

## POLITICAL ECONOMY OF THE U.S. ECONOMIC SANCTIONS AGAINST NORTH KOREA: PAST, PRESENT AND FUTURE\*

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*The U.S. economic sanctions against North Korea began with the outbreak of the Korean War. When the Korean War broke out, the U.S. took such measures as embargo and frozen assets within the U.S. and has been continuously intensifying the blockade thereafter. The economic sanctions against North Korea started to show changes during the Bush Administration of the 1980s and began to be partially released in the 1990s. As the U.S.-North Korea relations, which been seemed to be recovering during the Clinton Administration, repeat the conflicts and confrontations in the current Bush Administration, the possibility of the removal of the economic sanctions is even more decreasing. The U.S. economic blockade also has negative effect on the economic cooperation between South Korea and North Korea.*

*The speed and the direction of the North Korea's economic reconstruction, the promotion of reform and opening and the removal of the economic blockade will be greatly influenced by its relation with the U.S. Moreover, the improvement in the relation not only will affect the problem between the U.S. and North Korea but also will affect the relation between South and North Koreas. The U.S. economic sanctions are not a relation problem between the U.S. and North Korea but also a problem to both South and North Koreas. Moreover, such relation between South and North Koreas will enforced the relational changes with the surrounding four major countries (Order in the Northeast area of Asia) around North Korea.*

**Key Words:** *Economic Sanctions, Geneva Agreement Framework, Wassenaar Arrangement, South-North Economic Cooperation, Economic Special Zone*

### UNSETTLED COLD WAR: CONTINUOUS ECONOMIC SANCTIONS

U.S. Economic sanctions against North Korea are an outcome of the Cold War. However, despite the global atmosphere of post-cold war and cooperation, the Cold War order still remains in the Korean Peninsula and the U.S. economic sanctions also haven't been removed. Although parts of the economic sanctions were removed during the Clinton Administration but the Geneva Framework hasn't been executed while the U.S. economic sanctions continue on as usual.<sup>1</sup> North Korea also blames its economic crisis on the

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<sup>1</sup> According to the Geneva Framework, the U.S. has to remove its economic sanctions against North Korea and take measures to normalize diplomatic relations. The Article 2 of the

U.S. economic sanctions and strongly holds the attitude of 'confrontation against the imperialism'. Moreover, to overcome the economic sanctions, North Korea even more strengthens the mobilization of its citizens and intensely asserts the justness of the 'self-reliance' economy as a measurement to emasculate the economic sanctions. In other words, North Korea insists the mass mobilization of its people and the superiority of its self-reliance with the following statements. "The reality in which the economic life of our people has faced with regular difficulties due to the political-military aggressions and the maneuvering of the economic sanctions by the imperialist desperately calls for the epochal change in the people's lives and the persistence of our socialism by fully mobilizing and utilizing the source of consumer lives of the workers hidden in North Korea" (Kim, 1997: 31). Also, 'our people's 'self-reliance' economy has faced with difficult times due to the break down in the socialist markets during the recent years as well as the intensification of the economic sanctions maneuver by the allied power of the imperialism. However, it has been displaying strong power as an economy that survives on its own in any kind of circumstances (Lee, 1997: 5). Moreover, 'the strengthening of the economic power of the nation is a decisive element in crushing down the economic sanctions maneuver of the reactionary imperialists' (Jang, 1999: 6).

Although such assertions of North Korea have started from the intention of wanting to blame its own economic crisis on outsiders, but it is also true that the U.S. economic sanctions is an important factor in the North Korea's economic difficulties. Moreover, the U.S. economic sanctions are the decisive obstacle for the reform and the open-door policy, attempted by North Korea. According to Marcus Noland, 'the successful reform will be an important factor in the improvement of the North Korea's diplomatic environment. The truth is the majority of the investors on North Korea are from either South Korea or Japan. The U.S. economic sanctions surely are the obstacle for the potential investors from the rest of the world. North Korea would not be able to experience a large scale investment until it improves the relation with these three countries.' He points out how negatively the U.S. economic sanctions are affecting the reform and opening of North Korea (Noland, 2001: 88).

The economic sanctions against North Korea by the U.S. widely range from commerce, finance, support from the international organization, trade, and aid to frozen assets. Especially, the economic blockade followed by the des-

Geneva Framework clearly states, 'Both sides pursue complete normalization of political and economical relations.'

