



Features and Structure of the Current International Economic Sanctions on the DPRK

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Much has been written on the various sanctions regimes presently imposed on North Korea by the global community.²⁾³⁾⁴⁾ The US is usually presented as the major country forcing these sanctions, and with reason, Washington having taken the lead in trying to force Pyongyang to halt its nuclear weapons program and in using the UNSC process to impose global hard-hitting sanctions.⁵⁾ Clearly the effort has not yet been successful in stopping the nuclear program although it may have slowed its development. It certainly has imposed large costs on the North Korean economy and other countries thinking of following the same nuclear path have much to

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- 2) Please see my December 2017 article for Asan Forum which describes lessons that could be learned from these sanctions. There have been few additional ones since then. Sanctions and Nuclear Weapons are Changing North Korea - The Asan Forum.
- 3) For a comprehensive list of US sanctions on North Korea, see Daniel Wertz, [Sanctions_Special_Report.pdf](#) (ncnk.org).
- 4) For a useful political background, see [What to Know About Sanctions on North Korea](#) | Council on Foreign Relations (cfr.org).
- 5) The term "sanctions" is a confusing word in the English language, what is known as a contranym. It is used to convey opposite meanings, as in an officially sanctioned and thus approved tennis tournament and an officially sanctioned and thus denied trade activity. The root meaning is something like an official action, either in support of or against a particular action. In this case, of course, we refer to a sanction as an official act preventing an activity. But the ambiguity and confusion of the word extends to much of the sanctions literature which often fails to isolate which parties are hurt and which are helped by a stoppage in normal commercial transactions. When sanctions are placed on North Korean textile exports, for example, textile producers in other countries may gain while foreign textile consumers may lose. In North Korea, textile producers may lose, while textile consumers may gain.

think about.⁶⁾ Meanwhile, fruitless debates over whether such sanctions can ever force Pyongyang's hand have ensued for at least a decade. Often lost in the arguments, however, is the original understanding, well expressed by former UN Panel of Experts member Katsuhisa Furukawa. "We need to be realistically mindful about what we can expect from the use of sanctions. ... When it comes to North Korea, there are only sanctions and unrealistically high expectations on what sanctions can achieve."⁷⁾

In this paper I aim to expand the debate, at least on the US side, by looking at what I would say are more important impediments to US-North Korea normal economic relations going back even before the Korean War to the creation of the North Korean state under Soviet tutelage. These impediments, though necessary and proper in my view, have diminished the impact of the additional nuclear weapons and missile sanctions by the United States, enhancing the role of other countries, especially China,

now the most influential though reluctant player influencing Pyongyang. Resolving historic US-North Korea economic and trade issues may be critical in raising American leverage and giving Pyongyang a better set of incentives toward arriving at a political settlement with Washington.

There is little doubt that North Korea is presently the most heavily sanctioned country in the world. Officially documented foreign trade reported by its mostly former trade partners is close to zero, the lowest level in the country's entire existence, bringing to fruition the idea that it has become nearly self-reliant. The only real exception is China's free provision of crude oil, likely a last card Beijing can use should Pyongyang explode another nuclear device. While the current UNSC sanctions against development of nuclear weapons are the strongest and most widespread, other actions over the years, many of which are the result of self-inflicted wounds by Pyongyang, have progressively strangled its foreign trade.

This has not always been the case. Despite Kim Il Song's penchant for talking about *juche*, or self-reliance, he recognized that the small country would always depend on foreign trade, using in a speech in 1956 a sensible figure of 60-70 percent as the share of industrial products that should be produced domestically. He frustrated the Soviets by not joining in the communist bloc's COMECON, the joint program for

6) See for instance, the latest report of the UN Panel of Experts, April 2021. "During the reporting period, the Democratic People's Republic of Korea maintained and developed its nuclear and ballistic missile programmes, in violation of Security Council resolutions. It displayed new short-range, medium-range, submarine-launched and intercontinental ballistic missile systems at military parades. It announced preparations for the testing and production of new ballistic missile warheads and the development of tactical nuclear weapons. In addition, it produced fissile material, maintained nuclear facilities and upgraded its ballistic missile infrastructure. The country continued to seek material and technology for these programmes from overseas. There were no reported nuclear or ballistic missile tests." Reports | United Nations Security Council.

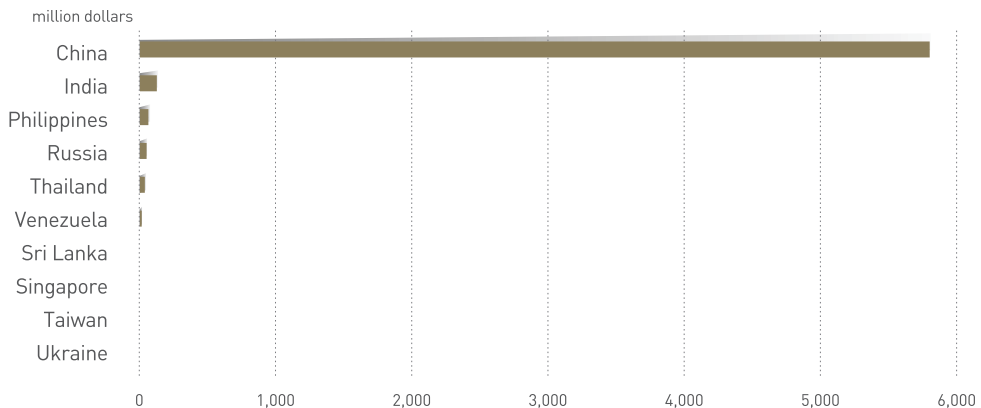
7) Unrealistically high expectations' surround N.Korea sanctions: former UN expert | NK News.

