

Ilmin International Relations Institute Background Paper Series

Sponsored by
MacArthur Foundation's Asia Security Initiative

No. 05

Assessment of Economic Sanctions on North Korea: Determining Factors and Effect

Sung-Yoon Chung

IIRI, Korea University

Assessment of Economic Sanctions on North Korea: Determining Factors and Effect

Sung-Yoon Chung*

(Ilmin International Relations Institute, Korea University)

April 2012

I. Introduction

South Korea, the United States, and the international community have failed to fundamentally change North Korea's attitude despite their continual efforts to denuclearize the Korean peninsula over the past two decades. The international community has responded to North Korea's nuclear program with various sanctions over a long period in an attempt to block the North's nuclear development and punish the North for it. There have been analyses and assessments that economic sanctions against North Korea, despite their intensity, have failed to make the impact that the international community had anticipated. In short, there are skepticisms and controversies about the effectiveness and the necessity of sanctions against Pyongyang. Some have even offered the extreme diagnosis that sanctions against the North are unnecessary.¹ In response to these thoughts and

* *Sung-Yoon Chung* is a Research Professor and the head of division of research planning and coordination at the Ilmin International Relations Institute (IIRI), Korea University since 2007. Dr. Chung completed his Ph.D., M.A. and B.A. in Political Science from Korea University. Prior to joining the IIRI, he served as a Visiting Scholar at the Center for Asian Studies at American University. Dr. Chung's research interests include security studies and crisis management in Northeast Asia and he is currently involved in various research projects evaluating the U.S.-North Korea relations as well as the security dynamics on the Korean Peninsula. His recent researches are as follows: "North Korea's Hwa-Chun Double-Sided Strategy (2012)" and "Crisis Decision Making Theory Revisited (2011)."

¹ For articles analyzing the effect of economic sanctions against North Korea, see Stephen Haggard, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," *Asian Survey*, Vol. 50, No. 3 (2010), pp. 539-568 (<http://www.cfr.org/north-korea/why-sanctions-can-hurt-north-korea/p22762>); Martin Fackler and Choe Sang-hun, "Will Sanctions Ever Work on North Korea?" *The New York Times*, June 12, 2009 (www.nytimes.com/2009/06/13/world/asia/13korea.html); Shaun Rein, "Sanctions on North Korea Are Wrong," *Forbes*, April 10, 2008 (<http://www.forbes.com/2010/08/04/north-korea>).

assertions, this research paper raises the following questions: First, are international economic sanctions against the North effective at all? Second, what are some of the key factors determining the effect of the sanctions? Third, if the sanctions against the North are thought to have a positive effect, what is the basis for arguing against sanctions? To answer these research questions, this paper shall analyze the effect and influence of international sanctions from the foreign policy, security, sociopolitical, and economic perspectives. This paper concludes that, while economic sanctions are fundamentally limited in shutting down Pyongyang's nuclear ambitions, they are partially effective from an economic, sociopolitical, and security viewpoints. Furthermore, the effect will most likely be long-term and structural.

II. Status of Economic Sanctions

Economic sanctions are threatening steps to deliberately sever trade or financial relations, designed to induce policy changes on the part of the sanctioned state. In other words, economic sanctions can be defined as a type of coercive diplomacy using economic means. Economic sanctions against North Korea are broadly divided into multilateral sanctions centered on the United Nations (UN), and unilateral sanctions imposed by individual states, such as South Korea and the United States. Sometimes these two categories of sanctions are imposed simultaneously. This paper shall study the status and effect of these two broad categories of economic sanctions against North Korea. The effect of international economic sanctions against North Korea can be confirmed by the changes in the country's economic indices in the lead-up to and following 2006 and 2009, when the virtually US-led UN Security Council (UNSC) resolutions on sanctions were implemented against North Korea. The crux of South Korea's sanctions on North Korea is the May 24 sanctions against the North, implemented in the wake of the sinking of the ROK naval vessel Cheonan, in 2010. Hence, the meaning of the sanctions' effect may be found by

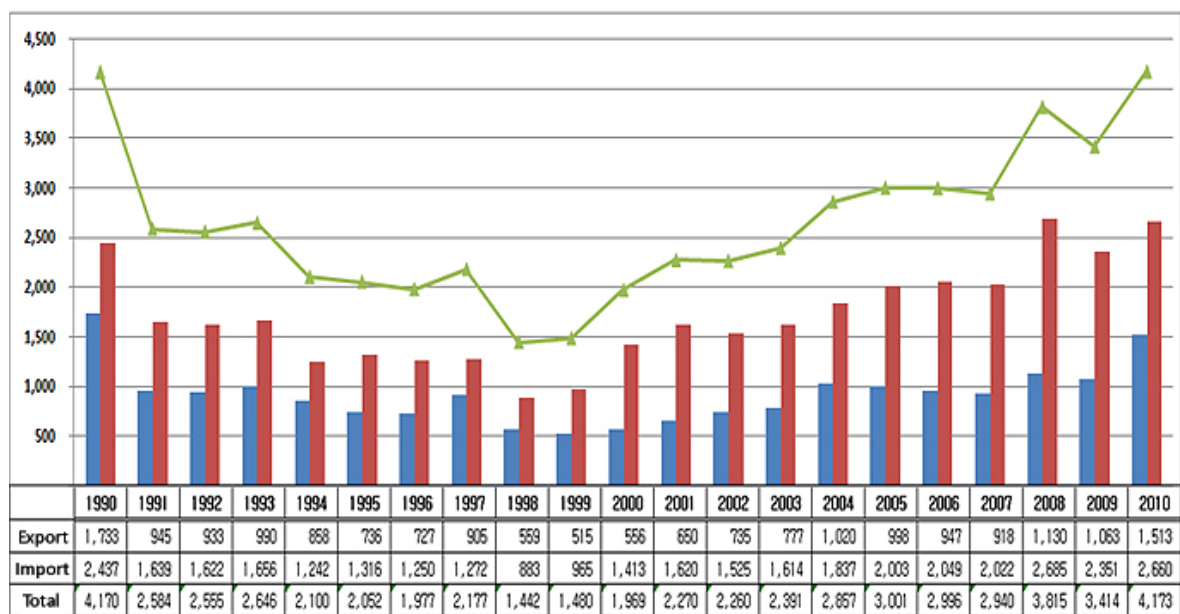
korea-sanctions-clinton-leadership-citizenship-rein.html); and Meredith Woo-Cummings, "The Political Ecology of Famine: The North Korean Catastrophe and Its Lessons," *ADB Institute Research Paper* 31, Asian Development Bank, 2002.

studying the changes in North Korea's economic indices by sector prior to and following the implementation of the May 24 sanctions.