**TABLE 1.** THE U.S. MEASURES OF ECONOMIC SANCTIONS AGAINST NORTH KOREA

Date	Related Base	Details
June 28, 1950	Export Administration Act	— Prohibited export against North Korea
Dec. 17, 1950	Trading With The Enemy Act (Foreign Assets Control Regulation)	— Frozen assets of North Korea within the U.S. — Announced the 'Foreign Assets Control Regulation', which actually prohibits all of trade and financial transaction with North Korea
Sept. 1, 1951	Free Trade Agreement Extension Act	— Prohibited the bestowal of the Most Favored Nation (MFN) to North Korea
Aug. 26, 1955	International Traffic in Arms Regulations	— Prohibited import and export of the emanation goods and services with North Korea
Aug. 1, 1962	Foreign Assistance Act	— Prohibited providing assistance to North Korea
Jan. 3, 1975	Trade Act (1974)	— Prohibited giving of Generalized System of Preference (GSP) to North Korea
May 16, 1975	Export Administration Act	— Enforced the general embargo by including North Korea in group Z, which is for the nations to be restrained (enforced the general embargo of the U.S. import/export banking against North Korea)
Oct. 5, 1986	Export/Import Banking Act	— Prohibited the U.S. import/export banking from giving credit to North Korea
Jan. 20, 1988	Export Administration Act	— Named North Korea as a terrorism supporting country and prohibited trade, GSP, sales of the controlled items of munitions, and receiving foreign assistance or credit from the import/export banking — Ordered to vote against North Korea in regards to the decision of the international financial organization providing assistance
Apr. 4, 1988	International Traffic in Arms Regulations (Revision)	— Prohibited the sales or the import/export of the emanation goods and services with North Korea, which has been designated as a global terrorism supporting country

TABLE 1. CONTINUED

Date	Related Base	Details
	Export Administration Act	— Prohibited export against North Korea
Mar. 6, 1992 June 23, 1992	Controlled Items of Munitions	— Prohibited the import/export of the controlled items of munitions as well as the U.S. administrative contract for two years against North Korea, which has been judged as having a part in the technology expansion on missiles of Iran and Syria — Applied to all of activities of North Korean government in relation to the production of missiles, electronics, aerospace and warplanes

\* Source: David, Zachary S. et al. (1994).

ignation of North Korea as a terrorism supporting country, impose direct control on desperately needed the capital and the technology, by prohibiting export of the strategic materials, the loan and the aid through the international organizations. Consequently, it has hindered the reform that North Korea is currently promoting.

#### THE HISTORY AND REALITY OF THE U.S. ECONOMIC SANCTIONS AGAINST NORTH KOREA

The U.S. economic sanctions of North Korea began with the outbreak of the Korean War. When the Korean War broke out, the U.S. took such measures as embargo and freezing assets within the U.S. and has been continuously intensifying the blockade thereafter. The reality is that the economic sanctions against North Korea by the U.S. are considered as one of the strongest measures. The U.S. economic sanctions of North Korea are as follow.

The U.S. economic sanctions against North Korea initially started with the prohibition of the import/export and the financial transactions and now it imposes restrictions on the assistance, general goods and military goods along with the transactions with a third party nation. Especially, upon the bombing incident of the Korean Air in 1987, the U.S. blockaded the assistance of the international society by designating North Korea as a terrorism supporting country.

Nevertheless, the economic sanctions against North Korea started to show changes during the Bush Administration of the 1980s and began to be par-

**TABLE 2.** TWO STAGES OF THE REMOVAL MEASURES ON THE ECONOMIC RESTRAINTS BY THE U.S.

Date	Stages	Details
Jan. 20, 1995	First Stage (Administrative Orders)	<p>1) Communication and Information</p> <ul style="list-style-type: none"> <li>— Approved the transactions in relation to the telephone and communication link between the U.S. and North Korea</li> <li>— Approved private tours and the usage of credit card in relation</li> <li>— Approved the establishment of the branch office of the press</li> </ul> <p>2) Banking and Financial Transactions</p> <ul style="list-style-type: none"> <li>— Approved the use of the U.S. banking system for the settlement of opening or closing of transactions in the U.S.</li> <li>— Removed the blockade against the North Korea's frozen assets, which are not the real right of the government of North Korea</li> </ul> <p>3) Transactions on Trade</p> <ul style="list-style-type: none"> <li>— Approved the import of the magnesite from North Korea</li> </ul> <p>4) Others</p> <ul style="list-style-type: none"> <li>— Approved the institution of contact offices in Washington and Pyongyang</li> <li>— Examination per case regarding the business in accordance with applicable laws and regulations of the general agreement between the U.S. and North Korea</li> </ul>
Jun. 19, 2000	Second Stage (Revised Foreign Assets Control Regulation)	<ul style="list-style-type: none"> <li>— Approved the import of the majority products including the raw materials of North Korea in the U.S. market</li> <li>— Approved the export of the consumer products and banking services to North Korea</li> <li>— Approved the investment by the U.S. companies in the areas of agriculture, mining, petroleum, lumber, cement, transportation, road building and tourism in North Korea</li> <li>— Approved the money sending to the relatives and individuals by the civilians residing in the U.S.</li> <li>— Approved the transportation of general goods (non-sensitive materials) by the American vessels or planes to North Korea</li> <li>— Approved the operation of commercial planes between the U.S. and North Korea</li> </ul>

\* Source: Nam (2001: 196-199).

tially released in the 1990s. In particular, some parts of the blockade such as finance, trade and communication were removed as the conflict over the nuclear and missile problems neared resolution during the Clinton administration. Such removal of the U.S. measures against North Korea is in accordance with the execution schedule of the Geneva Framework. The first stage of removal measures had been executed in 1994 after the Geneva Framework and the second stage came along with the announcement of the missile testing reservation in 1999 followed by the progress of the Berlin Act. The removal measures of the economic restraint by the U.S. over the two stages are as followed.