administering trade between the centrally planned economies, but even so trade with the bloc was crucial during the early years of North Korean development. When the Soviet bloc system of planned economies and administered prices collapsed in the late 1980s and early 1990s, North Korea was unwilling or unable to adjust, and its economy was hit hard leading to a major famine. Trade with the Soviet Union, later Russia, its biggest trade partner, fell to near zero. But it wasn't just the Soviets. Trade with Japan also had been strong until political issues surrounding the abduction of Japanese citizens, debt repayment issues, and concerns about nuclear weapons development in the mid-1990s, led to a complete Japanese shutdown of trade and a big reduction in important Korean-Japanese remittances. At various times West Europeans were large trading partners, especially in the mid-1970s, but North Korea defaulted on sovereign debts beginning in

1975 and, without a debt workout, trade has never recovered. South Korea has large barriers to trade with North Korea, but these have occasionally been relaxed and trade even promoted, especially with the Kaesong Industrial Zone in the 2000s. But these efforts to engage North Korea also faltered and were halted after the PY Do shelling and Cheonan sinking in 2010. Despite much talk of unity, no trade is currently conducted across the DMZ.

One constant in the country's external trade had been the rising role of China, at least until 2017, which grew rapidly as China's economy expanded and turned toward market pricing. By the early 2010s, China accounted for about 90 percent of North Korea's global exports and imports and by now, no other country in the world has a significant commercial relationship with Pyongyang. This made for an easy but not very meaningful onslaught of UN

Figure 1 North Korea: Top Ten Trade Partners, 2016



sanctions against Pyongyang's globally despised nuclear weapon developments.⁸⁾

Another, though less discussed constant has been North Korea's perpetual trade deficit. Its annual imports from the world have always exceeded exports, at least on the merchandise accounts, funded by foreign aid provided over time by each of its major partners, including massive Soviet bloc and Chinese aid following the Korean War, and large Western, Japanese, South Korean, and even US commodity aid during the 1990s famine, continuing until its nuclear breakout. Persistent aid, often political and not developmental in nature, arguably preserved for too long the command economy system and inhibited the development of an export-oriented economy, this despite a natural endowment and geography that should have promoted vigorous exports. The contrast with its neighboring export superpowers, South Korea, China, Japan, and Taiwan is stark. As if to make the point, the withdrawal of foreign aid that accompanied the nuclear sanctions, from 2006 onward, seemed to spur North Korean export and private sector development, as theory would suggest, and enlivened the economy. But this also faltered in 2017 after China jumped on board with severe sanctions on imports from North Korea. More debilitating has been the border closures since January 2020 due to the coronavirus scare and trouble in North Korea's now dollarized marketplaces.

An invisible player in this enervating trade and aid history has been the United States, which, lying behind a high pre-Korean war tariff schedule aimed at compensating for irrational, socialist economy administered prices; a Korean War era "Trading with the Enemy Act" that required licenses and prohibited most transactions; and a "Terrorists List" after the North Korean bombing of a South Korean commercial airliner, has kept economic and commercial relations at near zero. Added to this are a complex set of financial sanctions following the Patriot Act of 2011 that linked Pyongyang not only to nuclear and missile provocations but to money laundering, human rights violations, and cybercrime activities, trying to prevent North Korean actors from using the US dollar dominated international payments and investment system.

These US rules against North Korean commerce are much more important than they might seem since without access to the world's largest import market, or to dollar-based accounts, third party foreign investors have found an unreformed North Korea to be unattractive in comparison to other developing countries or even to China. In recent years this has been especially true in comparison to Pyongyang's former ally, Vietnam, now a booming US trade partner and the site of the second and most disappointing Trump-Kim summit in 2018 that had held out some hope for resolution.

8) Sanctions and Nuclear Weapons are Changing North Korea - The Asan Forum.

US Rules and North Korea's Irrational Prices, Negate Sanctions Leverage

In Hanoi, Kim offered a loosely defined closure of parts of the Yongbyon nuclear reactor site in return for lifting the post 2017 UNSC sanctions, the toughest ones that essentially shut down trade with China. This, in my view, was a good step but not enough to eliminate all these sanctions since it didn't address newer highly enriched uranium facilities, the current source of most of the country's fissile material.⁹⁾¹⁰⁾ But it was the potential beginning of a workable deal that so far has failed to pan out. Kim's offer showed the importance and the value of the sanctions—at least Pyongyang would deal to get rid of them in a much better way than it had with the former Agreed Framework where it had received compensation for doing something it had promised not to do. It's not clear exactly what President Trump offered but working against any such deal is the complexity of the layered US rules against economic engagement—Pyongyang correctly sees many of them as “hostile”. Combined with the basic irrationality of North Korea's administered price system this makes a trade and investment-based solution difficult if not impossible to achieve. Pyongyang probably understands this better than anyone. Opening the country to US trade and investment before the internal price and wage system is reformed would likely be catastrophic for the regime, even for the country.

