

**The Trump Administration,
U.S.-Korean Economic Relations,
and Asian Regionalism**

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This analysis written “in medias res” (in the midst of things) covers trade policy under President Donald Trump. The basic outline was prefigured during the presidential campaign, but this did not preclude surprising policy twists and turns (even contradictions) during the first months of the administration. In part, these tergiversations can be explained by the shakedown cruise for any new regime, but in this case, this fairly standard phenomenon has been complicated by the highly personal, idiosyncratic “Trump brand” of policymaking. In many areas of domestic and foreign policy, Trump had little or no experience or fixed opinions. Not so with trade: well back in the 1980s, Trump, as a private corporate leader, had railed against the “unfair” trade practices of Japan and other U.S. trade partners, as well as mounting U.S. trade deficits.¹ These themes defined his presidential campaign and have been carried through in actions since he took office in January. The trade priorities have included: “America First” and the vigorous assertion of U.S. sovereignty, with the undisguised threat of unilateral action in defiance of the World Trade Organization; trade negotiations and renegotiation of existing trade agreements with the primary goal of reducing U.S. trade deficits; stepped up use of trade remedy (anti-dumping and countervailing duties) actions, as well as the threat to retaliate against U.S.-defined “unfair” trade practices; and tying trade restrictions directly to alleged national security imperatives. Yet, what seems a sure fact one day may be outdated the next, complicating preparation of this chapter.

As presidents before him have discovered, Trump is learning that trade policy is not made in a vacuum. Foreign and defense policies regarding individual nations and whole regions must be factored into decisions that relate to U.S. international economic policies. Thus, although the president had vowed to name China as an unfair currency manipulator during the campaign, he backed off in light of the necessity to enlist President Xi Jinping against the nuclear threat from North Korea. And whatever the unhappiness over the trade deficit with Japan, that country is a treaty ally and also a stalwart defender of democracy. The divisions over foreign and trade policy extend into the heart of the White House itself. Washington has been titillated by leaks and report of conflicts between contending factions close to the president—most particularly between the so-called Economic Nationalists, who press for the campaign-based hardline on trade; and the Internationalists, a number of whom come from Wall Street careers, who favor more traditional trade policies and cooperation with U.S. allies and trading partners.

These competing and sometimes confusing impulses within the fledging administration present difficult challenges for Korea and Japan, two of America’s closest allies and trading partners. Both have been targeted for their allegedly “unfair” trade surpluses with the United States, and both are attempting to craft mollifying international economic policies to deflect Trump administration retaliation. In a larger context, the president has upended decades of U.S. leadership in East Asia by summarily withdrawing from the Trans-Pacific Partnership agreement, without advancing an alternative U.S.-led regional economic architecture. Meanwhile, the Chinese have attempted (with decidedly mixed success) to convince the region—and the world—that they have suddenly embraced globalization and economic liberalism.

This chapter proceeds as follows. The first section describes the main tenets and priorities of the administration’s trade policies. The second section lays out the organizational structure for developing and executing Trump’s trade policies: who is in charge and what are their roles so far as we know. This section also describes the administration’s initial actions

and priorities. The next section analyzes the implications of the new U.S. trade agenda for Asia, with particular attention to Japan and Korea. The final section sets forth an East Asian response to Trump's withdrawal from TPP, strongly urging the remaining nations (TPP-11) to recreate the provisions without the United States.

THE TRUMP ADMINISTRATION TRADE POLICY

While the actual details of trade policy are far from complete, it would be hard to overestimate the upheaval promised by Trump during the presidential campaign—and reiterated by the new president and his trade counselors since taking office. To understand where Trump and his trade advisers want to take U.S. trade and investment policy, one must go back to a seminal document, published during the fall campaign, by incoming Commerce Secretary Wilbur Ross and Peter Navarro, who has been picked to head a new White House Trade Policy Council.² Key elements of this document have been repeatedly cited since the election, supplemented by the strident espousal of “economic nationalism” by White House Counsel Steven Bannon, as the defining theme of the Trump presidency.³

What follows is a distillation of Trump administration guiding principles for trade and specific policy prescriptions. Much of the underlying analysis by Navarro, Bannon, Ross—and certainly Trump himself—is deeply flawed and contested by almost every economics professional. The aim here is to present a clear description of the fundamental assumptions and their policy consequences.

Trade Deficits and the Off-Shoring of Jobs

The Trump team finds two underlying sources of U.S. economic decline: persistent trade deficits and the rise of off-shoring of jobs by U.S. corporations. In their September 2016 policy paper, Navarro and Ross argued that trade deficits have caused a heavy drag on U.S. economic growth and depressed the income of workers, particularly those in the manufacturing sector: “To score the benefits of eliminating the trade deficit drag, we don’t need any complex computer model. We simply add up most (if not all) of the tax revenue and capital expenditures that could be gained if the trade deficit were eliminated... Trump proposes eliminating the American \$500 billion trade deficit through a combination of increased exports and reduced imports.”⁴ In his State of the Union address, Trump came back to this theme—rising trade deficits and trade policies caused job losses: “The trade deficit in goods with the world last year was nearly \$800 billion... We have lost more than one-fourth of our manufacturing jobs since NAFTA was approved, and we have lost 60,000 factories since China joined the World Trade Organization in 2001.”⁵

Regarding offshoring, the president has exerted great pressure on selected U.S. corporations—Carrier, Ford, Boeing—which had planned to close factories in the United States or to expand or open new facilities abroad (particularly in Mexico.) Administration officials do not place all the blame on corporate greed (a la Bernie Sanders.) They also cite other factors for offshoring and the alleged decline in manufacturing: heavy and inefficient regulation, currency manipulation, “bad” trade deals, and faulty international tax policies: “The U.S. will become more competitive (in manufacturing) if our businesses are not being pushed offshore by high taxes and heavy regulatory burdens or pulled offshore by unfair trade practices like the lure

of undervalued currencies and the availability of illegal export subsidies...bad [trade deals] both allow and encourage corporations to put their factories anywhere. However, Mr. and Mrs. America are left back home without high-paying jobs.”⁶

“Good” Bilateral Trade Deals vs. “Bad” Multilateral Trade Deals

Flowing from the above (inaccurate) assumptions, for the Trump administration good or bad trade deals are judged on the basis of whether they are followed by an increase (bad) or decrease (good) in the bilateral trade deficit (likewise with an existing trade surplus.) Candidate Trump stated, and Secretary of Commerce Ross has reaffirmed, the administration will only pursue bilateral trade agreements. To underline this determination, one of the president’s first official acts was to formally withdraw from the TPP. Ross and Navarro have given two reasons for the move away from regional or multilateral pacts. First, as Ross told the Senate Commerce Committee in his confirmation hearings, with the TPP and other multilateral negotiations the United States has to give up too much to multiple partners to get its own individual priorities: “As someone who has negotiated a lot of transactions, I can tell you that the more complex the environment within which you’re negotiating, the less likely you are to get to a sensible result.”⁷

There is a second political economy rationale for moving to the bilateral format: market power. Trump, echoed by Navarro and Ross, has bluntly threatened retribution if recalcitrant trading partners refuse either to negotiate or to knuckle under to US demands. As Navarro and Ross wrote: “those who suggest that Trump’s trade policies will ignite a trade war ignore the fact that we are *already* engaged in trade war...Our major trading partners are far more likely to cooperate with an America resolute about balancing its trade than they are likely to provoke a trade war. This is true for one simple reason. America’s major trading partners are far more dependent on American markets than America is on their markets.”⁸ Trump followed through in late February when he told the conservative CPAC conference that he had “withdrawn from the Transpacific Partnership so that we can protect our economic freedom. We are going to make trade deals, but we’re going to do one-on-one—one-on-one—and if they misbehave we terminate the deal...None of these big quagmire deals that are (a) disaster.”⁹

“Unfair” Trade Practices and Currency Manipulation

Trump and his trade advisers strongly believe the United States is surrounded by nations who “game the system” and cheat with abandon. As Navarro and Ross stated: “The global trading system is riddled with cheaters...It is fair for countries to benefit competitively from any inherently lower costs. It is unfair to game the system in addition. When countries cheat to boost their exports, reduce their imports, and protect their own markets, trade becomes more of a zero sum game in which cheating countries enjoy a disproportionate share of any gains from trade...A Trump administration will not tolerate cheating by any nation.”¹⁰ This is echoed in the recent first USTR statement: “The President’s Trade Policy Agenda,” which affirms, “The Trump administration will not tolerate unfair trade practices that harm American workers, farmers, ranchers, services providers, and other businesses large and small. These practices lower living standards for all Americans by distorting U.S. and global markets and preventing resources from being allocated in the most efficient manner.”¹¹

The Trump administration will likely focus on two elements of alleged “cheating”: so-called dumping of goods below the costs of production, and currency manipulation. On

anti-dumping actions, the new administration will receive strong support from generally competitively failing industries such as steel, furniture, textiles, and shoes—in combination with the labor unions associated with these sectors. Composed of these groups, the Committee to Support U.S. Trade Laws has already called upon the president to identify loopholes in existing legislation and to add new tools such as self-initiation of anti-dumping actions by the Commerce Department. In Congress, a coalition of labor-oriented Democrats and some Republicans from the Rust Belt will ally with the new administration on these issues.¹²

Retaliation against alleged trade-distorting currency manipulation has been a strong goal of the same coalition—and a target of Trump. During his presidential campaign, Trump repeatedly called out China for manipulating its currency for unfair trade advantage. And on February 23, he again labeled Beijing as the “grand champion” of currency manipulation.¹³ However, his secretary of the treasury took a more cautious stance, preferring to allow the Treasury process for evaluating the currency policies of U.S. trading partners to play out (see below.)

U.S. Sovereignty, Unilateralism, and the WTO

The USTR Statement of the President’s Trade Policy, supposedly revised with less inflammable language,¹⁴ still is a document that follows closely Trump’s “America First” doctrine and Bannon’s defining theme of “Economic Nationalism.” While asserting that the “overarching purpose” is to “expand trade,” the document states that the priority is to “defend U.S. sovereignty over trade policy.” It takes dead aim at the terms and conditions of U.S. membership in the WTO and the Dispute Settlement Understanding, arguing that U.S. adherence to WTO judicial decision is premised on two conditions: 1) that the judicial decisions did not add to U.S. obligations or diminish its WTO rights; 2) no decision would become U.S. law automatically—only Congress would change U.S. law. Specifically, it states: “the Uruguay Round Agreements Act...provides that: ‘No provision of any Uruguay Round Agreement, nor the application of any provision to any person or circumstance, that is inconsistent with any law of the United States shall have effect’...In other words, even if a WTO dispute settlement panel—or the WTO Appellate Body—rules against the United States, such a ruling does not automatically lead to a change in U.S. law or practice. Consistent with these important protections and applicable U.S. law the Trump administration will aggressively defend American sovereignty over matters of trade law.”¹⁵

The document highlights U.S. trade remedy laws against unfair trade practices as central to carrying out the bargain between government and workers, farmers, and businessmen in retaining membership in the WTO: “Trade remedies are a foundation to the implementation of the WTO agreements...and it is critical that WTO members fully recognize their centrality to the international trading system.” Among the critical defenses against market-distorting practices, the administration identifies the aforementioned anti-dumping and countervailing duty regimes, but also gives special priority to Section 201 through which the administration can impose “relief” from import surges—and Section 301, the catch-all authority to take action against foreign trade policies that are “unjustifiable, or unreasonable or discriminatory” and burden U.S. commerce. And in a direct warning to the WTO, the statement declares: “And when the WTO adopts interpretations of WTO agreements that undermine the ability of the United States and other WTO Members to respond effectively to these real-world unfair trade practices...these interpretations undermine confidence in the trading system....Accordingly, the Trump Administration will act aggressively as needed to discourage this type of behavior...”¹⁶

In effect, the Statement of Trade Policy lays down the predicate to refuse to abide by a panel or Advisory Board decision, and represents “a sharp break from U.S. trade policy,” to which the Clinton, Bush, and Obama administrations adhered. It is also widely reported that USTR staff have been instructed to create options for future non-compliance with WTO judicial decisions.¹⁷

Trump Trade Policy: Who Is in Charge and What Are the Priorities?

Possibly in keeping with his reputation for establishing multiple power sources in his businesses, Trump has created a complicated structure for the development and execution of trade policy. First, in the White House and Executive Office, he rewarded a vociferous campaign advocate, Peter Navarro, as head of a new White House Trade Council, staffed with two deputies. Since he was on the ground first (his appointment did not need Senate confirmation), Navarro served as the administration’s lead spokesman on trade from December through February. He conducted the first briefings for Senate Finance Committee members in late February.¹⁸ There is some doubt, however, that Navarro will retain his lead position. The president also continued a National Economic Council (NEC), headed by Gary Cohn, a well-connected Wall Street banker. The NEC will have a much larger staff, and Cohn may become the center of international economic policy, as well as domestic policy, in the Executive Office of the President. Of greater influence are Secretary of Commerce Wilbur Ross and Robert Lighthizer, the U.S. Trade Representative. Both positions have defined policy and administrative duties and are confirmed by the Senate. Early on Trump named Ross as his chief trade strategist in beginning the renegotiation of NAFTA. But most observers believe that Congress will demand that USTR Lighthizer take the lead in actual trade negotiations.¹⁹

During March and April, the internal battle over trade policy broadened to other major diplomatic and political issues, pitting many of Trump’s original supporters, the economic nationalists or populists, against more moderate White House staff and some members of the president’s family, particularly the increasingly influential son-in-law Jared Kushner.²⁰ Kushner allied with Cohn and other former Goldman Sachs White House staff members to counter the hardline trade policies pushed by Bannon, Navarro, and on occasion, Ross (though beyond the purview of this paper, the Syrian response and missile attack was also a key dividing point, with the “American First” proponents opposing humanitarian intervention.) The pendulum has swung back and forth several times, but it remains too early to assess how much of Trump’s instinctive combative attitude on trade will still assert itself.²¹ On trade, both sides have scored points.

First Actions—With key trade policy appointments (particularly in the lower and middle levels of the bureaucracy) not in place, the president has moved forward only sporadically on his trade agenda after rejecting TPP. Despite his vow to name China a currency manipulator on his first day in office, that decision was postponed. But, behind the scenes, plans are taking shape for early actions, particularly with regard to the renegotiation of NAFTA. In accord with the dictates of the Trade Promotion Authority legislation, he must give a 90-day notice before undertaking the renegotiation. Still, it is clear from press reports that both Canada and Mexico are already deep in preparation for the NAFTA redo—and both have signaled that the negotiation will not be a one-way street. Each country plans to present its own offensive demands. On February 28, Ross told House Democrats that the administration planned to formally notify Congress of its intent to renegotiate NAFTA on or about March 15.

This set off a bipartisan debate over the propriety of the Secretary of Commerce making the notification. Congress is already showing how prickly it can become regarding its constitutional trade jurisdiction and over the executive adhering to mandated rules.²² The Senate failed to move on the Lighthizer nomination until early May, which resulted in Ross continuing to be the lead spokesman for the administration. There were also several important events that took place, highlighting the divisions over trade.

The economic nationalists won an important victory when the United States upended a meeting of the G20 finance ministers by refusing to sign on to a long-standing declaration that the G20 would “oppose protectionism in all its forms.”²³ Secretary of the Treasury Steve Mnuchin, a leading internationalist within the administration, was forced to toe a hard line, bluntly telling the assembled ministers: “The United States has been treated very unfairly over the years. That is going to stop. I am a free trader, but I am also a fair trader.”²⁴ Yet, the administration’s draft notice to Congress on renegotiating NAFTA was surprisingly modest in describing the goals, no doubt showing the hand of the moderate internationalists. There was no demand that Mexico cut its trade surplus in a specified time, or provide funds for the border wall. Rather, it reflected already-negotiated TPP provisions: new digital trade rules, strengthening intellectual property; new labor and environmental obligations; and (surprisingly) updating the investor-state dispute settlement system. Certainly, there were more protectionist additions: eliminating a special panel for anti-dumping and countervailing duty cases; stricter rules of origin; “Buy America” provision; and special safeguard measures to defend against surges in imports.²⁵

THE TRUMP-XI SUMMIT

The most startling contrast between Trump’s campaign rhetoric and the realities of governing came at the April 6-7 summit with President Xi Jinping. Having railed against China’s “rape” of the U.S. for months—even years—the president meekly accepted a standoff in his first meeting with Beijing’s top leader.²⁶ There are two reasons behind this shift, one short-term and one long-term. The short-term reality is that the president does not have his full team in place. His remains a top-heavy administration with few of the crucial mid- and lower-level political slots filled with acolytes who can flesh out policy and program details. The long-term reality demonstrates a fact that every president must come to grips with: trade policy ultimately is closely intertwined with larger national diplomatic and security goals. In the lead up to the summit, North Korea had defied the world and moved inexorably toward a long-range nuclear missile capability. While the president had openly stated that the United States was prepared to act alone, ultimately China’s aid and pressure on North Korea had the best chance of tipping the balance against unilateral U.S. intervention.²⁷ It became clear that in Trump’s universe trade and security were part of a continuum, with the potential of tradeoffs back and forth. Four days after the meeting, Trump in one of his (in)famous tweets bluntly stated: “I explained to the President of China that a trade deal with the U.S. will be far better for them if they solve the North Korean problem.”²⁸ Subsequently, on April 14 the Treasury Department did not name China a currency manipulator, but it did add an additional criterion for currency manipulation in the future that could ensnare Beijing. Treasury warned that it would closely monitor and possibly take action against countries that account for a “large and disproportionate” percentage of the overall U.S. trade deficit.²⁹

Before concluding that trade would continue to take a backseat with China and other U.S. partners, and that the “America First” wing of the White House was permanently displaced, it should be noted that the summit also produced a “100 Day Plan” in which the United States will present China with a list of demands on trade that reflect the priorities Trump had espoused earlier.³⁰ Though details were still to be worked out, Ross confirmed that the main demands would center around specific actions to produce a “quite noticeable” reduction in the bilateral trade deficit.³¹ In contrast to the vague platitudes at the summit itself, Ross emphatically stated that the United States would expect action within a short time period, noting that usually trade issues with China were “denominated in multiple years,” but this negotiation would see “a very big change in the pace of discussions.”³²

The Trump administration has taken a number of actions that potentially will further the economic nationalist agenda in coming months. First, the president signed an executive order commissioning a detailed study of the causes behind U.S. bilateral trade deficits. The goal was to identify “unfair” trade practices that contributed to the deficit, the result, according to Trump, of “very bad trade deals” that have resulted in “thousands of factories (being) stolen from our country.”³³ A second executive order dictated a study to search out new trade enforcement rules that would “keep foreign manufacturers from flooding U.S. markets with cheap goods.”³⁴ Then, the White House unleashed a stream of new highly nationalist decisions and rhetoric. In a visit to Wisconsin on April 17, Trump blasted Canada for being “unfair” to U.S. dairy farmers, again labeled the WTO “another one of our disasters,” and attacked congressional authority over trade as introducing “all sorts of rules and regulations that are horrendous.”³⁵ He launched several other potentially trade-destroying actions. He directed the Secretary of Commerce to determine which imports had national security implications under the provisions of Section 232 of the 1962 Trade Expansion Act. It is widely expected that the ultimate goal is to utilize this act to rein in steel imports from China and other major U.S. trading partners.³⁶ The White House also directed the Commerce Department to review U.S. policy regarding “Buy America” mandates from Congress and report back within 150 days with plans to limit any exceptions to the use of foreign parts, components and finished goods in U.S. public projects.³⁷

IMPLICATIONS OF TRUMP TRADE POLICY FOR KOREA, JAPAN, AND EAST ASIA

Given the slowness of the staffing up process for the Trump administration, it is not likely to move forward quickly with multiple trade initiatives. TPP is likely dead for the duration of a Trump presidency, and, when ready, the administration intends to move forward with a series of new bilateral agreements and renegotiation of other existing FTAs beyond NAFTA.

Japan

Once the NAFTA negotiations have been triggered, the Trump administration will almost certainly move to Japan. This progression stems from the importance of Japan as a U.S. trade partner and from prioritizing trade negotiations with nations with which the United States runs the largest trade deficits and which allegedly have been currency manipulators. Japan ranks just behind China as a priority, given the fact that last year it ran the second largest bilateral trade surplus with the United States (about \$70 billion.)³⁸ Prime Minister Abe was quick off the mark to meet with Trump in early February, but no timetable was decided

(at least publicly) for bilateral FTA negotiations. Abe has steadfastly defended the TPP, for which he expended great political capital, but he has also stated that he was open to bilateral negotiations.³⁹

Trade experts in both states are very divided on the difficulty and outcome of the proposed bilateral negotiations. There is support from key congressional leaders, including Sen. Orrin Hatch (R-UT), chairman of the Senate Finance Committee, who have reconciled themselves to the demise of TPP.⁴⁰ Fred Bergsten, former head of the Peterson Institute, argues that a bilateral U.S.-Japan FTA would not present great difficulties, particularly if the Trump administration accepts the central provision of the TPP as the basis for bilateral ties with East Asian countries. He also posits that defensively it will make sense for the Abe administration to close a deal quickly as insurance against future U.S. protectionist moves.⁴¹ Speaking at the same event where Bergsten offered his opinion, Urata Shujiro also gave cautious approval for a bilateral FTA, but he holds that such an agreement should only be undertaken by Japan as a stepping stone to later regional agreements: “The U.S.-Japan bilateral should not be the final goal...If I were Prime Minister Abe, I would say ‘I’ll accept your proposition of a U.S.-Japan free trade agreement with the condition that this is one step forward’ to a TPP-like agreement.”⁴²

Others are deeply skeptical of the outcome of bilateral FTA negotiations. Wendy Cutler, previously a chief negotiator for TPP, has warned that “Abe spent a lot of political capital on the TPP,” and a bilateral FTA would present a whole new set of issues that would take extended negotiations to settle.⁴³ “If the U.S. were to go forward and make requests in areas like currency (and agriculture and automobiles), I think this would present real challenges for Japan and frankly for the bilateral relationship.”⁴⁴ Urata echoed this warning when he stated that acceding to additional demands in agriculture would be “more difficult for Abe to come home with.”⁴⁵ Finally, she predicted, if the United States came forward with additional offensive demands, Japan would reciprocate with demands of its own in areas related to U.S. auto and truck tariffs.

Korea

If the Trump administration followed the logic of its “trade deficit prioritizing,” Korea would be way down the list of culpable trading partners. While it ranks as the sixth largest trading partner, it stands well below a surprising number of countries—Ireland, Vietnam, Italy—in terms of bilateral trade deficits.⁴⁶ Still, the KORUS FTA came in for blistering criticism by Trump and his trade advisers during the campaign: a “job killing disaster” with a trade deficit that will cost 100,000 jobs—Trump himself stated frequently.⁴⁷ In April, when Vice President Mike Pence visited Korea to reassure South Koreans of full U.S. support against North Korea, he also stated that the “hard truth” is that trade relations are “falling short... from the fact that the United States trade deficit with Korea has more than doubled since KORUS came into effect.”⁴⁸

It could well be next year before the Trump administration turns to the KORUS. As was the case with the Obama administration, U.S.-Korean economic relations under Trump will develop against increasingly fraught East Asian diplomatic and security conditions. There will be the imperative to take steps to counter the widespread belief that Trump is retreating from a leadership role in Asia—graphically underlined by the abrupt withdrawal from the TPP. Even within the confines of the flawed Trump assumptions regarding the

drivers of trade relations, Korea does have some facts on its side. As with Japan, Korean companies have already—from both political sensibilities and competitive imperatives—moved “offshore” to the United States. Investment has increased drastically from \$19 billion in 2011 to \$36 billion in 2014⁴⁹—led by large multinationals such as Samsung, Hyundai, POSCO, and LG Electronics.⁵⁰

While KORUS has been a great economic success (total trade jumped from \$126 billion in 2011 to \$150 billion in 2015; and total U.S. services exports from \$16 billion to \$24 billion),⁵¹ there are lingering complaints from U.S. business sectors that could form the basis for an administration push for changes. These include issues related to pharmaceutical regulations and the establishment of an independent review mechanism for pricing; greater liberalization for legal services; problems with implementing data transfer liberalization; and transparency and procedural clarity by Korean regulators, particularly the Fair Trade Commission on competition policy matters.⁵² While not trivial, issues that surfaced during the Obama administration could be handled without provoking a crisis in U.S.-Korean trade. What is unclear, however, is how many of the new Trump demands will be carried over into any negotiations to update KORUS.

The administration has remained steadfast in insisting on a direct linkage between the trade deficit and trade negotiations. Peter Navarro doubled down in his essay “Why the White House Worries about Trade Deficits,” saying “Reducing a trade deficit through tough, smart negotiations is a way to increase net exports—and boost the rate of economic growth.”⁵³ The specific reference he makes is to NAFTA and the projected situation where “Mexico agrees to buy more products from the U.S. that it now purchases from the rest of the world.” Behind these general goals there will have to be specific policies. The Statement of Trade Policy listed potential “enforcement” tactics. First, the administration could reintroduce “voluntary” export restraints (VERS) as the Reagan administration negotiated with Japan in the 1980s. This would violate an implicit agreement in the Uruguay Round to no longer utilize this method of blocking imports through disguised coercion. It is also possible that the Trump team would invoke Section 301 accusing Mexico, Korea, or other trading partners of “unfair” trade practices—“unfair” as defined unilaterally. Finally, both Japan and Korea have been charged with currency manipulation by administration officials.⁵⁴ Yet U.S. demands in this area are still unclear. The administration will likely unveil its plans in the upcoming NAFTA negotiations. The judgment here is that it will push for a definition of currency manipulation currently used by the U.S. Treasury (amount and duration of a nation’s trade surplus, and evidence of active government currency intervention). In any case, Korea will have a good deal of time to decide how to react to this demand, if it comes.

