

## **Report "Targeted Sanctions and the Counterproliferation Puzzle: The Case of North Korea"**

*This report was written by Fabian Kozielski, Researcher at Hanns Seidel Foundation Korea.*

The conference "Targeted Sanctions and the Counterproliferation Puzzle: The Case of North Korea" took place on August 13, 2014 at the Asan Institute for Policy Studies as part of its "Asan Dosirak Series". The institute is an independent, non-partisan think tank with the mandate to undertake policy-relevant research to foster domestic, regional, and international environments conducive to peace and stability on the Korean Peninsula, as well as Korean reunification. Conference speaker was Dr. John Park, Adjunct Lecturer at the Harvard Kennedy School.

Dr. Park is also a MacArthur Research Associate at MIT. He is a Faculty Affiliate with the Project on Managing the Atom at the Harvard Kennedy School's Belfer Center for Science and International Affairs. His research focuses on the effectiveness of financial sanctions as a counterproliferation policy tool in North Korea. During 2007-2012, he directed Northeast Asia Track 1.5 projects at the U.S. Institute of Peace (USIP). Dr. Park received his M.Phil. and Ph.D. from Cambridge University and completed his pre-doctoral and postdoctoral training at the Belfer Center for Science and International Affairs at Harvard University.

After a short introduction by Shin Chang-Hoon, Research Fellow and Director of the Center for Global Governance at the Asan Institute, Dr. Park started presenting the fundamentals of his research on the counterproliferation puzzle, which is still in the early stages. It is a qualitative research project utilizing case studies, and the later stages of the two-year-program will also include interviews with North Korean defectors and research trips to China.

Dr. Park described the usual "toolkit" of sanctions to contain three options: the use of force, cyber sanctions and financial sanctions. The latter are being imposed against North Korea. Explaining why he chose this topic, Dr. Park stated that there is not enough research from the target's perspective. For the U.S. as the main imposer of sanctions, the cost of implementing them is very low, and their effectiveness can easily be monitored. This "sender bias" shifts the focus away from the target.

He expects to find strong negative side effects in the DPRK, and the generation of an "incentive mechanism" for Chinese companies. His hypothesis: financial sanctions benefit private Chinese companies, because transactions became riskier (but are not more often detected), which induces these companies to charge higher commission fees. To explain sanctions, Dr. Park used the image of antibiotics: a very effective tool to deal with symptoms, but after a while, the target develops resistance or even immunity. In the case of North Korea, the Kim regime learns how to deal with them or to ignore them.

The other factor of this incentive mechanism is the Chinese government. It prioritizes (and made the DPRK prioritize) party-to-party talks. There is no more incentive for North Korea to resume the six-party talks, as the benefits it could receive from satisfying harsh requirements are not enough compared to the benefits China grants upfront. Resolutions from the United Nations Security Council also promise assistance towards an economic development in the DPRK if adhered to; however, from the North Korean perspective,

partnering with China is a much better choice. The DPRK-China trade volume is rising constantly after a turnover point in 2008, with North Korea now selling rare earths to China. Revenue goes exclusively to the elites, and Dr. Park even went as far as to say there exists an “economic boom” for the one percent in Pyongyang. For these reasons he claimed that China is the most important factor in the counterproliferation puzzle.

To conclude his presentation, Dr. Park summarized its key points: Sanctions raise the cost of transactions which could benefit illegally operating companies. The likelihood of detection could actually go down because too much trust is put into them. Sanctions are not bad per se, but their secondary effects have to be closely monitored. The implications for counterproliferation are underexamined, but China seems to be the key to resuming talks on the international stage. He promised to further report about his research after first results have been obtained.

After the presentation and a lunch break, a short Q&A Session took place. Two interesting questions with Dr. Park’s answers will be presented in this report:

Q. What are the benefits of targeted financial sanctions against banks?

A. Sanctions against financial institutes are great for the U.S. because they are cheap to implement, grant high visibility on the international stage and are easy to coordinate with allies and international organizations. Because the U.S. restrain from the use of force in North Korea, targeted sanctions are now the go-to instrument. Their effectiveness is questionable, because lots of transactions in the DPRK are made in cash. This includes tourists and NGOs having to bring foreign cash money into the country.

Q. With North Korea opening slowly, willingly or not (more foreign products and currencies make their way into the country), is there an emergence of new actors?

A. We certainly see an increase in demand for luxury goods. For example, there are now shops selling smartphones in Pyongyang. Because the regime controls supplies, a lot of foreign currency can be generated that way. Illegal markets also boom, with “guerilla capitalists” trying to earn their share of the profit. People have established trafficking and money laundering networks, and something we call “Human ATMs”. A defector in South Korea could make a phone call, and in 15 minutes his family in the North could receive money from a Chinese contact person. Sadly, the newly emerging actors are illegal ones.