The problems are on both sides, but they are not unresolvable. Most basic and longstanding of the US trade rules are the general US tariff regulations for all countries as determined by Congress and delegated to the President to administer. They are listed in the US International Trade Commission's website showing three columns of tariff rates for tens of thousands of products arranged against all the

9) KEI Board Member William B Brown Assesses Yongbyon with CNBC - Korea Economic Institute of America (keia.org).

10) IAEA sees signs of possible reprocessing in Kangson (joins.com).

world's countries and economies. Organized by commodity in the Harmonized System of product codes, Column One is the General, also called the Most Favored Nation (MFN) or "normal" schedule, applied to all member countries of the World Trade Organization, now essentially the entire world with only two important exceptions, Cuba, and North Korea. A sub-column in Column One is labeled "Special" with zero or very low tariff rates for countries with special arrangements with the US such as Free Trade Agreements, and for a large group of less developed countries (GSP) in need of assistance. South Korea is included in the sub-column due to the KORUS-FTA. For most products in both columns of Column 1 the tariff rates are low or zero. Column 2, actually the third column, is for countries not abiding by WTO rules and the tariffs are higher, often prohibitively so. There are also special tariffs imposed against China and Russia and various temporary duties imposed due to WTO rule infractions.

The interesting issue for our purposes is that North Korea is treated almost alone in the entire Column 2 list, giving credence to its charge that we have always treated it as a hostile country. These rates are often very high. For the most part they have been carried over from the infamous Smoot-Hawley tariffs of the depression era, never having gone through the liberalization of the post-War GATT and WTO processes as

have the Column 1 rates.¹¹⁾ I hasten to note that from a US perspective, these rates are not "sanctions" or a sign of hostility but the simple result of North Korea never having joined the rest of the world in coordinating and reducing tariff and non-tariff impediments to trade. Everyone else has done that, most famously China and Russia, both in long-drawn-out processes as they have worked themselves out of Column 2 by joining the WTO and, most importantly for their own development, rationalizing their internal prices making trade with capitalist countries work to their benefit. The simple fact is that a market economy such as ours cannot freely trade with a centrally planned economy as North Korea was configured and not yet completely reformed.

The high Column 2 tariffs are thus not political in nature but are indicative of the problem of trading between centrally planned and market determined price systems. A comparable situation would be allowing free trade between the controlled drug section of a pharmacy, where drugs require a doctor's script and are often covered by insurance, and the ordinary shelves where the drugs compete based on price. Given North Korea still has a partially administered and planned price system, a North Korean exporter with a state permit can assert an export price low enough to

11) William Krist, Chapter 1: U.S. Trade Policy in Crisis | Wilson Center.

make any foreign sale regardless of the genuine cost to the North Korean economy, and thus can and often does sell below the marginal cost of producing the item. While beneficial to the two specific partners to the transaction, below marginal cost pricing is harmful to the overall welfare of both the exporting and importing countries. If trade were opened, for no good reason, the country of the seller, a poverty-stricken North Korea, would subsidize the purchase of the buyer, a rich American consumer, while hurting the strained American or other competing foreign supplier and potentially competing North Korean buyers of the products. The result is a large efficiency loss, one that North Korea cannot afford.

Consider coal exports and electricity. In order to create a heavily industrialized and investment rather than consumer-oriented state, as envisioned by Stalin and his protégé, Kim Il Sung, North Korea has always priced electricity extremely low, as well as the coal that fuels the power plants. Miners in that system are paid little cash and subsist off of state rations and welfare in the planned or socialist economy. In theory, if everyone honed to the plan, a rational economy could ensue, the long hope of Marxist-Leninists. But such systems have never worked well; the world of production, and private incentives, is far too complex to plan in this way, and in North Korea it

broke down in a huge famine in the mid-1990s. Without subsistence level rations, a parallel market priced economy began to develop, continuing to this day. But the command system is not gone so there are two distinct economies at play in North Korea. This means there are two different prices for almost every good, service, and wage in the economy, one market based the other ration based. The state tries to keep the systems separate using sometimes draconian police tactics, but by 2021 seems to be on the verge of losing the battle amidst widespread and growing corruption and abysmal productivity in the state enterprises. So, increasingly, the regime is allowing market prices to trump the state set prices—in all but in state set wages and for key products and services. In the coal example, partial capitalistic style reforms now allow entrepreneurs who have purchased, or stolen state permits to sell coal at much higher, world market prices to Chinese buyers. But electricity prices remain almost zero. Power plants can't afford to compete with Chinese buyers and national power output has dropped due to lack of coal, robbing the economy of one of its most basic requirements. Everywhere we can thus observe a shortage of electricity in a country where it was once plentiful. One might even argue that China's stoppage of imports of North Korean anthracite in 2017 has even helped North Korea by increasing the supply of the coal to the more valuable,

from a marginal utility perspective, electricity producers. To the extent this happens for electricity and many other products, the punitive value of the sanctions is lessened. Kim tries to resolve the problem by emphasizing import substitution policies but for a country as small as North Korea,

this results in very weak productivity, little investment, and widespread commodity and parts shortages.



