

## Sanctions and the Road to War in Korea

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By Martin Hart-Landsberg and John Feffer

The risk of war on the Korean peninsula remains high, and the U.S. government is raising it higher by opening an economic front. In September 2005, one day after regional negotiations produced an agreement with the potential to defuse North Korean-U.S. tensions, the U.S. government charged North Korea with counterfeiting \$100 bills. Calling this alleged North Korean effort a direct attack on U.S. sovereignty and technically an act of war, Washington imposed an ever-tightening and ever-widening web of financial restrictions on the country.



This economic campaign, which broadened and intensified after Pyongyang's missile launches in July and nuclear test in October 2006, is the

latest attempt to isolate and weaken the Democratic People's Republic of Korea (DPRK). The charges fit a pattern of actions that have repeatedly disrupted promising movements toward peace on the Korean peninsula. In the latest round of Six-Party Talks, held in December, the restrictions proved to be the biggest obstacle in the path of reaching an agreement. Tensions generated by the restrictions are exacerbating tensions in East Asia and placing heavy additional pressures on Koreans, especially in the North.



North Korean envoy Kim Kye-gwan speaks at the end of the December Six-Party Talks, which ended with no progress.

Washington's economic gambit, launched in 2005 and strengthened by UN sanctions in 2006, raises questions of timing, threat escalation, morality, and efficacy. With no further multilateral talks currently planned, the hard-line economic approach toward North Korea has been a counterproductive detour from the pressing issues of denuclearization and diplomatic normalization. The restrictions

and sanctions, far from bringing North Korea back to the negotiating table, have become instead the main stumbling block in the negotiations. Presented as an alternative to military approaches to regime change, the economic campaign proved counterproductive when the DPRK responded with its missile and nuclear tests. Finally, this economic approach undermines North Korean efforts at reforms and opening, the very process that many argue needs to be supported on moral, as well as strategic, grounds.

### Thwarted Rapprochement

Prompted in part by the negative economic consequences of the loss of its Soviet bloc trading partners and a series of horrific storms and droughts, North Korea has been actively seeking to normalize relations with the United States for more than a decade. Rapprochement on the economic level would involve the removal of the sanctions that Washington has maintained against Pyongyang for over fifty years (although the Clinton administration lifted some sanctions) as well as enlisting U.S. support for membership in multilateral institutions which Washington has hitherto blocked.

North Korea has discovered that only one thing will draw the United States into negotiations—concerns over its nuclear program. Thus, the North Korean government has aggressively played its nuclear card. The 1994 Agreed Framework, which resolved the first nuclear crisis on the peninsula, was a promising start for improved relations. The DPRK promised to freeze and eventually dismantle its graphite-based nuclear program. In exchange, the U.S. government agreed to provide new, light water nuclear reactors to solve the DPRK energy shortage, end its economic embargo, and normalize relations.

The U.S., however, never fulfilled its commitments. Confident that economic problems would lead to the collapse of the North Korean government, and facing a hostile Congress, the Clinton administration failed to pursue normalization or construct the promised reactors. While Pyongyang seemed more committed to the agreement, it, too, threw obstacles in the way of completing the reactors and, possibly, explored an alternative nuclear program. Still, thanks in part to South Korean efforts—in particular the historic meeting between South Korean president Kim Dae Jung and North Korean leader Kim Jong Il in Pyongyang in June 2000, followed four months later by U.S. Secretary of State Madeleine Albright’s visit to Pyongyang—a real improvement in U.S.-DPRK relations seemed possible.



Madeleine Albright and Kim Jong Il.

The current U.S. administration, however, has persistently undermined these promising developments. Even before taking office, George W. Bush announced his opposition to the Agreed Framework. In 2001, upon assuming the presidency, he publicly criticized Kim Dae-Jung for his efforts at reconciliation and declared his determination to topple the DPRK government. In his January 2002 State of the Union address, Bush declared North Korea a member of an “axis of evil.”



White House photo by Eric Draper

Bush's State of the Union address, 2002.

In October 2002, ratcheting up its regime-change strategy, Washington accused the North of pursuing nuclear weapons using a secret highly enriched uranium (HEU) program in violation of the Agreed Framework. The North has denied this accusation, and the United States has yet to produce evidence that satisfies other governments in the region. Nevertheless, the HEU charge served as the excuse for the Bush administration to formally end its participation in the Agreed Framework that it deemed was helping sustain the North's regime. In response to this U.S. decision, the North withdrew from the nuclear non-proliferation treaty and unfroze its nuclear program.