Between 2000 and 2006—before UNSC Resolution 1718 was adopted in 2006—North Korea's trading volume (the sum of import and export volumes, excluding inter-Korean trade) had shown more than an average of 7.5% growth rate per year. It decreased by 1.8% in 2007, but it recorded rapid growth of 29.7% in 2008. The North's trading volume went down by 10.5% again in 2009, but went up by 22.2% in 2010, resulting in \$4.174 billion growth.² Worth noting is that, as Graph 1 demonstrates, while North Korea's trade temporarily decreased immediately following the UNSC's adoption of the anti-North Korea sanctions in 2006 and 2009, it increased markedly in the years that followed (by 29.7% in 2008 and 22.2% in 2010).

Graph 1: North Korea's Foreign Trade by Year

(Unit: US\$ million)



Source: KOTRA

² *Trends in North Korean Foreign Trade 2010*, Korea Trade-Investment Promotion Agency (KOTRA), March 2011.

In sum, North Korea's trade record does not appear to have been affected significantly by the full-scale and broad economic sanctions implemented after 2006. Conventional wisdom, however, has it that UNSC Resolution 1874 of 2009 and the ROK government's May 24 measures of 2010 cover existing sanctions against the North, and that trade sanctions start to take effect slowly. Considering this view, the details of North Korea's trade in 2010 merit closer review. This author, therefore, analyzed North Korea's trade relations with China, which account for more than 80 percent of the North's total foreign trade, and with South Korea, which makes up 40-50% of the North's total trade, over the past five years. According to Table 1, the North's trade volume with China in 2010 recorded \$3.47 billion, surpassing the \$3 billion mark for the first time in history. A 29.3% increase from the previous year, exports went up by 49.8% year-on-year, reaching \$1.19 billion. Imports stood at \$2.28 billion, an increase of 20.7%.

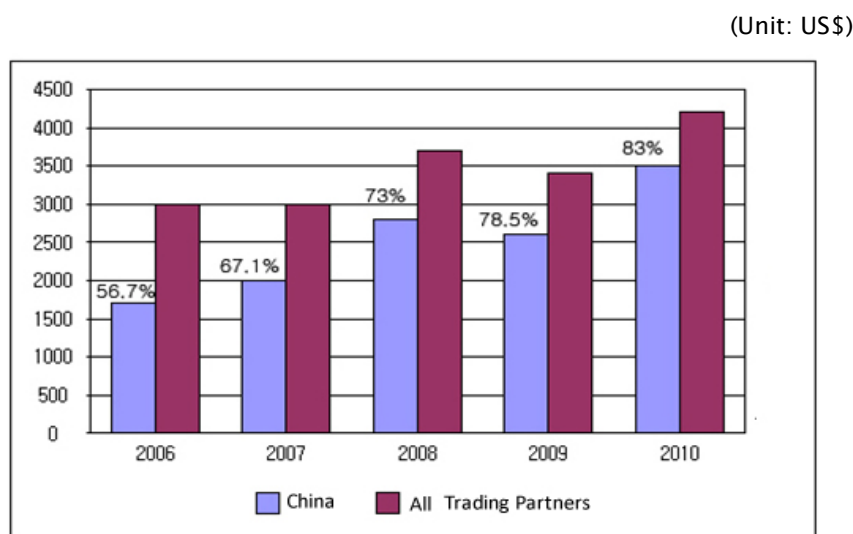
Table 1: North Korea's Trade with China

(Unit: US\$ million unless otherwise noted)

	2006		2007		2008		2009		2010	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Export	467.7	-6.3%	581.5	24.3%	754	29.7%	793	5.2%	1.19 billion	49.8%
Import	1.23 billion	13.9%	1.39 billion	13.0%	2.03 billion	46.0%	1.89 billion	-7.2%	2.28 billion	20.7%
Total	1.7 billion	7.5%	1.97 billion	16.1%	2.79 billion	41.2%	2.68 billion	-3.8%	3.47 billion	29.3%
Balance	-764.2	31.3%	-810.9	6.1%	-1.28 billion	57.7%	-1.1 billion	-14.3%	-1.09 billion	-0.1%

Source: KOTRA

According to Graph 2, North Korea's trade dependence on China has consistently increased since 2003. In 2010, it hit a record high of 83%.

Graph 2: Trade with and Trade Dependence on China

500 => 500,000; 1000 => 1 mil.; 1500 => 1.5 mil.; 2000 => 2 mil.; 2500 => 2.5 mil.; 3000 => 3 mil.; 3500 => 3.5 mil.; 4000 => 4 mil.; 4500 => 4.5 mil.