US Tariffs and Selected North Korean Exports to China, 2016¹²⁾

We can get an idea of the impact of US Column 2 treatment of North Korea should sanctions be removed by looking at its exports to China in 2016 and 2017, before the tough sanctions took effect, and comparing the US rates on each product. US tariffs are very specific to products, often to eight digits of the Harmonized Code, and some are specific taxes, so this table only includes representative averages or ranges on some likely North Korean exports. Detailed rates can be found in the ITC website.

Several things stand out. North Korea's big export items, such as coal and iron ore, would receive US rates that are minimal or zero, but that is because these are items the US doesn't normally import anyway. Others, such as some seafoods, could be exported to the US at small and workable rates. But as products become more complex with more value added, as with steel or items made from zinc or lead, the rates climb. Of course, this conflicts with what North Korea or any country would want to do, add value to its natural resources and export them.

The problem escalates in manufactured products, especially textiles, which North Korea has learned to export in large amounts only in recent years. US tariffs would be 35% and higher on most textile products compared to much lower rates for Vietnam or China, a large enough difference to deny North Korean producers the US market, this even without any sanctions. The problem is even greater for machinery or electronics or other manufactured goods for which tariffs could nearly double the price of any North Korea made product. Several items North Korea has recently begun to export, watches assembled from Chinese parts, hairpieces, and

12) China Customs 海关统计数据查询平台.

Table 1 US Tariffs and Selected North Korean Exports to China, 2016¹³⁾

HC Number	Product	NK Exports Mn US\$	US Col 2 (NK) Tariff	US Col 1 Tariff	US Col 1 Special (SK) Tariff
27	Coal-Anthracite	1,187.0 ¹⁴⁾	0	0	0
62	Apparel, not knits	611.5	35-90%	0-28%	0
26	Ores	225.0	0	0	0
03	Seafood	190.1	0-45%	0	0
61	Apparel, knits	111.9	35-90%	0-38%	0
08	Fruit & Nuts	50.8	0-35%	0	0
72	Iron & steel	44.0	20%	0	0
79	Zinc articles	39.5	45%	3%	0
91	Watches ¹⁵⁾	31.3 ¹⁶⁾	35%	0	0
85	Electrical Machinery**	30.6	40%	3.4%	0
67	Hair pieces	24.2 ¹⁷⁾	35%	0	0
74	Copper articles	13.9	6-45%	0-3%	0
64	Footwear	4.8 ¹⁸⁾	35%	6%	0
70	Glassware	6.1	40%	0	0
78	Lead articles	1.1	45% ¹⁹⁾	2.2%	0
28	Rare-earth metals	3.8	31.3	5%	0
84	Machinery**	0.6	45%	5.2% ²⁰⁾	0
85.07	Electric Machinery**	0	40%	3.4%	0
87.03	Motor Vehicles**	.01	2.5%	10%	0

** 2017 shipments, impacted by sanctions.

footwear, none of which are included in UN sanctions, have high US tariffs. The assembly industry in particular would be severely restricted by US tariffs, thwarting North Korean attempts to bring in foreign or even US investors who would aim to export their production to the US. Instead, Chinese firms may import North Korea made pieces and, after assembly, export them to the US as of Chinese origin. Even with Chinese sanctions on North Korea and tough US rules of origin, this probably happens behind the scenes, but again robs the North Korean exporter

and would-be American importer of much of the profit.

13) China Customs 海关统计数据查询平台.

14) All coal and mineral exports 27.0.

15) Digital.

16) Data is for 2018. Item not sanctioned and was rising rapidly.

17) Data is for 2018. Item not sanctioned and was rising rapidly.

18) Data is for 2018. Item not sanctioned and was rising rapidly.

19) Lead plate.

20) Rates vary substantially. This uses the rates for "boilers" as an example.

Executive Orders and other US Sanctions.

In addition to the high Column 2 tariffs, the US maintains a layered system of sanctions on North Korea that makes the tariffs inapplicable anyway, freezing US-North Korean trade and commerce by rule and not by economics. Since 1988, many of these are managed by the Treasury Department's Office of Foreign Assets Control (OFAC), in cooperation with State, DoD, Department of Commerce and others.²¹⁾ Many also relate to the Patriot Act, using the banking system and the global use of the US dollar to penalize people and entities who cooperate with North Korean authorities in matters of nuclear and missile development, illicit activities, money laundering and increasingly, cybercrime activities.²²⁾ A continuing issue with Treasury sanctions is the extent to which third country entities can be penalized by the US for their transactions with North Korea, so called "secondary" sanctions. Given the global extent of the UNSC sanctions, these should not be needed since every country should have the same prohibitions. Inevitably though there have been problems of enforcement where the US side identifies a foreign entity using a dollar-based account to engage North Korean entities and wishes to sanction it. Especially with China, this raises issues of extraterritoriality, and of concerns that China will cease to enforce its own sanctions should the US become overly invasive. Often, however, simply the threat by Treasury to list a third-party entity, especially a bank, is enough to stop or slow illicit activities. The UN Panel of Experts tries to highlight and resolve these kinds of problems.