ASIAN REGIONAL RESPONSES TO THE TRUMP ADMINISTRATION

Korea, Japan, and the nations of East Asia need not remain supine as the potentially illiberal trade policies of the Trump administration unfold. Regional economic and political integration makes considerable sense—with or without the United States. At this point, there are two near- to medium-term options, and one quite long-range option, the Free Trade Agreement of the Asia Pacific, which would include all of the nations around the Asia-Pacific rim, perhaps. decades, away from coming to pass. The more salient options are RCEP

and a rump version of TPP, consisting of the original eleven members without the United States, as well as other nations who would be invited to join this group (Korea, Colombia, Thailand, Indonesia, as examples). RCEP and a rump TPP, widely different visions of East Asian integration, could proceed in parallel.

RCEP

One of the main virtues of RCEP (as TPP) is that, if completed, it will partially solve the large problem of “noodle bowls.” From almost no FTAs in 2000, by the end of 2015, some 52 FTAs had been negotiated between Asia-Pacific governments, and another 54 had been signed with nations outside of the region.⁵⁵ This led to a bewildering array of different rules and barriers to trade. The result is overlapping and contradictory commitments in both manufacturing and service sectors. As now constituted, RCEP will include under one umbrella, the ASEAN bloc plus the six partners with which the bloc had FTAs in 2013 (Australia, New Zealand, China, India, Japan, and Korea). In contrast to TPP, which espoused “open regionalism” that included eligibility for all 21 members of APEC and a defined accession clause, RCEP is confined to the 2013 members with no accession option contemplated. Thus, it represents a more closed model, which formally endorses “ASEAN centrality.” (Though it is also clear that this concept may increasingly be challenged by China’s stepped up drive for negotiating leadership.)⁵⁶

As a vehicle for regional trade and investment liberalization, however, RCEP will be found wanting. While the larger goal of TPP was to produce a 21st century, “WTO Plus” agreement, RCEP has taken a lower road merely to be “WTO compliant.”⁵⁷ Almost the entire focus is on merchandise trade, and even here members have been deeply divided on the extent and timing of tariff reductions—with India fulfilling its obdurate reputation. RCEP breaks little ground on 21st century issues such as digital trade, state-owned-enterprises, investment rules, intellectual property, labor, environment, transparency, and regulatory cooperation and coordination.⁵⁸ Formally launched in 2013, the original date for completing the negotiations was the end of 2015, pushed back to the end of 2016, and now to the end of 2017. Still, there is great doubt that even this goal is possible. However, the U.S. decision to back out of TPP has changed the dynamic in the movement toward an Asian economic architecture. Beijing, reacting to the Trump administration’s seeming withdrawal from a leadership role in East Asia, suddenly emerged at the Davos Economic Forum as the (faux) champion of regional and global liberalization—and renewing pressure to move forward this year on RCEP.⁵⁹ Even earlier at the 2016 APEC Summit, Beijing had presented a vision of the future of East Asian integration that bypassed TPP and utilized RCEP as the interim vehicle toward a distant FTAAP.⁶⁰

Even before factoring in the increasing role of India, there is also the fact that, no matter how weak their unity, ASEAN nations have always been fiercely protective of an ASEAN-centric regional future. Should the Chinese push too hard, there will be an inevitable backlash. Second, despite Xi Jinping’s effusions about global markets and multilateralism, Beijing is by no means ready for an economic leadership role. Indeed, as numerous studies have documented, not only have promised domestic reforms not kicked in, but also in many respects the Chinese government has led a retreat from market-based economic policies and regulations.⁶¹

A Rump TPP

TPP members, *sans* the U.S., as well as other nations that had been ready to join the TPP, do have another interim option: a rump TPP. Other TPP nations are contemplating not only falling back on RCEP, but also pushing ahead with bilateral agreements between TPP nations that did not currently have such agreements (*viz.*, Canada-Japan).⁶² Australia and New Zealand have taken the lead in pressing for an alternative that would see the 11 remaining TPP nations come together in a rump TPP.⁶³ Australian Prime Minister Malcolm Turnbull admitted that the U.S. reversal was a “big loss,” but he also stated: “We are not going to walk away.”⁶⁴ Turnbull also expressed the (unreal) hope that China could be induced to join the TPP. Chile stepped up and arranged to host a group of TPP nations, plus China and Korea, on March 10.

The key nation in all of this is Japan, both because of its size and place in the world trading order and because it will be under the greatest pressure from the Trump administration to settle just for a U.S.-Japan bilateral FTA. Japan has put out mixed signals regarding its course of action and its priorities for further Asian regional integration. In response to the Australia-New Zealand effort, Abe was quoted as saying that TPP is “meaningless” without the U.S.⁶⁵ Yet Abe’s economic advisers do not dismiss the idea of keeping the deep substantive elements of the TPP together in some regional organization.⁶⁶ Japan could attempt to take the lead in upgrading RCEP—grafting onto the negotiations 21st century issues such as intellectual property, greater services liberalization, investment rules, competition policy, labor, and the environment. There are two insurmountable obstacles to this path: China would not accept many TPP-related provisions, and it would be backed by less developed ASEAN nations such as Laos, Cambodia, and Myanmar. Alternately, Japan could slog through negotiating bilateral agreements with those TPP nations with which it does not have them, and renegotiate the bilateral FTAs it has already signed and upgrade to TPP levels. This would be a long and tedious process and for Japanese multinationals would continue and even deepen the “noodle bowl” effects of fragmented markets.

As this chapter was being completed, new pressures and realities forced Abe to reexamine Japan’s role in East Asia and relations with the United States. First, it became increasingly clear that the Trump administration would not ease pressure on Japan to enter into a bilateral FTA. On a trip to Asia in April, Pence and Ross made it clear that the administration would press ahead with its push for bilateral deals with both Japan and Korea, pointedly making reference to the continuing trade deficits with each nation. Ross stated that the United States expected to achieve results in the near future. Japan staved off any commitment for bilateral negotiations, and clearly Abe felt the necessity for introducing realistic alternatives for talks.⁶⁷ He announced plans to mobilize the 11-member rump TPP in the near future. Specifically, Japan will use a meeting of TPP ministers in Vietnam in May to instruct staff to prepare options for moving forward with a regional FTA (though with provisions that would allow U.S. entry later).⁶⁸

The Case for a Rump TPP

In one fundamental sense, the TPP has already come into existence, the other 11 TPP members have largely changed their laws and practices in preparation for the once-projected TPP entry into force. This has particular significance for the inside-the-border regulatory, services, intellectual property, investment, digital trade, and competition policy elements

of the TPP as negotiated 18 months ago.⁶⁹ Domestically the remaining TPP members have already met and overcome interest group opposition to concessions made in sensitive sectors. Even without the United States, the precedent-setting impact of the rump TPP would be profound. The 11-member agreement would constitute almost 14 percent of world GDP and 23 percent of global trade flows. If Korea, which is standing at the door and still eager to enter, becomes a member, this would add an additional \$1.4 trillion economy to the mix.⁷⁰

Recently, two economists, using a standard (GTAP) trade model, examined the economic results of an agreement by the TPP-11. Their overall conclusion: “Even without the U.S., TPP-11 still has much to offer...The eleven countries in the proposed TPP-11 should, therefore, initiate actions to resurrect the most ambitious trading arrangement the world has ever planned and stay the course in cultivating a transparent, rules-based trading architecture in the fast growing Asia-Pacific region.”⁷¹ Specifically, the model estimated that the net benefit of TPP-11 to all its member as 0.4 percent of their combined GDP. TPP-11 also adds some \$5 billion to global welfare according to their simulation results.⁷² The two economists warn against adding large countries such as China and Indonesia to the TPP-11 in the immediate future because this “would re-open the painstaking negotiating process and cause further delays.”⁷³

The argument advanced here is that an exception should be made for Korea. Unlike China or Indonesia, Korea just missed the cutoff dates for the first round of TPP negotiations, and by common, unannounced consent, it was assumed that Korea would become the 13th TPP member soon after the pact was fully ratified.⁷⁴ Further, given the advanced 21st century provisions of the 2011 KORUS, Korea’s membership negotiations should not be prolonged or difficult. Much of the substance, and in some case the actual language, of the TPP had been foreshadowed in the KORUS. Certainly, there were some real differences—in some tariff lines, intellectual property, SOEs, financial services, as examples—but Korea would not be faced with the same wrenching adjustment process as accompanied KORUS. Finally, given the increasingly fraught security conditions in Northeast Asia, it is imperative that Korea and Japan pursue closer relations. A bilateral FTA is politically difficult, if not impossible. As with TPP, membership in a TPP-11 would finesse the political snares of bilateral negotiations while achieving the same result.⁷⁵

CONCLUSION

Although some commentators have attempted to “interpret” and soften the main goals and priorities of the Trump administration, the view espoused here is that Trump and his advisers should be taken at their truculent word: they will try to negotiate policies that will (in their faulty view) decrease the U.S. trade deficit, introduce unilateral actions against allegedly unfair trade practices, and renegotiate and/or withdraw from existing FTAs (and the WTO) if trading partners prove recalcitrant. Asian nations should not remain supine and reactive. Specifically, TPP-11 nations will be in a much stronger negotiating position if they find common cause in a revamped TPP than if they face the United States one-on-one. Outside events also provide an additional rationale for a rump TPP. In late April, the Trump administration seemed to reverse itself and signaled that it would be open to a revival of negotiations with the EU on the Trans-Atlantic Trade and Investment Partnership agreement. It would treat the 27-member EU as a single trade entity, and thus fulfill its vow to avoid regional pacts and stick only to bilateral negotiations. This decision, if it is followed

through by revival of actual U.S.-EU trade talks has major implications for the 11 remaining members of the TPP. Should they summon the political and substantive courage to create a rump TPP, they then could also face the United States as a bilateral trading entity. At this point, such a course is not beyond possibility—and certainly worth a strong effort.

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A U.S. Perspective on Bilateral Economic Relations

Mark Manyin and Brock Williams*

The past several years have been an era of relative calm in U.S.-South Korean trade and economic relations. The Trump administration, however, has signaled two potential paradigm shifts that could lead to greater tension in the bilateral economic relationship. The first is the president's relatively negative view of existing U.S. trade policy and willingness to at least threaten the use of measures that historically have been infrequently deployed to correct what he views as its failures. This may affect the future course of the South Korea-U.S. Free Trade Agreement (KORUS FTA), which the administration presumably will scrutinize as part of its examination of relationships in which the United States runs a trade deficit. Second and intimately related, the president has signaled in his statements a willingness to use U.S. security relationships to influence economic relations and vice versa. On both fronts, uncertainty abounds, due in part to existing institutional structures that limit the president's ability to take new policy directions without, for example, the consent of Congress. The administration's own lack of clarity on its policy priorities and the possibility that stating seemingly extreme positions may represent a negotiating tactic rather than a policy shift, also cloud the outlook for how the United States will approach the bilateral economic relationship. The uncertainty also reflects the fact that key trade policy officials, including the United States Trade Representative (USTR), have yet to be confirmed.

These uncertainties in turn may make economic diplomacy more vulnerable to factors that traditionally would be considered exogenous to the economic sphere. The likelihood of the Trump administration attempting to explicitly link the bilateral economic and security relationships, as well as the likelihood of this succeeding, may depend on at least four factors: North Korea policy coordination; alliance relations; consultations over how best to approach China; and the U.S. and Trump's popularity among South Koreans. In particular, the administration's elevation of North Korea to a top-tier foreign policy issue, combined with the greater probability of tensions over North Korea policy, and the administration's apparent inclination to explicitly use economic and security issues to increase bargaining leverage could mean that significant tension over economic issues is more likely to occur than at any time in the past decade.

This chapter explores the context of the bilateral economic relationship, and the factors that may affect how future negotiations unfold. The analysis is based on currently known facts, but these issues will continue to evolve as U.S. trade policy is clarified and the administration responds to future global events.

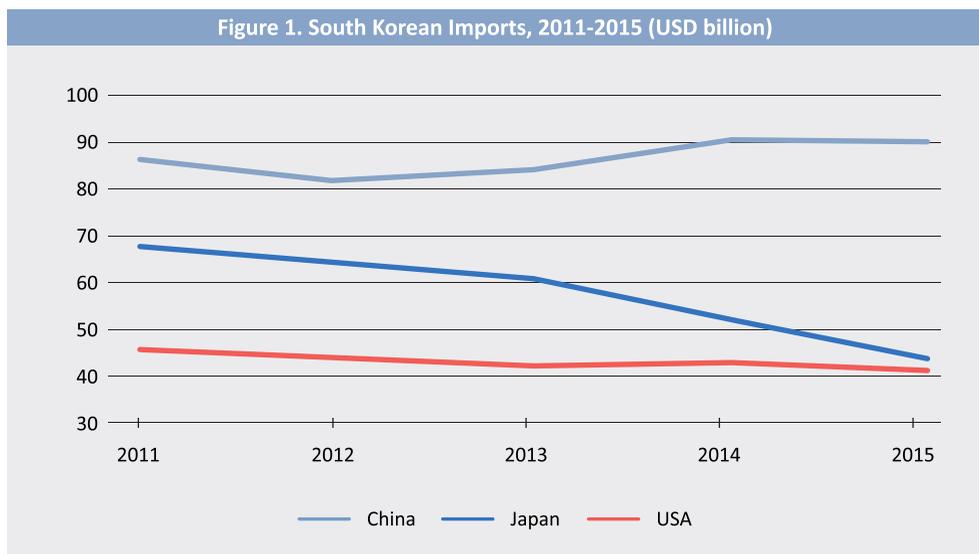
KORUS FTA OUTCOMES SET THE STAGE FOR FUTURE U.S.-SOUTH KOREA ECONOMIC TALKS

March 15, 2017 marked five years since the KORUS FTA entered into force, reducing and eliminating tariff and non-tariff barriers on trade and providing protections and certain standards of treatment for investments between the two parties. The second-largest U.S. FTA by trade flows after the North American Free Trade Agreement (NAFTA), its merits have been much debated in the United States throughout the decade since negotiations began. Those supporting the agreement note that U.S. exports of certain products with tariff reductions under KORUS have risen considerably as have U.S. services exports, while those opposed to the agreement note that the bilateral trade deficit with South Korea has more than

doubled since the agreement has been in effect.² In its first Trade Policy Agenda, released in March 2017, the Trump administration, which has sharply criticized prior U.S. trade policies and trade agreements in particular, highlighted the bilateral trade deficit with South Korea. The report noted that the rise in the deficit “is not the outcome the American people expected from that agreement.”³ Views on the outcome of the KORUS FTA will undoubtedly inform any future bilateral engagement on these economic issues.

Key Changes in Bilateral Trade and FDI Flows under KORUS

U.S. exports of goods and services to South Korea rose from \$61.9 billion in 2011, the year before the KORUS FTA came into effect, to \$63.9 billion in 2016.⁴ Measured in U.S. dollars, services exports increased by about \$5 billion over the period, while overall goods exports fell slightly. U.S. exports of travel services and charges for the use of intellectual property increased by \$2.8 billion and \$1.4 billion, respectively, accounting for much of the increase in services trade. In terms of goods trade, exports of autos and beef increased concurrently with significant South Korean tariff reductions. Exports of motor cars (HTS 8703) nearly quadrupled from \$420 million to \$1.6 billion over the period while tariffs fell from 8 percent to 4 percent upon entry into force and were eliminated in 2016.⁵ Auto exports also benefited from South Korea’s commitment to recognize the equivalence of U.S. motor vehicle safety standards for U.S. automakers exporting fewer than 25,000 units to South Korea. U.S. beef exports (HTS 0201, 0202) have increased by 50 percent or \$350 million while their tariffs were reduced to 24 percent, down from 40 percent. U.S. aircraft exports also increased significantly (up by \$1.7 billion) but most products were already tariff-free. Drivers of the overall fall in U.S. goods exports since 2011 include a \$1.1 billion decline in ferrous scrap exports and \$1 billion decline in corn exports, which partly reflect lower commodity prices over the period. Overall exports to South Korea were also likely depressed by the country’s economic slowdown as evidenced by a similar drop in South Korea’s imports from its other top trading partners, China and Japan. (Figure 1)



Source: United Nations Comtrade database.

U.S. imports of goods and services from South Korea rose from \$67.3 billion in 2011 to \$81.4 billion in 2016. Autos and auto parts (HTS 87) account for a large share of the increase in imports from South Korea since the KORUS FTA's entry into force. Imports of these products have increased by roughly \$9 billion, or nearly 70 percent of the \$13 billion increase in overall goods imports from South Korea. However, one should be cautious in attributing this increase solely to the FTA. For example, auto imports grew by approximately 15 percent each year from 2012 to 2015, before the United States made any reduction to its 2.5 percent auto tariff.⁶ After the tariff was eliminated in the fourth year (2016), imports grew by 12 percent.⁷ This suggests broader economic factors beyond the tariff reductions, including things like changing consumer tastes and shifts in the level of aggregate demand, played a major role in the growth of U.S. imports. In its 2016 report on the economic outcomes of U.S. FTAs, the U.S. International Trade Commission estimated that the bilateral trade deficit with South Korea would have been even larger without the agreement in place.⁸

Bilateral foreign direct investment (FDI) has increased in both directions since the FTA's entry into force, but most of the growth has been in South Korean FDI to the United States. From 2011 to 2015, the latest year for which investment data are available, the stock of U.S. FDI in South Korea increased from \$26.2 billion to \$34.6 billion.⁹ Meanwhile, the value of South Korean FDI in the United States increased from \$19.9 to \$40.1 billion, more than doubling. Most South Korean investment in the United States is in the wholesale trade sector (\$26.5 billion), while more than half of U.S. investment in South Korea is in the manufacturing (\$14.2 billion) and finance (\$6.9 billion) industries. This investment supports employment in both countries. In 2014, majority-owned U.S. affiliates of South Korean multinational enterprises employed 45,000 workers and spent \$1.3 billion on research and development (R&D) activities according to survey data from the Bureau of Economic Analysis. Majority-owned U.S. firms with affiliates in South Korea employed 125,000 workers and spent \$946 million on R&D.

Setting aside the economic merits of the ongoing U.S. debate over trade policy, the trade patterns with South Korea have created challenging political optics for the KORUS FTA in the United States. The 2016 presidential election focused heavily on concerns over import competition and the consequences for employment in the manufacturing sector, and in the five years since the KORUS FTA went into effect, U.S. bilateral imports have increased by 20 percent. Meanwhile, despite significant export gains in products that benefited from KORUS FTA commitments, overall U.S. exports have increased by only 3 percent. Although the general perception from the business community is that market access in South Korea has improved significantly on a number of fronts, U.S. firms have raised certain complaints over South Korea's implementation of its FTA commitments. For example, the Korean Customs Service reportedly required particularly onerous origin verifications on a variety of U.S. exports, making it challenging for U.S. firms, in some instances, to benefit from the agreed tariff reductions. The Obama administration addressed many of these implementation concerns, but according to business groups some persist.¹⁰ This combination of factors suggests the KORUS FTA and trade relationship with South Korea more broadly will be high on the Trump administration's trade agenda. According to press reports, the president's position regarding KORUS is "we'll either terminate or negotiate."¹¹

U.S.-SOUTH KOREA TRADE NEGOTIATIONS IN THE TRUMP ADMINISTRATION

There is considerable uncertainty currently as to the specific objectives of U.S. trade policy under the Trump administration, including on issues of consequence in trade with South Korea. The administration has unambiguously stated its intent to change U.S. trade policy, with a focus on trade negotiations.¹² The president himself stated that “no country has ever made bad trade deals like our country has made,” and U.S. trade agreements were listed as one of the four priority areas in the 2017 trade policy agenda. At the same time, Congress has established in current law the outlines and specific negotiating objectives of a U.S. trade agreement negotiation, and these guidelines have been in place since 2015 as part of the Trade Promotion Authority (TPA) legislation and will remain in effect at least until 2018 unless Congress were to amend the legislation.¹³ While these TPA objectives allow for some flexibility in order to provide space for the administration to effectively pursue negotiations, they do create some broad parameters for negotiation that could serve as a check on the president’s proposed shift in U.S. trade policy approach. To date, the administration has provided relatively few details on what specific aspects of trade agreements it intends to change, but its actions suggest some general directions.

In January 2017 the Trump administration gave notice that it does not intend to proceed with ratification of the Trans-Pacific Partnership (TPP), and said instead that it will negotiate future agreements on a bilateral basis. It plans to start these bilateral talks with the renegotiation of NAFTA, and has stated its intent to follow TPA procedures in that process. As with KORUS, the administration appears to be evaluating NAFTA based primarily on the U.S. trade deficit with NAFTA partners, namely Mexico. Among U.S. FTAs, KORUS is second only to NAFTA in the size of the trade deficit. The shift from TPP to bilateral negotiations changes the possible venue for future U.S.-South Korea trade discussions. South Korea had repeatedly expressed interest in joining the TPP and, arguably, was the most likely new candidate for membership due to its comparable FTAs with the United States and European Union. The Obama administration likewise welcomed South Korea’s interest, while also using the possibility of entry as leverage to push South Korea to resolve outstanding bilateral frictions.

The objectives for the NAFTA renegotiation will provide the first major data point regarding the Trump administration’s trade policy goals. A plethora of views exist in the U.S. trade policy community as to what those objectives should include. Some urge the administration to repackage TPP commitments into bilateral agreements. Others press for new provisions on issues such as currency and labor, and call for the elimination of existing provisions on investor-state dispute settlement. TPP had also been a venue to renegotiate NAFTA in some sense, with both Canada and Mexico as partners in the pact. A draft copy of the administration’s objectives for the NAFTA renegotiation obtained by the press had many similarities with the provisions in TPP, but the White House clarified that this draft copy should not be seen as reflective of policy, so the uncertainty remains as of late April 2017. The KORUS FTA, which came into effect nearly two decades after NAFTA, shares more text with the proposed TPP. If the administration uses the TPP’s provisions as a benchmark, South Korea theoretically might have to make fewer changes than Mexico in possible

renegotiations of their existing FTAs with the United States. However, TPP would have required new South Korean commitments in important areas like digital trade and state-owned enterprises.

Depending on how exactly the Trump administration intends to shift U.S. trade policy, in some respects, it could potentially move quickly on bilateral trade negotiations, including those with South Korea. The negotiated TPP commitments address issues of concern to a broad swathe of U.S. stakeholders, and although the agreement was a contentious aspect of the presidential election, recent polls suggest a slim majority of the electorate feels trade agreements have been a good thing for the United States.¹⁴ In addition, the president retains TPA through at least 2018 and possibly 2021 depending on whether the administration seeks and Congress does not reject an extension. This provides the administration with a window to pursue new agreements with the potential of expedited legislative consideration by Congress so long as the agreements make progress towards the TPA negotiating objectives.

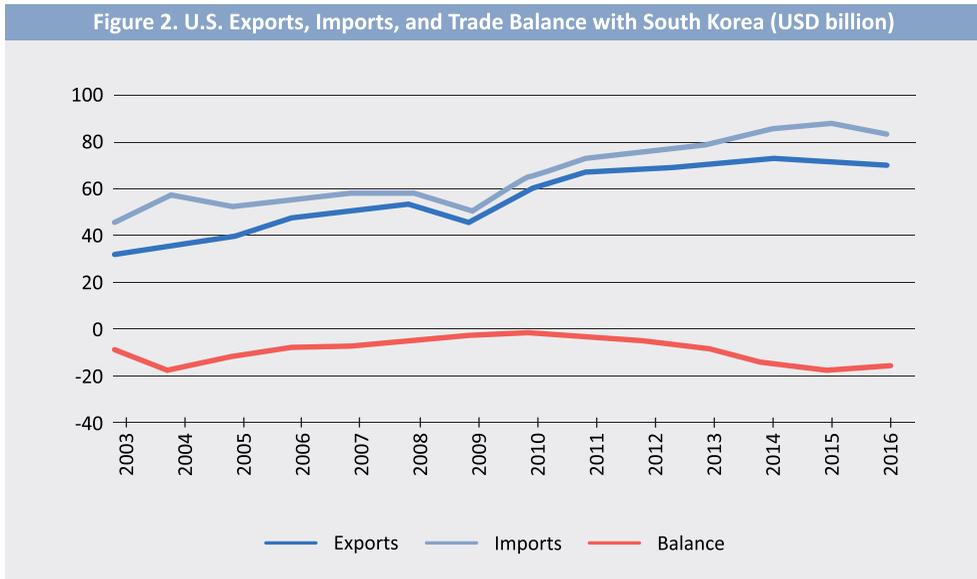
Although the administration's precise objectives for its trade negotiations remain unclear, the information available to date provides some perspective on possible areas of interest. Four areas that bilateral negotiations with South Korea might touch are the trade deficit, currency issues, KORUS FTA modifications, and trade enforcement. These issues are not mutually exclusive and negotiations to address one of the four could easily affect the others.

POSSIBLE FOCUS POINTS FOR BILATERAL DISCUSSIONS

Trade Deficit

The Trump administration's analysis on the health of individual U.S. trading relationships appears to rely overwhelmingly on the size of the trade deficit with the target country. On March 31 Trump ordered a report within 90 days on the cause and impact of trade deficits presumably to inform future U.S. policy and negotiations with trading partners.¹⁵ Although most economists argue that trade deficits reflect broader macroeconomic factors such as overall savings, consumption, and investment patterns, many in the administration see large persistent deficits as indicative of an unfair trade advantage on the side of the surplus country. For example, the nominee for USTR, Robert Lighthizer, in his testimony before the Senate Finance Committee noted that he sees trade deficits with U.S. FTA partners as a sign that “[i]n some cases, the rules don’t seem to be working as well as with others.” One critique of this view is what it potentially implies for the bilateral trading relationships in which the United States runs large and persistent trade surpluses, including existing FTA partners, such as Australia.

With respect to South Korea, the trade deficit has long been a source of bilateral tension, including concerns that U.S. producers have less than reciprocal access to the Korean market. South Korea's export oriented economic growth model focused, to some extent, on protecting domestic industry behind tariff and non-tariff barriers. U.S. businesses with operations in South Korea have also taken issue over the close collaboration between the government and domestic industry, from financing to regulatory treatment. While the tariff barriers have come down over time, some analysts suggest that the tendency for the South Korean government to protect its own firms has been harder to remove, and even with the provisions of the KORUS FTA at their disposal, some U.S. companies argue that regulatory barriers can still be challenging in the South Korean market.¹⁶



Source: Bureau of Economic Analysis. Balance of Payments (BOP) basis.