Source: KOTRA

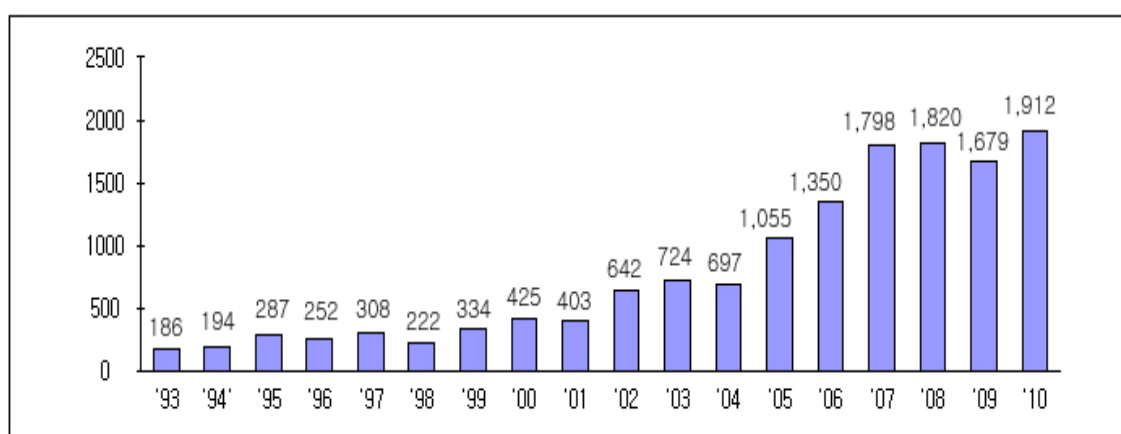
There are a few reasons for North Korea's deepening reliance on China for trade. First, due to international sanctions, Pyongyang had no choice but to turn to China, its only ally, for most of its imports and exports. Second, China's geographical proximity, as well as the price competitiveness of Chinese goods, is presumed to have played a big part. Specifically, electronic goods, televisions, and videotape recorders made it to the North's list of top 10 exported goods. Amount-wise, the North's food imports, including crop products, increased by 7.8%, but weight-wise, they decreased by 4.7%. North Korea's imports of grains that can replace rice, such as barley and millet, soared by more than 100%, compared to the previous year. Its spending on fertilizer imports also rose by 76.4% year-on-year.

Changes in inter-Korean trade also serve as significant indices for gauging the impact of sanctions on North Korea. Over the past decade, inter-Korean trade has made up a maximum of 38% in North Korea's total trading volume and 13% of the North's GDP. When the South Korean government imposed the May 24 sanctions against the North in 2010, many experts projected that these strong economic sanctions, added to existing international sanctions, would deal a direct blow to the North Korean regime. Their logic was, the ROK government's sanctions could create

a vicious cycle of events in the following order: suspended inter-Korean trade → suspended imports of hard cash from South Korea → shortages of payment to China → weakened ability to import from China → lull in North Korea-China trade → difficulty in finding another trading partner → overall slump in trade. This analysis was premised on North Korea's trade structure in the 2000s—expanding trade with China with the dollars it earned through inter-Korean trade—and led to the conclusion that suspended inter-Korean trade is bound to have a negative impact on North Korea-China trade as well.

Graph 3: Inter-Korean Trade Volume by Year

(Unit: US\$ million unless otherwise noted)



1,055 => 1.055 billion; 1,350 => 1.35 billion; 1,798 => 1.798 billion; 1,820 => 1.82 billion; 1,679 => 1.679 billion; 1,912 => 1.912 billion

Source: Ministry of Unification, ROK

In fact, the South Korean government's direct and indirect aid to North Korea was reduced markedly due to the May 24 sanctions. The South Korean government's aid to the North in 2010 went down sharply by 61.2%, from 77.5 billion won in 2009 to 30.1 billion won in 2010. The government did not provide any aid to North Korea indirectly through the international community, and South Korean civic groups' aid to North Korea decreased by 72.7%, from 7.7 billion won to 2.1 billion won. Yet, Graph 3 shows that the total inter-Korean trading volume increased by 13.9% between 2009 and 2010, from 1.679 billion won in 2009 to 1.912 billion won the next year. This increase can be explained by the fact that, while transfers into North

Korea decreased from the previous year by 16.6% to \$818 million, transfers into South Korea rose year-on-year by 11.7%, to \$1.044 billion. Increased transfers into South Korea may be ascribed to the growth of the Kaesong Industrial Complex (KIC) despite the May 24 measures. The inter-Korean trading volume through the KIC in 2010 rose drastically by 53.4% in 2010, from \$941 million in 2009 to \$1.44 billion in 2010. Production also increased by 26.1%, from \$256.47 million to \$323.32 million. This can be explained by an increase of North Korean workers and the corollary rapid growth in production at the KIC despite restrictions on the number of personnel on the KIC premises and prohibition of new investment. Hence, the KIC has taken up an increasing share of the total inter-Korean trading volume, going up from 56% in 2009 to 75.5% in 2010.

In conclusion, the North Korean economy was not hard-hit by the string of strong economic sanctions imposed on the country since 2006. The main reasons for this are, since 2007, the South Korean government has maintained pre-2007 inter-Korean trading volume levels,³ and more importantly, it did not close down the KIC, which accounts for more than half of North-South trade. In addition, a whopping 76% increase in North Korea-China trade volume since 2007 was another primary factor in offsetting the impact of economic sanctions on North Korea. However, we cannot conclude that the economic sanctions have failed to accomplish the ultimate goal simply because their impact was insignificant economically. We should examine how economic sanctions have brought about changes in North Korean policies, which was the original goal of the sanctions. This paper shall analyze the determining factors and repercussions of sanctions against North Korea from foreign affairs, security, and sociopolitical angles.

III. Sanctions Effect: Their Determining Factors and Weaknesses

1. Characteristics and Limitations of Assessment

³ In 2007, the last year of the Roh Moo-hyun administration, the total inter-Korean trading volume amounted to \$1.796 billion. The average inter-Korean trading volume since the advent of the Lee Myung-bak administration amounted to approximately \$1.803 billion. Inter-Korean trading volume peaked at a record high of \$1.912 billion in 2010, despite North Korea's nuclear test in 2009 and the strains in inter-Korean relations that followed.

The ultimate goal of economic sanctions against North Korea has to be assessed from foreign affairs, security, and sociopolitical aspects, because economic sanctions against the North are aimed at changing North Korea's belligerent policies toward the Korean peninsula and ultimately making North Korea give up its nuclear weapons development. Viewed through this prism, the short-term effect of North Korea's sanctions is highly inadequate. Economic sanctions are a diplomatic means of bringing about certain changes in a sender country's policy goals or in a target country. Yet, whether economic sanctions are an effective means of attaining that goal remains questionable, despite years of animated debates on the matter. The effectiveness of economic sanctions continues to be a matter of controversy because of the essence of economic sanctions—using economic means to reach political ends. In other words, great economic impact does not necessarily lead to attaining the goal of sanctions. Furthermore, just because there are North Korean policy changes while sanctions are in place does not necessarily mean that they were a direct effect of economic sanctions. It would be difficult to offer solid logical grounds for that. Moreover, in many cases there are multiple aims to a set of sanctions. At times, they are vague and are only meant to be symbolic. Other times, the goals of sanctions may change. There are also a variety of factors that affect the effectiveness of sanctions. Not only that, they become correlated, making it all the more difficult to evaluate the effectiveness of sanctions.