Fearing the consequences of this steady escalation of tensions, the Chinese government has sought to play a mediating role by hosting Six Party Talks that began in August 2003 and involved the PRC, South Korea, North Korea, the United States, Japan, and Russia. Yet, the talks were stymied by U.S. refusal to engage in extensive, direct negotiations with North Korea. Only when the Chinese threatened to publicly blame the United States for the failure of diplomacy was an agreement finally signed. This September 19, 2005 agreement called for a step-by-step process in which the North would freeze and eliminate its nuclear

programs in exchange for U.S. provision of a proliferation-resistant reactor and normalization. It is this process that died a quick death when the U.S. designated a bank in the Macao as a "primary money-laundering concern."

## Restrictions and Negotiations

In September 2005, the Treasury Department designated Banco Delta Asia (BDA) in Macao as a suspected conduit for counterfeit \$100 bills, so-called "super notes" that North Korea was allegedly producing. In response, the Macao bank froze North Korea's accounts. The timing was suspect. U.S. concerns over counterfeit bills date back to 1989. For many years, in fact, U.S. government officials thought Iran was behind the counterfeiting and some experts doubt North Korea's capacity to print such super notes. Again, like the suspected HEU program, the threat paled in comparison to the larger risks of nuclear proliferation. According to the U.S. Treasury, the total value of identified counterfeit notes is \$50 million.

Nevertheless, the Treasury Department pressed other countries to follow the U.S. lead and freeze bank accounts that North Korea maintains overseas, a de facto attempt to cut off monetary flows in and out of the country. As Undersecretary of the Treasury Stuart Levey put it, "the U.S. continues to encourage financial institutions to carefully assess the risk of holding any North Korea-related accounts." Levey further argued that it was impossible to distinguish between North Korea's licit and illicit transactions, which placed all of North Korea's economic interactions with the outside world under suspicion. Tokyo is taking the lead in imposing economic sanctions on Pyongyang and prohibiting North Korean ships from entering its ports. China, too, placed restrictions on its banks doing business with North Korea.

While there is little evidence that the financial restrictions have affected North Korea’s overall economic transactions with outsiders, the \$24 million frozen in BDA has become the main stumbling block in efforts to reduce tensions on the Korean peninsula. In Pyongyang’s eyes, the financial sanctions infringe upon its sovereign right to engage in legal transactions, raise doubts about Washington’s will to peacefully coexist, and represent steps away from normalizing relations.

Some commentators have suggested that the Treasury Department release those BDA accounts not involved in illegal counterfeit activities. The North Koreans have offered to collaborate with American authorities to allay American concerns. The Bush administration’s silence in the face of these proposals adds to the perception that it remains opposed to meaningful negotiations with Pyongyang. Its refusal to respond has indeed strengthened Pyongyang’s determination to forge ahead with nuclear production.



North Korean missile launch, undated.

### Sanctions and War

After North Korea’s missile tests in July and nuclear test in October, the United States and

Japan pushed through UN resolutions that condemned Pyongyang’s acts and called for economic sanctions. The July resolution focused on limiting North Korea’s ballistic missile program. The more far-reaching October resolution attempts to shut down all DPRK transactions connected to the production and distribution of weapons of mass destruction (WMD).

The most politically challenging of the sanctions applies to the regulation of trade in and out of North Korea involving some aspect of WMD. The main instrument for implementing this trade embargo—primarily the inspection of North Korean cargo—is the Proliferation Security Initiative (PSI), announced by President Bush in 2003. The initiative supports the use of military means, under euphemisms such as “interdiction” and “active defense,” to stop countries from developing or proliferating nuclear weapons and materials. This reliance on military means derives from the 2002 “National Strategy to Combat Weapons of Mass Destruction,” which claims for the United States and its allies the right to implement “preemptive measures,” to “prevent the movement of WMD” and “to detect and destroy an adversary’s WMD assets before these weapons are used.”

The PSI has grown in membership and operational scope. Some member countries have already staged military exercises to simulate the use of military ships to stop, board, and seize boats suspected of carrying WMD in the high seas. This proposed use of military force troubles many international legal scholars who view it as a violation of the freedom of movement in the high seas as institutionalized by the UN Convention on the Law of the Sea.



A U.S.-led PSI naval exercise.

If applied to North Korean ships, the PSI runs the risk of triggering a military confrontation. Pyongyang has asserted that it would consider such an implementation of sanctions an act of war, which is consistent with the consensus view of international law. Acknowledging the dangers, Seoul and Beijing have so far refused to join the PSI.

### Sanctions and Morality



A North Korean child.