The most prominent of US sanctions against North Korea had long been the "Trading with the Enemy Act (TWEA)" a 1917 law with the logical aim of prohibiting trading with a country the nation is at war

21) <https://home.treasury.gov/system/files/126/nkorea.pdf>.

22) North Korea Sanctions | U.S. Department of the Treasury This includes all Treasury and related actions against North Korea.

Table 2 US Executive Orders on North Korea, 2008-2017

Executive Order	Date	Key Actions
13466	26 June 2008	In response to the Six Party negotiations, President Bush removes North Korea from the Trading with the Enemy Act (TWEA) and Terrorist List (TL) ²³⁾ but in this EO, re-imposes most sanctions that had been covered by TWEA and TL so there is little net effect.
13551	30 Aug 2010	Adds designated individuals and organizations
13570	18 Apr 2011	Adds UN 1718 and UN 1874 sanctions on imports from NK and adds designated individuals and organizations
13687	2 Jan 2015	Expands 13570 and adds to list of designated North Korean persons and organizations
13722	15 Mar 2016	Ensures implementation of UNSCR 2270, strengthened export and import restrictions, blocks North Korean government and party transactions and assets, prohibits new investment in NK. Provides authorities for Treasury to block funds transiting accounts linked to NK and to sanction foreign financial institutions that knowingly facilitate transactions with North Korea. Blocks ships from US entry if they have called on a NK port within 180 days
13810	20 Sep 2017	Provides authorities for US agencies to sanction foreign individuals and institutions that knowingly engage with an expanded list of North Korean industries and organizations. (Secondary sanctions)

with, in that case Germany.²³⁾ Britain has a similar law. TWEA was imposed against trade with North Korea after its invasion of South Korea in 1950 and though changed, the strictures have remained in place ever since. President GW Bush removed the TWEA designation in 2008 in response to some success in the Six Party Talks²⁴⁾ but the same rules were immediately re-captured in Executive Order 13466 made under the jurisdiction of the International Economic Emergency Powers Act of 1977²⁵⁾²⁶⁾ so there

was little real change. Executive Orders are, however, temporary, often only one year, and more flexible than a legislated statute giving the President more latitude with which to deal. Any new president can cancel executive orders made by their predecessors, and many do. But with respect to these North Korea sanctions, Bush's successors, Obama, Trump, and now Biden, have all renewed the order and added to them. President Biden, on June 21 of this year, renewed all the previous orders.²⁷⁾ (See Text Box)

23) 50 USC Ch. 53: TRADING WITH THE ENEMY (house.gov).

24) North Korea: Presidential Action on State Sponsor of Terrorism (SST) and the Trading with the Enemy Act (TWEA).

25) The IEEPA operates in peacetime unlike TWEA which was only for wartime. So, the distinction for North Korea is important. See Andrew Marshall What is the Trading with the Enemy Act 1917 (US)? – Boot Camp & Military Fitness Institute (bootcampmilitaryfitnessinstitute.com).

26) Notice on the Continuation of the National Emergency with Respect to North Korea | The White House.

27) Notice on the Continuation of the National Emergency with Respect to North Korea | The White House.

28) https://home.treasury.gov/system/files/126/nk_proc.pdf.

Text Box²⁹⁾**The White House**

June 21, 2021

The existence and risk of the proliferation of weaponsusable fissile material on the Korean Peninsula and the actions and policies of the Government of North Korea continue to pose an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States. For this reason, the national emergency declared in Executive Order 13466, expanded in scope in Executive Order 13551, addressed further in Executive Order 13570, further expanded in scope in Executive Order 13687, and under which additional steps were taken in Executive Order 13722 and Executive Order 13810, must continue in effect beyond June 26, 2021. Therefore, in accordance with section 202(d) of the National Emergencies Act (50 U.S.C. 1622(d)), I am continuing for 1 year the national emergency declared in Executive Order 13466 with respect to North Korea.

This notice shall be published in the Federal Register and transmitted to the Congress.

These executive orders address many different issues with respect to North Korea, not just nuclear or missile provocations, and are continuously updated by OFAC, as can be seen on their website.³⁰⁾ Updates will typically include adding new individual or entities such as individual ships to the blacklist and often they are not North Koreans, but foreigners engaged in illicit activities with North Korea. Most of these sanctions have processes by which they can be waived by Treasury or State for specific purposes and any transaction with a North

Korean entity must receive a license or permit. Humanitarian aid and related travel is often permitted. Unfortunately, it appears rare that a blacklisted person or entity is removed from the lists. One would think an important leverage of such sanctions is to reward the absence of bad behavior, reimposing them if the bad behavior is continued, but this has not been the practice.

A related set of sanctions imposed on North Korea is as a State Sponsor of Terrorism (SST), simply called the “Terrorist’s List” managed by the State Department.³¹⁾ The

29) Sanctions and Nuclear Weapons are Changing North Korea - The Asan Forum.