In sum, the effectiveness of economic sanctions against North Korea is difficult to gauge in terms of its correlation to the effects of other types of sanctions. This is because US-led economic sanctions against North Korea have lasted a long time, they each have different objectives, and they are still in effect. Moreover, these long-term economic sanctions have become part of an unchanging external environment for North Korea, one to which the North Korean economy has been acclimating. Evaluating the effectiveness of sanctions thus may not hold much meaning in North Korea's case. Hence, a full assessment of the effectiveness and repercussions of sanctions against North Korea may have to wait. In the light of these limitations, this paper shall offer the main reasons for why the short-term effect of sanctions on North Korea is not visibly showing. It will do so in the framework of the structural weaknesses of sanctions.

2. Essential Limitations of Sanctions

First, sanctions themselves have essential limitations. In short, if the main goal of sanctions has to do with the survival and fate of a target country, it will be virtually impossible for sanctions to have effect. As shown by North Korea's continued demand on the United States to "withdraw its hostile policy," North Korea views the United States as the greatest threat to the survival of its regime and system. Pyongyang believes that Washington will step up pressure by raising issues that are essential to the North Korean system, such as human rights, even if security concerns, such as nuclear and missile issues, were addressed. In short, from Pyongyang's perspective, renouncing its nuclear program will not mean "game over."

Such a threat perception by North Korea is a type of aggressive and conflictive foreign policy that small states conduct vis-à-vis great powers. Generally, the crux of small states' foreign policy is to acclimate themselves to the international security environment for the sake of survival.⁴ Since the end of the Cold War, North Korea as a small state had to adjust to an international order led by the United States, the world's sole superpower—all the more so because its security alliances with Russia and China were rapidly unraveling, and under the circumstances, military alliances as balancing resources were becoming increasingly uncertain. Hence, for systemic survival, Pyongyang was compelled to overcome its security weaknesses as a hostile small state.

Generally, while small states wish to establish cooperative relations with great powers, it is not easy to do so if great powers refuse. The United States, the superpower, has had the alternative of South Korea, with which it shares the same

⁴ Small states' alliance policies are a testament to this type of acclimation. Small states' alliance policies take the form of balancing policies where, to strike a balance of power with powerful states that threaten them, they take sides with allied forces that are opposed to those power states. If not, they promote their own security by jumping on the bandwagon with the powerful states that threaten them. North Korean foreign policy during the Cold War was also characterized by balance and jumping on the bandwagon. During the Cold War, North Korea climbed on the bandwagon with the two leaders of the socialist bloc—the Soviet Union and China—by carrying out "equidistance diplomacy" and "hedging" it bets between these two countries, all the while conducting a balancing strategy toward the United States.

political and economic systems. Hence, North Korea was not of crucial importance strategically, and the United States thus remained indifferent to it. When Pyongyang began to approach Washington in the post-Cold War era, the main task for Pyongyang was to overcome Washington's indifference while at the same time retaining the regime's independence and survival. That meant the North needed a "strategic means" whereby it could "continuously" draw US interest by demonstrating its own strategic value. In addition, North Korea had to continuously generate "strategic values" to stably ensure its access to the United States, all the while overcoming the United States' "hostile disregard" or "strategic indifference" over the medium to long term. The North's nuclear program was borne out of these strategic considerations. An excessive use of this strategy could have severely collided with US security strategies or seriously violated its core national interests, which in turn could have led the United States to aim for North Korea's systemic change or even collapse. Hence, the North had to make sure that it always demonstrated its "strategic means" at just the right level.

In sum, North Korea is faced with a situation where it has to deter US threats against the North for systemic survival while compelling the United States to improve ties aimed at establishing diplomatic relations between North Korea and the United States. In short, Pyongyang is conducting a dual strategy of deterrence and compellence vis-à-vis the United States, using its nuclear weapons as a key means. To carry out this strategy, North Korea accelerated the development of asymmetric weapons of mass destruction (WMD), or nuclear weapons and missiles, so that it could take advantage of its strength—military capability—and Washington's weaknesses—its strategy of preserving the nonproliferation regime and the vulnerabilities of alliances.⁵ This took the strategic form of not balancing or jumping on the bandwagon, but "access through conflict," or "conflict for access." It is highly possible that North Korea, instead of submitting to sanctions, will seek to minimize negative repercussions from sanctions and carry out a strategy of deterrence and compellence for survival for the time being.

⁵ Here, the vulnerabilities of alliances mean North Korea's nuclear and missile development could increase the vulnerabilities of South Korea and Japan, US allies. Washington's ability to conduct a positive North Korea policy thus could be restrained because of these allies. In other words, it is about capitalizing on a situation where North Korea is taking South Korea and Japan hostage.

3. Vulnerabilities of International Cooperation

If a target country has a "black knight" that supports it, it is difficult for sanctions to take effect. Seen from a sender country's view, it signals looser international cooperation on sanctions. Moreover, the effect of sanctions is bound to be halved if a country that took part in sanctions now supports the target country, and the supporting country is a great power. The greater its resources of power and the firmer its political will to help the target country, the more likely it will counteract the sanctions in the areas that are most effective. One example of this is when the Chinese and Russians in recent years have proactively tried to distribute their economic and political resources to North Korea. Even European Union (EU) member states have failed to impose sanctions on North Korea on a full scale due to inadequate regulations on economic sanctions. Though inadvertently, the international community's humanitarian assistance to the North has played the part of an "inconvenient black knight." Humanitarian assistance to North Korea has decreased in volume, and its objectives have changed in recent years. Yet, it is difficult to deny that international humanitarian assistance to North Korea, which has begun in 1995, has undercut the impact of sanctions.

