costs of this success story are ridiculously low if compared with other options, somewhere in the range of hundreds of millions of U.S. dollars. Nor should we forget that the aid shipments have helped to preserve jobs and demand levels in the donor's economies, further reducing the net costs. Hazel Smith points out that 90 percent of the food aid to North Korea consisted of grain surplus from developed countries that is of little alternative utility.<sup>88</sup>

Assistance is a tricky issue, but is it risky? The experience of the assistance of East Germany and other socialist countries to North Korea in the 1950s and 1960s clearly demonstrates that many mistakes can be made that will leave the donor unhappy. However, this assistance has not harmed anybody. In fact, the friendly attitude that the North Koreans usually show Europeans will of course be mainly motivated by strategic considerations, but to a certain degree also by the positive experience of post-Korean War reconstruction.

### **Conclusion: Sanctions or Assistance?**

The concrete experience of the last years suggests that sanctions are in most respects inferior to assistance. Sanctions are a non-friendly, aggressive policy with a shaky legal and moral foundation and should therefore be applied, if at all, with care and only as part of a well-defined strategy. They limit the target's options and invite a reaction. In the short run, sanctions can be very effective and can therefore be used successfully to support concrete measures in other fields. In the long run, however, they lose their impact and become a liability. The longer a sanction lasts, the smaller its effect, and the bigger the chance for a successful bypass. In the end, the new situation might be even less satisfactory than before the sanction.

If the decision to impose a sanction depends on the sender's assessment of costs and benefits, a predictable reaction by a ratio-

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Frank, "International Aid for North Korea: Sustainable Effects or a Waste of Resources?" *Japan Focus*, December 7, 2005, online at [www.japanfocus.org/article.asp?id=468](http://www.japanfocus.org/article.asp?id=468).

88. Smith, "Intelligence Failure and Famine in North Korea."

nal target country would be to increase the sender's potential costs by raising the possibility of a sufficiently costly retaliation. North Korea's options for imposing such costs on the United States are very limited; neither diplomatic nor economic means are available. What remains is the military option, again limited to a small area—weapons of mass destruction. This is what Washington has repeatedly declared it wants to eliminate. A nuclear attack on the United States would be both technically difficult and in fact suicidal for North Korea. The missile launches of early July 2006 might have been (mis)perceived by the leadership in the DPRK as one of the very few options it had to discourage further direct or indirect U.S. sanctions. This could turn out to have been a miscalculation by Pyongyang; nevertheless, the continuation of the nuclear and missile programs shows that the sanctions so far had the opposite effect of what was desired. Instead of reducing the threat from North Korea, they increased it.

If pressure exerted through economic, political, or military means increases to a level that is high enough to trigger a qualitative change such as regime collapse, we might end up with a successful surgery, but a dead patient. Both sanctions and assistance naturally involve a great deal of uncertainty and risk. But while we can still change the engagement therapy after the failure of one type of medicine, the failure of a hard-line approach will leave us with irreversible damage.

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