While it is clear the administration is focused on the bilateral deficit, it is less clear how it intends to go about addressing its concern. Because trade balances are driven to such a large degree by macroeconomic factors, minor tweaks to KORUS FTA provisions are unlikely to have a significant impact. The imposition of prohibitive across-the-board tariffs would be more likely to reduce the deficit, but would carry with it negative outcomes in the form of higher prices for, among others, consumers and businesses that rely on imported goods in their supply chains. Some members of Congress have already expressed their concerns about this approach.¹⁷ The president could also take a more direct approach to address the deficit by limiting the quantity of imports either through quotas or voluntary export restraint (VER) agreements with South Korea, though like the imposition of a tariff these would likely violate existing commitments in both the KORUS FTA and the WTO. In the 1980s, an era of significance for many influential players in the Trump administration, VERs were used to manage U.S. trade in steel and autos with Japan and others. Since one product, autos, accounts for a large share of the trade deficit with South Korea since 2011, the administration might see VERs as an efficient means to address its concerns.

Arguably, the least controversial method to address the trade deficit is to focus on increasing U.S. exports to South Korea. Indeed, this appears to be the focus of the new report required by the administration, which is to analyze the cause of trade deficits specifically identifying practices that limit U.S. exports. According to the federal register notice posted by the Commerce Department, which is taking the lead on the investigation together with the USTR, this investigation will focus on 13 trading partners with significant trade deficits in goods, including South Korea. However, since most tariffs have already been eliminated and many non-tariff barriers have been addressed, it is unclear how new negotiations with South Korea could materially affect the trade deficit. Unless South Korea's domestic economy picks up steam in the coming years, trade negotiations appear unlikely to have a major impact. Indeed, a broader challenge to focusing so heavily on this single metric in trade relations is that even if the administration investigates and negotiates remaining barriers to competition in the South Korean market, the trade deficit may persist. If so, such negotiations could be

deemed a failure even if they have positive benefits in both countries, as many argue the KORUS FTA has already had to date. Although its negotiating objectives include reciprocal access for U.S. goods and services, nowhere does TPA legislation specifically refer to the trade deficit.

Currency Manipulation

The Trump administration has highlighted currency policies as one set of tools U.S. trading partners use to maintain an unfair competitive advantage. The majority of its criticism on this has focused on China and, to a lesser extent, Germany and Japan, but the issue is likely to be a concern in the bilateral relationship with South Korea as well.¹⁸ The won depreciated sharply against the dollar during the 2008-2009 financial crisis, falling by over 40 percent, from about 900 won/dollar to 1,570 won/dollar, but recovered fairly quickly and has hovered around 1,100 won/dollar since 2010. South Korea has a history of intervening in foreign exchange markets and the Treasury Department has repeatedly, including in its April 2017 report, listed South Korea on its currency monitoring list, an additional monitoring tool required by the 2015 Trade Facilitation and Trade Enforcement Act.¹⁹ Treasury has yet to find a country in violation of all three of the act's criteria for additional engagement (i.e., a significant bilateral trade surplus with the United States, a material current account surplus, and persistent one-sided foreign exchange market interventions), but in each of the reports to date South Korea has met two of the criteria: a large bilateral trade surplus and a large bilateral current account surplus.

Although legislation set the general criteria for this new enforcement and engagement mechanism, the Treasury Department established the specific numerical thresholds. Should the Trump administration wish to more aggressively pursue concerns over currency manipulation it could tighten these thresholds while using existing legislative tools; some signs that the administration may favor this approach have already surfaced. In its most recent report, the Treasury Department noted that under the new administration it expanded the criteria for the monitoring list to include countries with a "large and disproportionate share of the overall U.S. trade deficit" even if those countries do not meet either of the other criteria. In effect, this measure ensured that China, the main focus of the administration's stated concerns on currency issues to date, remained on the monitoring list during this reporting period.

The administration could also address currency issues by adding a side letter to the KORUS FTA similar to the declaration on exchange rate policies signed by the 12 TPP countries. To address the concerns raised during the TPP debate by critics of this approach, such an agreement could also include strengthened commitments and some type of enforcement mechanism. Another alternative would be to consider undervalued exchange rates as a subsidy in U.S. antidumping and countervailing duty cases. Several members of Congress have advocated such an approach, even suggesting that it should be enacted through legislation to ensure its permanence.²⁰ South Korea's actions in the near term could have a strong influence on how the administration addresses this issue. On one hand, a protracted effort in foreign exchange markets to resist the won's appreciation would almost surely result in increased engagement by the Treasury Department and stronger actions by the Trump administration. On the other hand, were South Korea to take a proactive step to increase the transparency of its transactions on foreign exchange markets, a long-standing complaint of the Treasury Department, it could potentially help diffuse concerns.

KORUS FTA Modifications

The U.S. government may also seek to negotiate with South Korea on specific changes to the KORUS FTA on any number of the issues highlighted by U.S. business groups, USTR, and/or members of Congress.²¹ While some of these complaints about lagging implementation of the KORUS FTA's commitments may reflect a learning curve within the Korean government bureaucracy on the intricacies of complying with a complex international agreement, others could reflect vestiges of a regulatory system with an inherent, if sometimes subtle, bias toward the protection of domestic industries. Some of the U.S. complaints have revolved around the interpretation of commitments, with U.S. businesses arguing that in some instances South Korea has not lived up to the spirit of the agreement, even if it adheres to the legal text. Revisiting the KORUS FTA text could allow those making these arguments an opportunity to suggest more precise language that better captures their goals for the agreement. There has also been some debate over provisions that, to varying degrees, would tie U.S. trade concessions to specific export gains in the South Korean market, although such measures would represent a significant shift in approach from existing U.S. trade agreement commitments.

Several members of Congress and various officials or nominees of the administration have also expressed an interest in harvesting aspects of the TPP agreement for future negotiations, presumably including those with South Korea. Although the KORUS FTA arguably has the most extensive commitments of any U.S. FTA in force to date, the TPP included provisions that went beyond KORUS in significant ways. For example, in the area of digital trade and e-commerce, TPP commitments would prohibit localization requirements on servers and require that companies be permitted to transfer data across borders (a similar provision in KORUS applied only to financial services). Despite debate over privacy and regulatory considerations, these digital trade rules were perhaps the TPP's most widely-praised provisions. Commitments to ensure fair competition between private companies and state-owned enterprises (SOEs), another novel area in TPP, could also be economically significant in the context of U.S.-South Korea trade. For example, representatives of the U.S. steel industry have cited concern over South Korea's subsidization of its steel producers through various means to the detriment of U.S. industry, some of which could potentially be resolved with provisions like those in TPP that sought to address unfair competitive advantages received or provided by SOEs.

In addition, although they are few in number, certain products were excluded from the KORUS FTA's tariff concessions. Revisiting these exclusions, such as U.S. rice exports, would likely be of significant interest to the industries affected. A possible challenge of revisiting these exclusions, or other changes to the KORUS FTA text, is the potential for South Korea to seek changes to the agreement that disadvantage U.S. stakeholders. The types of changes South Korea might seek in a potential renegotiation likely depend on how South Koreans perceive the costs and benefits of the KORUS FTA and its potential renegotiation.

Despite a fiercely contentious debate at the time of its implementation, the agreement appears, by some measures, to have achieved a measure of general acceptance, if not support, among South Koreans. Some analysts argue that the anti-KORUS FTA stance taken by the Minjoo (Democratic) Party's predecessor in the April 2012 National Assembly election campaign

backfired, contributing to the party's surprising defeat. Judging by the 2016 National Assembly and 2017 presidential campaigns, FTAs seem to have receded as major issue in South Korean politics with both leading presidential candidates emphasizing, to varying degrees, the benefits of the agreement for both parties. This contrast to the characterization by the Trump administration could portend a stronger negotiating position for the United States, if the South Koreans feel they have more to lose in changes to the KORUS status quo. It may also push South Korea to put greater emphasis on the aspects of the agreement that have most benefited U.S. exporters in order to clarify the pain that could be felt were the agreement to dissolve. Mexico appears to have recently taken a similar approach to the NAFTA renegotiation, noting potential alternative suppliers of its agricultural imports from the United States.²²

General Trade Enforcement

Enhanced enforcement activities are the least controversial of these four areas of focus, and the most likely to be utilized by the Trump administration. Many of the actions involved are unilateral, avoiding the need for lengthy and challenging negotiations, and could be addressed without new legislation by Congress. Politically, strong positions on enforcement also have the benefit of appealing to groups both supportive and opposed to U.S. trade liberalization efforts. Approaches to strengthening enforcement include bringing more cases against South Korea in the WTO, enhancing engagement and potentially utilizing the dispute-settlement mechanisms of the KORUS FTA, or making greater use of U.S. anti-dumping and countervailing duty (AD/CVD) and other trade remedy laws. The latter approach appears to be the most favored of the administration to date as it has begun the process of self-initiating trade cases, rather than waiting for petitions by affected industries, and issued an executive order aiming to strengthen duty collection efforts on imports subject to AD/CVD orders.²³ AD/CVD cases have historically figured prominently in U.S.-Korea trade relations—since 2000, South Korea has been the target of 43 AD/CVD investigations, second only to China—and the administration's enhanced enforcement efforts have already affected a dumping case with South Korea, as the Commerce Department made the first-ever implementation of a 2015 law permitting use of third-country prices to establish dumping margins.²⁴

THE ECONOMIC-SECURITY NEXUS

The second major area of possible U.S.-South Korea economic tension is the Trump administration's signaling that it may use U.S. security relationships to influence its economic relationships, and vice versa. If this approach is followed, it would represent a shift in policy. U.S. administrations for at least the past several decades generally have avoided explicitly linking alliance commitments with partners' cooperation on economic matters.

This is not to say that U.S. trade and economic relations have not been influenced by security relationships. Bilateral economic relationships always involve a mix of security and commercial factors. At times, this is done explicitly, as the George W. Bush administration did in its choice of "strategic" FTA partners, countries like Bahrain with which the United States has low economic interaction but strong military ties, particularly after the September 11, 2001 terrorist attacks.

More often, the nexus between economics and security has been unstated. Alliances in many instances have provided the United States, in effect, with an extra seat at the bargaining table,

especially with South Korea, accentuating U.S. negotiation leverage. Additionally, power disparities and perceptions of unequal relationships have provided the United States with large—though not always decisive—leverage over partners’ trade and economic policies. Security and diplomatic dynamics create the context under which trade negotiations occur, giving national policymakers reasons to overcome or succumb to the sticking points that inevitably arise in the negotiations. For instance, the downturn in South Korea-Japan relations in 2005, when President Roh Moo-hyun threatened a “diplomatic war” after a flare-up of the two countries’ territorial dispute over Dokdo/Takeshima, was a major factor that brought their bilateral FTA negotiations to a halt.

Alliance relationships also create an incentive in both partners to avoid a situation where economic disputes or a breakdown in trade agreement negotiations cause damage to the alliance. Clyde Prestowitz, for instance, has argued that during the early 1980s U.S. concerns about potentially disrupting alliance relations with Japan led the Reagan administration to downplay U.S. companies’ petitions for relief from allegedly unfair Japanese competition.²⁵ This desire to prevent trade negotiations from damaging alliance relations also was on display at multiple points and on both sides of the Pacific during the KORUS FTA negotiation and ratification processes. At the outset of the talks in 2006, one of the arguments that many proponents gave was that the agreement would help to restore the health of the U.S.-ROK alliance. The KORUS FTA sometimes was discussed as a counterweight to the bilateral friction that was occurring over issues such as how best to manage relations with North Korea and the realignment of U.S. troops in South Korea. When the Obama administration demanded that the Lee government effectively renegotiate parts of the KORUS FTA in 2010 and 2011, South Korea arguably was more inclined to agree because of considerations of alliance politics. Likewise, when Congress was debating the agreement, the Obama and Lee administrations, with the House leadership, arranged for the final vote to come the same day as Lee’s address to a joint meeting of Congress, a move that put the alliance at the forefront of the minds of many members of Congress at a time they were deciding how to vote on the KORUS FTA.

In his rhetoric, Trump has appeared to go beyond the subtle interplay between economics and security by explicitly arguing that the two should be used to extract gains for the United States. During the election campaign, he questioned the value of U.S. alliances with partners that have run persistent trade deficits, a theme he has been raising since at least the 1980s.²⁶ Although Trump has avoided linking economics and security with U.S. allies since his inauguration, he has not hesitated to threaten to use trade and finance to extract security concessions from China. In March and April, Trump issued a number of tweets implying that he would not push China as hard on trade and currency disagreements if it increases economic pressure on North Korea.²⁷ One implication is that if the president believes the South Korean approach on a variety of security-related issues diverges too much from the United States, he will be more likely to seek to use bilateral economic pressure. His belief in the value of being unpredictable in foreign relations accentuates this possibility. He also appears to view domestic industrial capacity as highly linked to national security. He has ordered section 232 investigations, a tool not used since 2001, into the potential security implications of U.S. steel and aluminum imports, which could potentially result in higher tariffs.

In addition to the administration's plan to review all existing U.S. FTAs, how at least two developments in U.S.-South Korea relations evolve over the coming months may increase Trump's motivation and opportunities to try to use security and economic issues to extract leverage against South Korea:

- The election of left-of-center President Moon Jae-in who, during his campaign, favored dialogue and engagement with North Korea and is likely to be even less willing than the Park Geun-hye government to criticize China's increased assertiveness in the South China and East China Seas;
- The expiration in 2018 of the U.S.-ROK special measures agreement, which sets the level of payments to the United States to help offset the costs of stationing U.S. forces in South Korea.

In the future, the likelihood of the Trump administration tying commitments in either the trade or security realm to concessions in the other and the likelihood of such an approach succeeding may depend on at least four factors: the level of U.S.-ROK coordination over North Korea policy, alliance relations, consultations over how best to approach China, and U.S. and Trump's popularity among South Koreans. If any of the first three factors deteriorate, Trump may be 1) more likely to use economic tools to attempt to pressure Seoul to cooperate on strategic matters, and/or 2) less reluctant to hold off on increasing the heat on South Korea if and when disagreements over economic matters flare up. For the fourth factor of South Korean public opinion, the popularity of the U.S. and Trump is likely to affect the political costs to South Korean leaders of cooperating with the United States.

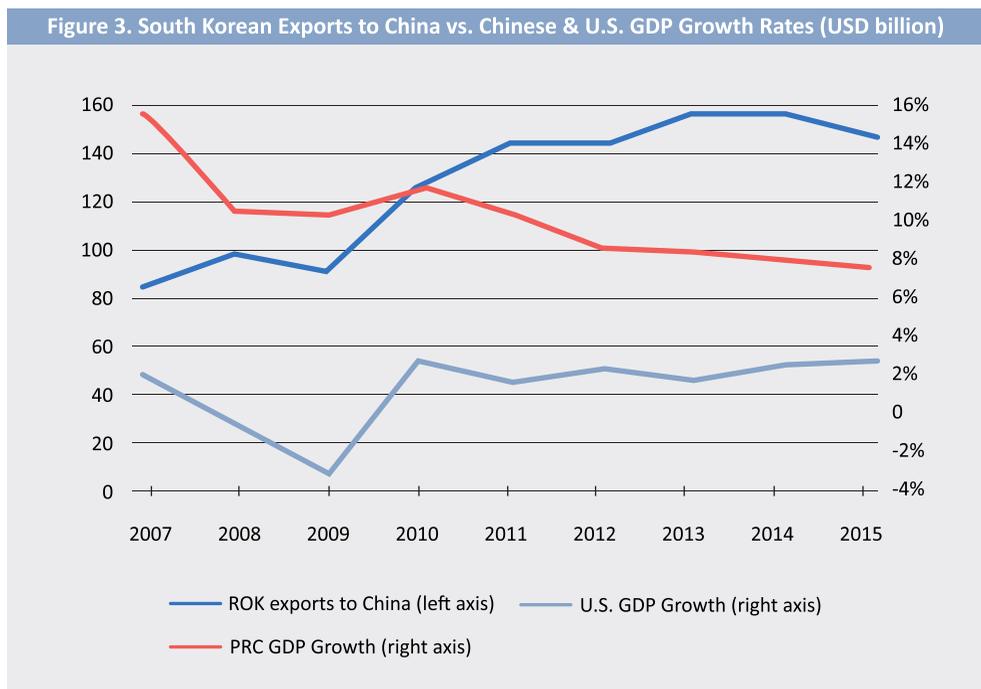
1. North Korea coordination. After conducting a review of its options with respect to North Korea's WMD programs, the Trump administration has embarked on an approach of what some are calling "maximum pressure." Though the policy appears to be aimed at pressuring North Korea to come to the negotiating table, talks are likely to be avoided until Pyongyang adopts a more compliant posture on its nuclear and possibly missile programs.²⁸ Although both Moon Jae-in and Ahn Cheol-soo advocate continuing sanctions against North Korea, they criticized President Park Geun-hye's North Korea policy as being too heavily reliant on pressure tactics at the expense of initiatives, such as Moon call for reinvigorating engagement activities with North Korea, including a dramatic expansion of the Kaesong Industrial Complex, the inter-Korean industrial park inside North Korea that Park shut down in February 2016 after North Korea's fourth nuclear test.²⁹ Whereas the Obama and George W. Bush administrations generally appeared willing to at least tolerate and occasionally welcome Seoul's outreach and assistance to Pyongyang, the Trump administration is less likely to do so. In contrast to the past, when North Korea was seen as a threat to U.S. interests, its improving nuclear and missile capabilities increasingly now also make it seem a threat to the U.S. homeland. All of these factors point to a higher possibility that coordination over North Korea policy, which was exceedingly close between the Obama administration and the Park and Lee Myung-bak governments, will become more difficult over the coming months and years.

2. Alliance relations form another set of factors that will affect the nexus between security and economics. How smoothly are some of the more difficult aspects of the alliance running? How well are the two governments managing the inevitable differences that emerge, such as on the special measures agreement talks or on the deployment of the controversial Terminal High Altitude Area Defense (THAAD) missile defense system? Under the conservative presidencies

of Lee and Park, such differences generally were contained so that they did not become highly politicized in South Korea or become major issues in the alliance. That may not be the case under a left-of-center president.

3. China. For a variety of strategic, economic, and historical reasons, South Korean leaders, even those from conservative parties, generally are more reluctant than their U.S. counterparts to take steps to antagonize China. South Korean progressive leaders sometimes have taken this approach a step further, by appearing to want to position South Korea as a type of “balancer”—to use President Roh Moo-hyun’s term—between Beijing on the one side and Washington and Tokyo on the other. If Sino-U.S. relations deteriorate significantly—for instance over trade issues or managing disagreements in the South China Sea—the Trump administration may expect support from South Korea to a degree that leaders in Seoul may be uncomfortable providing. China appears to be keen to emphasize the potential negative implications to South Korea of any security measures that go against its interests by, for example, threatening retaliatory economic measures in response to the THAAD deployment.

China may play an important role in ROK-U.S. relations in another sense: the South Korean economy may be particularly vulnerable to a sharp downturn in Sino-U.S. economic relations, specifically to a sharp decline in Chinese exports to the United States. Although China is by far South Korea’s largest trading partner, much of South Korea’s exports to China are intermediate products that are ultimately tied to Chinese exports to the United States and Europe.³⁰ Figure 3 shows that although South Korean exports to China from 2007-2015 appear to have had little to no correlation with Chinese GDP growth, they were much more closely correlated to changes in U.S. GDP growth.



Growth Rates Sources: Exports from UNComtrade, GDP Growth from World Bank.

4. South Korean perceptions of the United States. Finally, South Korean leaders' willingness to agree to concessions on economic and other matters will be affected by whether such concessions incur political costs or accrue political gains at home. For much of the conservative era (2008-2017), South Korean approval ratings of the United States were extremely high, with over 80 percent in some polls registering a "favorable" opinion. In the early 2000s, however, polls recorded U.S. favorability ratings of less than 50 percent, as South Koreans reacted to perceived U.S. mishandling of accidents by American servicemen in South Korea, the unpopularity of the U.S. invasion of Iraq, and the Bush Administration's hard-line approach to North Korea, which conflicted with many aspects of Seoul's "Sunshine Policy" of largely unconditional engagement with Pyongyang.³¹ If the United States and/or the Trump administration becomes politically unpopular in South Korea, it will increase the political costs of the next South Korean president's compliance with controversial U.S. demands.

CONCLUSION

Three developments may increase President Trump's motivation and opportunity to try to use security and economic issues to extract leverage against South Korea:

- The fact that South Koreans on May 9 elected a left-of-center president who favors entering into more dialogue and engagement with North Korea and is likely to be even less willing than the Park Geun-hye government to criticize China's increased assertiveness in the South China and East China Seas;
- The expiration in 2018 of the U.S.-ROK special measures agreement setting the level of South Korea's payments to the United States to help offset the costs of stationing U.S. forces in South Korea; and
- The administration's plan to review bilateral trading relationships in which the United States runs a trade deficit, a review that is expected to bring special scrutiny to the KORUS FTA because of the agreement's size and of the growth in the U.S. bilateral trade deficit since the agreement has gone into effect.

Thus, policymakers in Washington and Seoul should not only expect greater attention to economic issues under the two new administrations, but also greater difficulty preventing any economic friction from spilling over to other aspects of the bilateral relationship. With respect to South Korea policy, it is possible that the Trump administration's positions largely reflect a shift in negotiating tactics rather than a change in fundamental U.S. interests. Two key questions moving forward then are whether or not these tactics result in a safer Korean Peninsula and U.S. homeland and more prosperous bilateral economic relationship.

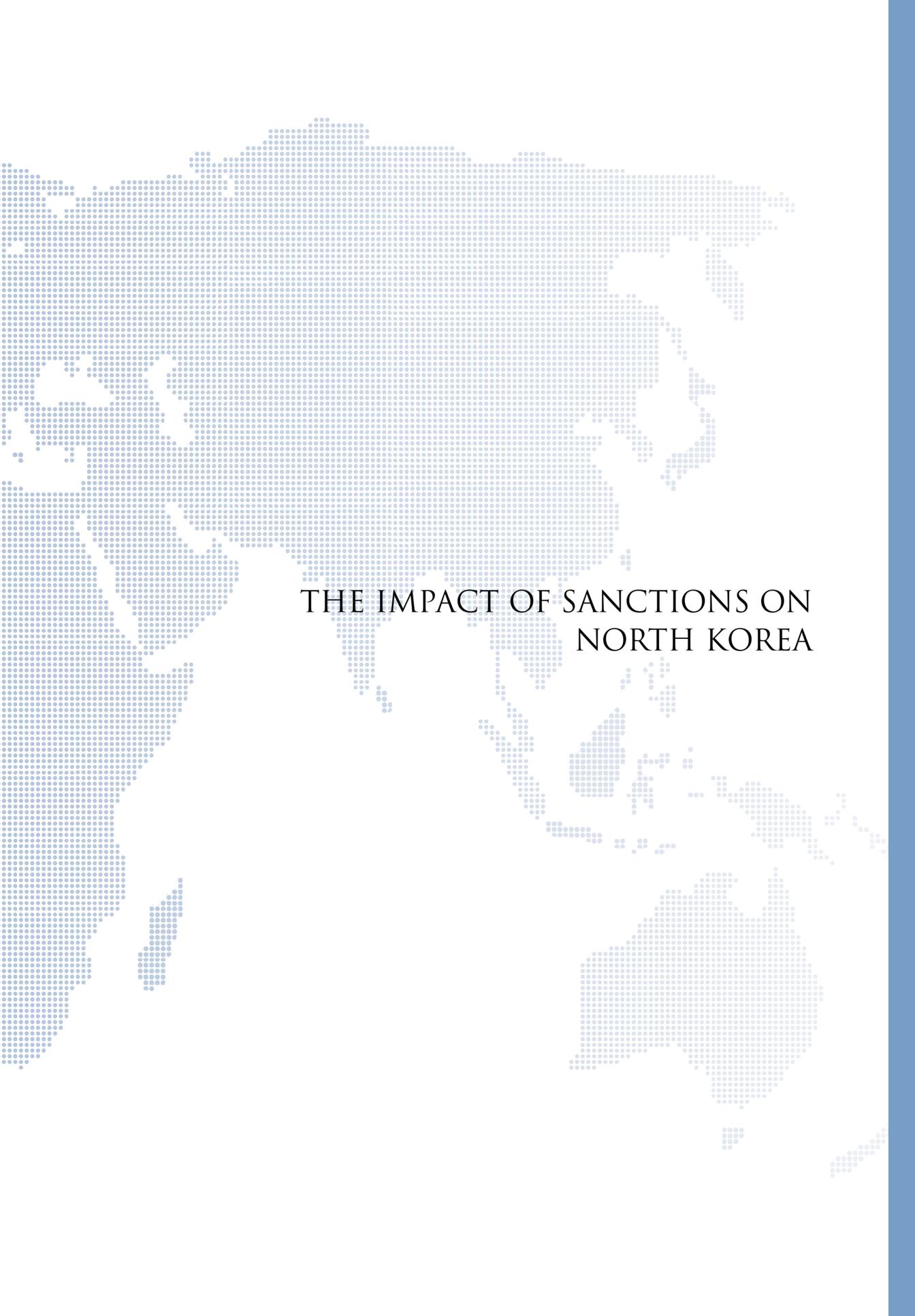
**The views expressed herein are those of the authors and are not presented as those of the Congressional Research Service or the Library of Congress.*

ENDNOTES

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THE IMPACT OF SANCTIONS ON NORTH KOREA

INTRODUCTION

How sanctions are impacting North Korea is of utmost significance as leaders debate either tightening the sanctions or shifting to another approach for dealing with the North. The range of opinions on this issue is wide. At one extreme are those who see sanctions as ineffective, insisting that there is little that China and others could do to make them work to change the North's behavior. At the other are observers who see sanctions as a potential panacea, feeling that if applied vigorously they would alter the calculus of the North Koreans. As a prelude to the current debate, earlier cutoffs of assistance to the North and rounds of sanctions have drawn overly optimistic predictions about their impact as well as persistent pessimism that they would be of little avail. In the middle between the two extremes are views that increased sanctions are a priority, if China is not determined to nullify them, but they must be advanced with urgency and accompanied by other measures that can bypass China and make China aware that the sanctions option is preferable to the alternatives now under preparation.

