

WebMemo



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U.S. Levies Economic Sanctions on North Korea

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Hopefully realizing the futility of relying on U.N. actions to constrain North Korean belligerence, on June 30 the Obama Administration imposed unilateral U.S. sanctions on two North Korean companies engaged in proliferation. The U.S. action marks a commendable first step in using financial constraints to address the North Korean WMD threat. These sanctions will augment efforts to curtail the North Korean regime's ability to develop and sell weapons of mass destruction and missiles. For these sanctions to be as effective as possible, however, the U.S. must aim for both ends of the proliferation pipeline.

Washington should implement a comprehensive program to impose sanctions on any company, bank, or government agency complicit in North Korean proliferation, particularly those in Iran, Syria, Burma, and China. Washington should also lead a multilateral initiative (not necessarily through the U.N.) calling upon other nations to similarly target North Korean and foreign proliferators, as well as those engaged in North Korean illegal activities, such as currency counterfeiting and drug smuggling.

Obama Administration Takes Action Against North Korea. This week, the Treasury Department announced it imposed sanctions against Hong Kong Electronics, located on Kish Island, Iran, for having "transferred millions of dollars of proliferation-related funds" from Iran to North Korean companies already on U.S. and U.N. sanctions lists. The firm also facilitated the sale of North Korean missiles to Iran.

Concurrently, the State Department sanctioned Namchongang Trading Company, based in Pyongyang, for being "involved in the purchase of aluminum tubes and other equipment specifically suitable for a uranium enrichment program since the late 1990s."¹ The company is also suspected of being involved in North Korean assistance to Syria to build a covert nuclear reactor.²

Financial Sanctions Effective Against North Korea. These new U.S. sanctions on North Korean companies mirror actions taken earlier by the Bush Administration. In September 2005, the U.S. Treasury designated Banco Delta Asia (BDA), a Macau-based bank, as a "primary money laundering concern" assisting North Korean companies involved in counterfeiting and drug smuggling. Acting under Section 311 of the USA PATRIOT Act, Washington banned all U.S. banks from dealing with BDA.

Macau banking authorities subsequently froze 50 North Korean accounts worth \$24 million. The seizure had a devastating impact on North Korea's ability to engage with the international financial system, since it was Pyongyang's principal conduit for both legal and illicit financial transactions. Washington estimated that the bank may have been responsible for laundering hundreds of millions of dollars from North Korea's illicit activities.

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The U.S. public action, taken in conjunction with a *sub rosa* effort by U.S. officials meeting privately with foreign banks and businesses, had a chilling effect on the North Korean regime's financial status. Foreign businesses and banks became unwilling to engage with North Korea, even on legal business ventures, for fear of later being designated complicit in North Korea's illegal activities.

The law enforcement initiative was derided at the time by critics who characterized it as a neoconservative attempt to undermine the six-party nuclear negotiations. Senior Obama Administration officials, however, now privately—and accurately—characterize the BDA initiative as very effective and the Bush decision to rescind it as “a mistake that eased pressure on Pyongyang before it took irreversible steps to dismantle its nuclear program.”³

U.S. Action a Welcome Development. The use of “smart sanctions” that target the regime while seeking to minimize collateral economic damage to the populace can be an effective tool for combating North Korean proliferation and illicit activities. By themselves, however, the newly announced U.S. sanctions will be limited in effectiveness, since they only allow for the seizure of any U.S.-based assets of the two named companies and prevent any U.S. citizen or company from conducting business with them. It is uncertain whether either company currently has any assets in the United States.

However, if these sanctions, and the recent establishment of a new interagency sanctions team under Ambassador Philip Goldberg, are the precursor to more extensive U.S. and multilateral efforts, it would provide a means to cut off the regime from a key source of funding. A definitive assessment of the extent of North Korean illegal activities is not possible; some estimates believe it may constitute as

much as 35–40 percent of all North Korean trade and an even higher share of total cash earnings.⁴

Expand the Initiative. The U.S. should learn from the mistakes of the Bush Administration and not rescind the sanctions until the North Korean behavior that triggered them is irreversibly halted. Enforcement of U.S. and international law, implementation of U.N. resolutions, and efforts to combat proliferation should not be negotiable or politicized for the sake of perceived advancement in the six-party talks.

Washington should also begin re-enforcing U.S. and international law against North Korean illegal activities, including counterfeiting of currency and pharmaceuticals, illegal production and distribution of narcotics, and money laundering. The U.S.-led Illicit Activities Initiative effectively died after the Bush Administration agreed to return the seized BDA money despite the Treasury Department not having rescinded its ruling.

China remains the weak link in international efforts to impose punitive measures on North Korea for its violations of U.N. resolutions. Beijing has straddled the fence between condemning Pyongyang and preventing an effective response for fear of triggering a regime collapse. The advantage of U.S. sanctions is that they are not dependent on Chinese acquiescence. Washington should therefore use unilateral U.S. sanctions to target a more extensive list of North Korean entities—as well as those from other countries—engaged in proliferation and illegal activities, as well as call upon other nations to fulfill their obligations to enforce laws and U.N. resolutions.

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1. Department of the Treasury, “Treasury Targets North Korea's Missile Proliferation Network,” June 30, 2009, at <http://www.treasury.gov/press/releases/tg191.htm> (July 1, 2009); Department of State, “State Designation of North Korean Nuclear Entity,” June 30, 2009, at <http://www.state.gov/r/pa/prs/ps/2009/06a/125505.htm> (July 1, 2009).
2. Both actions were taken under authority of Executive Order 13382, “Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters.”
3. Jay Solomon, “U.S. Pursues Financial Leverage over North Korea,” *The Wall Street Journal*, July 1, 2009, at http://online.wsj.com/article/SB124632106686771095.html#mod=rss_asia_whats_news (July 1, 2009).
4. Marcus Noland, “How North Korea Funds Its Regime,” *The Korea Times*, May 5, 2006.