Furthermore, as the US Congressional Research Service (CRS) has announced recently, it is possible that North Korean products could be disguised as Chinese-made and be exported to the United States as such, owing to growing economic cooperation between North Korea and China. In other words, Chinese firms are highly likely to export to China North Korean raw materials and North Korean-made consumer goods and industrial parts like clothes and automobile parts, and later export them to the United States as made-in-China products. Of course, under US law, products made in North Korea, be they complete products or half products, must receive advance approval from the US Department of Commerce before they are brought into the United States. Thus, any export of goods produced through North Korea-China economic ventures that have not received prior approval from the United States would be illegal. A detour around economic sanctions with the assistance of a black-knight state may help thwart the effect of sanctions in the

short term, but deepening economic dependence on the black-knight state could also generate side effects from a long-term perspective.⁶

4. Vulnerabilities to Counter-Coercive Strategy

A target state may choose to conduct a "counter-coercive strategy" of forcible means and threats in a backlash against sanctions, increasing the likelihood of an armed collision. The effect of sanctions would be undermined in that case, due to rising fears over the losses that the sanctions could bring. It would be all the more difficult realistically to impose consistent and long-term sanctions, if a target country employs a mix of "counter-coercive strategy" and "appeasement policy" for strategic reasons. In the meantime, the target country's strategies would penetrate deeply into the sender country's policy-making and public opinion-building processes, rendering consensus on the need for sanctions and means of sanctions difficult.

Confronted with sanctions, Pyongyang has resorted to a combination of counter-coercion and appeasement, which has heavily affected not only its domestic politics but also South Korea's political terrain and its policy towards North Korea. First, it actively reshaped South Koreans' perceptions of the North sociopolitically, succeeding in aggravating the South-South conflict in the process. One case in point is this: the South Korean people's perceptions of North Korea took a drastic turn for the better in the wake of the first inter-Korean summit. Caricatures of a smiling Kim Jong Il decorated the streets of South Korea. A fast-growing perception of North Korea's goodness led to a widespread understanding in South Korea in the aftermath of North Korea's first nuclear test that "North Korea's nuclear possession is not a problem, since it will fall into a unified Korea's hands," and that "North Korea would never use its nuclear weapons or missiles against South Korea." South Korea's "sunshine policy" came under constant attack in domestic political circles, generating controversy over whether it was a "giveaway policy" or not. In the aftermath of the sinking of the ROK naval vessel Cheonan in 2010, South Korean society was severely polarized over the mastermind and the cause. Intense South-

⁶ See <http://www.cfr.org/north-korea/why-sanctions-can-hurt-north-korea/p22762>.

South conflict surfaced in local elections that soon followed, with discussions and slogans like "Will it be war or peace?" dominating the campaigning scene.

North Korea's two-pronged strategy of coercion and appeasement has posed a huge dilemma for the South Korean government's North Korea policy. The Kim Dae-jung and Roh Moo-hyun administrations opted for a broad crisis management approach, such as the establishment of a peace regime on the Korean peninsula, as a fundamental solution to the North's "coercive strategy." This resulted in South Korea's preemptive proposals for an appeasement policy centered on a "broad" set of incentives. South Korean policy inevitably had the potential of clashing with the international community's sanctions against North Korea. The Lee Myung-bak administration, on the other hand, took the course of actively deterring North Korea's "coercive strategy." After concluding that Pyongyang's invariable nuclear ambition was the root cause of its coercive strategy, the Lee administration adopted a dual North Korea policy of coercion and persuasion.

Should North Korea repeat its two-pronged strategy and complete its nuclear development in the end? It is probable that South Korea's policy toward North Korea may face a serious dilemma. In other words, it would result in at least tacit recognition of North Korea's possession of nuclear weapons. Should Seoul call on North Korea to take palpable steps toward denuclearization as a precondition for jump-starting and broadening inter-Korean relations and Pyongyang refuses, realistically, North-South relations are bound to hit a lull or even experience more tensions. If, by any chance, North were to take measures toward denuclearization, it would carve up its bargaining chips into thin slices and attempt to haggle its way through negotiations over a long-term period. In that case, the North would ask South Korea for a much higher price than previously. In short, the North could resort to its "salami tactics" again. Lastly, the North is very likely to blackmail South Korea and the United States more recklessly than before with its nuclear program. Against this backdrop, there will likely be an intense debate in South Korea over how far South Korea should go in rewarding the North for its concessions. In short, far from discussions on sanctions against North Korea, it is highly possible that conflict will escalate in South Korea over the level and method of reward for North Korea. A lack of public consensus over sanctions and reward and a wide gulf

between different political factions' strategic perceptions will most likely even offset the effect of existing sanctions in the end.

5. Domestic Political Dynamics of a Target Country

If a target country's domestic political situation becomes increasingly destabilized and the regime's power base and resources are depleted, for example in the case of a veiled struggle for power in that country, sanctions could easily have effect from a "political" aspect. In North Korea's case, however, Kim Jong Il had reorganized the party and military power structures since the mid-1990s, when Kim Jong Il seized power on all fronts, appointing his confidants to key posts. The regime managed to remove sources of political instability from the inner circles of power in the wake of Kim Jong Il's death by quickly cementing the third-generation hereditary succession system led by Kim Jong Un. Hence, by rallying public support against sanctions, the North Korean regime has been able to carry out its anti-sanctions policies consistently and with ease.