Even before the removal of the sanctions by the U.S. government over the two stages, the U.S. government had approved the tourist services of the U.S. travel agencies in regards to the non-commercial areas of athletics, science and culture through the revision of the 'Foreign Assets Control Regulation' on January 3, 1989. Likely, the U.S. approved the financial transactions in relation to the import and the export of the published materials through the same method on February 2 and also approved the 'export of the humanitarian goods such as food, drugs and medical supplies' by partially revising the 'Export Administration Law' on April 24 of the same year. The background for such kind of removal measures on the economic restraints in 1989 even at an insignificant level can be found from the series of diplomatic contacts between the U.S. and North Korea through Beijing, China starting December of 1988. With the start of this contact, the U.S. and North Korea held meaningful high-level talks in 1992 between Arnold Kanter, the Under Secretary of State of the U.S. and Yong Soon Kim of North Korea (David, Niksch, Nowels, Pregelj, Shinn & Sutter, 2001: 42-43). However, the executed measure of the time had been generally limited to the humanitarian products or assistance and to the non-political areas such as traveling, athletics and science.

The removal measure of the U.S. on the blockade, according to the Geneva Framework of 1994, was insufficient. The Geneva Framework included the comprehensive details in regards to the improvement of the relations between the U.S. and North Korea, the removal of the economic restraints and especially the reformative attitude about the diplomatic normalization and the problems of the Korean Peninsula. Therefore, if the Geneva Framework had been realized, such issues as taking North Korea off the list of terrorism sponsoring countries a terrorism supporting country, removal of the economic sanctions, diplomatic normalization of the U.S. and North Korea, nuclear and missile problem of North Korea ultimately would have reached resolutions. However, with the dissipation of the Geneva

Framework and the continuation of the resolute measures and the economic sanctions of the Bush Administration, the economic blockade of North Korea has been firmly maintained.

#### THE THEORY OF THE ECONOMIC SANCTIONS AND THE EFFECTS

Generally, the economic sanctions are used as a method in between the diplomatic resolution and the military resolution. According to the report of the U.S. General Accounting Office, the economic sanctions are effective in the following situations: First, when an opposing political party or a political party wanting diplomatic relations is present within the restrained nation, second, when the blockade is multiple and also inflicted upon the countries engaging in relations with the restrained nation, and third, and when the blockade is imposed on a country with cultural similarities. Nevertheless, the blockade is ineffective if it's incomprehensive and the restraining country has relations with the enemy nations of the restrained country. Moreover, the report makes a point about the possibility of the restrained country solidifying the unity within the nation by blaming its economic crisis on the blockade (GAO, 1992). For instance, Cuba is a representative example of a nation that had used the economic sanctions as a means of uniting its citizens by cultivating the domestic resistant culture and North Korea is also not an exception. In this point of view, it can be said that the present economic sanctions against North Korea by the US have a negative impact on the economic constructions of North Korea so seriously but at the same time these sanctions also have an unexpected effects of reinforcing national unity with intensifying anti-Americanism in North Korea. Besides, North Korea used the US' economic sanctions for justifying its political system blaming the outside for its economic difficulties. The US sanctioned North Korea to weaken its system but it has been proved that in reality the results are rather opposite.

Accordingly, accomplishing the official purpose of the economic blockade against such countries is difficult and it just imposes the symbolic meaning of the blockade.<sup>2</sup> Nevertheless, even if the economic sanctions don't accomplish its official purpose, the country being restrained has to overcome an enormous economic loss such as slowdown in the trade, transactions and

<sup>2</sup> United States General Accounting Office also points out that the accomplishment of the official purpose among the three purposes of the economic sanctions is difficult and it is just symbolic and effective in the international structure. Refer to the page 22 of the GAO Report in regards to the elements for the possible success in the economic sanctions pointed out by GAO.

growth rate along with inefficiency. Such economic loss continuously brings negative effect on the long-term economic advancement of the restrained country. Especially, the economic loss of North Korea, which had been enduring the economic blockade for over 50 years even after the Cold War due to the country's designation as a terrorist supporting country, can be tremendous. Moreover, the economic sanctions of present days emphasize even more absolute and disadvantageous conditions in comparison to the blockade of the Cold War. In other words, the economic sanctions of the Western countries had been overcome through the cooperation among the socialist nations when the socialist camp existed as a market. However, the economic blockade in the situation where the socialist market had been vanished is a serious challenge in a sense of losing cooperative parties. The extinction of the socialist market signifies the loss of alternative means in detouring or breaking the economic blockade. Accordingly, the current economic sanctions on North Korea are enforcing North Korea to break off its relations with the global economics.<sup>3</sup>

Actually, the genuine intention of the current U.S. economic blockade against North Korea are the following: to arrest the expansion of the mass destructive weapon and the ballistic missiles, to improve the human rights, to put an end to the support on terrorism, to obstruct drug dealings and armed attacks, to protect the environment and to change the government. In such areas, the tactical purpose of the given blockade could be suppression, oppression, warning and punishment (Haass, 1998: 1). Also, the form of such blockade appears in varieties from a substantial blockade to a symbolic rhetoric blockade. However, since the purpose of the economic sanctions by the U.S. are strongly politicized, it is clear that the blockade is closely linked to the national interest of the U.S. Especially, in the case of having a close link with the political, economical and militaristic profit of the U.S., the economic blockade will end at a symbolic or political rhetoric level, as proven through the example of China (Ross, 1998: 17). In other words, as for China, the economic sanctions are executed just as a symbolic measure in accordance with the national interests of the U.S. but were never enforced in reality. Thus, the removal of the economic blockade on North Korea is directly connected to the problem of relational improvement with the U.S.