Assessing the role of sanctions on North Korea involves four steps: 1) looking back at the narratives over as long as two decades in the most concerned countries over whether and how sanctions should be applied and what their impact would be — proof that arguments have been skewed to reflect perceived national interests more than realities; 2) accurately assessing how sanctions have been applied or bypassed as they have been tightened — lessons for what should be done now or avoided; 3) devising a new approach to sanctions, through the Security Council and separate from it — urgently deciding on the option that would have the biggest payoff despite resistance from China and Russia with efforts to offer them reasonable assurances; and 4) tracing the consequences of a different sanctions regime with awareness of alternative scenarios and the simultaneous effect of greater deterrence or pressure. While our coverage concentrates on the state of the sanctions in 2016-17, we look at lessons from how sanctions were applied, ideas for new sanctions, and prospects for their implementation. The timing is relevant, as the Trump administration has just completed its review of North Korean policy, the Trump-Xi April 2017 summit has just given an indication of what cooperation is possible, and the new administration in South Korea is poised, against this background, to set a fresh course on this issue.

The four chapters in Part 4 demonstrate that exchanges of views are still at the stage of divisions over the promise of increased sanctions. China's attitude toward tighter sanctions and the impact they have is the starting point in our coverage. Then, we turn to Russia's position on these issues, again showcasing difficulties in finding a common approach. Third, we examine a South Korean viewpoint as that country has recently undergone a political transition. Finally, a U.S. point of view is presented at a time when the mainstream U.S. position is to intensify sanctions, even if some prefer an alternative.

Comparing the four points of view, we find: 1) Russia is most against sanctions and eager for talks on a multilateral security architecture as an alternative; 2) China is more open to tougher sanctions but insists on security tradeoffs before it will agree to them and to fuller implementation of existing sanctions; 3) one South Korean is torn between toughening sanctions and doing more to enlist China's cooperation; and 4) one U.S. viewpoint doubts that Trump's tough talk will overcome failures to impose effective sanctions, leaving the necessity to try other approaches. When we add the prevailing view in Washington for greater urgency and toughness to this mix, we find a combustible combination casting grave doubt on multilateral moves.

A CHINESE PERSPECTIVE: CHENG XIAOHE

Cheng argues that sanctions against North Korea began to have a dramatic impact only from 2006. Tracing the history of sanctions from a Chinese perspective, he calls the sanctions the United States has unilaterally imposed part of its grand scheme to strangle North Korea to death. On the one hand, the sanctions did bite and effectively denied North Korea a large market and major resources in technology and investment; thus undermining its modernization drive. On the other hand, the sanctions put North Korea under constant pressure; thus whetting its appetite to pursue its Military First Line.

Cheng looks also at UNSC sanctions, noting that in 2006, for the first time, the council took concrete measures to punish the DPRK for its wrongdoings. Unfortunately, he adds, the resolutions failed to outline a detailed list of missile-related items, materials, goods, and technology, and, thus, easily caused confusion and disputes among nations. They also did not specify punitive measures if the ban were violated. The enforcement of the ban, to a large extent, was left to the discretion of the member states, and this created loopholes for countries that wanted to trade with North Korea for missiles and associated items. Resolution 1718 on October 14, 2006, compared to the earlier July resolution, widened the scope of sanctions — not just missile and nuclear related items, but also luxury goods. Yet, the concept of luxury goods was ambiguous, making implementation more difficult, while excluding actions that might hurt the North Korean economy. Without explaining why loopholes were left in resolutions, Cheng points to their limited impact.

Turning next to the 2009 Resolution 1874, Cheng notes the expanded military embargo against North Korea to apply to all arms and related materials and to reach beyond hardware to financial transactions with an enhanced inspection regime. He sees this as focusing more on broadening the scope of sanctions rather than deepening the previous sanctioning measures. More importantly, the new resolution avoided hurting North Korea's legal economic activities and refrained from singling out individual North Koreans and entities for sanctions. This helps to explain their limited effectiveness. Precisely at this time, Wen Jiabao went to North Korea with a promise of more economic cooperation, leading to a remarkable phenomenon: on the one hand, China and other countries tried to hit North Korea's military sectors hard in an attempt to pressure it to abandon its nuclear and ballistic missile programs; on the other hand, its legal trade with North Korea boomed. While others were striving to pressure the North by causing economic pain, China was offering it carrots to lure it back to the table. Since 2008, North Korea's legal trade with China steadily increased. On the surface, this did not contradict the words of the resolutions, but it violated their spirit. Cheng leaves no doubt that the absence of full Chinese support for the sanctions led to only mixed results. The story in 2013 appears quite similar, as Resolutions 2087 and 2094 broadened the number of targets, slowed economic growth, undermined conventional military forces, added to the North's diplomatic isolation, and created a purge mentality adding to domestic instability. Yet they facilitated a smooth power transition, spurred byungjin and market reforms, and failed to pressure the North into abandoning its provocative programs.

Resolution 2270 in 2016 carried some hard-hitting elements that may hurt North Korea badly, observes Cheng. Besides an expanded arms embargo and financial measures, for the first time, the resolution imposed sectoral sanctions targeting North Korea's trade in

resources. Yet, again, he notes, the new punitive measures were conditional with exemptions. Transactions in coal, iron, and iron ore that “are determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK’s nuclear or ballistic missile programs or other banned activities” could be immune from sanctions. This opened the door to China gutting 2270, afraid of regime collapse. Also, as Chinese trade with North Korea accounts for more than 80 percent of the latter’s trade, China did not want to bear the brunt of an abrupt rupture of economic ties. Resolution 2270 partially met the U.S. demand by hitting key sectors that could generate revenue, while partially agreeing with China’s preference by allowing a livelihood exception.

Resolution 2321 was an enhanced version of 2270, upgrading sanctions by: a) expanding cargo inspections and the arms embargo to items listed in a new conventional arms dual-use list; b) prohibiting the supply, sale, or transfer of new helicopters and vessels to North Korea; c) adding new items to the luxury goods ban; d) adding copper, nickel, silver, and zinc to the materials banned from supply, selling, or transferring by North Korea; and e) designating an additional 11 individuals and 10 entities. It overhauled the previous sectorial sanctions, placing an annual cap and closing the loophole caused by the livelihood exception, which South Korean and American experts believe some Chinese companies had abused. China faced a number of choices: expanding sanctions to other economic sectors, e.g. North Korea’s tourism and overseas labor services; adding new items to the sanctions list, such as clothing products; or placing a cap on North Korea’s product exports. In fact, it gave the green light to placing a cap on only one key export: coal. So, the new resolution can be seen as leaving enough breathing space for North Korea.

This coverage of China’s impact on sanctions suggests that there is room for tougher sanctions, possibly enough to convince North Korea to give up its nuclear weapons. It also is evidence that China has been leading others along without serious interest in biting sanctions. The explanation offered is that sanctions have lacked effectiveness due to a lack of consensus, especially between China and both the United States and the ROK. Sanctions did not work well due to: evasion; lax and inconsistent implementation; China’s decision to boost trade; China’s refusal to enforce them as a result of poor U.S. relations and pique at the U.S. pivot to Asia; and China’s view of North Korea as a strategic asset, relieving China of pressure; and, lately, China’s response to THAAD.

The logical conclusion is that sanctions will be significantly more effective only if Beijing is satisfied with strategic choices made by Washington and Seoul and with the approach they take not only to pressure Pyongyang but to attract it through material incentives, security guarantees, and a different regional strategic posture.

A RUSSIAN PERSPECTIVE: ALEXANDER GABUEV

Gabuev assesses Russian national interests on the Korean Peninsula, disentangles Russian evaluations on sanctions efficacy, and explores the Russian debate on further steps to improve the options that the international community has to tackle the DPRK nuclear issue. He finds that the Russian official position aired at the UN or in official statements is different from the consensus view in Moscow among decision makers and members of the expert community. Despite official narratives, writings of Russian experts, panel discussions in Russia on the topic, and, most importantly, in-depth anonymous interviews with Russian

officials and government advisors show that Moscow does not think denuclearization is possible. The senior Russian leadership is convinced that the United States is pursuing a strategy of “color revolutions” and economic pressure to dispose of the regimes that America does not like, including North Korea and Russia. That leaves possession of nuclear weapons as the only viable tool for an authoritarian regime to guarantee prevention of American military interference into domestic conflict. This makes North Korea’s actions a legitimate defensive response.

Moscow does not believe that Pyongyang is developing nuclear and missile capabilities against Russia. But these developments have negative consequences for Russian security interests because they give the United States a legitimate pretext to develop its military infrastructure on and around the Korean Peninsula, including the deployment of THAAD. This is the major reason why Moscow continues its efforts with other members of the international community to limit DPRK missile and nuclear capabilities, Gabuev asserts.

The major challenge for the Kremlin is to aggregate the conflicting national interests of Russia on the Korean Peninsula, check them against reality, and fuse them into a coherent agenda, according to Gabuev, but this is proving to be extremely difficult, forcing it to play a more reactive role and side with its major diplomatic partner in Northeast Asia – China. As long as Moscow can hew to China’s policy, while maintaining its own contacts with Pyongyang, its interests are served, even if there is no very appealing option.

Gabuev identifies four major Russian interests on the peninsula: nuclear security owing to the possibility of an accident or proliferation to terrorists; military security versus the United States and its alliances involving the deployment of missile defense or force presence after reunification; prestige requiring international recognition of Russia as a major player; and economy, through new trade flows resulting from big infrastructure projects presumably trilateral in nature with South Korea. As for the fourth interest, Russians were hoping economic revenue that Pyongyang would get through these projects would help to ease tensions on the Korean Peninsula, create interdependence between the two Korean states, and ultimately help in resolving the nuclear issue. However, none of the projects got off the ground, and Seoul’s interest in them decreased after Park’s election in 2012. Russia’s aspirations appeared to grow when in 2014 Minister of Far Eastern Development Alexander Galushka reached an agreement with the DPRK on the “Pobeda” project, which envisages construction of 3,000 km of railway track in the DPRK by the Russian Railways company, to be financed by the Russian side at a cost estimated at \$25 billion, in return for licenses for mineral deposits in North Korea. Not many in the government believed that the projects developed by Galushka were realistic. Galushka was driven by the fact that he was appointed as chairman of the bilateral intergovernmental commission between Russia and DPRK. He managed to secure just this commission, since others were taken by more powerful people; so he pressed forward.

The main aim of Resolution 2321 was to cut off potential channels for financing the nuclear and missile programs, as well as to put some significant economic pressure on the DPRK in order to make it return to the negotiating table and ultimately abandon both programs. The most powerful tool in the resolution’s toolkit was a ban on the purchase of North Korean coal, iron, iron ore, gold, titanium ore, vanadium ore, and rare earth minerals, copper, nickel, silver, zinc, new helicopters, vessels, and statues. The only exception was made for coal, on

which the resolution put strict limitations: Pyongyang was allowed to sell coal for no more than \$400,870,018 or 7,500,000 metric tons per year, whichever was lower, beginning on January 1, 2017. Obviously, cutbacks of this sort do not satisfy Russian interests in advancing economic ties on the peninsula.

Moscow does not see the sanctions as an efficient tool to achieve its interests on the Korean Peninsula, concludes Gabuev. They do not provide an ultimate solution to the DPRK missile and nuclear problems. Add to this Russian impressions that the DPRK is realizing economic growth despite the sanctions and the spillover from Russian anger against sanctions directed against it. There is no expectation that things will change. The international community has no real tools, since military tools are not applicable, and since China and Russia will not support crippling sanctions on the DPRK that would enable internal regime change. Also, the sanctions are not seen as very helpful since they do not hinder the U.S. military posture on the Korean Peninsula. Moreover, as outlined in Resolutions 2270 and 2321, they are seen as strangling Russia's economic cooperation with the DPRK and hurting existing Russian corporate interests. Thus, Moscow has an ambiguous position. Its national interests on the Korean Peninsula include prevention of nuclear tests by the DPRK, positioning Russia as one of the leaders of the international community on nonproliferation, non-expansion of the U.S. military presence on the Korean Peninsula, and growth in Russian trade with both Korean states. The sanctions in Resolution 2321 do not support most of these goals, since Russia thinks that nuclear disarmament of the DPRK is impossible in principle. However, Moscow is ready to play along with the sanctions track as long as it maintains the appearance of a critical player.

Moscow views the struggle over sanctions as indicative of clashing national interests. The fierce discussions in the UNSC in 2016 once again showed differences in approach, as each of the players was guided by its own understanding of the root causes and dynamics of the North Korean nuclear crisis, as well as its stated (and, most importantly, unstated) national interests on the Korean Peninsula, argues Gabuev. Yet, as opposed as it is to the consequences of the sanctions, it supported them because the alternatives are worse, and because UN sanctions are the only mechanism that allows Russia to sit at the table with other players. The alternative includes a far more robust American military posture on the Korean Peninsula, or unilateral actions of the United States and its allies to overthrow the Kim regime (including covert operations, sabotage, etc.) This is a nightmare scenario, in which Russia's security interests would be served far worse. As long as sanctions on the DPRK are a tool to prevent the United States from deploying other options, Moscow is ready to play ball. Also, Russia knows that its tools to influence the situation on the Korean Peninsula are limited. The only real asset it has are diplomatic channels to talk to the North Korean regime. Russia now has, arguably, the best diplomatic relations with Pyongyang. The UN sanctions mechanism is the only format of impact on the North Korean missile and nuclear problem that gives Russia a proper seat at the table. Prestige is driving its cooperation, not any other national interests. The official line describes the positive scenario as establishment of a new security architecture in Northeast Asia, which would be based on legally binding treaties and resemble, in some aspects, the security architecture in Europe that the Soviet Union and the United States built, but there is little support for this. That leaves Moscow waiting at this stage of crisis.

A SOUTH KOREAN PERSPECTIVE: KIM JOONG-HO

Kim Joong-ho's chapter reviews the background of sanctions against North Korea and assesses if they were effective, while contributing to the effort to make North Korean behavior change in an acceptable way. The sanctions regime against North Korea must be upgraded, but he warns that smart sanctions have two-sided effects – inflicting suffering on the people of the target country and simultaneously augmenting the rationale for more harsh oppression by the leadership of that country. The global community has not been persuaded, however, that this isolated totalitarian regime would be committed to the preservation of world peace if the status of a nuclear power were permitted.

Each time sanctions were upgraded, they were “hailed as ‘comprehensive,’ ‘robust’ and ‘unyielding’ against North Korea’s pariah government,” adds Kim, however, because previous rounds of sanctions failed to curb Pyongyang’s drive to advance its nuclear weapons program, the effectiveness of additional punitive economic measures are still in doubt. As long as Pyongyang’s previous provocations could not be stopped, the historical pattern will just renew skepticism that the world’s harmonizing acts against North Korea would ever have measurable impact. Heightened tensions and isolation deepened by harsher sanctions may help the Pyongyang regime control the redistribution of resources to any individuals who can be potential rivals to the Kim leadership, he concludes.

The Trump administration “intends to close down more procurement channels and funding sources for North Korea in third party countries, including China, Russia, Vietnam, and Cuba,” but Kim argues that the participating countries’ interests and positions are all different and, even if a consensus were reached, their partnership would still be fragile. The United States blames China for reluctance to use its leverage to change North Korean behavior, while China blames the United States for reluctance to enter into dialogue with North Korea. For the United States, sanctioning North Korea is regarded as an inevitable choice to preserve the international order from a rogue nation’s extreme behavior, while, for China, the same action may be interpreted as weakening the connective ring of its traditional socialist alliance with North Korea. The two big powers’ tug-of-war provides North Korea strategic room to manipulate the crisis situation.

South Korea has initiated and supported global efforts to punish North Korea for its bad behavior. Not only has it been faithful in implementing whatever was stipulated in the UN Security Council’s resolutions, but it also imposed unilateral sanctions against North Korea, as in the shutdown of the ten-year-old Kaesong Industrial Complex (KIC) immediately after North Korea’s fourth nuclear test in February 2016, contending that payments of wages were used to contribute to the development of the nuclear weapons program in North Korea. Yet, he notes arguments that the South gained little benefit from the closure of the KIC—it hurt the South far more than the North.

A short list of possible trouble North Korea experienced after the Kaesong shutdown includes the sudden administrative cost of reallocating the 54,000 well-trained Kaesong workers as well as the loss of their regular income. Despite no more income from the KIC, the Kim Jong-un regime continued to develop its nuclear weapons program with its fifth nuclear test in September 2016, casting doubt on the effectiveness of South Korean sanctions.

China has a policy dilemma. As a globally influential player, China clearly understands the importance of punishing North Korea, the violator of international agreements, as an example. However, as an ideologically bonded ally, China cannot push North Korea into a corner. When bilateral trade shrank for a particular time period, the effect of sanctions was not the only factor. Their trade has also reflected a decline in the export price of coal or a decrease of Chinese energy consumption. The numbers reflect structural changes, such as a lowering of China's GDP growth rate or a shift of policy focus from an export-driven to a domestic consumption-driven economy. Warehousing trade, suspected of being a source of detour trade from North Korea to third countries, via China, surpassed ordinary trade. This primarily consists of processed goods, including textiles, rather than raw materials. Improved manufacturing contributed to the expansion of trade. In early 2016, North Korea's trade was expected to be affected by many factors including new economic sanctions, the shutdown of the KIC, a continued decrease of raw material prices in the international commodity market, and China's decline in imports. However, the reality was an increase. Total exports to China in 2016 hit \$2.6 billion, an increase of 6.1 percent from the previous year, and the top three exports were coal (\$1.1 billion), fabrics (\$600 million) and iron ore (\$200 million).

In the eyes of the Chinese leadership, Kim argues, North Korea's obsession with WMDs may be tolerable, whereas South Korea's accession to its ally's additional self-defense measures, including the installation of THAAD, is provocative. China's admonishment of North Korea without commensurate punishment has spoiled the regime. Its approach to South Korea reveals its modus operandi: first, pick a fight over an allegedly offensive act, next, follow up with vitriol and veiled threat, and then, inflict economic pressure. Yet, Kim concludes that China's support and cooperation are necessary. Its trade with North Korea has continued to increase since 2000 and serves as a lifeline through which hard currency as well as necessary goods were provided to the North Korean leadership.

The Pyongyang regime widely advertises to the world its multiple projects such as a ski resort, tourism areas, and newly designated special economic zones. It is the right time for the smart sanctions regime to be refined. The South Korean government is determined not to allow the North Korean regime to take advantage of the world's open financial system for ill-intended purposes. Chinese enforcement is the key to effective sanctions.

For the past decade at least, China is said to have turned a blind eye to sanctions violators and kept the North Korean regime alive. The reality does not support the argument that sanctions have increased the level of pressure on the target to elicit behavioral changes. The same question is still being asked: How can sanctions be upgraded to elicit a different outcome? While the United States may be considering ways to bypass China, it has done so before to little effect, and South Korea is inclined to appeal to China again.

A U.S. PERSPECTIVE: JAMES WALSH

James Walsh contrasts his U.S. views from Cambridge with those in Washington, which he sees as a call for new and tougher sanctions, resurrecting the old question: do sanctions on North Korea have any impact? He puts the topic in a historical and social science context, reviewing recent developments in the region, then considers how one might define and measure the impact of sanctions and assesses the current and prospective sanctions regime, before offering a stylized account of how Washington views the North Korean challenge and concluding with an alternative view. He notes that analysts have judged that sanctions on North Korea have not achieved the desired outcome, namely an end to North Korea's many objectionable behaviors, and it appears as if things have gotten worse, with the pace of weapons testing and human rights violations increasing despite ever-stronger sanctions.

UNSCR 2270 was unprecedented, setting hard caps on coal imported from the DPRK. North Korea's international isolation is near an all time high, boosted by its recent row with Malaysia and an aggressive full court press by Seoul to persuade countries to cut their ties with North Korea. With a new, tough-talking U.S. president vowing to stop the DPRK, it is time to consider again the topic of sanctions on North Korea, Walsh remarks, adding that sanctions can prove useful under particular circumstances, but they are a limited tool, their value being a complement to a broader policy approach that includes diplomacy and the threat of military force.

One set of challenges, Walsh says, revolves around the poor implementation of international sanctions. Another set centers on the DPRK's evasion techniques, e.g., the use of front companies and private Chinese middlemen. Specific structural impediments undermine sanctions on North Korea (e.g., geography, globalization, and inherent limits on the ability of governments to police transnational trade). Sanctions optimists might be correct that the North is "under-sanctioned" and that success is just around the corner, but that seems more an aspiration than a fact-based assessment of the record to date, he concludes.

A number of events in the region could affect the viability of sanctions, Walsh notes. On the positive side of the ledger is China's support for UNSCR 2270, which capped coal imports from the DPRK, but, he adds, in private, U.S. officials downplay the significance of China signing on, pointing out that it took a long time for Beijing to finally agree to an import cap and that the livelihood exception—what some analysts strangely call a "loophole"—allows China to fudge its commitments. Coal imports from the North to China actually increased from 2015 to 2016. Time will tell whether China means what it says, but it has established regulatory and administrative processes required to implement the caps. Less encouraging, he finds, is the deterioration in Sino-ROK, and Japan-ROK relations. Newly elected South Korean president Moon Jae-in has thus far taken a centrist approach towards North Korea, but concerns remain over a possible return to a pro-engagement strategy. If Trump embroils himself in disputes with both South Korea and China, it will not bode well for North Korea policy. Indeed, Pyongyang might get its wish that the major players are at odds with one another, concludes Walsh.

The chapter finds that sanctions appear to have had a low to moderate impact but have been unsuccessful in changing behavior or altering the relevant outcomes. The question going forward is whether UNSCR 2270 and related actions might produce a different result. Walsh is skeptical, saying the North has found a way to not only sustain its weapons programs but to accelerate their development, and that the most recent Panel of Experts report makes evident that: 1) many of the member state compliance issues noted in previous reports persist; and 2) in any case, the DPRK continues to make extensive use of intermediaries to shield its activities. Even as the United States has moved to curb Pyongyang's access to international finance, the North has again turned to private brokers to evade detection.

It remains to be seen how far China will want to go in squeezing its neighbor, Walsh adds, expressing skepticism despite China's willingness to sign on to UNSCR 2270. Sanctions have affected the behavior of private Chinese businesses in ways both good and bad. On the one hand, sanctions have had the positive effect of fostering the growth of "compliance culture" in larger, internationally oriented Chinese banks and financial firms. On the other, they have led to North Korean counter-measures with the effect of drawing in larger and more sophisticated Chinese businesses that now operate in black and gray markets on behalf of their North Korea clients. Further complicating the coercion strategy is the reality that Chairman Kim can shift the costs of sanctions to the general population. Even with a substantially smaller pie, the Kim family and the ruling elite will get the first and biggest slice, which might be enough to keep the system going.

Walsh summarizes the view from Washington and challenges it. The consensus, he sees, is that: 1) sanctions are good, 2) sanctions are not working, and 3) we need more sanctions. There is a general and strong preference for coercion, despite its lousy record, and this is all China's fault. The Chinese could solve this, if they wanted to but they will not because Beijing and Pyongyang are pals. Since China is not helping, we should threaten them—"sharpen their choices," as some people say. If that means "ringing them with missiles" or sanctioning their banks, then so be it. Almost every aspect of this "view from Washington" looks to him to be logically or empirically questionable. He concludes that this appears to be as dangerous a time for the peninsula as there has been since the Korean War.

A Chinese Perspective on the Impact of Sanctions

Cheng Xiaohe

Since the Korean War, North Korea (the DPRK) has endured sanctions imposed by the United States and other western countries, but the sanctions began to acquire a dramatic impact only in 2006 when North Korean ballistic missile blasts invited a punitive reaction from the UN Security Council. In addition to sanctions imposed by individual countries, for the first time, international organizations, notably the Security Council, passed punitive resolutions in an effort to rein in North Korea's missile and nuclear development. In order to supervise implementation of the sanctions, the Security Council set up a committee established pursuant to resolution 1718 in 2006 (the sanctions committee), which now comprises all 15 members and makes its decisions by consensus. To North Korea's dismay, as it continues to fight against western countries' economic sanctions and military embargo, it now has to bear the brunt of sanctions from its traditional allies, China and Russia. Even so, it has been defying international pressure and pressing ahead with its missile and nuclear weapons programs. Despite tougher sanctions, North Korea is poised to possess missiles with nuclear warheads that could hit South Korea, Japan, and the United States. This paper explores the effectiveness of the sanctions, asking whether the North's steady progress on nuclear and missile weapons demonstrates their failure.

U.S. UNILATERAL SANCTIONS BITE BUT NOT SO HARD

U.S. sanctions against North Korea derive from three major causes: Korean War-related, missile and nuclear proliferation, and terrorism. In the immediate wake of the outbreak of the Korean War, the Truman administration invoked the Trading With the Enemy Act (an act from 1917 restricting trade) and instituted a total embargo on exports to North Korea, while forbidding financial transactions by, or on behalf of, North Korea, including transactions for travel. North Korean assets under U.S. jurisdiction were frozen. The sanctions had remained active until President Bush decided to lift them in 2008 after the North released a formal declaration of what was in its nuclear programs.

In December 1979, the U.S. government began to designate Libya, Iraq, and South Yemen as "state sponsors of terrorism," punishing them by economic sanctions and a military embargo. Alleged North Korea-sponsored activities against South Korea in the 1980s drew U.S. retaliation. Following the Rangoon bombing in 1983 and the bombing of Korean Airlines Flight 858 in 1987, North Korea was designated a state sponsor of terrorism in June 1988 and automatically subjected to a variety of sanctions, including: 1) a ban on arms-related exports and sales; 2) controls over exports of dual-use items; 3) prohibitions on economic assistance; and 4) opposition to loans by the World Bank and other international financial institutions as well as prohibitions against any U.S. citizen engaging in a financial transaction with a terrorist-list government without a Treasury Department license, etc. As reciprocity for North Korea's submission of a declaration of all of its nuclear programs, on October 11, 2008, President George W. Bush removed North Korea from the list of state sponsors of terrorism.