This should be seen in the vein of the so-called "military-first idea," which has extended its reaches into the political and social realms. North Korea's "military-first idea" or "military-first politics" is sometimes projected in the form of a coercive policy from a foreign affairs and security perspective. On the domestic political front, it could be characterized as a political ideology that sums up the Kim Jong Il regime's "ruling style." North Korea has systemized military-first politics theoretically since 2000, when the international community began stepping up sanctions against the North, and it has continued to expand as the core driver behind the North Korean regime's social management and control.⁷ In short, it is possible to conclude that the North Korean regime has actively institutionalized its "military-first idea" for an efficient general state mobilization system, even if it is just to respond strategically to the international community's unanimous methodology of dealing with the North Korean people and the North Korean regime

⁷ The term "military-first diplomacy" did not show up in North Korea's official documents prior to 2000. North Korea has been using it primarily in foreign policy and military contexts since the 2002-2003 time frame, when the second nuclear crisis started to escalate and international sanctions against the North began to intensify.

as two separate entities to attain the key goals of sanctions against the North. Generally, when a target country is faced with tough sanctions from the outside world, it attempts to respond to the damage from the sanctions by creating a "rally-around-the-flag effect." Strengthening internal unity often has considerable impact on the sanctions effect. In the face of economic sanctions, the leader of a target country usually explains the national crisis to the people and instills nationalism in them, even pressing ahead with projects that failed to make headway due to resistance from the privileged. Also, by publicizing that the sender country is the bad guy, the leader of the target country builds an atmosphere for uniting the people and overcoming the predicament.

This is especially true in totalitarian and statist societies. Sanctions result in shortages of materials. Hence, the target country's government maintains political control by reinforcing control over the distribution of resources and fomenting a sense of crisis, making people feel like the country is isolated and besieged. The sociopolitical effect of sanctions on North Korea can also surface as the North tries to overcome the ramifications of economic sanctions. North Korea has a self-sufficient and closed economic structure. Hence, it is overly reliant on certain countries for trade. North Korea's economic size itself is very small scale, leading to the conclusion that sanctions should have considerable impact.

North Korea, however, has a unique sociopolitical control mechanism of dealing with the center and the provinces separately. To make up for its lack of resources and its limited ability to distribute those resources, North Korea carries out a strategy of "dual rule," distinguishing between the central area that includes Pyongyang and the rest of the country. In the case of Pyongyang, where the regime's core elites and the regime's main support base reside, the city has not been affected by economic sanctions in terms of electricity, daily commodity, and food supplies, services, or infrastructure construction and renovation. In fact, the quality of life is actually improving in some quarters of Pyongyang.⁸ North Korea's

⁸ According to Korea Economic Institute Vice President Abraham Kim, who visited North Korea in June 2011, Pyongyang roads are full of foreign-made luxury cars that cost tens of thousands of dollars apiece, and Pyongyang soft drink factories and Pyongyang amusements parks boast of newly imported facilities from Japan and Italy. An Italian restaurant that opened on Kwangbok Street in Pyongyang in 2008 sells pizza for 6 to 9 euros, but it is packed full of customers all year round. However, living standards in other parts of North

tactic of "intentionally" abandoning "marginalized regions" is aimed at serving at least two purposes. Having these regions makes it easier for North Korea to actively appeal to the international community for humanitarian assistance and receive the minimum amount of resources necessary for managing these areas (food, fertilizer, energy, and medical supplies).⁹ Not only that, the North Korean regime could use its poorer provinces as part of its psychological propaganda vis-à-vis the international community to build a case for easing or even lifting sanctions.

IV. Multidimensional Effect of Sanctions

1. China's North Korea Dilemma Grows

Sanctions against North Korea have the effect of aggravating China's "North Korea dilemma" over the long term. China is the roll player with respect to North Korean issues. China's policy goals toward North Korea are 1) preventing North Korea's collapse by maintaining stability in the country; 2) draw out North Korea to reform and opening up to foster North Korea's economic self-reliance while alleviating China's burden; and 3) retaining China's political, economic, and military influence on North Korea. In this light, while China is clearly opposed to North Korea's nuclear development, it has consistently taken a negative stance on imposing excessive pressure or sanctions on North Korea for fear that it could lead to a North Korean collapse.¹⁰

One undeniable change in post-Cold War North Korea-China relations is that the two states are not as close as they were during the Cold War. North Korea's nuclear

Korea, including regions bordering China, continue to deteriorate because state investment has come to a near stop in those areas. Yonhap News, June 27, 2011.

⁹ In a "failed state" index published by the US magazine *Foreign Policy* in June 2010, North Korea was ranked 19th on the list of the world's failed states, but out of the 12 indices gauged, it fared relatively well in the categories of public security and defense capability. This shows that the North Korean regime is able to retain a tight grip sociopolitically by maintaining its social control ability at the highest levels, all the while cementing its support for the Pyongyang elites with its "strategy of distribution and concentration of limited resources." *Foreign Policy*, July/August 2010, pp. 74-77.

¹⁰ Ha Sang-shik, "China's Strategic Interests Toward Korean Peninsula," *Strategic Studies*, Vol. 51 (Seoul: Korea Research Institute for Strategy, 2011), pp. 110-119.

development, above all, has seriously heightened the two countries' conflict over the past decade, which does no justice to their blood-forged alliance.

North Korea did not give China advance notice on its planned missile launch in July 2006, and the UNSC adopted a resolution denouncing the launch. Soon after, Kim Jong Il at a global chiefs of mission conference in Pyongyang said "China cannot be trusted." He blatantly gave a cold shoulder to Chinese Vice Premier Hui Liangyu, who visited North Korea in the wake of the resolution's adoption, merely conveying the message that he would "not listen to China, a cat's paw of the United States."¹¹ China's perception of North Korea was further aggravated when the latter pushed ahead with a nuclear test on October 9, 2006. China was enraged at North Korea, which notified the Chinese 20 minutes prior to the nuclear test. At the time, the Chinese Foreign Ministry strongly denounced North Korea, using expressions like "as it pleased" and "resolutely." Beijing even supported UNSC Resolution 1718.

In a deviation from the norm, the Chinese Foreign Ministry issued a statement immediately after North Korea's second nuclear test in 2009, expressing displeasure by saying that it was "absolutely opposed to the fact that North Korea conducted a nuclear test again in defiance of the international community's objections." Moreover, it summoned Choe Chin Su, the North Korean ambassador to China, and lodged a strong complaint. Since Pyongyang's second nuclear test, Chinese experts have assessed that North Korea's actions, irrespective of what their intent may be, are generating enormous "strategic losses" for China. In other words, they are criticizing North Korea for creating a sticky situation for China on the global stage by putting to the test China's role as a "responsible power."¹²

Against this backdrop, China took part in the international community's sanctions against North Korea in the wake of the two nuclear tests. Beijing has thus taken steps to restrict some aspects of trade with and investment in North Korea. It also has reinforced customs inspections to block transfers of UN-designated materials to

¹¹ Kim Jin-mu, *et al.*, *North Korea and China: Dependence and Influence* (Seoul: Korea Institute for Defense Analyses, 2011), pp. 58-64.