<sup>3</sup> After the collapse of socialist block, the US' economic sanctions against North Korea had become a more critical obstacle to North Korean economy. North Korea in short of foreign currency now faces a difficult situation not only because it has to import all the materials by international market price that were relatively lower through socialist block but also because it can't import necessary raw materials, technologies and commodities under the US' economic sanctions.



and the problem of the designation as a terrorism supporting country also depends on the resolution of the political and military problems between the U.S. and North Korea.

As the U.S.-North Korea relations, which seemed to be recovering during the Clinton Administration, repeat the conflicts and confrontations in the current Bush Administration, the possibility of the removal of the economic sanctions is further decreasing. The U.S. economic blockade also has negative effect on the economic cooperation between South Korea and North Korea. This clearly shows that the U.S. economic blockade not only puts on pressures against North Korea but also against the countries and companies in transaction with North Korea. In the case of Cuba, the blockade symbolized by the Helms-Burton Law has its goal as far as to the blockade against the nations and companies in transactions with Cuba. The case of North Korea is different from the Cuban case but is subjected to the restraint in the case of transactions and investment on the items limited by the U.S. government. Specifically, being North Korea has been designated as a terrorism supporting country, the cooperation between South and North Korea are limited as well in accordance with the 'Wassenaar Arrangement'.

The specific difficulties occurring in the process of reform and opening of North Korea due to the U.S. economic sanctions and the designation as a terrorist supporting country can be clearly seen in the following areas:

First of all, North Korea can't receive the necessary aid and loan from the international financial organizations. Currently, North Korea is unable to receive aid and loan from the international financial organizations due to the designation as a terrorism supporting country by the U.S. According to the 'Export Administration Act' of 1988, it is prescribed for the U.S. to vote against the support of the international financial organizations on the countries designated as terrorism supporting countries and consequently, the international financial organizations heavily influenced by the U.S. cannot support North Korea.

The contact between North Korea and the international financial organizations regularized during the 1990s. The World Bank sent out Bradley Babson, senior advisor of the East Asia and Pacific Region, to Pyongyang in February of 1998. Babson frankly stated the possibility of aid on technology and training even before the official joining of the organization. Moreover, International Monetary Fund also sent out a team to Pyongyang after a couple of contacts and completed a report on the economy of North Korea and the assistance (Kim, 2001: 94-96). North Korea also seemed to desire support from such organizations. Nevertheless, receiving aid from such organizations heavily depends on the release of the designation as a terrorism sup-

porting country and the improvement of the relation with the U.S. as seen in the cases of China and Vietnam. As for the cases of China and Vietnam, the improvement in the relation with the U.S. had been a decisive factor (Kim, 2001: 53-76). Currently, North Korea is showing interest in the Asia Development Bank, in which South Korea could comparative strongly influence the decision on the support for North Korea. However, despite its official registration for the membership in April of 1997, North Korea's membership had been rejected due to the opposition of the U.S. and Japan, who provides mutual cooperation to the political measures of the U.S. North Korea again applied for the membership in May of 2000 but was one again denied due to the opposition of the U.S. and Japan (Kim, 2001: 97). The reason for such denial is the fact that North Korea is still considered as a terrorism supporting country. Ultimately, North Korea would continually experience difficulties in receiving assistance from the outside world for the economic reconstruction without the improvement in the relation with the U.S. and the release from the designation as a terrorism supporting country. Such difficulties in the flow of the fund show the reality in which there is high possibility of not being able to achieve actual investment despite the reform and opening of North Korea.<sup>4</sup>

Second, North Korea can't receive any technological donation. Being designated as a terrorism supporting country means the prohibition of exporting and receiving of the so-called strategic goods and the latest technologies (technologies which can be used in the military purpose). Although the Coordinating Committee for Export Control (COCOM), which was established during the Cold War to prohibit exports of the strategic goods and technologies, ceased its function,<sup>5</sup> however, the regulation structure on the strategic goods and technologies has continued on due to the 'Wassenaar Arrangement', which was formed to replace COCOM. Especially, being designated as a terrorism supporting country, North Korea is a 'highly observed country' in regards to the strategic goods and technologies and consequently is restrained under the same structure as the COCOM structure of the past. Consequently, the increasing impossibility of the importation of the technologies and parts in relation to semi conductor, electronic

<sup>4</sup> Consequently, North Korea is more interested in the colonial indemnities from Japan than the assistance from the international organizations. It can be said that the only vast amount of fund that North Korea is capable of receiving, besides the economical cooperation with South Korea, is from Japan.