As North Korea's missile and nuclear programs surfaced, the U.S. government, which had been jealously guarding the non-proliferation regime, imposed sanctions in March 1992 and later against a number of North Korea's entities for their violation of U.S. missile nonproliferation laws in the Arms Export Control Act, Export Administration Act, and Iran

Nonproliferation Act of 2000. The sanctioned entities included Lyongasan Machineries and Equipment Export Corp, Changgwang Credit Corp., Changgwang Sinyong Corp. (aka the Korea Mining Development Trading Bureau), and Korea Pugang Trading Corp. On June 14, 2001, the U.S. government began to punish Changgwang Sinyong Corp.

The U.S. government also took measures to stall North Korea's nuclear ambitions. It imposed financial sanctions on three North Korean entities—Changgwang Sinyong Corp., Korea Ryongbong General Corp., and Tanchon Commercial Bank—pursuant to Executive Order 13382¹ on June 28, 2005 for their involvement in Weapons of Mass Destruction proliferation. The sanctions remain. On October 21, 2005, the United States sanctioned eight North Korean entities, whose parent companies had been similarly designated in June.

In addition to punishing North Korean entities, the U.S. government took punitive actions against third-party entities which provided services to North Korean government agencies and front companies. On September 15, 2005, it designated a Macau bank, Banco Delta Asia, as a “primary money laundering concern” under Section 311 of the USA PATRIOT Act, freezing about \$25 million in North Korean funds. On March 30, 2006, it then froze the U.S.-controlled assets of a Swiss firm and a Swiss individual that allegedly have business dealings with a North Korean entity named by the U.S. government as a WMD proliferator. The unilateral sanctions against North Korea remained after the latter's first nuclear test. With the passage of time, the U.S. government dropped some punitive measures and added new ones; nonetheless, the general trend of unilateral sanctions is increasingly harsh.

From a Chinese perspective, the sanctions the United States had unilaterally imposed are part of a grand scheme to strangle North Korea to death. On the one hand, the sanctions did bite and effectively denied North Korea a large market and major resources in both technology and investment; thus undermining its modernization drive. On the other hand, the sanctions put North Korea under constant pressure; thus whetting its appetite to pursue the Military First Line and, during the Cold War, driving it to the Soviet Union, China, and other socialist countries for its economic development. As the United States had no diplomatic ties with North Korea and their trade had remained extremely limited, if not zero, the impact of sanctions on North Korea was limited. North Korea defied the pressure and pressed ahead with its own indigenous missile and nuclear weapons, which, in turn, invited the United Nations Security Council's interference in 2006.

COLLECTIVE SANCTIONS KICK IN

The Six-Party Talks put China, the United States, the two Koreas, Russia, and Japan into the same boat; thus delegating the burden of persuading North Korea from going nuclear from the United States to the other key players in Northeast Asia. For the first time, the other five member states joined together to deal with one of the most daunting security challenges in Northeast Asia—North Korea's development of a nuclear weapons program. The joint efforts finally resulted in a joint statement on September 19, 2005, in which North Korea agreed to abandon its nuclear programs in exchange for U.S. security assurances, diplomatic recognition, and economic assistance.

As the dispute over U.S. unilateral sanctions against North Korean entities and related third parties escalated, North Korea registered its displeasure with multiple tests of missiles on

July 5, 2006, thus triggering the Security Council's punitive reaction. On July 15, it passed resolution 1695,² which requires member states, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent missile and missile-related items, materials, goods, and technology being transferred: 1) to the DPRK's missile or WMD programs; 2) from the DPRK; and 3) the transfer of any financial resources in relation to the DPRK's missile or WMD programs. For the first time, the council took concrete measures to punish the DPRK for its wrongdoings. Unfortunately, the resolutions failed to outline a detailed list of missile-related items, materials, goods, and technology, and, thus, easily caused confusion and disputes among nations. It also did not specify punitive measures if the ban were violated. The enforcement of the ban, to a large extent, was left to the discretion of the member states, and this created loopholes for some countries, which wanted to trade with North Korea for missiles and associated stuff. Obviously, the sanctions had been carefully designed to narrowly target North Korea's missile and missile-related sector.

The resolution fundamentally reshaped China and North Korea's relations. For China, it would be a remarkable departure in its relations with its ally North Korea; joining in the collective sanctions was a totally new experience. China and the United States joined together and applied coercion on North Korea in a vain attempt to slow down if not stall North Korea's ballistic missile development; thus effectively ending the period, in which the United States and other countries' unilateral sanctions against North Korea had played a dominant role, and ushering in a new era. The individual countries' sanctions against North Korea paralleled the collective sanctions imposed by the Security Council. China, which jealously guarded the 9/19 Joint Statement, did not shy away from resorting to coercive measures in order to prevent North Korea from going nuclear.

UN SANCTIONS STEPPED UP

Resolution 1695 failed to intimidate North Korea into submission. It defied international pressure and detonated its first nuclear bomb on October 9, 2006, which shattered the last hopes that North Korea would not go nuclear. In a sweeping response, the Security Council quickly passed Resolution 1718 on October 14, 2006,³ which was harsher than Resolution 1695 in a number of ways.

First, the scope of sanctions was enlarged to include: 1) luxury goods; 2) conventional heavy weapons, such as battle tanks, armored combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems, and related materials, such as spare parts; and 3) all items, materials, equipment, goods, and technology, which could contribute to the DPRK's nuclear-related, ballistic missile-related or other weapons of mass destruction-related programs.⁴ Second, the sanctions not only targeted North Korea's missile-related and nuclear-related sector, it also stripped North Korea of the right to import luxury goods, which were used by North Korea's top leader to sweeten relations with other leaders and subordinates. Third, the council decided to tighten enforcement by such measures as: 1) all Member States should report to the Security Council within thirty days of the adoption of this resolution on the steps they have taken in implementing it to better improve their effectiveness; and 2) establishing a Committee of the Security Council consisting of all the members of the Council to undertake multiple tasks;⁵ if necessary, cargo to and from the DPRK could be inspected.

The enhanced punitive measures, to a large extent, were designed to cripple North Korea's ability to develop missiles and nuclear weapons, but, at the same time, avoid ruining North Korea's economy. Even though the council stepped forward to specify lists of banned missile and nuclear weapons components and related items, the concept of luxury goods still remained ambiguous; thus making implementation more difficult. Nonetheless, resolutions 1695 and 1718 could not prevent North Korea from conducting a new nuclear test on May 25, 2009. The Security Council responded with another new resolution 1874.⁶ In comparison with the previous two resolutions, the new one could be characterized by three observations. First, the military embargo against North Korea was expanded to apply to all arms and related materials, and from hardware to financial transactions, technical training, advice, services or assistance related to the provision, manufacture, maintenance, or use of such arms or material. Small arms and light weapons were immune from the embargo, but member states should notify the Committee at least five days prior to selling, supplying, or transferring small arms or light weapons to the DPRK. Second, new measures were introduced to enhance the inspection regime by detailing the circumstances and procedure under which member states could conduct inspections, seizure, and disposal of cargo (banned cargo) to and from the DPRK. Third, it further tightened the financial grip on the DPRK through new measures:

- a) Member states should prevent the provision of financial services or the transfer to, through, or from their territory, or to or by their nationals or entities organized under their laws, or persons or financial institutions in their territory, of any financial or other assets or resources that could contribute to North Korea's nuclear-related ballistic missile-related, or other weapons of mass destruction-related programs or activities;
- b) Member states and international financial and credit institutions should not enter into new commitments for grants, financial assistance, or concessional loans to North Korea, except for humanitarian and developmental purposes; and
- c) Member states should not provide public financial support for trade with North Korea.

In order to strengthen the sanctions committee, the Panel of Experts was created to carry out multiple tasks under the direction of the committee.⁷

Obviously, Resolution 1874 is tougher than its predecessors, but it focuses more on broadening the scope of sanctions rather than deepening previous sanctioning measures. More importantly, the new resolution avoided hurting North Korea's legal economic activities and refrained from singling out individual North Koreans and North Korea's entities for sanctions. China became very frustrated with North Korea's second nuclear test, which effectively ended the implementation of the February 13 "Joint Statement,"⁸ and it endorsed new sanctions. But China did not lose hope of pulling North Korea back to the negotiating table by sending premier Wen Jiabao to North Korea with a promise of more economic cooperation. Therefore, we witnessed a remarkable phenomenon: on the one hand, China and other countries tried to hit North Korea's military sectors hard in an attempt to pressure it to abandon its nuclear and ballistic missile programs; on the other hand, its legal trade with North Korea boomed, peaking at \$6.86 billion in 2014.⁹

The expanded sanctions did not keep North Korea at bay for long. Soon after taking charge, Kim Jong-un shattered any illusions that a young leader might change North Korea's nuclear course. On December 12, 2012, North Korea launched a long-range ballistic missile

disguised as a satellite launch and triggered the passage of Security Council Resolution 2087. In addition to enhancing previous sanctions and encouraging international agencies to take necessary steps to ensure that all their activities with respect to North Korea are consistent with the provisions of the sanction resolutions, for the first time, the council began to target individuals and institutes by imposing a ban on four North Koreans and freezing the assets of six North Korean entities.¹⁰

Before the ink from Resolution 2087 had dried, North Korea detonated its third nuclear bomb on February 12, 2013, and an enraged Security Council responded with passage of a fifth punitive resolution, No. 2094.¹¹ Some enhanced measures were adopted, including:

1. Punitive measures will apply to brokering or other intermediary services, including when arranging for the provision, maintenance, or use of prohibited items in other states or the supply, sale, or transfer to or exports from other states;
2. The list of sanctioned individuals and entities was enlarged to include three more North Korean officials and two more North Korean institutes and companies; North Korea's diplomatic personnel were also put under enhanced vigilance from member states;
3. Partially closing a loophole exposed by the construction of the Masik Pass ski resort in North Korea by specifying the categories and items of the banned luxury goods;
4. Member states could deny permission to any aircraft to take off from, land in, or overfly their territory, if they have information that provides reasonable grounds to believe that the aircraft contains banned items; and all states should deny a vessel entry into their ports, if the vessel has refused to allow a legitimate inspection;
5. Further tightening restrictions on North Korean overseas financial activities: a) member states should take appropriate measures to prohibit in their territories the opening of new branches, subsidiaries, or representative offices of North Korea banks, and prohibit North Korea banks from establishing new joint ventures and from taking an ownership interest in or establishing or maintaining correspondent relationship with banks in their jurisdiction to prevent the provision of financial services that could contribute to its nuclear or ballistic missile programs or other banned activities; b) member states should prohibit financial institutions within their territories or under their jurisdiction from opening representative offices or subsidiaries or banking accounts in North Korea that could contribute to North Korea's nuclear or ballistic missile programs, and other banned activities, and c) transfers of cash, including through cash couriers, transition to and from North Korea should be subject to restriction so as to ensure such transfers of bulk cash do not contribute to North Korea's banned weapon development;
6. Listing banned uranium-related items, equipment, goods, and technology.

Generally speaking, the Security Council registered its strong disapproval of North Korea's missile and nuclear provocations by passing enhanced sanctions against it. Nonetheless, the punitive approach was based on two basic principles: first, the seven-year-long sanctions had mainly followed a principle of incrementalism with hope that the sanctions would add increased costs to North Korea's nuclear and missile development; the sanctions had been designed on the principle of separating military sectors from civilian ones; thus, they could not bring a dramatic rupture to normal economic life in North Korea.

From China's perspective, Kim Jong-un's continued efforts to develop nuclear and missile weapons were deeply disturbing—provocations that could fuel proliferation of WMD in Northeast Asia and undermine stability and peace in the region; thus, North Korea should bear all the consequences of its nuclear and missile tests, but since 2009, another concern loomed large as the United States adopted its pivot-to-Asia strategy—seen as designed to hedge against if not contain China. So, China hesitated to join the U.S. effort to enforce the sanctions. Troubled by the two competing concerns, China's policies and behavior toward North Korea, thus, became quite ambivalent. As the military embargo imposed by the Security Council remained in place, North Korea's ability to sell arms overseas and earn hard currency has been greatly undermined, and the only way that North Korea could offset the loss in arms sales was to boost its trade with China. Since 2008, North Korea's legal trade with China steadily increased annually. On the surface, the booming trade might have followed the words of the resolutions, but violated its spirit.

Without China's full support, the sanctions against North Korea have only achieved mixed results. On the one hand, they have served as a kind of punishment rather than a deterrent that could restrain North Korea from entering another round of nuclear and missile provocations. On the other, as North Korea paid a hefty price for developing its nuclear weapons and associated delivery systems, the sanctions could only harden its determination to make up for the loss by turning its nuclear weapons into a deadly threat to South Korea and the United States.

ECONOMIC SECTORS TARGETED

Since 2006, the Security Council has clearly separated North Korea's military sectors from its civilian ones and made no effort to do harm—the latter on the grounds that ordinary Korean people should not be punished. Nonetheless, since the 2013 nuclear test, China's trade with North Korea has declined. Leniency clearly did not win North Korea's reciprocity, as it spared no effort to make its nuclear weapons operational. On January 6, 2016, North Korea defied international opposition and detonated its fourth nuclear bomb, calling it a hydrogen bomb. The Security Council's response was slow and tortuous as China and the United States were locked in a dispute over the method to punish North Korea. After more than 55 days of behind-the-door negotiations, the council finally adopted Resolution 2270.¹² According to U.S. ambassador Samantha Power, “the sanctions go further than any U.N. sanctions regime in two decades.”¹³

Resolution 2270 carries some ‘hard-hitting’ elements that may hurt North Korea badly. Besides an expanded arms embargo, non-proliferation, and financial measures, for the first time, the resolution imposes sectoral sanctions targeting North Korea's trade in resources. With two exceptions, “the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, coal, iron, and iron ore, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK.” By the same token, “the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, gold, titanium ore, vanadium ore, and rare earth minerals, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK.” In addition

to the ban on the export of coal, iron, iron ore, and other minerals, the resolution specifies, “all States shall prevent the sale or supply, by their nationals or from their territories or using their flag vessels or aircraft, of aviation fuel, including aviation gasoline, naphtha-type jet fuel, kerosene-type jet fuel, and kerosene-type rocket fuel, whether or not originating in their territory, to the territory of the DPRK.” An additional 16 North Koreans and 12 entities were put on the sanctions list.

Without doubt, as mineral exports accounted for the largest portion of North Korea’s foreign trade, the new punitive measures can be expected to undermine Pyongyang’s ability to continue its nuclear and missile programs, and also pose a threat to North Korea’s economic and political stability. Unfortunately, the new punitive measures were conditional with exemptions. Transactions in coal, iron, and iron ore that “are determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK’s nuclear or ballistic missile programs or other banned activities” could be immune from sanctions.

Resolution 2270 was a compromise between China and the United States. For the United States, it was desirable to launch an attack of massive destruction against North Korea’s economy without exception. The harsher, the better. For China, a precise attack on some economic sectors was desired, but China was afraid mass destruction may cause regime collapse in Pyongyang. Also, as its trade with North Korea accounts for more than 80 percent of the latter’s total trade volume, China did not want to bear the brunt of an abrupt rupture of economic ties with North Korea. Resolution 2270 partially met the U.S. demand by hitting key sectors that could generate revenue, while partially agreeing with China’s preference by allowing a livelihood exception.

In the face of the newly imposed sanctions, North Korea responded with unprecedentedly frequent missile and nuclear tests. On September 9, it detonated its fifth nuclear test, and the Security Council took 75 days to work out Resolution 2321.¹⁴ As an enhanced version of Resolution 2270, the new resolution upgraded previous sanctions by: a) expanding cargo inspections and the arms embargo to items listed in a new conventional arms dual-use list; b) prohibiting the supply, sale, or transfer to North Korea; c) adding new items to the luxury goods ban; (d) adding copper, nickel, silver, and zinc to the materials banned from supply, selling, or transferring by North Korea; and e) designating an additional 11 individuals and 10 entities. More importantly, the resolution overhauled the previous sectorial sanctions, placing an annual cap on the amount/value of coal exports by North Korea and introducing a real-time system for reporting and monitoring these exports. These newly added measures were designed to close the loophole caused by the livelihood exception. South Korean and American experts believe that some Chinese companies may have abused the exception arrangements.

For China, the fifth nuclear test was bad enough to further undermine its traditional opposition to harsh economic sanctions against North Korea. Even though the friction over new sanctions against North Korea between China on the one side and the United States and South Korea on the other had intensified and the flare-up in the dispute over deployment of THAAD in South Korea had further complicated the negotiating process over the new resolution, China still agreed to enhanced sanctions against North Korea. China faced a number of choices: expanding sanctions to other economic sectors, e.g. North Korea’s tourism and oversea labor services; adding new items to the sanctions list, such as clothing products; or placing a cap on North Korea’s product exports. In fact, China gave the green light to placing a cap on only one key export: coal. So, the new resolution can be seen as moderate, leaving enough breathing space for North Korea.

EFFICIENCY OF THE SANCTIONS

How should we gauge the efficiency of the sanctions that have been placed against North Korea for more than ten years? Different criteria lead to different conclusion. If we consider the ultimate goal of denuclearization of North Korea as the criterion to decide failure or success, the sanctions could be characterized as a failure. As Rex W. Tillerson claimed, “The diplomatic and other efforts of the past 20 years to bring North Korea to a point of denuclearization have failed.”¹⁵ But if we consider whether the sanctions have hurt North Korea, then we must agree that sanctions succeeded in keeping North Korea in poverty. If we ponder if the sanctions could convince North Korea to give up its nuclear weapons, it may be too early to draw a conclusion since the coercive measures have not been exhausted.

It is true that the sanctions so far have failed to pressure North Korea to the negotiating table, but they have done tremendous damage: 1) significantly slowing down economic growth and making it difficult to pull out of poverty (North Korea had to rely on external assistance for food); 2) the military embargo and accompanying interdiction regimes have undermined the capacity of its conventional military forces, which have been troubled by aging equipment, an absence of spare parts, and a shortage of fuel—thus, hardening its determination to improve its nuclear and missile weapons at least in order to compensate for the decline in conventional military power; and 3) its meager diplomatic assets have suffered further loss. As China joined the United States in repeatedly endorsing the sanctions resolutions, relations with North Korea have become tense and more and more Chinese believe that North Korea is their country’s liability. North Korea also suffered mental damage, facing sanctions not only from its traditional enemies but also from its ally China, and leaders were gripped by fear that China was colluding with Western countries to “bring down the social system.”¹⁶ This, in turn, led to repeated political purges and fear spreading to ordinary people. When leaders and people live in fear, they are more likely to do something radical.

Sanctions are not always bad; some have produced something desperately needed by King Jong-un and North Korea. First, they helped to secure a smooth power succession. Upon Kim Jong-il’s death, Kim Jong-un came to power hastily with limited experience and inadequate preparation. He seized external sanctions as a rallying cry for his power consolidation. Kim, thus, sailed through the most dangerous and choppy waters.

Second, the sanctions spurred North Korea to change its economy. As Kim Jong-un mapped out the byongjin line in an attempt to develop nuclear weapons and the economy simultaneously, he had very limited policy options since foreign trade had been severely handicapped by all kinds of sanctions. The only way for North Korea to jumpstart its economy was to introduce market elements, including the household responsibility system in rural areas to stimulate peasants’ interest in producing more food and earning extra money; and in urban areas, relegating more managerial power to enterprises to enable them to produce more and earn more. In addition to setting up more than 20 special economic zones, the markets where people could sell their products mushroomed. More and more people became oriented to money-making. North Korea’s economic decline has been effectively reversed. Recently, the long-stagnating economy has shown some signs of vitality,¹⁷ helping to offset negative fallout from the sanctions.

The mixed results undoubtedly cannot hide a simple fact: the ongoing sanctions have succeeded in punishing North Korea for its nuclear and missile provocations rather than pressuring it to abandon its nuclear weapons. The efficiency of sanctions has been

compromised, to some extent, by a number of factors. The principal factor is the lack of consensus among the major players. Even though the Six-Party Talks demonstrated a tacit united front among member states with a joint mission to prevent North Korea from going nuclear, the united front has been troubled by differentiated priorities, conflicting approaches, and unsynchronized actions. These conflicts have been driven by a slew of factors, such as short-term and long-term national interests, economic and military capabilities, leadership changes, gratitude for North Korea's provocations, fluctuations in their relations, and the general situation on the Korean Peninsula in particular and in Northeast Asia in general. In-group conflicts led to infighting. In-fighting not only took place between China and the United States, but also between the United States and its allies, particularly South Korea at times. Every time North Korea conducted a nuclear test, the in-fighting intensified. The recently delayed passage of UNSC resolutions against North Korea has revealed a deep-seated cleavage between China and the United States. The lack of consensus not only undermined the efficiency of the sanctions, but also boosted North Korea's confidence that it can play one power against another.

Second, the sanctions failed to pressure North Korea to abandon its nuclear weapons because it has made tireless efforts to evade them. As early as 2010, the Panel of Experts pointed out that North Korea continued to engage in exporting proscribed items by using a number of masking techniques, including falsely describing or mislabeling the contents of containers; falsifying the manifest covering the shipment, e.g., altering the information concerning the original consignor and ultimate consignee; and using multiple layers of intermediaries, shell companies, and financial institutions.¹⁸ In fact, the panel received notification of four non-compliance cases involving arms exports and two reports of seizure of luxury goods. In July 2013, a North Korea-owned and flagged cargo vessel Chong Chon Gang was subject to an inspection on the Atlantic side of the Panama Canal. Concealed under bags of sugar, arms and related material were found.¹⁹ This recent case indicated that North Korea, coupled with Cuba, continued to violate the sanctions resolutions even after the Security Council adopted the enhanced Resolution 2094 in March 2013. In February 2017, the Panel of Experts further revealed that North Korea "is flouting sanctions through trade in prohibited goods, with evasion techniques that are increasing in scale, scope, and sophistication. The Panel investigated new interdictions, one of which highlighted the country's ability to manufacture and trade in sophisticated and lucrative military technologies using overseas networks. Another interdiction, of the vessel Jie Shun, was the largest seizure of ammunition in the history of sanctions against the Democratic People's Republic of Korea, and showed the country's use of concealment techniques, as well as an emerging nexus between entities trading in arms and minerals."²⁰

As the Security Council tightened its grip on North Korea by adopting various enhanced sanctions measures, North Korea could take advantage of the lax implementation, which has remained insufficient and highly inconsistent, as characterized by the Panel of Experts, to evade sanctions. More importantly, in order to compensate for arms sales' losses, it devoted more energy to boost legal foreign trade. So, we witness the remarkable growth of North Korea's foreign trade after the Security Council adopted Resolution 1874. The two-way trade volume between China and North Korea in 2010 increased by nearly 26 percent from the previous year; in 2011, the growth jumped to 62.5 percent.²¹

Third, the efficacy of the sanctions from time to time has been undermined by other outstanding contentious issues between China, the United States, and South Korea. Effective implementation, to a large extent, should hinge on two nations—China and the United States—but their relations have been uneasy and are still full of friction. In the wake of North Korea's second nuclear test, cooperation between China and the United States in dealing with North Korea's nuclear and missile provocations began to erode thanks to the debut of "pivot to Asia" strategy of the Obama administration. As the U.S. government began to strengthen relations with its allies and partners in the region, China became increasingly hesitant to strictly enforce the sanctions resolutions against North Korea. Some Chinese believe that North Korea is still China's strategic asset that could tie down a significant portion of U.S. resources and relieve China of pressure. Even though China and the United States tried to build mutual trust and turn their doomed competitive relations into a new type of major countries' relations, the deficit of trust remained unchanged. Thus, the Chinese government has neither paid enough attention to some of North Korea's illegal activities on its territory, including setting up front companies and smuggling prohibited items²² nor done too much to stop some Chinese companies' illegal trade with North Korea, symbolized by what Dandong-based Hongxiang Industrial Development Company Ltd has done.²³ To make thing worse, once vigorous relations between China and South Korea suffered a dramatic rupture as South Korea and the United States jointly decided to deploy the THAAD system in South Korea, which China has vehemently opposed in the past two years. The decision was made on grounds that South Korea must react to North Korea's increasingly threatening nuclear weapons development with some high-profile defensive measure. It also was perceived as a significant gesture of disappointment with China's less than forthcoming support in punishing North Korea hard after its fourth nuclear test. The proposed deployment of THAAD again dampened China's passion to do more in implementing the resolutions.

CONCLUSION

It is difficult to get reliable data to make accurate assessments of the efficiency of the sanctions imposed on North Korea, but some conclusions can be drawn. First, even though North Korea has gained some immunity to external sanctions from its long-time history of fighting sanctions with the United States and other western powers, the collective sanctions imposed by the Security Council and unilateral sanctions imposed by individual states did hurt North Korea badly, leaving it poor and backward. Second, the sanctions further inflicted hardship on ordinary people in that country, but the hardship the people suffered did not necessarily turn into hatred of North Korea's leaders for their failure to make a good life for them and failed to alienate North Korea's leaders from their people, leaving the regime in Pyongyang stable so far. Third, the sanctions alone could not force North Korea to change course and abandon its nuclear and missile programs; in the face of a choice between pursuing survival and staying poor, North Korea has already chosen the former. Fourth, in order to make North Korea negotiate its nuclear and missile programs, the major stakeholders—China, the United States, and South Korea—must work out their differences and speak in one voice and act in concert. More importantly, they must find additional policy tools, such as material incentives, security guarantees or a combination of the two, to attract North Korea to the negotiating table while they keep the pressure on and impose more costs for its development of weapons of mass destruction.