¹² Chen Jian, "Limits of the 'Lips and Teeth' Alliance: A Historical Review of Chinese-North Korean Relations," *Asia Program Special Report No. 115*, Woodrow Wilson International Center for Scholars, September 2003.

North Korea. In addition, China for the most part has accommodated the US government's requests related to financial transaction control, banning its top four state-run banks from wiring money to North Korea. Should North Korea press ahead with a third nuclear test and further enhance its missile development capability, China will take part in strong international sanctions against the North as it did before. China has to proactively take steps to impose sanctions against the North "at least" when it comes to the North Korean nuclear issue. This means that, when the North Korean nuclear program reaches its "last stage," the North could draw out China's hard-line "strategic decision." If North Korea coerces China into accepting its strategy of "minimal nuclear deterrent possession" despite China's opposition, China could formulate a new security strategy toward North Korea and Northeast Asia could then be exposed to serious instability due to new game rules.

2. North Korea's Deepening Reliance on China

North Korea will make an effort to build resilience against the economic sanctions at hand by expanding trade with China in the short term. In the long term, Pyongyang will seek to negate sanctions effect by completely realigning its trade structure, such as by expanding trade with Russia and India. North Korea's deepening dependence on China, however, is highly likely to have negative implications over the long term.

First, North Korea's deepening subordination to China will lead to the collapse of the "juche-oriented economic management strategy," to which it has traditionally held fast. North Korea established the juche idea as its ruling ideology after the 1960s, and since then, it has maintained a balancing policy of not completely relying on any one country for foreign trade. When the Soviet Union was providing assistance, the North sought to forge corresponding trade relations with China, Eastern Europe, and even the West. In the 1990s, North Korea maintained its economic balancing policy through China and Japan, and in the 2000s through China and South Korea. North Korea's economic dependence on China exceeded 80% in 2010 for the first time, and it signaled destruction of North Korea's balancing policy.

Second, as North Korea's trade expands with China, it will gradually further the North Korean economy's reform and opening. That, in turn, will weaken the Pyongyang regime's control over its domestic economic activities in the long term. China will continually ask North Korea to reform and open up to some extent, even if it is just for the sake of protecting Chinese investment and assets in North Korea. China's calls will inevitably join forces with burgeoning markets and pro-reform forces in the North, which could cause problems for the North Korean authorities' control over the economic sector.

Third, it is possible that North Korean economic entities might become increasingly disgruntled with China's economic monopoly. Due to China's exclusive demands for North Korean products, some North Korean items are being exported to China on long-term contracts at cut-rate prices—markedly lower than the average amount China pays for the same products from other countries. The price tag on North Korean tungsten exported to China, for example, has gone down by at least two to seven times since 2005. Minerals accounted for the largest share of North Korean exports in 2010—approximately 40%, or \$696 million. Of North Korea's mineral exports, 97% ended up in China.¹³ As can be seen, under Chinese monopoly, minerals, North Korea's strategic natural resources, are being exported to China at significantly lower prices than international trading costs. This will have the side effect of increasing the North Korean economy's sensitivities and vulnerabilities to China.

3. Multilateral Institutionalization of Sactions against North Korea

International sanctions against North Korea have had some long-term positive effects in recent years, despite the structural vulnerabilities innate to multilateral sanctions. Loose multilateral sanctions that are imposed within the framework of an "international cooperative regime" could create strategic room for a traitor country to emerge. Making multilateral sanctions more official and solid on an institutional level, however, could redouble the effect of sanctions, as liberal institutionalists would argue. China and Russia, permanent members of the UNSC, the UN body that imposes sanctions, supported two resolutions on North Korea. This shows that they

¹³ *Trends in North Korean Foreign Trade 2010*, KOTRA Series 11-033, pp. 17-20.

already have become part of an international regime of "prohibiting North Korea's nuclear weapons and denuclearizing the Korean peninsula." Although these two major powers still lend support to North Korea in roundabout ways, additional harder-line UNSC sanctions will be inevitable if North Korea crosses the red line of conducting additional nuclear tests and delivery vehicle enhancement and precision tests. Harder-line UNSC resolutions, in turn, could upgrade the international regime on the North Korean nuclear issue from a loose cooperative regime to a tightly institutionalized regime. Such a scenario could pose a serious strategic dilemma for North Korea.

Participation in sanctions by international organizations like the UNSC or the EU has some tactical effect, in that they can help overcome the vulnerabilities of negotiations among different sender countries with disparate interests. In other words, participation by international organizations can help transform the fragile balance of cooperation into a more solid balancing system. What is more, they can help build the moral and political grounds for sanctions. The Clinton administration's invested more than one year in trying to persuade the UNSC prior to the adoption of the 1994 Geneva Agreed Framework. The ROK government's tried to draw out a UN statement denouncing North Korea for its sinking of the South Korean vessel, Cheonan, in March 2010 both attest to the strategic importance of winning international organizations' support for sanctions against North Korea.

4. Vulnerabilities to Management of Closed State Economy

Just because the direct economic effect of sanctions against North Korea is trivial does not mean that sanctions on North Korea have had absolutely no economic impact. Granted, economic sanctions are not the only cause of North Korea's ongoing economic stagnation. Yet, North Korea has adjusted its economy to a structure that is less vulnerable to the impact of sanctions. In this light, one cannot deny that sanctions may have had some influence on North Korea's creation and management of a new economic structure. In other words, while the ultimate goal of economic sanctions against North Korea is to induce North Korea's reform and opening up, paradoxically it does structurally impede North Korea's reform and

opening up in some ways. This could limit North Korea's economic growth in the long run.