<sup>5</sup> COCOM had been officially disorganized on March 31, 1994. The 'Wassenaar Arrangement' was newly established, in placement of COCOM, through the First General Assembly in July of 1996.

equipments and computer, which are desperately needed by North Korea, has burdened the nation with serious obstacles in its desire to reconstruct the economy centering on the scientific technologies. According to the recent reporting, North Korea has started to produce computers independently through the joint ventures with China. North Korea referred to the 'Wassenaar Arrangement' and argued, 'We have reopened the path which had been blocked by the economic blockade with the cooperation from other country.'<sup>6</sup> Nevertheless, the efforts to circumvent through the joint venture with other countries has limitations and since the most of the countries with the high level technologies which North Korea desires are the members of the 'Wassenaar Arrangement', thus there is very little possibility of forming a joint venture with North Korea due to the restraint of the U.S.<sup>7</sup> Ultimately, as mentioned earlier, North Korea must be removed from being designated as a terrorism supporting country in order to import the necessary technologies and this signifies that the improvement in the relation between the U.S. and North Korea is the decisive factor in the situation.

Third, the ongoing economic cooperation between South and North Korea is also faced with limitations. Currently, exchanged goods between South and North Korea are mainly the consumer goods, while the processing of brought-in materials take up the majority of trade. Not only the carrying out of the sensitive goods to North Korea is impossible due to the U.S economic sanctions but also the South Korean government also suppresses from sending out sensitive goods because of the blockade. Such situation brings about a negative future prospect not only to the trade transactions between the two countries but also for the construction of *Kaesung* industrial complex in the near future. In other words, if the current blockade continues on, the technologies to be sent to and the goods to be produced at the *Kaesung* industrial complex have to be restricted.<sup>8</sup> Already there had been some con-

<sup>6</sup> *Chosun Shinbo*, March 17, 2003. The computer developed by North Korea is a product of a joint company called, 'Morning-Panda Computer Joint Company,' which is a joint venture between the Panda Electronic Mass Limited Company of china and the North Korean electronic product development company. The company produces 6 types of computers and the best one is the Pentium 4.

<sup>7</sup> Currently, North Korea is importing advanced technological products such as computers from China and Singapore who are not included in the 'Wassenaar Arrangement.'

<sup>8</sup> Electricity might be included here. The U.S. has put a break on the South Korea's electricity supply to North Korea by bringing in the Geneva Framework and the 'Wassenaar Arrangement.' On the other side, as a representative case of failed cooperation between South and North Korea due to the U.S. in accordance with the 'Wassenaar Arrangement' is the communication business advancement to North Korea through the CDMA technology. The technological advancement of CDMA (mobile communication business in North Korea), which the Korea Telecom and the SK Telecom have promoted with passion, required an approval

flicts among South Korean government and civil organizations in relation to carrying out strategic materials into *Kaesung* industrial complex. Even the South Korean unification minister asked a favor of the US directly to explain the official position of the South Korean government on the US' restriction of strategic materials. At the present there are the 15 model factories operating or preparing to operate. The amicable settlement of disputes on the exportation of the strategic materials should be encouraged before *Kaesung* industrial complex could operate successfully.<sup>9</sup> Moreover, as the marking of the origin of the product has become mandatory, the export of the products produced at the *Kaesung* industrial complex to the U.S. is restricted. That is, the products made in North Korea cannot receive tax benefits under the current economic sanctions. In relation to this matter the South Korean reunification ministry already decided to mark the products produced in *Kaesung* as made in DPRK. The ministry also made its position clear that South Korea would negotiate with others for the products produced in *Kaesung* to be considered as made in ROK as South Korea enters into FTA. However once these products are marked as made in DPRK, many obstacles are expected in exporting them to the US or other Western European countries.

As a result, even through the U.S. economic blockade has ended with a symbolic effect in most parts and is not yielding the expected outcomes. The limitation North Korea currently faces is enormous and furthermore, greatly affects the economic cooperation between South and North Korea. This shows that the U.S. is not gaining the desired result from the political perspective but surely is putting an enormous pressure on North Korea economically. Of course these economic sanctions against North Korea are not only taken by the US. In other words, the present economic sanctions against North Korea are multilateral. South Korea and Japan are included. And the multilateral economic blockade hinders the present economic cooperation between South and North Korea. But in the side of South Korea, it also suffers for it can't make its decision independently because of the US regulations — for example the restriction on import and export of strategic materials — in the on-going economic cooperation between two Korea

from the U.S. Department of Commerce since its original technology is with the Qualcomm of the U.S. However, this business failed due to the rejection from the U.S. despite the participation of the CEO of Qualcomm.

<sup>9</sup> Meanwhile in the case of connecting phone line to *Kaesung* industrial complex, a South Korean company, KT submitted a transmission equipments application to the US ministry of commerce. In relation to this, Markus Noland, a senior fellow at IIE in the US insisted only wiretapping possible land lines by South Korea would be allowed. His comment shows how much influences the US makes to import or export necessary equipments in *Kaesung* industrial complex.

especially in the economic cooperation in Kaesung industrial complex. It indicates the US is at the center of the economic blockade though it is multi-lateral.