ENDNOTES

1. Executive Order 13382, signed by Bush on June 29, 2005, is an authority aimed at freezing the assets of proliferators of WMD and their supporters, and isolating them financially. Designations under it prohibit all transactions between the designees and any U.S. person, and freeze any assets the designees may have under US jurisdiction.
2. For the full text of the Resolution 1695, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1695\(2006\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1695(2006)).
3. For the full text of Resolution 1718, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1718\(2006\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1718(2006)).
4. For the full text of the Resolution 1718, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1718\(2006\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1718(2006)).
5. In particular those producing or possessing the items, materials, equipment, and goods
6. For the full text of the Resolution 1874, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1874\(2009\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/1874(2009)).
7. Tasks include: (a) assist the Committee in carrying out its mandate as specified in resolution 1718 (2006) and the functions specified in paragraph 25 of this resolution; (b) gather, examine and analyze information from States, relevant United Nations bodies and other interested parties regarding the implementation of the measures imposed in resolution 1718 (2006) and in this resolution, in particular incidents of non-compliance; (c) make recommendations on actions the Council, or the Committee or Member States, may consider to improve implementation of the measures imposed in resolution 1718 (2006) and in this resolution; and (d) provide an interim report on its work to the Council no later than 90 days after adoption of this resolution, and a final report to the Council no later than 30 days prior to termination of its mandate with its findings and recommendations.
8. According to the joint statement, North Korea will shut down and seal the Yongbyon nuclear facility, including the reprocessing facility and invite back IAEA personnel to conduct all necessary monitoring and verifications. In return, the other five parties in the Six-Party Talks will provide emergency energy assistance to North Korea in the initial phase of 50,000 tons of heavy fuel oil, to commence within 60 days, etc.
9. According to the joint statement, North Korea will shut down and seal the Yongbyon nuclear facility, including the reprocessing facility and invite back IAEA personnel to conduct all necessary monitoring and verifications. In return, the other five parties in the Six-Party talks will provide emergency energy assistance to North Korea in the initial phase of 50,000 tons of heavy fuel oil, to commence within 60 days, etc.
10. "N. Korea's global trade expands but trade gap widens: report," at <http://english.yonhapnews.co.kr/northkorea/2015/06/05/69/0401000000AEN20150605001300320F.html>.
11. For the full text of Resolution 2087 and list of the individuals and entities, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2087\(2013\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2087(2013)).
12. For the full text of Resolution 2094, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2094\(2013\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2094(2013)).
13. For the full text of Resolution 2270, see [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2270\(2016\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2270(2016)).
14. Louis Charbonneau & Michelle Nichols, "U.N. imposes harsh new sanctions on North Korea over its nuclear program," Reuters, March 3, 2016, <http://www.reuters.com/article/us-northkorea-nuclear-unionidUSKCN0W41Z2>.
15. For full text of Resolution 2321, see http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2321%282016%29.
16. Motoko Rich, "Rex Tillerson, in Japan, Says US Needs 'Different Approach' to North Korea," *The New York Times*, March 16, 2017.
17. Jong Phil, "Neighboring Country's Mean Behavior," Korea Central News Agency (KCNA), February 23, 2017.
18. For more information about the economic changes, see Andrei Lankov, "The Resurgence of A Market Economy," Carnegie Moscow Center, January 2016, http://carnegieendowment.org/files/CP_Lankov_Eng_web_final.pdf.
19. For the full text of the *Final Report of the Panel of Experts submitted pursuant to resolution 1874 (2009)*, see http://www.un.org/en/ga/search/view_doc.asp?symbol=S/2010/571.
20. David Laconangelo, "How North Korea's merchant ships became a target for UN sanctions," *The Christian Science Monitor*, August 28, 2013; For detailed information about the *Chong Chon Gang*, see <http://docs.house.gov/meetings/FA/FA07/20130926/101353/HHRG-113-FA07-Wstate-GriffithsH-20130926.pdf>.

21. For the detailed Final Report of the Panel of Experts submitted pursuant to resolution 2276(2016), see http://www.un.org/ga/search/view_doc.asp?symbol=S/2017/150.
22. Cited from Scott A. Snyder, "North Korea's Growing Trade Dependency on China: Mixed Strategic Implications," at <http://blogs.cfr.org/asia/2012/06/15/north-koreas-growing-trade-dependency-on-china-mixed-strategic-implications/>.
23. For a glimpse of the activities, see Jane Perlez, Yufan Huang, "A Hole in North Korean Sanctions Big Enough for Coal, Oil and Used Pianos," *The New York Times*, March 31, 2016, at <https://www.nytimes.com/2016/04/01/world/asia/north-korea-china-sanctions-trade.html>.
24. Chun Han Wong, Jay Solomon, "U.S., China Move Against Firm Suspected of Aiding North Korean Nuclear Program," *The Wall Street Journal*, September 19, 2016, at <https://www.wsj.com/articles/u-s-china-move-against-firm-suspected-of-aiding-north-korean-nuclear-program-1474300834>.

A Russian Perspective on the Impact of Sanctions

Alexander Gabuev

The situation on the Korean Peninsula is moving in a dangerous direction. In order to affect the behavior of the North Korean regime and change its calculations, ultimately forcing Pyongyang to abandon its nuclear and missiles programs, the international community has imposed a set of tough economic sanctions. The recent set of sanctions was codified in the UN Security Council Resolution 2321. So far, the impact of these and other sanctions in order to change the DPRK's actions appears to be limited. Russia is one of the active players on the Korean Peninsula. A geographical neighbor of the DPRK and a former Cold War ally, Russia is engaged in looking for solutions to the North Korean nuclear problem. Still, when it comes to economic sanctions against North Korea, Moscow has an ambiguous position. Its national interests on the Korean Peninsula include prevention of nuclear tests by the DPRK, positioning Russia as one of the leaders of the international community on nonproliferation; non-expansion of the U.S. military presence on the Korean Peninsula; and growth in Russian trade with both Korean states. The sanctions envisaged in Resolution 2321 do not support most of these goals, since Russia thinks that nuclear disarmament of DPRK is impossible in principle. However, Moscow is ready to play along with the sanctions track as long as Russia maintains the appearance of a critical player.

On February 12, 2017 North Korea conducted a live-fire test of a new type of strategic missile. The test of Pukgusong-2 was presided over by DPRK leader Kim Jong-un. According to the state-run Korean Central News Agency, the missile has a "medium to long range" and "can be tipped with a nuclear warhead."¹ The test has sparked international condemnation, with Japan and the United States coming out as the most vocal supporters of harsh penalties for the DPRK. Japanese representatives have called for a new round of tougher economic sanctions against the DPRK, and called on China to "respond constructively." Various countries around the world have condemned the tests, and a UN Security Council meeting was called to review the situation.

One of the strongest unannounced messages sent by the February 12 missile launch was the inefficiency of various approaches that the international community has tried to stop the North Korean missile problem. The latest powerful move was UNSC Resolution 2321 adopted on November 30, 2016.² The resolution built on the toughest to date Resolution 2270,³ adopted on March 2, 2016 as a direct response to the nuclear test that Pyongyang conducted on January 6, 2016. The diplomats who enacted these sanctions in the UN have called them the "toughest ever" passed against the DPRK. The main aim of Resolution 2321 was to cut off potential channels for financing the nuclear and missile programs, as well as to put some significant economic pressure on the DPRK in order to make it return to the negotiating table and ultimately abandon both programs. The most powerful tool in the resolution's toolkit was a ban on the purchase of North Korean coal, iron, iron ore, gold, titanium ore, vanadium ore, and rare earth minerals, copper, nickel, silver, zinc, new helicopters, and vessels, as well as statues. The only exception was made for coal, on which the resolution put strict limitations: Pyongyang is allowed to sell no more than \$400,870,018 worth of coal or 7,500,000 metric tons per year, whichever is met first, beginning on January 1, 2017.

The resolution came as a result of fierce discussions in the UNSC, once again showing differences in approach towards the crisis by key external players, which include the United States, China, the ROK, Japan, and Russia. In agreeing on policy tools to deploy in the case of the DPRK's provocative behavior, each of these players was guided by its own

understanding of the root causes and dynamics of the North Korean nuclear crisis, as well as its stated (and, most importantly, unstated) national interests on the Korean Peninsula. Russia was no exception to that rule. Though Russia does not possess the economic leverage over the DPRK that China has, and, unlike the United States, does not have significant military tools to tackle the issue or legal obligations to defend its allies, it is an important player on the Korean Peninsula in its own right. Its geographical border with the DPRK, permanent membership and veto power in the UNSC, as well as a unique combination of economic, military, and diplomatic interests in Northeast Asia make Russia a power to be reckoned with when framing policy towards DPRK.

This article assesses Russian national interests on the Korean Peninsula, disentangles Russian evaluations on sanctions efficacy, and explores the Russian debate on further steps to improve the options that the international community has to tackle the DPRK nuclear issue.

THE RUSSIAN VIEW ON THE NORTH KOREA NUCLEAR ISSUE

The starting point for any discussion on the Russian approach towards the North Korean nuclear problem must be a proper analysis of how it sees the origins of this problem, and assesses the potential solutions. This proves to be a challenging task since the Russian official position aired at the UN or in official statements is different from the consensus view in Moscow among decision-makers and members of the expert community.

The main, stated goal of Russian policy and diplomatic efforts on the Korean Peninsula has been denuclearization. The statement that the Russian Ministry of Foreign Affairs (MOFA) issued on December 1, 2016, right after Resolution 2321 was adopted, states that “this UN Security Council resolution should be a clear signal to the North Korean authorities to abandon their nuclear missile schemes and return to the non-proliferation framework.”⁴ This official position is also clearly stated in the fact that Russia has signed on to Resolution 2321, which states that the DPRK “shall abandon all nuclear weapons and existing nuclear programmes in a complete, verifiable and irreversible manner, and immediately cease all related activities; and shall abandon all other existing weapons of mass destruction and ballistic missile programmes in a complete, verifiable and irreversible manner” (paragraph 2). On top of this, Russia has included denuclearization of the Korean Peninsula in its newest version of the Foreign Policy Concept—the major strategic document outlining the Kremlin’s approach to foreign policy and international issues signed by President Vladimir Putin on November 30, 2016: “Russia has always championed a non-nuclear status for the Korean Peninsula and will support its denuclearization in every possible way, believing that this objective can be attained through the Six-Party Talks” (paragraph 89).⁵

However, the officially stated goal of denuclearization is not the one that the Kremlin considers realistic. Writings of Russian experts, panel discussions in Russia on the topic, and, most importantly, in-depth anonymous interviews with Russian officials and government advisors⁶ show that Moscow does not think denuclearization is possible.

The clearest explanation to date about why Moscow considers denuclearization in the Korean Peninsula a lost cause can be found in the writings of Andrei Lankov, professor of Korea

studies at Kookmin University in Seoul and one of the best Russia-born specialists on the DPRK. Lankov's position in the Russian expert community is unique. He is a Russian national and maintains contacts in the Korea-watching circles inside the government and academia, and, at the same time, he is an outsider residing in Seoul. This is why his analysis is not bound by the group thinking so frequent in Russian policy debates on the North Korean issue, but, at the same time, nor by the Kremlin's official mantras of denuclearization the way many other Russian specialists are, given the subordinated state of Russian academia to the government. Lankov's argument is best summarized in a recent op-ed for Al-Jazeera English.⁷

Kim is afraid of a U.S. invasion and—given what happened in Iraq, a fellow member of the so-called “axis of evil”, as well as in Libya—his fears are by no means paranoid. He believes that the best way to counter a foreign threat is to have a full-scale nuclear force which would be capable of hitting the continental U.S. He needs ICBMs, perhaps dozens of them, preferably on difficult-to-intercept mobile launchers, ready to be launched at short notice. Such force, Kim and his people hope, will ensure that the U.S. will not attack, and will not intervene in support of some internal revolution, should it erupt inside North Korea – like it happened in Libya.⁸

This approach reflects the consensus in Moscow, according to interviews with Russian officials and experts.⁹ The same view was expressed publicly by Georgy Toloraya, one of the leading Korea experts in Russia,¹⁰ the head of the Center for Russian Strategy in Asia at the Institute of the Economy, Russian Academy of Sciences. At the Carnegie Moscow Center on March 14, 2017, Toloraya stated that a nuclear deterrent is viewed in Pyongyang as “the only insurance that can guarantee regime survival,” and that Kim's government will not stop unless it possesses a nuclear weapon capable of hitting the U.S. West Coast.¹¹

The senior Russian leadership is convinced that the United States is pursuing a strategy of “color revolutions” and economic pressure to dispose of the regimes that America does not like. The North Korean regime, which was once labeled by President George W. Bush part of the “Axis of Evil,” falls into this category. Though the Kremlin was not fully sympathetic with the regimes of Saddam Hussein and Muammar Gaddafi, after the “color revolutions” in the post-Soviet space in 2003 (Georgia), 2004 (Ukraine), and 2005 (Kyrgyzstan), it is deeply suspicious of alleged U.S. intentions to foment popular uprisings. Moscow also believes that Washington is after regime change in Russia itself—these fears were cemented by the Maidan revolution in Ukraine in 2014. The only viable tool for an authoritarian regime, which can guarantee prevention of American military interference into domestic conflict, is possession of nuclear weapons.

The Kremlin has a somewhat ambivalent stand when it comes to North Korea. On the one hand, it is not happy about the emergence of a nuclear state on its border. Moscow does not believe that Pyongyang is developing nuclear and missile capabilities against Russia. But these developments have negative consequences for Russian security interests, because they give the United States a legitimate pretext to develop its military infrastructure on and around the Korean Peninsula, including the recent deployment of THAAD. This is the major reason why Moscow continues its efforts with other members of the international community to limit DPRK missile and nuclear capabilities. At the same time, Moscow is perfectly aware that Pyongyang will not give up its goal of developing a nuclear-capable ICBM. Thus, the

major challenge for the Kremlin is to aggregate the conflicting national interests of Russia on the Korean Peninsula, check them against reality, and fuse them into a coherent agenda. This task is proving to be extremely difficult, forcing Moscow to play a more reactive role and side with its major diplomatic partner in Northeast Asia: China.

RUSSIAN INTERESTS ON THE KOREAN PENINSULA

What are Russian national interests on the Korean Peninsula, related to the DPRK and its nuclear program? Analysis of the Russian expert community's writings, as well as interviews with officials, reveals a complex picture with different and frequently competing agendas.

Four major interests can be identified:

- 1) Nuclear security: prevention of nuclear and missile tests by the DPRK, as well as prevention of proliferation of nuclear and missiles technologies from the DPRK;
- 2) Military security: non-expansion of the U.S. military presence on the Korean Peninsula, prevention of THAAD deployment, or finding a military response to the growing U.S. military presence in the region;
- 3) Prestige: positioning Russia as one of the leaders of the international community on nonproliferation, playing a visible role in solving an important international crisis;
- 4) Economy: growth in Russian trade with the DPRK, as well as implementation of trilateral projects involving Russia, the DPRK, and the Republic of Korea.

Nuclear Security

The mainstream view in Russia is that the North Korean nuclear and missile arsenal will not pose a serious challenge for the security of Russia, particularly the Far East. Russian experts and officials alike are convinced that Pyongyang does not see Russia as a threat to its security, and, thus, the new weapon types will be directed against the United States and its allies. However, the risks posed to Russia by the DPRK's nuclear program can be summarized in two main points.

i) Risks of accidents caused by backward technology used by North Korea. Populated areas of Primorski Krai, including the region's capital Vladivostok with its one million inhabitants, are within striking distance of the DPRK's missiles. Any technical failure may cause unintended damage to Russian territory and population. These fears, however, have grown less acute in recent months following changing analyses of the North's capabilities. According to Russian assessments, the DPRK's launch precision is improving dramatically, thus reducing the risk of a technical failure and related accident.

ii) Risks by proliferation of DPRK technologies to dangerous states and terrorist groups. This risk is seen by the Russian expert community as a much more serious threat to the country's security than the unlikely use of nuclear arms by the DPRK regime. Forced by the sanctions to earn foreign currency through illegal means, Pyongyang might be tempted to sell its technologies on the black market (and is arguably doing this already), and, thus, dangerous weapons might end up in the wrong hands.

Military security

Expansion of U.S.-led military alliances was long ago identified as a key challenge to Russian national security. The legacy of the Cold War, NATO enlargement during the Clinton and George W. Bush administrations, failed negotiations on missile defense in Eastern Europe, and the recent schism with the West following the war in Ukraine have nurtured a consensus in the Russian foreign policy and national security elite that the United States poses an existential threat to Russia and the survival of the current regime.¹² Prevention of U.S. military infrastructure approaching the Russian border is a national security priority. The most recent version of the Russian Military Doctrine adopted in December 2014, soon after the Crimea annexation and start of the war in Eastern Ukraine, lists several key risks associated with U.S. policies:¹³

- i) Build-up of the power potential of the North Atlantic Treaty Organization (NATO) and vesting NATO with global functions carried out in violation of the rules of international law, bringing the military infrastructure of NATO member countries near the borders of the Russian Federation, including by further expansion of the alliance;
- ii) Deployment (build-up) of military contingents of foreign states (groups of states) in the territories of the states contiguous with the Russian Federation and its allies, as well as in adjacent waters, including for exerting political and military pressure on the Russian Federation;
- iii) Establishment and deployment of strategic missile defense systems undermining global stability and violating the established balance of forces related to nuclear missiles, implementation of the global strike concept, intention to place weapons in outer space, as well as deployment of strategic non-nuclear systems of high-precision weapons.

It is notable that these three risks listed in Article 12 come very high on the priority list (points “a”, “c”, and “d”), while “proliferation of weapons of mass destruction, missiles, and missile technologies” is listed as point “f” only, which reflects the hierarchy of threats.

In regard to North Korea, Russia is worried about two possible scenarios, which involve the increase in U.S. military posture on the Korean Peninsula:

- 1) Deployment of missile-defense systems like THAAD;
- 2) Reunification of Korea after forced regime change in the DPRK, followed by new deployments of U.S. forces closer to Russia’s (and China’s) border.

To the extent that other options help to preclude U.S. unilateral use of force or additional deployments, Russia sees value in supporting them.

Prestige

National pride concerns positioning Russia as a “great power” on the international stage. The search for international recognition and prestige has become a key driver of Russian foreign policy during Putin’s tenure. Any major international problem is seen by the Kremlin as an opportunity to sit at the table with other key players on the global stage, which shows Russia’s international status as one of the leaders of the international community. This driver is at work in the crisis management effort around the Korean Peninsula. Russia feels that as a geographical neighbor of the DPRK, a UNSC permanent member, and one of the global intellectual leaders on non-proliferation and disarmament issues, it needs to play a role in the settlement.

RUSSIAN ECONOMIC INTERESTS ON THE KOREAN PENINSULA

Russia also has economic interests associated with North Korea, but the official trade volume remains low and continues to decrease. For example, in 2015 the trade volume stood at \$83.2 million, with North Korean exports to Russia accounting for \$5.7 million, while imports reached \$77.5 million. This is a decrease compared to 2014, when the trade figure stood at \$92.2 million. The decline was accounted for mostly by exports to Russia (decreased by 43 percent), while imports shrunk by just 6 percent. Below is a breakdown of the trade structure.¹⁴

North Korea exports to Russia:

- Fish, crustaceans (29 percent)
- Articles of apparel, accessories, not knit or crochet (27 percent)
- Musical instruments, parts, and accessories (17 percent)
- Railway, tramway locomotives, rolling stock, equipment (6 percent)
- Manmade filaments (5 percent)
- Electrical, electronic equipment (4 percent)
- Plastics and articles thereof (3 percent)
- Wadding, felt, nonwovens, yarns, twine, cordage, etc. (2 percent)
- Rubber and articles thereof (2 percent)
- Machinery, nuclear reactors, boilers, etc. (1 percent)
- Cereal, flour, starch, milk preparations and products (1 percent)
- Tanning, dyeing extracts, tannins, pigments etc. (1 percent)
- Milling products, malt, starches, inulin, wheat gluten (1 percent)

Russia exports to North Korea:

- Mineral fuels, oils, distillation products, etc. (83 percent)
- Wood and articles of wood, wood charcoal (4 percent)
- Cereals (4 percent)
- Milling products, malt, starches, inulin, wheat gluten (3 percent)
- Fish, crustaceans (3 percent)
- Pharmaceutical products (1 percent)

Thus, the official trade volume indicates that the DPRK comprises less than 1 percent of Russia's trade with the outside world. If one takes into account unofficial calculations of trade, which try to figure in trade conducted through third countries, observers arrive at a \$1 billion figure.¹⁵ Still, with Russian exports in 2016 standing at \$285.5 billion, this is a negligible figure for Russia, but not for North Korea.

Much more important in Moscow's economic calculations are not the existing trade flows and investments, but potential trade flows which might result after implementation of big infrastructure projects. These projects fall into two categories:

- 1) Trilateral projects, which will link Russia to the ROK through the DPRK, including a trans-Korean railway, gas pipeline, and electricity grid;
- 2) Russian companies' participation in development of the DPRK's natural deposits envisages Russian investment in return for control over North Korean mineral deposits, which would compensate for investment and generate profit.

Of the trilateral projects, the railway construction was in the most advanced stage. The Russian Railway has invested about \$300 million in rebuilding the link between Rajin port in the DPRK and Khasan, which then is linked to the Trans-Siberian railway. According to the Russian Railways, "Restoration of 54 km railway from the station Khasan to the port of Rajin is positioned as a pilot project for reconstruction of the Trans-Korean Railway."¹⁶ The reconstruction of the railway link and a port terminal took place in 2008-2014, while 2014 and 2015 saw the first commercial North Korean coal shipments to South Korea. The operating capacity of Rajin port (the Russian terminal) is 1.4 million tons, while projected capacity is up to 5 million tons a year. Not surprisingly, this project was one of the victims of UNSC Resolution 2270, and the following resolution made the situation even more severe.¹⁷

Two other Trans-Korean projects include building a gas pipeline from Vladivostok to the ROK through the DPRK to be operated by Gazprom, and an electricity grid, in which Russian state-owned InterRAO and FSK companies were interested. These projects were supervised by Ambassador-at-Large Alexander Timonin, who served as Russia's ambassador to the DPRK (2012-2014) and is currently Russian ambassador in the ROK. According to an interview Timonin gave in 2011,¹⁸ Moscow was hoping that the economic revenue that Pyongyang will get through the projects will help to ease tensions on the Korean Peninsula, create interdependence between the two Korean states, and ultimately help in resolving the nuclear issue. However, none of the projects got off the ground, and Seoul's interest in them decreased after President Park's election.

There were several projects promoted by the Russian Ministry of Far Eastern Development (MFED), particularly by Minister Alexander Galushka. In 2014 Galushka announced that Russia and the DPRK had reached an agreement on the "Pobeda" project, which envisages construction of 3,000km of railway track in the DPRK by Russian Railways. The construction will be financed by the Russian side. As a return on the investment, Russia was supposed to get licenses for various mineral deposits in North Korea. Galushka estimated the total investment at \$25 billion, which would allow an increase in the amount of official bilateral trade to \$1 billion a year by 2020.¹⁹ These projects never took off the ground, as was the case for another of Galushka's pet projects – a financial clearinghouse to facilitate transactions between Russia and the DPRK. According to Galushka, up to one third of Chinese exports to the DPRK (estimated at \$900 million) are Russian goods, and removing intermediaries will help boost bilateral trade.²⁰ These efforts were part of Russia's "turn to the East" launched in 2012-2014.²¹

According to interviews with Russian officials,²² not many in the government believed that the projects developed by Galushka were realistic.²³ The motivation of the minister was driven by the fact that he was appointed as chairman of the bilateral intergovernmental commission between

Russia and the DPRK. As minister in charge of the Far East development, he managed to secure just this commission, since others were taken by more powerful people (commissions with China, Japan, and the ROK are chaired by deputy prime-ministers). This, according to interviews, forced Galushka to be very active on the North Korean track to get bureaucratic points. However, he failed to involve Russian professionals on the DPRK from the MFA or the intelligence community, who could have helped to check his gigantic projects against North Korean realities, and, thus, arrived at very unrealistic MOUs with Pyongyang. According to several officials, not many people on the top level of the Russian hierarchy believed for a second that the “Pobeda” project was viable. This is why Russia did not even try to find loopholes for its implementation when drafting UNSC resolutions on North Korea.

EFFECTIVENESS OF ECONOMIC SANCTIONS ON THE DPRK: WHAT DOES RUSSIA REALLY THINK?

Measured against the above national interests, Moscow does not see the sanctions as an efficient tool to achieve its interests on the Korean Peninsula. First of all, the sanctions do not provide an ultimate solution to the DPRK missile and nuclear problems. According to Moscow’s analysis, Pyongyang will try to secure the possession of nuclear-capable ICBMs, and the international community has no real tools to prevent it since military tools are not applicable, and since China and Russia will not support crippling sanctions on the DPRK that would enable internal regime change. Secondly, the sanctions do not hinder the U.S. military posture on the Korean Peninsula, including new systems like THAAD. Last, the sanctions, as outlined in Resolutions 2270 and 2321, are strangling Russia’s economic cooperation with the DPRK and hurting existing Russian corporate interests of powerful players like Russian Railways, as well as potential projects of companies such as Gazprom or InterRAO.

There are two additional reasons why Moscow is skeptical about the efficiency of the sanctions. Many Russian analysts agree that despite attempts to strangle the North Korean economy and, thus, change the regime’s behavior, the DPRK is experiencing economic growth right now due to Chinese-style reforms.²⁴ The economy is growing in the range of 2 to 4 percent, supported by the growing private sector and liberalization in some industries, making the Kim regime more sustainable and the government more popular and legitimate. Another reason is Moscow’s changing attitude towards economic sanctions as a tool for coercive diplomacy. Following the Crimea annexation and war in eastern Ukraine, Russia became an object of U.S./EU-led sanctions. Thus, the Russian official narrative about the sanctions is starting to change, as well as Russia’s understanding of the long-term effects of the sanctions for diversification of the economy and regime stability.²⁵

If Moscow thinks that sanctions against North Korea are ineffective and are not helping to promote most Russian national interests on the Korean Peninsula, why is it supporting them, including in the UN? The short answer is because the alternatives are worse, and because UN sanctions are the only mechanism that allows Russia to sit at the table with other players.

First, the alternative to the current policy includes a far more robust American military posture on the Korean Peninsula, or unilateral actions of the United States and its allies to overthrow

the Kim regime (including covert operations, sabotage etc.). This is a nightmare scenario, in which Russia's security interests would be served far worse. Thus, as long as sanctions on the DPRK are a tool to prevent the United States from deploying other options, Moscow is ready to play ball.

Secondly, Russia knows that its tools to influence the situation on the Korean Peninsula are limited. The only real asset it has are diplomatic channels to talk to the North Korean regime. Russia now has, arguably, the best diplomatic relations with the DPRK amid a serious crisis in Beijing's relations with Pyongyang. However, Moscow is aware that China, not Russia, is a critical player on the peninsula. Since they have many common interests, as long as Moscow can hew to China's policy, while maintaining its own contacts with Pyongyang, its interests are served. The economic ties to the DPRK are so small that they can be neglected.

