

Smart Q&A
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How does North Korea Avoid International Sanctions?

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Interviewee

John S. Park

Following North Korea's third nuclear test on February 12, 2013, the international community is considering how it should impose sanctions against the country. Even with four UN security resolutions imposed against it, Pyongyang has shown a remarkable resilience in avoiding sanctions and carrying out nuclear and rocket tests. EAI invited Dr. John S. Park, Stanton Nuclear Security Junior Faculty Fellow at MIT, to talk about the sanctions effort against North Korea and the ways in which it has managed to work around them. The following is a summary of the main policy recommendations from this interview.

Q1: Currently the UN is debating on how to respond to North Korea's third nuclear test. Given that many sanctions are already in place following Pyongyang's previous provocations and have had limited impact, what more can be done in terms of further sanctions?

A1: "The fact that they [North Korea] are doing more of that activity inside China means that financial sanctions by definition are more difficult."

- It is important that the international community keeps an eye on the changes in how North Korea conducts its commercial activities. As the regime has lived under many sanctions, it has been learning and adapting to these measures. Currently, much of its commercial activities take place in China which makes imposing tougher sanctions a difficult challenge. The Banco Delta Asia in 2005 example of financial sanctions has been cited recently as a possible policy measure, but similar action today would unlikely to be as effective due to Pyongyang's changing behavior.

Q2. Outside of the UN, is there anything that the United States, South Korea, or Japan could do to impose sanctions against North Korea? It would seem that these countries have very limited options without the cooperation of China or incurring high costs.

A2: "Many of the countries have exhausted in many respects both international as well as national means of sanctioning North Korea."

- There are limited options for the three countries in imposing other sanctions. The problem lies in the way that Pyongyang relies upon its state trading companies. These companies mostly operate in China and in partnership with Chinese firms who then do the sales and

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procurement on their behalf. These kinds of transactions are beyond government-to-government functions and reflect a more private nature of business.

- North Korea is able to procure what its needs from the Chinese market. As a globalizing economy, foreign companies have set up factories in the country to produce goods direct for the Chinese market. This makes it easy for North Korean state trading companies to procure dual-use equipment in China through their Chinese partners. From the perspective of these foreign companies, they are making sales to what they believe are Chinese companies.

Q3: One of the major concerns with North Korea's recent successful nuclear test is the proliferation of this technology to Iran. As we know, in September 2012 the two countries signed an agreement to enhance further cooperation in science and technology. Could you tell us about the importance of this DPRK-Iran nexus and North Korea's progress in its missile and nuclear technology?

A3: "The Iran-North Korea relationship is a critical enabler for both countries and I think that this is the point that is often overlooked."

- The Iran-North Korea relationship is a critical enabler for both countries. Outside observers have tended to look at these ties as benefiting one country or the other. Historically this has been true where there have been periods in which one country has benefited, for example when North Korea provided Iran missiles during the Iran-Iraq War. However, these ties have now evolved into an important relationship that is mutually beneficial.
- A crucial example in this relationship is how North Korea received Russian expertise through Iran. In 2005, Iran was suffering setbacks with its own missile program and turned to Russian companies for assistance. This helped them to overcome their initial difficulties and in 2009, Iran successfully launched its Omid satellite into orbit. With the recent success of the Unha-3 launch in December 2012, it is becoming evident that North Korea has had access by using the technology and advice that Iran received from Russian companies.

Q4: Are there any measures the international community can take to restrict the spread of nuclear and missile technology from North Korea to other places such as Iran or vice versa?

A4: "It is important, first of all, to understand the nature of their commercial networks. A large part of the logistics, movements, procurement is done through commercial means."

- It is important to understand the nature of the commercial networks between Iran and North Korea. The linkages tend not to be direct cooperation, but rather conducted through intermediaries, such as Chinese companies. Furthermore, these transfers are becoming less reliant upon traceable transactions such as wire transfers. Instead, we are seeing cash settlements and the use of trusted financial institutions in China. By understanding how these deals flow, their structure, and the ways in which cash settlements are made, the international community can see how the two countries are avoiding sanctions.
- One way to disrupt these networks would be to look at the role of private Chinese companies and how they operate on behalf of the North Korean state trading companies. While much of this activity takes places in China, they do have operations in Southeast Asian ports which would be easier for the international community to target.

Q5: The United States had recently signaled that it might sanction Chinese companies under the *Iran, DPRK and Syria Nonproliferation Act*, which naturally brought about strong criticism from China. How will this impact upon U.S-China cooperation to deal with the North Korea problem?

A5: “The efforts to deal with problems like North Korea are a priority for both countries, but the differences lay in where the means are discussed.”

- U.S.-China relations are fragile and evolving. There is still mistrust on both sides and there is a growing need for confidence-building measures. North Korea remains a priority for both sides, but differences exist in the threat perception.
- China’s priority is to promote stability on the Korean Peninsula and encourage economic development and reform in North Korea that moves it away from its nuclear program. This runs counter to the United States which is more concerned about nuclear terrorism. The more Pyongyang’s nuclear program advances, the more the threat increases for proliferation.
- Overall both sides have similar interest in the overall goal of denuclearization of the Korean Peninsula, but differ when it comes to implementing efforts to achieve this. U.S. designation of Chinese companies will be a key point in this regard. Even if they are targeted, Chinese companies have a very sophisticated structure given their past experience of operating under sanctions and will be able to avoid any new efforts. There will be political ramifications, but the disruption of actual business dealings will likely be low.

About the Interviewee

John S. Park

John S. Park is Stanton Nuclear Security Junior Faculty Fellow at MIT. His research focuses on the effectiveness of financial sanctions as a counterproliferation policy tool in the North Korean case. During 2007-2012, he directed Northeast Asia Track 1.5 projects at the U.S. Institute of Peace (USIP). He advises Northeast Asia policy-focused officials at the Departments of Defense, State, and the Treasury; National Security Council; and Congressional committees. Park previously worked at Goldman Sachs, where he specialized in U.S. military privatization financing projects. Prior to that, he was the project leader of the North Korea Analysis Group at the Harvard Kennedy School. He also worked in Goldman Sachs’ M&A Advisory Group in Hong Kong and The Boston Consulting Group’s Financial Services Practice in Seoul.