#### PROFIT OF NORTH KOREA WITH THE REMOVAL OF THE ECONOMIC BLOCKADE

As stated above, due to U.S. economic sanctions and the designation as a terrorism supporting country, North Korea has encountered limitation in carrying out transactions with other capitalist countries in terms of trade, finance, and technology. These limitations are a serious obstacle in its economic reconstruction. Then, what are the gains that North Korea would receive from the removal of the economic blockade and the release from being a terrorism supporting country? Plainly speaking, it is unlikely to anticipate practical effect in a short period of time but it could be said that the symbolic gain and the long-term effect would be great. First of all, North Korea would experience difficulties in the production of a product with competitive power in the international market just with the technology and the quality level of products of North Korea at the time. This explains that short-term anticipation is hard to count on. Some products can be equipped with the competitive power but there is almost zero possibility of the products made in North Korea being introduced in the U.S. market besides the third world countries. Temporarily, such products can achieve some effect in the primary trade of produced goods but it should be said that there is no competitive power of such products beyond that level. Secondly, North Korea must receive large-scale investment from South Korea and Japan in addition to the from the international financial organizations in order to gain loan and assistance for its economic reconstruction. Nevertheless, the large-scale investment of South Korea and Japan is too much for a civilian private company to be burdened with and consequently, it requires the economic cooperation from the government. Recollecting the example of Japan's support on China in the past where the aid of the Japanese government followed by the advancement of the Japanese companies had been possible (Seo, 2002), general reformative measures of the South and North Korea relation and North Korea and Japan relation must precede. On the other side, the aid from the international financial organization such as the IMF and the World Bank requires a precondition of overall reform in the internal economic structure such as the prospect on the liberalistic economic structure as well as the clarity on the business administration.<sup>10</sup> Accordingly, if the reform and the open policies of North Korea are not met

with the standard requested by the international financial organizations, receiving the aid will be once again difficult. Ultimately, it shows that the lifting of the U.S. economic sanctions and the removal from the list of terrorism supporting country are not only the satisfactory conditions for in the importation of the fund and technology to North Korea. Simply, such measures are the necessary conditions in making a better environment for North Korea to advance to the international society. However, despite the reality of the situation, the symbolic effect of the removal of the economic sanctions and the release from being a terrorism supporting country would be very enormous. This signifies that North Korea's entering into the international society has become official and that the U.S. has acknowledged North Korea as an economic partner or a member of the global society (Cho & Kim, 1999: 9). Moreover, such measurement would have symbolic effect on countries like Japan and Europe. Also, it would ultimately lessen the political pressure of the civilian companies desiring to invest in North Korea and would be able to create an advantageous environment, which could bring about activeness in investment in accordance with the improvement level of the relations between North Korea and other countries.

On the other side, the removal of the economic blockade would encourage and speed up the economic cooperation of South and North Korea, which have been progressing very slowly. As seen in the previous section, the current blockade is causing numerous obstacles in the economic cooperation between South and North Korea and has high potential to do the same in the future. However, the removal of the blockade symbolizes the elimination of the exterior obstacles and consequently, the economic cooperation in accordance with the direct requests of South and North Korea can be realized.

The removal of the U.S. economic blockade and the measurements on the release of North Korea from being a terrorism supporting country symbolically display the improvement in the relations between the U.S. and North Korea. Accordingly, it would not only bring about a fixation of peace in the Korean Peninsula but also an improvement in the relations between South and North Korea, and between North Korea and Japan. This signifies the formation of international environment which allows the successful reform and opening promoted by North Korea. Truthfully, North Korea's reform and opening had been influenced by the exterior conditions and consider-

<sup>10</sup> The report of the U.S. Diplomatic Relations Committee also points out that the fund support from the international financial organizations must require preconditions of clarity and economic reform (Council on Foreign Relations. 1998. *Managing Change on the Korean Peninsular*, July 8, 1998. Recited From Cho, Dong Ho & Kim, 1999).

ing the high possibility of the same hereafter, such measurements would in return form a decisive international condition, which would lead to an execution of a successful reform policy. Accordingly, the removal of the U.S. economic sanctions and the release as a terrorism supporting country has greater importance not simply in the economical aspects but rather in the perspectives of politics and international politics.

#### NORTH KOREA'S RESPONSE: REFORMATION OF THE INTERNAL STRUCTURE AND STRENGTHENING OF SOUTH AND NORTH KOREA ECONOMIC COOPERATION

The continuation of conflicts between the U.S. and North Korea predicts that the removal of the economic sanctions and the release as a terrorism supporting country would be difficult for now. However, just 'muddling through' while leaving the reform and opening of North Korea on the measure of the U.S. is also impossible.<sup>11</sup> What is the North Korea's response? Also, how would North Korea accomplish its active reform and opening when there is no removal of the blockade?

