



## Escalating Tensions with North Korea

*Marcus Noland cautions that more political, economic, and military pressure on North Korea could push the regime in Pyongyang toward more provocative behavior.*

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest on Peterson Perspectives is Marc Noland, senior fellow at the Institute, to discuss the escalating tensions with North Korea and the impact of escalating sanctions against North Korea.

Thank you for joining us, Marc.

Marcus Noland: My pleasure.

Steve Weisman: As I said, tensions are rising. The most recent manifestation of that are missile firings by North Korea in response to the tightening of economic sanctions starting in June. What sanctions are being applied now?

Marcus Noland: Starting with North Korean military missile tests on July 4th, 2006, the United Nations has imposed escalating sanctions, first on that set of missile tests, then subsequently in October after the North Koreans' first nuclear test, then after another round of missile tests. And most recently, after the North Korean second nuclear test in May, the UN Security Council passed Resolution 1874 that broadened and tightened the existing sanctions regime.

This has been entrained for a couple years and as the North Koreans ratchet up the provocations, the UN Security Council responds by tightening sanctions.

Steve Weisman: You've studied this over the years. What's your general conclusion about the effectiveness of economic sanctions as opposed to military ones?

Marcus Noland: The history of economic sanctions throughout the world, not just with respect to North Korea, is that economic sanctions seldom alter the target government behavior, if the behavior involves some core political goal of that government. This has been demonstrated in research by my colleagues here at the Peterson Institute—Gary Hufbauer, Jeff Schott, Kim Elliott, and Barbara Oegg. And in the case of North Korea, it doesn't appear any different.

The North Korean regime places an extremely high priority on its military in general and its missile and nuclear programs in particular. And I think it's unlikely that economic sanctions are going to end those programs. What sanctions can do is increase the costs to North Korea and its partners of proliferation of those technologies.

So what the sanctions can do is impede missile and nuclear proliferation and they can create an incentive, or their removal can create an incentive for some future North Korean regime to end those programs. But I think it's unlikely these sanctions will actually stop the nuclear missile programs under the current North Korean regime.

Steve Weisman: A couple of years ago, the lifting of the sanctions on that small bank in Macau [Banco Delta Asia] were an element of a package that seemed to bring about some progress. I think that fits in with the point you just made, that sometimes the removal of the sanctions can be a carrot for negotiation. Do you think that could still happen in this current round?

Marcus Noland: I think it's unlikely with this government in Pyongyang. They simply appear to be so committed to these programs that I think that removing the sanctions is unlikely to be regarded as much of an incentive on their part. One of the things that's complicating the situation is real uncertainty about political succession in North Korea.

Kim Jong Il, the leader of the country, is ill. The most recent photographs of him really make him look quite ill. One of his sons has been designated as the next leader. But it is really unclear how that country would be governed once Kim Jong Il departs from the scene. It is not at all clear that the son will be able to govern in anything like the way his father or his grandfather [Kim Il Sung] did.

Under those circumstances of really deep political uncertainty, I think it's probably the case that any individual or institution within North Korea that may have had second thoughts about some of these provocations or may want to pursue economic reforms, for example, under the current circumstances are simply keeping their heads down and their mouths shut.

Nobody wants to be accused in some future political turmoil of being an apostate. Rather, currently, it's in everyone's incentive to show just how thoroughly committed they are to orthodoxy. And I think what that has done is create a kind of political dynamic within North Korea in which there are really very few breaks on provocative behavior. And the imposition of sanctions or their potential removal, I don't think is going to have a large impact on decision-making, given that domestic political environment.

Steve Weisman: I'm going to ask a highly speculative question. Could, on the other hand, the tightening of sanctions cause North Korea to do something really provocative with these missile tests, for instance, that could in turn become a cause for much more serious military action by the West against North Korea? For instance, a military strike on the nuclear facilities.

Marcus Noland: Absolutely. The current situation is very dangerous, regardless of whether sanctions are tightened or not.

The North Koreans have a variety of missiles. The short-range missiles, the ones that they fired this past Fourth of July weekend, are bothersome. They're capable of threatening American troops in Japan and South Korea, but really they're produced for export. North Korea has become sort of a one-stop shop for short-range missiles.

They not only sell the missiles, but they sell after-sale services, a variety of sorts, they sell training, they sell maintenance, and so on.