30) North Korea Sanctions | U.S. Department of the Treasury.

31) North Korea: Presidential Action on State Sponsor of Terrorism (SST) and the Trading with the Enemy Act (TWEA).

Department designated North Korea in 1988 based on the bombing of Korean Air 858 the year before.³²⁾ These mostly duplicate other sanctions already in place but include a prohibition against awarding MFN or GSP tariff status to a designated state. It also was withdrawn by President Bush in 2008 but was redesignated by President Trump in November 2017 following nuclear and ICBM tests. Secretary of State Tillerson at the time admitted the action would have little impact on North Korea given all the other sanctions

already in place³³⁾. Ancillary public and military pressure, however, did push Kim to suddenly reach out to China, South Korea, and the US and engage in an historic set of summit talks, indicating severe pressures were building on North Korea but also an unwillingness to back down.

32) For a list of prohibited actions, see North Korea: Back on the State Sponsors of Terrorism Lists? (fas.org).

33) Trump designates North Korea as state sponsor of terrorism - CBS News.



UNSC Nuclear Weapon Sanctions

In 2006, when Pyongyang exploded its first nuclear device, it was already one of the world's weakest exporters and importers, far below where it would have stood prior to the 1990s. And 90 percent of its limited foreign trade was with a single country, China. To all other countries, the Pyongyang trade was essentially without economic meaning. This meant that it was relatively costless for the world body to impose sanctions, but it also meant North Korea itself was less vulnerable to them. It thus should be little surprise that for years these sanctions did not work the way they were intended.

Table 3, taken from an article I published in *Asan Forum*³⁴⁾, is a list of the UNSC sanctions imposed on North Korea from 2006 to 2017. One additional resolution was added on December 22, 2017, S/RES/2397, immediately following an ICBM test, which further reduced the allowed petroleum product exports to North Korea to 500,000 bbl. and which warned any further tests would shut off even more of the country's crude oil and products supply.³⁵⁾ Considering China has long been the source of almost all the country's petroleum, the inclusion of Beijing in making this warning must have had an impact on North Korean thinking—and Kim promptly got on his train and paid his first state visit to Beijing. And, in fact, no nuclear or long-range missiles have since occurred. Neither have any new resolutions been passed, although North Korea continues to test prohibited shorter range ballistic missiles, even as recently as September 2021.

As one can readily see from the resolutions, the result, if not the plan, has been to broaden sanctions to include more products with

34) Sanctions and Nuclear Weapons are Changing North Korea - The Asan Forum.

35) FACT SHEET: UN Security Council Resolution 2397 on North Korea | United States Mission to the United Nations (usmission.gov).

Table 3 UN Sanctions against North Korea, 2006-2017**UN Sanctions Against North Korea: 2006-2017**

Resolution	Date	Cause	Sanctions (selected items)
S/RES/1695	15 July 2006	Ballistic Missiles	Bans trade related to missile and nuclear production and exports of luxury goods to North Korea.
S/RES/1718	14 October 2006	Nuclear Test	Bans trade in most military items; limited travel and civilian trade bans.
S/RES/1874	12 June 2009	Nuclear Test	Bans military trade; bans finance and trade except for humanitarian and development purposes.
S/RES/2087	22 January 2013	Missile Test	Enhanced monitoring, no sale or finance of items helpful to nuclear or missile program—specifies sanctions are not to harm North Korean livelihood.
S/RES/2094	7 March 2013	Nuclear Test	Urges targeted financial sanctions, adds sanctioned individuals and companies, halts bulk cash transfers to NK, tightens monitoring.
S/RES/2270	2 March 2016	Nuclear and Missile Tests	Restricts imports from North Korea of coal, iron ore, rare earths and other items except when livelihood is at stake, and prohibits export of aviation fuels.
S/RES/2321	30 November 2016	Nuclear Test	Sets limits on coal imports from North Korea of \$54 million or 1 million tons in third quarter of 2016, whichever is lower, and \$401 million dollars or 7.5 million tons in 2017. Bans imports of iron, iron ore, except when livelihood is at stake. Bans imports of copper, nickel, silver, zinc, seafood, lead, lead ore. Prohibits new joint ventures or expansion of existing ones. Bans expansion of North Korean workers overseas. Regrets economic hardships imposed on people by the North Korean government.
S/RES/2371	5 August 2017	Missile Test	All coal and iron ore imports from North Korea are banned, except transfers of coal that originated elsewhere. (i.e.) it removes limits and allowances for livelihood considerations expressed in 30 November resolution and removes "by aircraft or shipping vessels", thus including imports by rail or truck. "Reaffirms that the measures imposed are not intended to have adverse humanitarian consequences for the civilian population of the DPRK or to affect negatively or restrict those activities" thus allowing case by case exemptions. Adds to individual sanctions.
S/RES/2375	11 September 2017	Nuclear Test	Bans imports of textiles from North Korea, prohibits an increase in crude oil exports to North Korea and cuts petroleum product exports to 500,000 tons in fourth quarter 2017 and 2 million barrels a year, thereafter, subject to humanitarian concerns. Further restricts overseas labor.