North Korea is trying to minimize the U.S. economic blockade by strengthening its cooperation with Europe, China and Russia. As seen in the case of Cuba, the U.S. economic blockade cannot be absolutely perfect. Cuba has suffered from the continuous economic blockade by the U.S. and any countries, companies or individuals who don't conform to the U.S. blockade are also affected as well (Helms-Burton Law). Nevertheless, Cuba has minimized the U.S. economic blockade through preparation of active domestic environment and systematical improvement along with the management of more advantageous conditions for the outside investors. And recently, Cuba has been achieving somewhat successful outcome in the reform and opening (Haass, 1998; Kim, 2002). It is true that the conditions of North Korea are different from Cuba in the areas of politics, economics, military and international relations, but it is a definite truth that an improvement in the domestic environment is an important element as much as the improvement in the external environment for the successful execution of the reform and opening. The North Korea's open policy experience of *Najin-Sunbong* in 1991 showed that the improvement of the domestic environment such as the

<sup>11</sup> Marcus Noland argues that the method chosen by North Korea is 'muddling through' the situation. However, such method has originated from the static North Korean perspective that didn't consider the internal movement, surrounding relations of South and North Korea. It is the result of not actively comprehending the North Korea's movements from the middle of 1990s (Noland, 2002).

infrastructure and improvement in laws and regulations had a decisive influence, just as much as the improvement of the external environment. Consequently, two conditions are required in order to overcome the external disadvantages of the U.S. economic blockade. The first one is to improve the domestic environment and to prepare systematic provision in which the investors from outside would gain profit by investing fund and technology. The recent opening of *Shinuiju* and *Kaesung* of North Korea as 'Special Economic Zones' is evaluated as a step closer to such condition. The second condition is to strengthen the cooperative relations with Europe, Russia and China even before the improvement in the relations with the U.S. As mentioned earlier, North Korea has already taken measures in strengthening the economic cooperation through the strengthening of the relations with Europe and the improvement of the active relations with China and Russia after the high level talks with these countries. As a result, such measures have been providing external environment at the minimum level to the recent economic reform and opening of North Korea. However, strengthening the improvement of the relation with South Korea and actualizing the economic cooperation are the most important measures to be taken. South Korea is a nation that could actually invest in a large scale in North Korea. North Korea would be just able to receive reparations from Japan. The economic cooperation with South Korea under such condition would not only be important from the economic side but also as an important element in the fixation of peaceful structure in the Korean Peninsula and in the increase of encouraging other countries' investment in North Korea. Furthermore, the cooperation between South and North Korea would actually weaken the U.S. economic blockade.

The economic cooperation of South and North Korea has expanded since 1989 and the trade total in year 2002 records over 600 million U.S. dollars. Such number takes up 28% of North Korea's total trade of about 2.2 billion U.S. dollars in 2002. In other words, South Korea, leaving Japan out, has become the second greatest trading partner of North Korea followed by China.<sup>12</sup>

Moreover, the successful progress on the currently executed *Kaesung* Industrial Complex and the tourist business of the *Kumgang* Mountains will improve the economic cooperation of South and North Korea.<sup>13</sup> On top of

<sup>12</sup> According to the economical statistics of year 2003, the trading scale between North Korea and Japan was about 250 million U.S. dollars, the lowest since the 1990s. On the other side, the trade with China is reaching over billion U.S. dollars.

<sup>13</sup> Through the 13<sup>th</sup> General Level Conference, South and North Korea have agreed upon the moving in of the South Korean companies in regards to the *Kaesung* Industrial Complex



**TABLE 3.** CURRENT STATUS OF NORTH KOREA'S OVERSEAS TRADE (UNIT: 100 MILLION U.S. DOLLARS)

Year	Export	Import	Total
1991	9.4	16.4	25.8
1992	9.3	16.2	25.6
1993	9.9	16.5	26.5
1994	8.6	12.4	21.0
1995	7.4	13.1	20.5
1996	7.3	12.5	19.8
1997	9.1	12.7	21.8
1998	5.6	8.8	14.4
1999	5.1	9.6	14.8
2000	5.6	14.1	19.7
2001	6.5	16.2	22.7
2002	7.3	15.3	22.6
2003	7.8	16.2	23.9

\* The Bank of Korea (<http://www.bok.or.kr/index.jsp>).

this, the connection of main transportation lines (*Kyunguison*: the railroad from Seoul to *Shinuiju & Donghaeson*: the east-coast railroad) signifies that the economical cooperation of South and North Korea has been found on a systematical ground. As a matter of course, there still remain many obstacles and difficulties to overcome. Especially, the construction of an industrial complex would be difficult without the assistance given the insufficiency of the North Korea's infrastructure, the lack of electricity and large scale investment the government. Thus, the construction of a close cooperative system between the governments of these two countries is very important. Nevertheless, there is no certainty that such kind of business would progress as planned. The U.S. economic sanctions are supported by the political and military power and as it is vividly seen in the Bush Administration, Bush Administration's oppressive political measures against South Korea is causing setbacks in the cooperative business between South and North Korea. Especially, there still remain the limit on the embargo materials due to the designation as a terrorism supporting country and the limitation on trade because of the 'Wassenaar Arrangement.' The South Korean government has executed the 'catch-all' system since January

by constructing a model complex during the first half of this year. Nevertheless, since all of the agreements of these countries have always experienced difficulties in their execution due to the unpredictable variables or obstacles, this will also go through various ups and downs along its pathway to a completion (*Yonhapnews*, February 6, 2004).