They also have multistage medium- and long-range rockets. And those really present a much greater danger in the long run. One of the dangers is simply these rockets don't work very well. And the North Koreans have been firing them over Japan. Under some current analysis, the flight path using the new missile facility the North Koreans have developed could actually take one of those rockets over South Korean air space.

The problem is they've been exploding in mid-air and we've really been quite lucky so far that when those things are broken up, they've broken up over the sea. You can imagine the reaction if one of those North Korean rockets broke up over a populated area in Japan and actually hurt people. Or same thing with South Korea.

So I think it's a very dangerous situation, regardless of the sanctions. The sanctions could potentially make it even more dangerous in the short run and the reason is, as the North Koreans are sanctioned, as revenues are tightened, there may be a tendency on the North Korean side to intensify illicit activities in order to compensate for those lost revenues. So one could imagine an upsurge of North Korean counterfeiting, drug trafficking, and maybe even military sales as well in its attempt to compensate for the loss of revenue due to the UN sanctions. So I think it's a very dangerous situation all around.

Steve Weisman: Is the West prepared to confront such an increase in illicit activity, either militarily or economically? I mean the Treasury, the State Department, and the whole West have really been at this for a number of years. Have they gotten better at stopping these kinds of illicit activities?

Marcus Noland: One of the things that Resolution 1874 did was essentially get international imprimatur to some policies that the United States and its allies had been pursuing through something called the Proliferation Security Initiative [PSI]. The United States and a number of allies had been attempting to monitor and disrupt North Korean proliferation activities. The UN resolution essentially gave that a good housekeeping seal of approval.

The other important development is, with the second North Korean nuclear test. South Korea, which had been sitting on the fence under the previous government of Roh Moo-hyun, actually joined PSI as a participant. So you now have a situation in which a broadening coalition of countries is interested in stopping North Korean proliferation activities.

The one key country that's not part of PSI that really holds the key to the effectiveness of many of these sanctions are the Chinese. There is no evidence to date that China has actually implemented any of the UN sanction resolutions. They've gone along with them within the Security Council but have not actually implemented.

Steve Weisman: They cooperated on the Banco Delta Asia, though, in Macau, didn't they?

Marcus Noland: They did, and there is an important distinction between the trade and the financial sanctions.

When any government anywhere in the world tries to impose trade sanctions on another government, it is telling its own people not to do something they want to do, namely to trade and invest with that other country. So any imposition of sanctions anywhere in the world immediately creates domestic political constituencies to either weaken or circumvent the sanctions.

The financial sanctions against Banco Delta Asia and potentially financial sanctions that are going on now under Resolution 1874 turn that political logic on its head. In the case of Banco Delta Asia, Chinese banks, which had little or no business with North Korea, were facing the loss of access to the lucrative United States market. So their incentive was not to weaken the sanctions or circumvent them, their incentive was to encourage their government to implement the sanctions to get them the clean bill of health so they could continue to operate in the United States.

Bureaucratically, normally sanctions are negotiated by foreign ministries and then they have to appeal to their customs services to implement them. In the case of the financial sanctions, their sanctions were done by the People's Bank and finance ministries. They don't care much about North Korea; they care a lot about the United States.

Steve Weisman: And the US Treasury, which was taking the lead too.

Marcus Noland: So it changes the politics, not only in terms of the internal political dynamics, it changes the bureaucratic factors as well. So there are reasons to believe the financial sanctions may actually be more effective than trade sanctions as normally conceived.

Steve Weisman: That's my impression as well. A final question. Today is July ninth, the day after the cyber attack that seems to have involved or originated in South Korea. There was some speculation in the press that North Korea might have been involved. Do you have any thoughts about whether that would be logical?

Marcus Noland: Well, I obviously have no direct knowledge of North Korean involvement in this. We know that North Korea has put a great emphasis on the development of their IT sector in recent years and there has been considerable writing in the military literature about the development of cyber warfare capabilities in North Korea. So the idea that North Korea would launch such attacks is plausible, in terms of their capability of doing so. What their motivation would be is hard to say.

Again, it would be purely speculative but I think we are in a situation now in North Korea in which there are elements of the North Korean system that simply, for whatever reasons, appear to be interested in engaging in provocative behavior of various sorts. And there seem to be little internal checks on that behavior. So it's a system that appears to be ratcheting up the degrees of provocation and this. If it turns out that in fact North Korea was involved in these recent cyber attacks, that would fit this pattern.

Steve Weisman: Marc, thank you very much for sharing your thoughts.

Marcus Noland: Thank you.