Figure 2 China-North Korea Trade

Jan 2015- Aug 2021

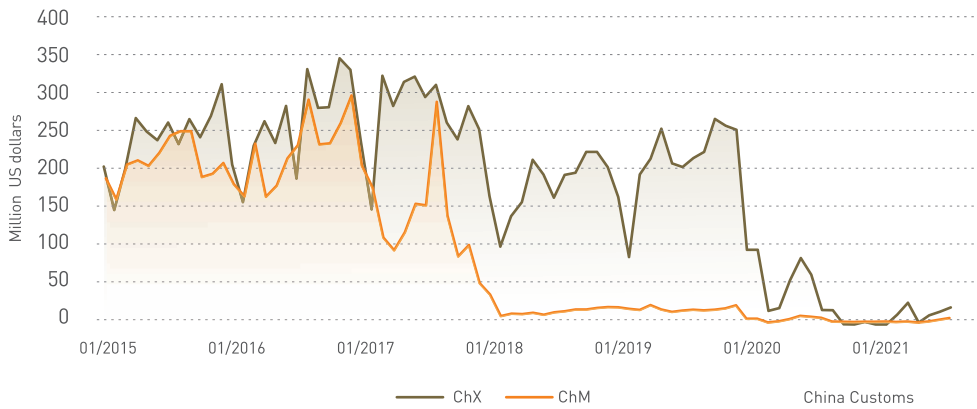
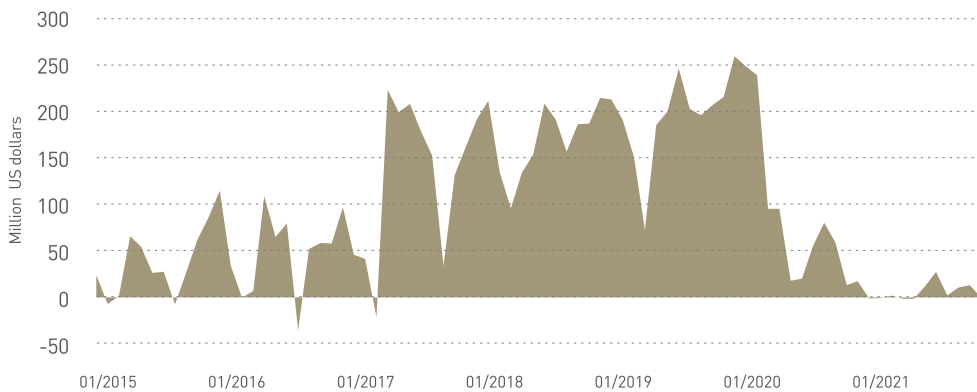


Figure 3 China-North Korea Trade Balance

Jan 2015- Aug 2021



each North Korean nuclear test, starting from prohibitions narrowly targeted at sales to and purchases from nuclear and missile organizations, as best as could be identified, and with the military, to, eleven years later, a widespread prohibition against virtually all means the country had to earn foreign exchange—the logic being that any earnings could find their way to supporting nuclear

developments. And quite amazingly, by 2017 the sanctions have prohibited the sales to North Korea of any kind of heavy machinery or vehicles and or virtually any industrial inputs. Pyongyang called it a wartime embargo and in truth, it is close to that though not enforced by a blockade. Until 2016 and 2017, Moscow and Beijing had insisted that sanctions should not interfere

with the economy at large nor affect people's living standards. The US and others generally agreed that there was no intention to hurt the livelihood of the Korean people, so huge loopholes were included that, for instance, prohibited importing North Korean coal except when miners' livelihood was affected.

All of this changed remarkably in late 2017 when, as a result of a large nuclear test and an ICBM test launch, and a strong verbal response from President Trump, both Russia and China agreed to severe economy-wide sanctions, even prohibiting UN members from purchases of important items such as textiles and seafood, this on

top of already denied minerals and metals, and requiring a staged expulsion of about a hundred thousand overseas North Korean workers, mostly from China and Russia. The only significant trade items that were not shut down were agricultural products and petroleum. China was allowed to continue to supply crude oil at a 500,000 ton per year rate, likely consistent with a long-term aid agreement, while petroleum product shipments from all sources were cut from about 2 million bbl. a year to 500,000 bbl. (about 65,000 tons).



Surprising and Profound Economic Impacts

With China officially approving these tough sanctions and with loopholes on livelihood issues removed, the impact on the North Korean economy has been profound. From an estimated \$2.8 billion in worldwide exports in 2016, North Korean shipments fell to only \$156 million by 2020, according to South Korean estimates (KOTRA) which are based on official partner country reporting. Imports, including an estimate for unreported Chinese crude oil, fell from \$3.7 billion in 2016 to only \$558 million in 2020. And trade has fallen even further in the first eight months of 2021. Outside estimates of North Korea's GDP growth, for instance by the South Korean central bank, fell to near zero in 2019 and to a negative 5 percent in 2020. Better evidence of trouble comes from Kim Jong Un's public remarks last January that the Five-Year Plan ending in 2020 was a failure. Self-reliance rather than opening has returned as the political mantra of the regime.