TABLE 4. CURRENT STATUS OF TRADE BETWEEN SOUTH AND NORTH KOREAS (UNIT: 1,000 DOLLARS)

Years	In	Out	Total
1989	18,655	69	18,724
1990	12,278	1,188	13,466
1991	105,719	5,547	111,266
1992	162,863	10,563	173,426
1993	178,167	8,425	186,592
1994	176,298	18,249	194,547
1995	222,855	64,436	287,291
1996	182,400	69,639	252,039
1997	193,069	115,270	308,339
1998	92,264	129,679	221,943
1999	121,604	211,832	333,437
2000	152,373	272,775	425,148
2001	176,170	226,787	402,957
2002	271,575	370,155	641,730
2003	289,252	434,965	724,217

Source: The Ministry of Unification (2003).

1, 2003 in regards to the import and export of the strategic materials against the non-members of the 'Wassenaar Arrangement' (Digital Times, 2002). With the execution of this system, the regulations on the import and the export of the strategic materials have been even more restricted and this symbolizes the gradual difficulties in the importing of the strategic materials or the strategic technologies unless North Korea is released from being a terrorist supporting country.

Ultimately, minimizing the blockade through the cooperation with Europe, China and Russia as well as the weakening the blockade through the strengthening of the cooperative spirit between South and North Korea are just partial solutions. Since the last summit talk, North Korea not only strengthened its relation with the European Union but also has established a partial 'New Northern Triangular Alliance' with China and Russia. Especially, North Korea even more strengthened its cooperative formation in economics with Russia in regards to the scientific technology and railroad agreements. Russia is also showing a positive attitude on this. Nevertheless, due to the continuation and the worsening of the conflicted relations of the U.S. and North Korea, such management is not displaying appropriate results. Ultimately, the improvement of the relation between the U.S. and North Korea will still play as the determining factor.

## CONCLUSION: THE CO-RELATION THE CHANGES OF NORTH KOREA AND THE ECONOMIC SANCTIONS

Recently, North Korea has been demonstrating changes with the measures taken for the economic improvement in comparison to the past (so called, 7.1 policy). As the earnings of the laborers and farmers in North Korea increased, the consumption also increased and number of people earning large income has been gradually increasing as well. Numerous people are gathering in swarms to buy goods at a legalized marketplace and bargain the prices of the goods. Private stores have been prohibited in the past but now anyone with a capability can own and manage private stores.<sup>14</sup> Moreover, the management of the domestically operated department stores has been entrusted to private parties or foreigners (*Joongang Daily News*, 2003). Regarding such changes, North Korea decided that earning received from one's labor is appropriate and actively encouraged citizens to produce profit. Accordingly, the motivation for labor has increased among the laborers and the farmers and started to show a positive response on the economic improvement measures. However, other regions besides certain regions centering on the city of Pyongyang still shows the unmatched of the supply and demand as well as the lack in the necessities. North Korea looks for external blame for the reasons of the situation. Thus, North Korea talks about the U.S. being the biggest obstacle in the economic construction, arguing that North Korea would persevere until the end (Chung, 2003).<sup>15</sup> It is unclear whether the argument of North Korea is either an argument from a mere impulse or an important watershed of the relation with the U.S. Nevertheless, one thing clear is that the U.S. certainly is an obstacle in the construction of North Korea's building of the 'economical powerful state.' Also, it clearly shows that North Korea's building the 'economical powerful state' as well as the reform and opening policy can't be successfully executed unless the mountain, called, the U.S. is not overcome. Especially, North Korea's New Year's Editorial (2004) expresses its intention in engaging active negotiations or brutal battle with the U.S. (*Nodong Shinmun*, 2004). Such facts show that the current economic sanctions could only be resolved through the improvement of the U.S. and North Korea relation. At this

<sup>14</sup> In relation to this, it is assumed that in fact not many genuine private stores exist. While there are increasing vendors mainly in town streets in Pyongyang, most of them are run by certain units like people's neighborhood units or cooperate restaurants.

<sup>15</sup> Such attitude of North Korea is from the 'I'll persevere all the way to the end of imperialism,' which was said during the political arguments of *Nodong Shinmun* right after the visit of an American envoy, Kelly, on October 6, 2001.

point, we now see that the U.S. economic blockade is ultimately not a problem of 'economics' but a problem of 'politics'.

The speed and the direction of the North Korea's economic reconstruction, the promotion of reform and opening and the removal of the economic blockade will be greatly influenced by its relation with the U.S. Moreover, the improvement in the relation not only will affect the problem between the U.S. and North Korea but also will affect the relation between South and North Korea. The influence could range from the economic cooperative at the minimal level and to the great influence on the peace and unification of the two divided countries by large. We can see here that the U.S. economic sanctions are not a relation problem between the U.S. and North Korea but also a problem to both South and North Korea. Moreover, such relation between South and North Korea will enforced the relational changes with the surrounding four major countries (Order in the Northeast area of Asia) around North Korea. Currently, the changes in the Japan's political measures in supportive of the U.S. against North Korea (this includes the economic blockade of North Korea by Japan) and the political measures of the Korean Peninsula by Russia and China who are building their influence in the affairs of South and North Korea are inevitable. Therefore, the strengthening of the cooperation between South and North Korea and the promoting of pursuing changes will play an important role in the order of the flowing Northeastern Asia.

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