


# Opinions

April 26, 2016

## Economic Impact of North Korea Sanctions



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Since North Korea's first nuclear test in October 2006, the Pyongyang regime and international community have repeated a pattern of 'provocation → sanction → provocation', with sanctions failing to change Pyongyang's behavior. Is it different this time - in other words, could the recent sanction impose sufficient damage for the Kim Jung-Un regime to give up nuclear weapons, or at least to return to the negotiation table for denuclearization?

In March, the U.N. Security Council unanimously adopted Resolution 2270, which is appraised as the most powerful economic sanction over the past 20 years. All transactions contributing to the maintenance and development of North Korea's WMD and

conventional weapon programs are blocked de facto due to strengthened shipping and aircraft sanctions. A sectoral ban on mineral exports – Pyongyang's main source of foreign currency earnings - was newly introduced, although coal and iron ore exports for the purpose of enhancing people's livelihood were exempted. In addition to such a multilateral sanction, South Korea, the United States and Japan adopted strong bilateral sanction measures. South Korea has shut down Kaesung Industrial Complex and announced a crackdown on indirect inter-Korean trades via China. Japan has tightened its control of currency outflows into North Korea. Adopting the North Korea Sanctions and Policy Enhancement Act of 2016, the U.S has laid down a legal basis to trigger a 'secondary boycott' against third parties dealing with North Korea. China, who holds the key to the success of international sanctions against North Korea, is also showing a harsher attitude to the Pyongyang regime than in the past. Beijing has reiterated its sincere implementation of the Security Council Resolution; Korean and Japanese media reported that Chinese shipping sanctions against 27 North Korean vessels listed in the annexes of the resolution, which could land a heavy blow on Pyongyang's coal exports, actually seem to be working. In addition, stricter controls are expected on illegal but previously acquiesced activities with North Korea, such as smuggling and unlicensed labor exports.

These bilateral and multilateral sanction measures are likely to reduce North Korea's foreign currency earnings significantly. The shutdown of Kaesung Complex (by South Korea), crackdown on indirect inter-Korean trade via China (by South Korea) and illegal trading (by China), as well as efforts to deter cash remittances (by Japan), arms trade, illicit trafficking, and mineral exports (by U.N member states) will directly impact the North Korean economy. And if Pyongyang continually disregards international norms regardless of the current sanction measures, the U.S. may pursue further action against North Korean expatriate workers. Launching a secondary boycott is another possible scenario, though the probability is not so high for now; Washington would have to endure diplomatic frictions with Beijing. However the two countries may find a way to pursue smart sanctions through coordination.

North Korea's foreign currency earnings are expected to decrease by 0.2 to 1 billion US dollars per year, depending on the level of Chinese participation (on average, \$600 million per year). This amounts to 26% of North Korea's yearly exports and 19% of accumulated net foreign currency earnings for 25 years (1991~2015). The reduced foreign currency inflow is expected to put pressure on North Korea's civilian economy, in two ways. Firstly, it will lead to a fall in imports, especially those of machinery and industrial equipment, raw materials, and consumer goods. Such supply shortages in turn discourage production and market activities.

Secondly, Pyongyang will try to cover the WMD and conventional weapon production/procurement costs by further exploiting the civilian economy.

In order to make the sanctions incur attitude-changing damages to the Kim Jung-Un regime, they should be implemented consistently for a sufficient period of time. However, the probability of this is not so high. Reflecting on past experience, China has walked a fine line between North Korea's denuclearization and its regime stability; it displayed a pattern of promoting sanctions for about three to four months and then later relaxing them. This is because to the Chinese government, the stability of the Pyongyang regime is more important – or at least equally so – than denuclearization. In other words, Beijing is highly unlikely to carry out sanction measures when they begin to threaten the regime. China also seems to link the degree of practicing sanctions with the THAAD (Terminal High Altitude Area Defense) and Korean Peninsula Peace Treaty issues. If Washington and Seoul refuse to cooperate with Beijing on the THAAD and Peace Treaty issues, it may alleviate sanctions by making a broad interpretation of 'people's livelihood purpose provision'.

It is almost impossible to predict Pyongyang's next move for now. Tensions may mount even more due to North Korea's provocations, but could also be defused if the six-party talks are resumed. Therefore, the Korean government needs to strengthen policy flexibility toward North Korea to cope with future uncertainties. [KIEP](#)