Thirdly, the UN sanctions mechanism is the only format of impact on the North Korean missile and nuclear problem that gives Russia a proper seat at the table. All other alternatives, including unilateral economic sanctions, decrease the role of multilateral mechanisms inside the UN system, and, thus, Russia's role. Since prestige is one of the key drivers of its foreign policy,²⁶ Moscow is supporting the formats that allow it to position itself as an influential global player.

MOVING FORWARD THE RUSSIAN WAY

While not being entirely happy with the sanctions on North Korea, Russia has no other way than to support them and participate in the UN framework to address the DPRK nuclear problem. Russia does not have many tools to influence Pyongyang's behavior; so it is following China's lead since the interests of the two powers align on many aspects (particularly, concerns about the U.S. military presence on the Korean Peninsula, THAAD deployment, and fallout from a possible regime collapse if the United States pursues regime change.)

The Russian debate about alternative courses or another set of options that would help to solve the problem and secure Russia's national interests shows that these options are not there. The official line in Moscow describes the positive scenario as establishment of a new security architecture in Northeast Asia, which would be based on legally binding treaties and resemble, in some aspects, the security architecture in Europe that the Soviet Union and the United States built. "To solve the nuclear problem on the Korean peninsula, we must address its root causes. The discussion must be broadened to questions of reduction of military tensions, demolishing of infrastructure for confrontation, creation of a credible multilateral mechanism for guaranteeing peace and security in North East Asia. This is the only credible way out from the blind alley in the negotiations," Deputy Minister of Foreign Affairs Igor Morgulov told TASS back in September 2015.²⁷ Moscow's official line has not changed since. However, Russian efforts to promote this type of vision have found little support so far.

ENDNOTES

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A South Korean Perspective on the Impact of Sanctions

Kim Joong-ho

There is no way to hurt the regime of the DPRK without hurting its people; and there is no way to support the people of the DPRK without supporting its regime. Thus, discussing the effectiveness of sanctions against North Korea demands hard labor in fact-finding and tremendous patience until the desired effects are witnessed. Sanctions are time and energy consuming. In order to curb North Korea's enthusiasm for long-range missiles and nuclear weapons, the sanctions regime needs to be upgraded.

Smart sanctions were not as smart as imagined because of their two-sided effects – inflicting suffering on the people of the target country and simultaneously augmenting the rationale for harsher oppression by the leadership of the target country. As former UN Secretary-General Boutros Boutros-Ghali described it, economic sanctions seem to raise an ethical question of “whether suffering inflicted on vulnerable groups in the target country is a legitimate means of exerting pressure on political leaders whose behavior is unlikely to be affected by the plight of their subjects.”¹ UN sanctions on targets such as South Africa in the 1980s and Iraq in 1991 were accompanied by a negative humanitarian impact.

Smart sanctions are designed to effectively put direct pressure on individual national policymakers. As David Baldwin argues, smart sanctions are deemed effective as long as they create costs that are a critical factor in the calculus of decision-making by the target state.² Their purposes include symbolism and expression of disapproval, and persuading the targeted state to change its practices.³ Smartly targeted sanctions include arms embargoes, financial sanctions on the assets of individuals and companies, travel restrictions on the leaders of a sanctioned state, and trade sanctions on particular goods.

The first endeavor to focus the penalty more directly on those most responsible for the crisis brought together key academics, government officials, UN practitioners, and banking officials in New York in 1998. This initial discussion of the feasibility of targeted financial sanctions was facilitated by the Swiss government that launched the Interlaken Process in 1998. The banking industry, already equipped with the tools for dealing with money laundering, began to play a major role in further sanctioning.

The most conspicuous case of financial sanctions on North Korea is the sanctioning of Banco Delta Asia (BDA) in Macao in 2005, where \$25 million of North Korean funds distributed across 52 accounts was frozen. In response to international pressure, North Korea actually took additional measures toward denuclearization. Thus, the conclusion of the BDA ruling was that financial sanctions could hit North Korea where it hurt.⁴ However, the North Koreans, who learned a lesson from the BDA case, started improvising alternatives to the conventional use of official transaction systems.

To make smart sanctions work, China's cooperation is necessary. Trade between China and North Korea has continued to increase since 2000, serving as a lifeline through which hard currency as well as necessary goods are provided to the North Korean leadership. A recent report of China's alleged decision to close the Foreign Trade Bank of the Democratic People's Republic of Korea's accounts in Chinese banks is not enough to indicate its willingness to support world efforts to sanction North Korea.

North Korea's demand for hard currency seems to be greater than ever. Under the hereditary leadership of a young Kim, the ambition to build a new “Kimdom” (Kim's Dominion)

requires a bigger inflow of hard currency. The Pyongyang regime openly advertises to the world its multiple projects such as a ski resort, tourist programs, and newly designated special economic zones. Away from the stage of its serial provocations, the Kim Jong-un regime is shifting its focus toward the next stage of strategic conciliation and cooperation with the international community. It is the right time for the smart sanctions regime to refine its efforts. The South Korean government is determined not to allow the North Korean regime to take advantage of the world's open financial system for illicit purposes.

Over the past ten years, the impoverished North Korean regime has conducted five nuclear tests, inviting multilateral and bilateral sanctions. Each time sanctions were upgraded, they were “hailed as the most ‘comprehensive,’ ‘robust,’ and ‘unyielding’ sanctions to date against North Korea’s pariah government.”⁵ However, because previous rounds of sanctions failed to curb Pyongyang’s drive to advance its nuclear weapons program, the effectiveness of additional punitive economic measures are still doubted.

As long as Pyongyang’s provocations cannot be stopped, the historical pattern renews skepticism about whether the world’s harmonizing acts against North Korea will ever have a measurable impact. In particular, if nuclear weapons are not optional but essential for the regime’s survival, the impact of any kind of sanctions will be limited. Since North Korea’s economy has been essentially bankrupt for several decades, the impact of sanctions is further limited. Heightened tensions and isolation deepened by harsher sanctions help the Pyongyang regime control the redistribution of resources to any individuals who could be potential rivals to the Kim leadership.

Optimists may say that the desired effect of sanctions can be produced some time in the future if a few critical conditions are met, e.g., having enough time for increased cooperation with China to willingly enforce the sanctions. However, the reality is not like a well-designed laboratory for an ambitious experiment. The participating countries’ interests and positions are different and, even if consensus were reached, their partnership is fragile.

During the years when North Korea devoted all of its energy to the development of nuclear weapons, causing the sanctions to be harsher, its economy ironically became more stable.

Many question how this rogue regime with a malfunctioning planned economy could survive global pressure. In this regard, the purpose of this chapter is to review the background of sanctions against North Korea and to discuss their effectiveness. This academic exercise is aimed at contributing to efforts at making North Korean behavior change in an acceptable way.

SANCTIONS AGAINST NORTH KOREA

The North Korean regime’s efforts to acquire weapons of mass destruction (WMD) increase the unpredictability and instability of international relations that have been secured under the nonproliferation regime. Because of the unimaginable brutality of nuclear and chemical weapons, nations accepted an international system that put those weapons only in the hands of a few powers. The global community has not been persuaded that the isolated, totalitarian regime in North Korea would be committed to the preservation of world peace if it were to be granted the status of a nuclear power.

North Korea has a track record of systematic violations of universally recognized human rights norms. In February 2017, the assassination of Kim Jong-nam, the half brother of Kim Jong-un, brought world condemnation against the North Korean regime, whose legitimacy is based on a third-generation inheritance of power. The regime mobilized its diplomats and dispatched workers to commit the crime by using the internationally banned chemical VX. In addition, laborers dispatched abroad are exploited to earn hard currency to support the dictatorial leadership.

Multilateral Sanctions by the UN Security Council

As shown in Table 1, there are a number of resolutions the UN Security Council (UNSC) has adopted, particularly since North Korea's first nuclear test in 2006. Resolution 1718 in 2006 demanded it cease nuclear testing and prohibited the export of some military supplies and luxury goods to North Korea. Resolution 1874, adopted in response to the second nuclear test in 2009, embargoed North Korea's arms trade and requested UN member states to inspect North Korean ships suspected of carrying material related to the nuclear weapons program.

Resolution 2087, passed in 2013 after North Korea's long-range ballistic missile launch the previous year, augmented measures to seize any of its cargo ships suspected of involvement in WMD programs. Resolution 2094, in response to North Korea's third nuclear test, focused on financial sanctions, including shutting North Korea out of the international financial system. Resolution 2274, adopted after North Korea's fourth nuclear test and another rocket launch, banned North Korea's export of coal, iron, gold, rare earth metals, etc., with exemptions for livelihood purposes. Resolution 2321, passed after its fifth nuclear test, added to the list of banned exports items such as copper, nickel, zinc, and silver, as well as capping the maximum amount of North Korean exports of coal.

In theory, UNSC sanctions have evolved to increase the pain the North Korean leadership feels. In reality, however, the greater the pain inflicted by the sanctions, the bigger the scale of provocations. Continued efforts to magnify the impact of UN sanctions have failed to curb North Korea's continued efforts to improve its nuclear capabilities.

Table 1. UNSC Resolutions (UNSCR) Regarding North Korea

NK Actions	UN Reactions	Main Features
1st Nuclear test (Oct 9, 2006)	UNSCR 1718 (Oct 14, 2006)	<ul style="list-style-type: none"> • Demands that North Korea cease nuclear testing • Prohibits the export to North Korea of military supplies and luxury goods
2nd Nuclear test (May 5, 2009)	UNSCR 1874 (Jun 12, 2009)	<ul style="list-style-type: none"> • Broadens arms embargo • Encourages states to inspect ships and destroy and cargo suspected to be related to WMD
Missile (Dec 12, 2012)	UNSCR 2087 (Jan 22, 2013)	<ul style="list-style-type: none"> • Clarifies states' right to seize and destroy WMD-related cargo to or from North Korea
3rd Nuclear test (Feb 12, 2013)	UNSCR 2094 (Mar 7, 2013)	<ul style="list-style-type: none"> • Puts sanctions on money transfers • Shuts North Korea out of financial system
4th Nuclear test (Jan 6, 2016 and missile (Feb 7, 2016)	UNSCR 2270 (Nov 30, 2016)	<ul style="list-style-type: none"> • Bans exports of coal, iron, gold, rare earth metals, etc., with exemption for livelihood purposes
5th Nuclear test (Sept 9, 2016)	UNSCR 2321 (Nov 30, 2016)	<ul style="list-style-type: none"> • Caps North Korea's coal exports • Bans its exports of copper, nickel, zinc, silver

* Exact dates depend on the location of the action

UNILATERAL U.S. SANCTIONS

As shown in Table 2, U.S. administrations have issued executive orders to address the threat from North Korea’s development of nuclear weapons and to introduce measures to stop its bad behavior. Executive orders have been made possible on the basis of the U.S. Constitution and laws including the National Emergencies Act, the International Emergency Economic Powers Act, the Trading with the Enemy Act (TWEA), and the Arms Control Act.

Executive Order 13466 was issued in June 2008 when negotiations with North Korea on denuclearization appeared to have reached the final stage. It addressed the seriousness of the possible proliferation of nuclear materials or technology. In August 2010, when North Korea’s attack on the *Cheonan* heightened tensions on the Korean Peninsula, U.S. Executive Order 13551 designated North Korean persons as sanctions targets and banned the trade of North Korean arms and the sale of luxury goods to North Korea.

Executive Order 13570, issued in April 2011, when tensions were heightened after the North Korean shelling of Yeonpyong Island in November 2010, banned the importation of any goods, services, or technology from North Korea. Executive Order 13687 was issued in January 2015 with regards to North Korea’s hacking of Sony Pictures two months prior. It blocked the property of the North Korean government or the Workers’ Party of Korea, which became designated entities in U.S. sanctions for the first time.

Executive Order 13722, issued in March 2016 in response to the fifth nuclear test and another missile launch, blocked the property of any U.S. person who is involved with North Korean industries, including transportation and mining, cyber attacks, human rights abuses, censorship, and exportation of North Korean workers. Also, it banned the exportation or re-exportation of goods, services, or technology to North Korea, and prohibited new investment in North Korea by U.S. persons.

NK Actions	UN Reactions	Main Features
Working on denuclearizing NK	13466 (Jun 26, 2008)	<ul style="list-style-type: none"> • Freezes North Korean property in the U.S. • Stops U.S. persons from registering a vessel in NK or operating any of its flagged vessels
2009 test of nuclear device and missile & 2010 attack on SK navy ship	13221 (Aug 30, 2010)	<ul style="list-style-type: none"> • Blocks designated NK persons’ property • Bans the trade of NK arms and its material; luxury goods; illicit economic activity
Tension heightened since Nov 2010 Yeonpyong shelling	13570 (Apr 18, 2011)	<ul style="list-style-type: none"> • Bans the importation into the U.S. of any goods, services, or technology from NK
Hacking of Sony Pictures in Nov 2014	13687 (Jan 2, 2015)	<ul style="list-style-type: none"> • Blocks the property of NK Government or the Worker’s Party of Korea
2016 test of nuclear device and missile launch	13722 (Mar 15, 2016)	<ul style="list-style-type: none"> • Blocks the property of any U.S. person who is involved with NK industries such as transportation and mining, cyber attacks, human rights abuses, censorship, exportation of NK workers • Bans the exportation or re-exportation of goods, services, or technology to NK • Prohibits new investment in North Korea by U.S. persons

* Previous Executive Orders include 12938 (1994), 13094 (1998), 13382 (2005).

Besides Executive Orders, on March 31, 2017, the U.S. Department of the Treasury also sanctioned eleven individuals and one entity associated with providing funding and support for North Korea's WMD program. The Trump administration seeks to close down more procurement channels and funding sources for North Korea in third party countries, including China, Russia, Vietnam, and Cuba.⁶

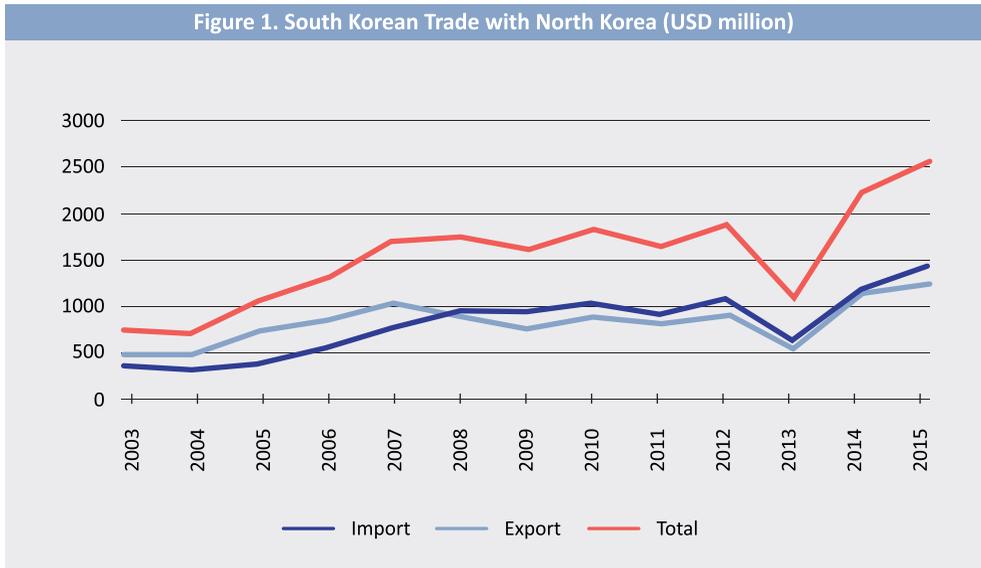
Inter-Korean Relations and Sanctions Effectiveness

South Korea has initiated and supported global efforts to punish North Korea for its bad behavior. Not only has it been diligent in implementing whatever is stipulated in the UNSC resolutions, it has taken unilateral sanctions measures against North Korea, seen in the shutdown of the ten-year-old Kaesong Industrial Complex (KIC) immediately after the fourth nuclear test in February 2016. Stopping the KIC was a reaction to the North Korean regime's contradictory policy of pursuing WMD on the one hand and of national reconciliation on the other. What triggered the South Korean government to shut down the KIC in 2016? What was the main purpose of the shutdown? What was the essence of the cost-benefit calculation by South Korean decision makers?

The main argument in support of the KIC shutdown is that payments of labor wages were used to contribute to the development of nuclear weapons programs in North Korea. The South Korean leadership at the time justified its decision to stop business operations in the KIC, expressing confidence in the close connection between business and provocations.⁷ Some criticize the closure as "shooting oneself in the foot" because North Korea's nuclear ambitions could not be stopped by doing this,⁸ and South Korean firms were the ones that were hurt.

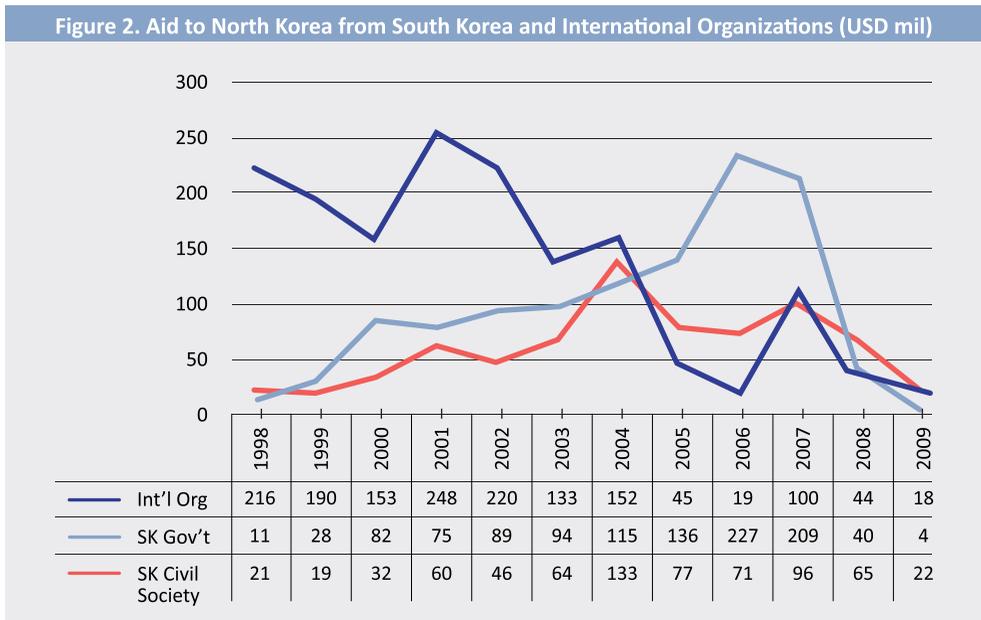
An annual income of \$100 million from the KIC may be meaningful for North Korea, whose options for acquiring hard currency are quite limited. Stopping the money inflow seems to have not influenced the North Korean regime, whose main interest is not the growth of people's wealth but the growth of the regime's destructive power. This criticism points out that there is little benefit South Korea could gain from the closure of the KIC. Through projects in Kaesong, South Korean businesses enjoyed a monopoly augmented by direct and indirect government subsidies and the exploitation of cheap North Korean labor. Thus, it is argued that the closure of the KIC hurt the South far more than the North.

North Korea experienced the sudden administrative cost of relocating the 54,000 well-trained Kaesong workers as well as the loss of their regular income. Despite losing the income from the KIC, the Kim Jong-un regime continued to develop its nuclear weapons with its fifth nuclear test in September 2016, indicating the limited effectiveness of South Korean sanctions. The efforts to upgrade sanctions ended up stopping business cooperation between the two Koreas. As shown in Figure 1, inter-Korean trade had steadily increased until early 2016, even after it was reshaped due to the North Korean attack on a South Korean naval ship in 2010, when the South Korean government adopted bilateral sanctions blocking all exchanges and business cooperation except the activities in the KIC. Thus, since 2010, inter-Korean trade has consisted only of transactions through the KIC.



Source: Korean Ministry of Unification

As shown in Figure 2, international organizations' aid to North Korea peaked in 1998-2000 and then continued to shrink. Since inter-Korean political relations turned positive in 1998 when the Kim Dae-jung administration's Sunshine Policy was introduced, South Korean NGOs actively engaged in inter-Korean reconciliation and cooperation programs and projects. However, after some trial and error, South Korean civil society's interest in aiding North Korea began to diminish from 2004 when the KIC was launched. The focus of South Korea's approach to the North shifted from humanitarian assistance to business cooperation, and aid to North Korea was initiated mainly by the South Korean government until 2009 when the North conducted its second nuclear test.

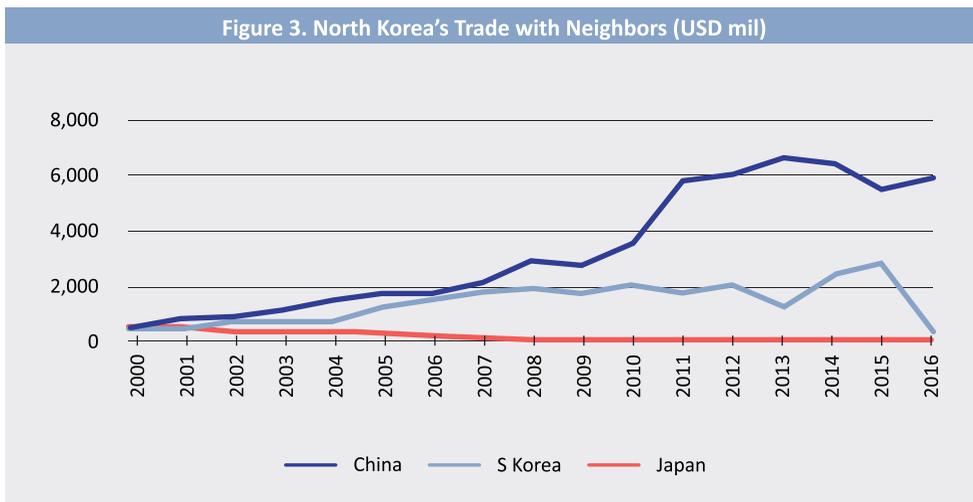


Source: Korean Ministry of Unification

In sum, multilateral and bilateral sanctions on North Korea triggered by North Korean bad behavior have decreased inter-Korean cooperation. The Pyongyang regime is now further isolated and losing any chance to figure out an alternative to its costly weapons development programs. So far, sanctions have not made the North restore dialogue with the South.

NORTH KOREA-CHINA RELATIONS AND SANCTIONS EFFECTIVENESS

The Chinese government is quite determined to implement UNSC sanctions measures against North Korea for its violation of international laws and agreements regarding WMDs. As a traditional ally and close neighbor of North Korea, however, China has a policy dilemma. Geopolitics give China pause with regard to strategic calculations of the relationship with North Korea in light of China's past and future national interests. As a globally influential player, China clearly understands the importance of punishing North Korea, a violator of international agreements. However, as an ideologically bonded ally, it cannot push North Korea into a corner, where its fragile economy may collapse. China's active engagement with the North Korean economy is now threatened by escalated provocations that result in stronger demand for tougher sanctions against North Korea.



Source: Korea International Trade Association (KITA) & China Customs Statistics

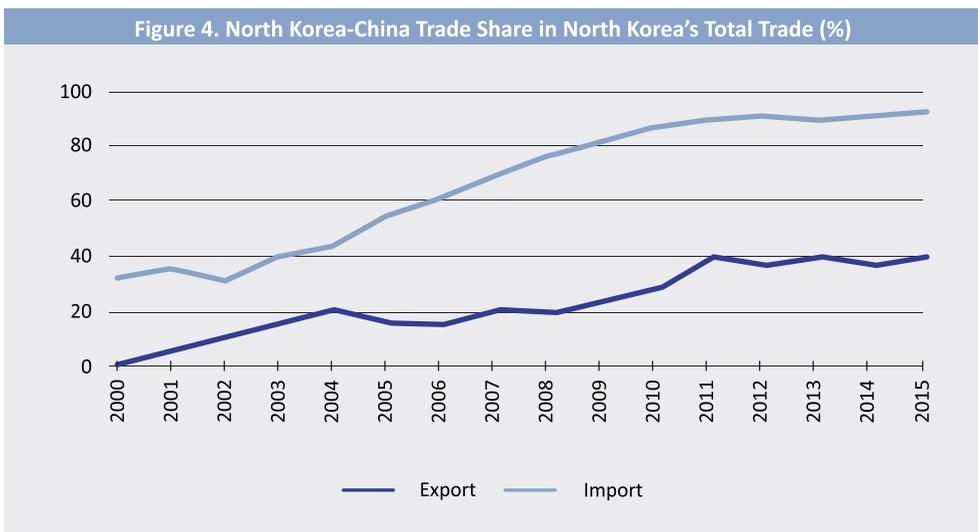
Figure 3 shows the trend of North Korea's trade with its close neighbors China, South Korea, and Japan. Japan was an equal shareholder in trade with North Korea in 2000 when North Korean trade with China, Japan, and South Korea recorded \$488 million, \$464 million, and \$425 million, respectively.⁹ From 2000, trade between North Korea and China showed an average growth of 22.4 percent annually, except in 2009 and 2014. The superficial decrease in 2009 from the previous year was 38.6 percent, but the substantial decrease was only 4.2 percent. Trade in 2014 showed a decrease of 2.8 percent compared to the previous year, but it actually increased by 4.9 percent if invisible imports of strategic materials such as oil are considered.¹⁰

Since China joined the World Trade Organization (WTO) in 2001, it has aggressively expanded its influence by increasing trade and investment, including with bordering states such as Mongolia and North Korea. In particular, since 2010, when China renewed its national economic

development projects, trade with North Korea began to soar even while North Korea’s political environment was deteriorating at a rapid pace, exemplified by the North Korean attacks on the *Cheonan* and on Yeonpyong Island.