Those who call for sanctions claim the high moral ground, arguing that North Korea has defied international norms concerning nuclear weapons by exiting the NPT in 2003 and moving quickly toward a nuclear test. It also stands accused of counterfeiting U.S. currency, selling large quantities of narcotics, and laundering the profits from various illicit activities through various financial institutions. And Pyongyang's human rights record, according to Amnesty International, Human Rights Watch, and UN Special Rapporteur Vitit Muntabhorn among others, is dismal.

Some civil society organizations point to Burma and South Africa as cases where sanctions have had moral appeal. Despite some similarities, however, the internal situation in North Korea

differs substantially from that in Burma and apartheid South Africa. Most importantly, no domestic group within North Korea supports sanctions, as did the African National Congress in South Africa and the National League for Democracy in Burma, both of which saw the sanctions as strengthening their respective domestic struggles for democratic transformation. As a result, should sanctions indeed lead to regime change in North Korea, no viable domestic movement waits in the wings to provide a new policy direction. Not only do sanctions risk a new war on the Korean peninsula, but the institution best positioned to take control of North Korea in a situation of chaos, the military, is unlikely to have a different approach to the nuclear or human rights issue. South Korea, moreover, has rejected the “absorption” scenario, not only because of the high danger of war, but also because it seeks to facilitate a more humane and stable basis for inter-Korean reconciliation.

Washington’s own behavior in recent years also undercuts the arguments that sanctions are the appropriate response after repeated failures to achieve a negotiated settlement to the current crisis. For the last six years at least, Washington has refused to pursue the most obvious and likely productive option—sustained direct negotiations with Pyongyang. Furthermore, Washington’s insistence on maintaining the “first-strike” option and developing new nuclear weapons, in particular, has not only undercut its moral standing but also given Pyongyang an additional rationale for its own nuclear program.

And, perhaps most critically, because of the increased risk of war in and around the Korean peninsula, the sanctions are not only a blunt instrument but possibly a very dangerous one as well. However deplorable North Korea’s human rights record, a war on the Korean peninsula, which would result in the deaths of hundreds of thousands of Koreans in the first

months of conflict, would be a disaster of far greater magnitude.

### **Will They Work?**

A final consideration is the efficacy of the sanctions. Here, too, sanctions fail the test. North Korea now has its own indigenous capacity to produce nuclear weapons and missiles, so cordoning off the country will not necessarily eliminate these programs. Moreover, with China refusing to buy-in to sanctions, it is impossible to effectively cordon North Korea. Nor is South Korea willing to interdict North Korean ships. The United States has claimed that the October UN sanctions applied to all alleged activities that finance WMD production, including money-laundering, counterfeiting, and drug trafficking. But this is neither consistent with the language of the resolution nor universally accepted by the signatories.

Equally problematic is the fact that the sanctions are all-or-nothing. They offer North Korea no incentives to commit to the negotiating process or comply with the requirements set out by the resolutions. As sanctions expert David Cortright writes, “Sanctions are most effective when combined with incentives, as part of a carrot-and-stick diplomacy designed to resolve conflict and bring about a negotiated solution.”

In short, sanctions are unlikely to succeed in either forcing North Korea to accept an agreement it opposes or destroying a regime that has lived with rigorous sanctions and embargoes for much of the last half-century. In fact, in the case of North Korea, economist Ruediger Frank concludes that economic sanctions are not only costly for the participants, they also challenge the very processes of economic reform and

democratization that the sanctioning countries presumably want to encourage.



### How to Proceed

Although they enjoy some measure of support from the international community, the sanctions levied against North Korea only add fuel to the fire. Moreover, they exemplify a disturbing pattern of the Bush administration’s non-diplomacy toward Pyongyang. The economic campaign begun in 2005 pushed North Korea toward accelerating its nuclear program. The more recent sanctions, if implemented with naval interdiction, increase the risk of war.

Clearly a change in U.S. policy is needed. More specifically, the United States should first work with China and North Korea to separate out licit from illicit financial activities so that BDA can unfreeze the North Korean assets that support its legitimate practices. Next, the U.S. should directly confer with North Korea on how best to ensure financial transparency in the latter’s financial activity. To resolve issues

posed by the recent UN sanctions, both sides must be willing to make concessions according to an “action for action” sequence that can remove the immediate threat that naval interdiction poses for sparking a military conflict.

Finally, mindful of the priority of averting war in and around Korea and satisfying the legitimate security needs of both North Korea and the United States, Washington must be willing to suspend its economic campaign against, and commit to direct bilateral talks with, North Korea, with the aim of denuclearizing the Korean Peninsula and normalizing relations. Normalization is not a reward. Rather, it is the framework within which the United States and North Korea can best deal with their outstanding concerns. The Bush administration and the new Democratic Congress can and must take clear, preventive steps to prevent Northeast Asia from descending into the kind of violence that convulses the Middle East.

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