Surprisingly, the sanction induced collapse in exports in 2018, not immediately matched by an equivalent drop in imports, was not followed by a collapse in the market value of the North Korean won. This was despite an annual current account deficit that must have risen by a billion dollars or more by 2019 and amidst an already heavily dollarized domestic economy where won can easily be converted to dollars or yuan. Machinery and vehicle imports fell as a result of sanctions but needed consumer goods held up for a while before falling dramatically in 2020 and 2021 as Pyongyang closed its borders out of fear of the pandemic, and, by then, a likely shortage of foreign exchange. With no demand for foreign goods, won has even increased in value this year against dollars and yuan as the trade deficit evaporated and as the government has tried to restrict the circulation of foreign currency.

This might be a success story for monetary stability and indicates a certain competence among North Korean financial authorities, but it holds major consequences for investment, the state's own budget, and economic planning—in other words for Kim's entire economic program. More than likely the monetary authorities reacted to prevent a financial panic as had occurred in 2009, by severely tightening monetary and fiscal policy, creating a shortage of won that would have matched the shortage of dollars and thus maintained the won's relative value. But this would have sent the economy into a deep recession as investment spending—usually large in a planned economy—would have collapsed. Credit would have been curtailed, new printing of money by the central bank prohibited, and government agencies would have been required to raise fees and bring in funds wherever they could to meet their budgets. Selling of institutional bonds was even tried but apparently abandoned as trust in the currency remains lacking.

Going forward, particularly important will be how Kim and the regime react to this new budget constraint, imposed not by the plan or the Worker's Party but by markets and the regime's need to protect the won by not printing more of it, especially if the border is opened and imports and people again begin to flow. Pressures to expand exports even in the face of sanctions will

increase and the state will be looking for new ways to produce its own income. One interesting recent example is in the food supply. With market rice and corn prices rising, the state, according to Daily NK, intervened in August to supply grain to the public from reserve stocks, a normal practice. But instead of adding it to bi-weekly rations, this year the grain is being sold to consumers at just below market prices, and far above the normal rationed price, saving money for Pyongyang while addressing the shortage problem, assuming the public can afford the higher price. Abandoning ration prices and selling state assets in this way could go a long way to resolving Pyongyang's finance problems, a big step toward finally ending the command economic system. But state set wages also will have to rise to something closer to the marginal product of labor or the state will continue to lose work to the private sector.

These important changes in the basic structure of the North Korean economy, plus changes in the banking and finance system, suggest that the country is well along the road toward a market based system of prices that could be consistent with the WTO market system. As such, this should greatly ease if not entirely resolve issues related to the WTO and US Column 2 tariffs, making entry into the global system much more profitable to North Korea and reasonable for the rest of the world. Several

important steps remain, especially the treatment of state wages and of the hugely inefficient collective farming system, but these also appear to be on the verge of radical improvements. All of this, moreover, would raise the opportunity cost to North

Korea of not participating in the global trading system, and thus raising the cost to the economy of the nuclear program which is preventing such interactions.



Future of sanctions-Attention to incentives is most important

Clearly the sanctions have not worked to stop North Korea's nuclear program, and clearly they are creating hardship for the North Korean people, two outcomes at odds with the UNSC's original plan. Some argue the former is due to weak enforcement by China and certainly there are many cases of prohibited transactions taking place. But this reasoning seems specious. Trade between China and North Korea by anyone's definition has been decimated by the sanctions even if the actual levels are twice what is reported, officially. And Chinese investments in North Korea seem to be nil. The sanctions are not an embargo and North Korea has not been physically blockaded by any world power, least of all, China, so plenty of illicit trade will continue, but at higher costs and more friction than would ordinarily be the case. The higher costs can mean higher profits for those willing to take risks, so this will continue no matter the diplomatic posturing.

Others who disparage the sanctions, saying they are too strong, focus on negative humanitarian aspects yet these arguments also seem specious. It is well within the leaderships' reach to make accommodations that would allow much more trade to occur. Many export items are not sanctioned yet are not traded. The border closure suggests, moreover that supply of consumer goods imports, even grain and fertilizer, is not the leadership's main concern. One might guess that critical elite interest groups in Pyongyang may even like the sanctions and the border closures since they are keeping out what had been a relentless inflow of capitalist ideas and money into the still partially socialized economy. For a small monied class, the sanctions may offer a sense of stability and even great profit.

In these circumstances careful attention needs to be made to sanctions policies by the United States and others to provide the right kinds of inducements to Pyongyang if denuclearization and reforms are to be given a chance. Sanctions should be considered levers to prod policy in a positive direction and they thus need a certain flexibility. We might be reminded that negotiations to take the Soviet Union and China off the restrictive US Column 2 tariff lists began long before the two socialist giants actually

reformed their fixed price systems or joined the WTO. With North Korea's monetary and trading system in apparent confusion and disarray, similar conversations with Pyongyang on economic reform policies, putting the country on a track to join the WTO and eliminate US Column 2 tariff rates well before nuclear sanctions are lifted, might well be in everyone's interests.





**Features and Structure of the Current
International Economic Sanctions on the DPRK**