Management of a closed economy in the midst of sanctions could undermine the physical foundations of North Korean economic growth in the end. In other words, the suspension of foreign investment in North Korea as a result of economic sanctions will significantly dampen investment in North Korea's state infrastructure industries necessary for economic growth, for example the construction of power-generating facilities and the development of heavy industries. North Korea cannot find a fundamental solution to these problems by relying on China alone. In fact, North Korea was defenseless in the face of natural disasters in the mid-1990s due to a lack of investment in social overhead capital (SOC). Short on foreign currency, the country also suffered severe food shortages. During the so-called "arduous march" between 1994 and 1997, North Korea recorded minus economic growth every year, and its factory operating rates plummeted to approximately 20%.¹⁴

In conclusion, one could offer an accurate analysis and evaluation of the effect of anti-North Korea sanctions only when the sanctions have ended and, North Korea has adopted fundamental reform, opened up, and transitioned to a normal state, or after North Korea gives up its nuclear development. A tentative conclusion at this point is that when sanctions are still in place, while the impact of sanctions against North Korea cannot be written off, the goal of the sanctions has become vague, and their effect is not highly significant. Hence, under the current circumstances, continued sanctions against the North have a low projected success rate in terms of attaining the short-term goals. Then why have economic sanctions against North Korea failed to have clear-cut and positive ripple effects? This is the determining factor of economic sanctions' ripple effects. At the same time, it attests to the vulnerabilities of sanctions against North Korea.

IV. Conclusions

¹⁴ Lee Tae-seop, "Study on North Korean Economic Crisis and Transition to Military System in the 1990s," pp. 12-43. Retrieved from the ROK Unification of Ministry website, at <http://www.unikorea.go.kr/CmsWeb/viewPage.req> [last checked on November 28, 2011].

There have been analyses and assessments that sanctions against North Korea have not had the effect that the international community had anticipated and aimed for, despite strong measures taken over the past five years. There is fundamental skepticism and controversy surrounding the effectiveness and necessity of sanctions against North Korea. Some pundits have offered the extreme diagnosis that sanctions on North Korea are unnecessary. These views lead to the strategic question of how the international community should manage North Korea, a "failed state." Against this backdrop, this paper attempted to address the question of whether sanctions against North Korea are really ineffective by examining the problem from the multiple dimensions of foreign affairs, security, politics and society, and economy.

First, contrary to sender countries' expectations, sanctions on North Korea have had "retrogressive" effects in the foreign affairs and security and sociopolitical realms. North Korea responded to coercive sanctions with a "tit-for-tat strategy" on a tactical level, and with an "offensive strategy" on a strategic level. By employing these strategies, Pyongyang was able to buy more time with which to further advance its nuclear program. What is more, its offensive strategy of inciting a sense of crisis intensified South-South conflict on the South Korean domestic political scene. In sum, the strategy of "strategic patience" that the ROK-US alliance had promoted failed to have any effect on North Korea. In the meantime, to strategically respond to its crisis, North Korea stepped up internal control and domestic unity based on the military-first idea. These moves, coupled with North Korea's strategies of cementing the third-generation hereditary succession system and making distinctions between Pyongyang and the rest of the country, have had the retrogressive effect of strengthening North Korea's "resilience" to sanctions and giving birth to its "dodging strategy."

Second, the economic impact of sanctions against North Korea has been trivial or limited. "Direct" impact and effect of US sanctions against North Korea, in particular, may be assessed somewhat negatively. The main reasons for this negative assessment are that the North Korean economy's dependence on the United States is close to none. Countless anti-North Korea sanctions are already in place,

overlapping with one another. Moreover, there are too many "circuitous routes," such as routes going through China and South Korea, that North Korea can take to minimize the impact of sanctions. In fact, North Korea's foreign trade volume has hardly been affected despite the full-scale and broad range of sanctions imposed on North Korea since 2006. Since 2011, when inter-Korean trade came to a full stop, North Korea was able to offset the negative effect by expanding trade with China and Russia. The South Korean government's independent sanctions will not be effective, at least not in the economic sector, unless it takes the daring step of shutting down the KIC. In an attempt to explain why sanctions have failed to have significant impact on North Korea, this paper discussed four limiting and determining factors: 1) the essential limitations of sanctions; 2) the advent of traitor countries owing to the vulnerabilities of international cooperation; 3) vulnerabilities to counter-coercive strategies, which accompany forcible means; and 4) the domestic political dynamics of sender countries.

Although sanctions overall have proven inadequate for attaining the ultimate goal of changing the North Korean regime's nuclear policy, some sanctions appear to have been effective on a limited and long-term basis. First, by officially taking part in international sanctions against North Korea, China made it official that it has vital security stakes in "the absolute prohibition of North Korean nuclear weapons." Second, two hard-line UNSC resolutions have given birth to an international nuclear security regime called "the denuclearization of the Korean peninsula." This points to the possibility that the regime may be upgraded to the format and function of a stronger and more comprehensive "multilateral institution." From a long-term perspective, this would not be beneficial for North Korea's nuclear strategy by any means. Lastly, economic sanctions on North Korea have generated some external effects. While one cannot conclude that the North Korean economic recession is completely due to the economic sanctions against the North, the North was either able to form an economic structure that is resilient to the sanctions or is adjusting to them. In this light, it is true that sanctions to some extent have had impact on the North Korean economic structure. This gives hope that North Korea's adoption of reform and opening up may cut systemic transition costs.

North Korea will highly likely call for a complete lifting of sanctions, proposing to freeze and dismantle its nuclear program and return to the Six-Party Talks as part of an appeasement strategy. Such a move by North Korea could mesh with the argument that sanctions on North Korea are useless—which is based on the belief that sanctions have failed to be of actual help in fundamentally resolving the North Korean nuclear issue—and remolding South Korean and US strategies toward North Korea. The effect of sanctions, however, could differ depending on how target countries and sanction gauging methods are assessed. It is inappropriate to draw a hasty conclusion about the sanctions' effect. After all, as conventional wisdom has it, economic sanctions may have effect in the long term. It takes too much effort and time to restore sanctions that have been withdrawn at once. This is all the more so in the case of multilateral sanctions, to which great powers with disparate interests are parties. Accordingly, lifting sanctions against North Korea must strictly correspond to actual changes in North Korea's actions and strategies.