As the speed of inter-Korean economic cooperation fell from 2008, North Korean dependency on the Chinese economy proportionally increased. Kim Jong-il had visited China to discuss how to receive aid in the form of economic cooperation. North Korea was interested in building economic infrastructure to surf the prospective wave from the latest Northeast China revitalization plan.¹¹

Trade between North Korea and China has been influenced by changes in both politics and the market. When bilateral trade shrank for a time, the effect of sanctions was not a unique factor. Their trade has also reflected a decline in the export price of coal or a decrease in Chinese energy consumption, for example, during 2014-2015. This explanation is supported by other cases, including Mongolia’s trade with China.



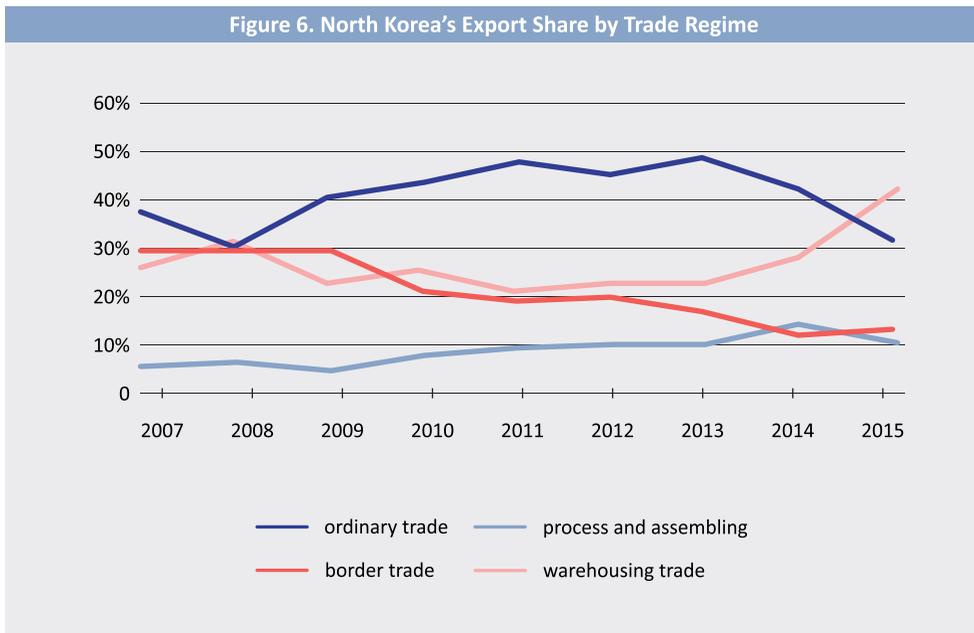
Source: KITA and UN Comtrade Database

Figures 4 and 5 support the argument that the continued increase in China’s trade with its neighbors North Korea and Mongolia has reflected synchronized supply and demand. The share of Mongolia’s exports to China in its total exports soared to almost 90 percent in 2014, whereas the share of North Korea’s imports from China in its total imports passed 90 percent in the same year. In this regard, the increased demand for tougher sanctions on North Korea has brought bigger attention to the waxing trade between North Korea and China.

The year 2015 was the first bilateral trade decrease since 2009. According to China customs, trade with North Korea was \$5.4 billion in 2015, a drop of 14.7 percent from \$6.4 billion in 2014. North Korea’s exports to China in 2015 recorded \$2.5 billion, 12.6 percent lower than \$2.8 billion in 2014. Its imports from China marked \$2.9 billion, a decrease by 16.4 percent from \$3.5 billion in 2014. These numbers reflect structural changes, such as the lowering of China’s GDP growth rate or the shift of focus from export-driven to domestic consumption-driven growth.

During 2014-2015, North Korea’s imports declined, probably related to a shortage of foreign currency due to export reductions or economic sanctions. Alternatively, it may be part of the consequences of domestic change in response to outside pressure. Pyongyang’s new propaganda insists that production capabilities have improved and more domestic goods are available, which is opposite to the reality, where North Korea is disconnected from global sources of hard currency.

Some strategically spotlighted industries of North Korea, however, tend to show positive change. For example, the increase in coal exports to China implies that North Korea has improved its mining capability, by either upgrading its production system or receiving more foreign investment. As shown in Figure 6, in 2015 warehousing trade surpassed ordinary trade. Warehousing trade is suspected of being detour trade from North Korea to third countries, via China.¹² It primarily consists of processed goods, including textiles, rather than raw materials. Thus, it can be presumed that North Korea has improved its production capacity in manufacturing, which made a notable contribution to the expansion of trade.



Source: China Customs Statistics

In early 2016, North Korea's trade with China was expected to be affected by many factors including new economic sanctions, the shutdown of the KIC, a continued decrease in raw material prices in the international commodity market, and China's import decline. However, there was an increase. Exports to China in 2016 reached \$2.6 billion, an increase of 6.1 percent from the previous year, led by coal (\$1.1 billion), fabrics (\$600 million) and iron ore (\$200 million). In 2016, total Chinese imports of North Korean coal were around \$1.1 billion, an increase of 12.5 percent from the previous year. And in the first two months of this year, Chinese imports of North Korean coal had already reached 2.69 million metric tons equivalent to \$219.5 million, representing over 50 percent of the \$400.8 million limit mandated by the UNSCR 2321 for China's 2017 imports of coal from North Korea.

CONCLUSION

Economic sanctions against North Korea have been imposed by the United States and the United Nations since the armistice treaty signed in 1953. Since 2006, when North Korea's first nuclear test occurred, more significant sanctions were introduced. Pyongyang has displayed its nuclear and ballistic missile capabilities, violating international laws and norms and threatening the United States specifically. On the first day of 2017, Kim Jong-un declared that his state had reached the final stage of being capable of launching an inter-continental ballistic missile (ICBM), undoubtedly targeting the continental United States, which he may be able to reach in the near future. In the 21st century, North Korea appears to be unique in continuing its nuclear build-up despite increased pressure from the international community. Thus, it is said that coercive diplomacy has failed.

Upon his first official visit to East Asia in March 2017, U.S. secretary of state Rex Tillerson admitted that approaches to the North Korean nuclear problem have proved to be a failure over the past twenty years. For the last ten years of global economic sanctions, the world has witnessed five nuclear tests. The reasons for the failure of costly efforts to make sanctions on North Korea effective include a weakening global "united front." China is regarded as exploiting loopholes.¹³ Its enforcement is the key to effective sanctions.

For the past decade at least, China is said to have turned a blind eye to sanctions violators and kept the non-compliant North Korean regime alive. The United States blames China for its reluctance to use leverage over North Korea, while China blames the United States for its reluctance to open an unconditional dialogue with North Korea. For the United States, sanctioning North Korea is regarded as an inevitable choice to keep international peace and order from a rogue nation's irrational behavior. However, for China, the same action may be interpreted as weakening the traditional socialist alliance with North Korea. The two big powers' tug-of-war over the North Korea problem ironically provides North Korea with strategic room to manipulate the crisis situation.

North Korea's fourth nuclear test in February 2016 triggered South Korea's decision to introduce THAAD. The Park Geun-hye government officially announced in July its decision to put THAAD in a southeastern area of South Korea. In response to that decision, China began to "retaliate" against South Korean businesses to pressure the South Korean government.¹⁴ In the eyes of the Chinese leadership, North Korea's obsession with WMDs may be tolerable, whereas South Korean accession to its ally's

additional self-defense measures, including the installation of THAAD on Korean soil, is provocative. China's admonishment with no punishment has spoiled the North Korean regime.

The effectiveness of sanctions depends on whether the United States and China have a common understanding of the threat from North Korea. Some now contend that China views North Korea's nuclear ambitions as a threat not only to the U.S., ROK, and Japan's interests and security, but also to Chinese interests and security.¹⁵ If this is true, it is a big shift.

The recent remark by Secretary of State Tillerson signaling the end of Obama's policy of "strategic patience" implies that the Trump administration will be active in considering a variety of policy options ranging from dialogue to military actions in solving the North Korea problem. However, during Obama's tenure, various options were already discussed as follows:¹⁶

- 1) Go to the United Nations Security Council
- 2) A "secondary boycott" on firms that do business with North Korea
- 3) Escalation: hit North Korea back
- 4) Strike a grand bargain
- 5) Pressure China
- 6) "Strategic patience" (otherwise known as containment)

Sanctions against North Korea have evolved; however, the reality is that North Korea's nuclear weapons program continues to develop. The same question is repeatedly asked: How can sanctions be upgraded to lead to a different outcome?

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A U.S. Perspective on the Impact of Sanctions

James Walsh*

Despite a crowded news agenda, North Korea has managed to draw the attention of both political leaders and the public at large. Missile tests, an assassination employing VX nerve agent, and preparations for a nuclear test have drawn strong reaction from Washington to Kuala Lumpur. Each new controversy sends policymakers scrambling for a response and, more often than not, that response has been a call for new and tougher sanctions. And not surprisingly, each new call for sanctions resurrects the old question: do sanctions on North Korea have any impact?²

There have been moments when sanctions seem to have motivated a North Korean response, as appeared to be the case with Banco Delta Asia (2005).³ In general, however, analysts have judged that sanctions on North Korea have not achieved the desired outcome, namely an end to North Korea's many objectionable behaviors.⁴ If anything, the situation looks worse, with the pace of weapons testing and human rights violations having increased over time despite ever-stronger sanctions. Still, despite the historical record, one might reasonably ask if conditions are changing. Over the last year and into the beginning of 2017, there have been a number of new developments in the North Korea file that might augur a shift in prospects. UNSCR 2270, whatever one thinks of it, was certainly unprecedented, e.g., for the first time setting hard caps on key commodities imported from the DPRK. North Korea's international isolation is, arguably, near an all time high, boosted by its row with Malaysia and an aggressive full court press by the South Korea foreign ministry to persuade countries from Africa to the Middle East to cut their ties with the North. And with a new, tough talking American president in office vowing to stop the DPRK, it may be time to consider again the topic of sanctions on North Korea.

This chapter assesses North Korea sanctions by first putting the topic in a historical and social science context and reviewing recent developments in the region. It then considers how one might define and measure the impact of North Korean sanctions and assesses the current and prospective state of the sanctions regime. Finally, it offers a stylized account of how Washington views the North Korean challenge and concludes with a cranky alternative view that reflects growing concern about events on the peninsula.

WHAT WE KNOW ABOUT SANCTIONS, NORTH KOREAN AND OTHERWISE

Before assessing the efficacy of new sanctions on North Korea, it is worth stepping back and putting the subject in a broader context of what we know about sanctions in general, as well as the record to date regarding sanctions on North Korea in particular. Sanctions have long been a tool of statecraft, and scholars, with varying degrees of success, have attempted to document their effects and their effectiveness.⁵ Here it is worth noting that sanctions have evolved over time and in recent years have come to include an array of financial and secondary sanctions that have provided policymakers with additional options. In general, analysts have fallen into two camps, sanctions optimists and sanctions skeptics. Optimists point to individual case studies where sanctions appear to have contributed to the desired outcome, e.g., Iran's nuclear program. Indeed, it has been said that sanctions are more effective than people think.⁶ Skeptics point to their own case studies.⁷ They also cite quantitative studies that appear to cast doubts about the value of sanctions.⁸

A judicious, if broad, assessment of the debate is that sanctions can prove useful under particular circumstances, but that, in general, they are a limited tool, their value being a complement to a broader policy approach that includes diplomacy, the threat of military force, and other tools. Sanctions alone are unlikely to achieve the desired results, and their potential contribution depends very much on the specifics of the case.

So what of this case, the case of North Korea? Is the situation on the peninsula one that is well suited or ill fitted for a sanctions-oriented approach? And what do decades of experience with sanctions on North Korea suggest about the future prospects of a sanctions regime?

Sanctions on North Korea have a long history,⁹ and analysts trying to assess the impact of sanctions also tend to fall into either the optimist or skeptical camps. Optimists about North Korean sanctions do not argue that past sanctions have worked as much as they maintain that future sanctions could work, and that the problem is that governments have not gone far enough in imposing sanctions.¹⁰ And without direct evidence that sanctions have changed North Korea's unwanted behavior, some optimists argue that indirect indicators point to the possible impact of sanctions. The increasing pace of defections and the apparent need for the Kim government to conduct loyalty campaigns might suggest, for example, that sanctions are biting. Optimists also take the view that, absent sanctions, the North would be even further along in its weapons programs than it is now.

Skeptics simply point to the empirical record as it is and conclude that sanctions have failed and are, therefore, unlikely to perform any better in the future. Skeptics doubt whether the pace of defections or the pronouncements by defectors predicting a coming collapse are all that meaningful. They have heard that before. In addition, they point to documented shortcomings of sanctions on North Korea.

One set of challenges revolves around the poor implementation of existing international sanctions.¹¹ Another set centers on the DPRK's evasion techniques, e.g., the use of front companies and private Chinese middlemen. Skeptics also point to specific structural impediments that undermine sanctions on North Korea (e.g., geography, globalization, and inherent limits on the ability of governments to police transnational trade).¹² So far, the skeptics have carried the day analytically. Sanctions optimists might be correct that the North is "under-sanctioned" and that success is just around the corner, but that seems more an aspiration than the record to date.

In sum, few would argue that sanctions are worthless, especially given the list of individual cases when they appear to have helped achieve a policy objective. Still, this brief review suggests that 1) sanctions are a rather limited tool whose success depends the conditions in play, and 2) sanctions on North Korea have failed to achieve their objectives. It is against this backdrop that we can now assess new developments in the region and the prospect that new sanctions and national policies might prove more successful.

RECENT DEVELOPMENTS

One reason for optimism about sanctions is that they are among the more innovative and dynamic arenas of policymaking. New types of sanctions have been developed, and old sanctions have been applied in new and novel ways. In addition, conditions in the region are evolving. Indeed, some of the biggest changes have occurred in the last year or so. Whatever DPRK sanctions' past successes or failures, it is worth considering these new developments and whether they provide reason to think that sanctions might be more effective going forward.

One set of developments relates to the behavior of the North Koreans themselves. Kim Jong-un has moved to accelerate the development of his illicit weapons programs. Compared to his father and grandfather, the young Kim has dramatically increased the number of missile and nuclear tests, and it seems likely he will continue apace. That could have two very different effects. On the one hand, repeated tests may keep the North Korean issue on the agenda and increase the political pressure on governments to address the implementation issues documented by the Panel of Experts. Alternatively, the constancy of testing may “normalize” the phenomenon with the consequence that any particular test or action carries less shock and political punch.

The North's assassination of Kim Jong-nam, though not directly tied to sanctions, may, nevertheless, have implications for the sanctions regime. First, it has resulted in a row with Malaysia, one of the few countries that had positive relations with the DPRK. The North's decision to hit back at the arrest of the plotters and to essentially hold Malaysian citizens in the DPRK as hostages will likely worsen relations further. The attention drawn to the DPRK-Malaysia relationship exposed the North's use of Malaysia to evade sanctions. Finally, the assassination irritated China, as Kim Jong-nam was alleged to have been under China's protection. Taken together, the North may have alienated an important country in its procurement network and given China yet another prod to rethink its strategy.

CHINA, SOUTH KOREA, AND REGIONAL DEVELOPMENTS

Over the past year or so, there have been a number of events in the region that could affect the viability of sanctions. On the positive side of the ledger is China's support for UNSCR 2270, which for the first time ever established caps on the economic value of coal imports coming from the DPRK. In private, U.S. officials downplay the significance of China signing on, pointing out that it took a long time for Beijing to finally agree to an import cap and that the livelihood exception – what some analysts strangely call a “loophole” – allows China to fudge its commitments. And at the end of the day, 2016 coal imports from the North to China actually increased over their 2015 levels by 15 percent.¹³

Still, to this observer, the fact that China agreed to a cap in a binding UN resolution is a surprise and may signal rising concern in Beijing. Perhaps adding credence to that interpretation was China's unexpected announcement on February 17, 2017 (following the test of an intermediate range missile and the assassination of Kim Jong-nam) that it had already capped out its coal imports from North Korea for the year and was suspending further imports. Time will tell whether China means what it says,¹⁴ but the regional coal

markets reacted at the time as if *they* thought it were true.¹⁵ In addition, it appears that China has moved forward with establishing the regulatory and administrative processes required to implement the caps.

There have been less encouraging developments as well. The U.S. decision to deploy a THAAD missile defense system in the South has, at least temporarily, soured relations between Seoul and Beijing, with China seeking to punish South Korea through various economic measures. Separately, South Korean relations with Japan, which have always been fraught, appeared to deteriorate despite the progress the two countries have made in trying to improve their bilateral relationship. It is difficult to know what, if any, impact all of this might have for the sanctions regime, but in general, North Korea prefers a situation in which the regional players are divided and at odds, probably on the theory that it can exploit those divisions for its own good.

Finally, no description of regional events would be complete without reference to the fall of President Park in South Korea. The lengthy scandal and domestic crisis affected South Korea policymaking for some months. Uncertainty about her future was replaced by uncertainty about the post-impeachment elections and the arrival of new leadership that may bring a change in the South's approach to the North.

A NEW SHERIFF IN TOWN: THE ARRIVAL OF MR. TRUMP

Donald Trump's surprise election victory could have far reaching implications for the peninsula, either as a result of the new president's policy choices or as a consequence of his personality and unorthodox governing style. The Trump administration has concluded its policy review for North Korea, a process that has endorsed an approach based on "Maximum Pressure and Engagement."¹⁶ Despite concluding the policy review, the senior administration officials – including the president, vice president, secretary of state, and U.S. ambassador to the UN – have offered a barrage of contradictory statements about its North Korea policy. Secretary of State Rex Tillerson himself offered radically different positions in a matter of weeks, first rejecting talks with the North during a visit to Seoul only to reverse that position soon after. Everyone in the administration has rejected the Obama doctrine of "strategic patience," though "maximum pressure and engagement" appears a re-articulation of that same policy.

Trump's impact on the future of the peninsula will be a function of not only the policies he chooses and how he reacts to provocations but also the nature of his bilateral relations with the key players in the region. To his credit, the president appears to have had a successful summit with China's president Xi, and while this has led to a series of awkward comments by the president that may have set off alarm bells in Seoul and Tokyo, so far it appears that China is more actively cooperating on North Korea. The new U.S.-China relationship is encouraging but likely fragile. Whether it can be sustained is one of the central questions for the future of North Korea policy.

The administration's early engagement with South Korea has been less successful, one would have to say. The president's statements that KORUS should be renegotiated and that South Korea should pay for THAAD – statements that were later retracted – could not have

been reassuring to this most important ally. Going forward, there are questions about the near-term future of U.S.-ROK relations given the presidential election in the South. If Trump embroils himself in disputes with both South Korea and China, it will not bode well for North Korea policy. Indeed, Pyongyang might get its wish that the major players are at odds with one another.

In sum, on the positive side, the DPRK apparently cannot refrain from behavior that alienates itself not only from the international community but from its closest friends. In addition, the sanctions regime and China's North Korea policy both appear to be evolving in unprecedented ways, with China having signed off on measures that could in principle severely affect the North's economy. On the other side of the ledger, potential divisions between the regional players reduce the odds of achieving the kind of consensus required to execute a sanctions policy, or more importantly, a shared political strategy that could change North Korean behavior.

DEFINING AND MEASURING IMPACT

Assessing the utility of sanctions requires definition and precision. One must specify: impact on *whom*, impact on *what*, towards what *objective*, and with what *result*. Sanctions on North Korea could affect different constituencies, including the inner circle of Chairman Kim and senior North Korean policymakers, North Korean elites, the average North Korean living outside of Pyongyang, the three Chinese provinces bordering the North, China more broadly, Chinese and other business entities that do (and do not do) business with the North, as well as humanitarian and other NGOs that try to operate in the DPRK. Moreover, sanctions likely have downstream effects not only on the target (DPRK) and those connected to the target but to the countries that are imposing them, e.g., the United States and South Korea.

The effects of sanctions, both intended and inadvertent, may extend over a variety of areas: WMD procurement, the North Korean economy, or the regional coal market, to name a few.

As for the objective, sanctions can be used for a variety of purposes, including denial, coercion, bargaining, punishment, and inducing regime change. "Denial" refers to sanctions intended to prevent or otherwise slow and make difficult the North's attempts to acquire illicit goods and technology. "Coercion" describes efforts to impose economic, political, social, and other costs on North Korea in order to force it to change its behavior. "Bargaining" entails the imposition of sanctions that can later be used as a bargaining chip for concessions in negotiations. "Punishment," an objective that is more common than might be imagined with North Korea, involves the imposition of costs for the sake of imposing costs, without expectation of a particular change (in contrast to coercion). Punishment is a normative act meant to signal the social or moral unacceptability of a behavior. Sanctions in the service of regime change are intended to topple a government. A given sanction might fail to achieve one kind of objective (e.g., regime change), even if it succeeds with a different objective (e.g., punishment).

Most importantly, there is the question of whether a sanction produces the intended outcome or result. A sanction could be "successful" in many ways and yet fail to achieve the key objective. Sanctions to deny a country technology for its weapons program might work in cutting off foreign suppliers, but if the country is self-sufficient in those materials, the

sanction will have failed to slow or stop the program. Another sanction might successfully harm a country’s economy but not dissuade a government from violating human rights. This distinction between “impact” and “outcome” is crucial. Policymakers prefer to frame the issue of sanctions in terms of impact or the costs imposed on a target rather than outcomes (or changes in behavior), but it is the latter that counts, not the former.

Table 1. Defining the Impact of Sanctions on North Korea

	Examples
Who	DPRK policymakers, elites, average North Korean, China, business entities, NGOs, countries doing the sanctioning
What	Procurement, economy, elite lifestyle, DPRK international political standing
Objective	Denial, coercion, bargaining, punishment, regime change
Outcome	Slow or halt weapons programs, reduce human rights abuses, release of foreign detainees

Finally, to answer questions concerning the impact of sanctions, one needs a way to measure the phenomenon. That includes metrics related to both what is being sanctioned and the outcome. Take, for example, economic sanctions that are imposed with the hope of inducing Pyongyang to end its WMD programs. Assessments might employ a variety of different metrics. To measure the impact of sanctions on the economy, one might use before-and-after indicators of the economy (e.g., GDP, inflation, unemployment), testimony by North Korean defectors, reports by sectorial businesses operating in the region, the level of refugee flows, or firsthand accounts of life in Pyongyang and the border cities. Metrics for outcomes related to the missile and nuclear programs might, for example, include the number of tests, the ratio of successes to failures, the relative capabilities being tested, or the pace of improvements in capabilities.

IMPACT OF SANCTIONS ON NORTH KOREA

Is there reason to hope that today’s sanctions (or others in the offing) could work a little policy magic and contribute to a change in North Korean behavior? Will sanctions on North Korea have an impact? To answer those questions, we begin with the concepts outlined in the last section, namely objectives, impacts, and outcomes. For each objective listed in Table 2 below, there is a summary assessment of the impact of sanctions on the North and an appraisal of the outcome. In general, the sanctions appear to have had a low to moderate impact but have been unsuccessful in changing behavior or altering the relevant outcomes. The question going forward is whether UNSCR 2270 and related actions might produce a different result.

Table 2. Objective, Impact and Outcomes		
Objective	Impact?	Outcome?
Denial	YES, BUT interdictions denied some goods; in general, drove up price of procurement, but DPRK adapts so little net effect	FAILURE WMD programs progressing in numbers and capabilities
Coercion	YES AND NO Political isolation; shaming on human rights; but economy for elites has improved; leadership shifts costs to general population	FAILURE NK has not changed policy; if anything its nuclear/other policies have become more formalized
Bargaining	YES NK anxious to trade away Banco Delta Asia sanctions and terrorism designation; agreements use both inducements and sanctions relief	SUCCESS AND FAILURE Substantive agreements with substantive results reached but agreements eventually fell apart
Punishment	UNKNOWN BUT UNLIKELY Cost of some luxury goods inside DPRK may have increased; restrictions on travel	LIMITED Doubtful that elites are hurting; non-elites taking the brunt of costs
Regime Change	NO No evidence that sanctions have led to political opposition	FAILURE No regime change; improved economy for elites; economic insecurity for non-elites

DENIAL

Efforts to disrupt the DPRK's procurement of illicit material and technology have, in fact, had an impact. There have been occasional interdictions of shipments, and North Korean defectors report that sanctions have had the effect of driving up the cost of transactions, because working with North Korean entities has become more risky. Unfortunately, the North responded by monetizing the risk and paying higher commission fees. Higher fees and other innovations have enabled the North to continue and, in some cases, even improve their procurement.¹⁷ The North has found a way to not only sustain its weapons programs but to accelerate their development.

UNSCR 2270 does a better job at identifying some of the issues that need to be addressed such as Pyongyang's use of diplomats and consular offices for procurement. The resolution, however, offers little for countering the North's use of private Chinese brokers and front companies. The most recent Panel of Experts report makes evident that: 1) many of the member state compliance issues noted in previous reports persist; and 2) in any case, the DPRK continues to make extensive use of intermediaries to shield its activities. Even as the United States and others have moved to curb Pyongyang's access to international finance, the North has again turned to private brokers to evade detection.¹⁸

Individual governments and the international community have looked to impose a variety of costs—economic, political, diplomatic, and social—on Pyongyang with the hope that it would change its behavior. Their impact has been mixed, with diplomatic and social sanctions having hit the DPRK harder than the economic and political sanctions. In the community of nations, the DPRK is increasingly isolated and continues to be shamed for its human rights record. Still, the economic and political impact has been limited. Economically, Pyongyang's elites appear to be better off today than they were 10 years ago.¹⁹ And politically, Kim's leadership seems no more vulnerable than it was when he took power. Rising rates of defection, continued executions and purges, the North's sensitivity to propaganda from the South (e.g., loudspeaker broadcasts, leaflets), and the assassination of Kim Jong-nam might suggest that Kim is insecure about his position, but the evidence is hardly dispositive.

COERCION

UNSCR 2270, if enforced, could certainly impose tremendous and unprecedented costs on the DPRK. Chinese caps on imports of North Korean coal and other commodities could damage the North Korean economy. New sanctions on remittances could be costly as well, as would any number of national policies China could adopt in its dealings with North Korea. It remains to be seen how far China will want to go in squeezing its neighbor. Given China's national interests, there are reasons for skepticism, despite China's willingness to sign on to UNSCR 2270. Further complicating a coercion strategy is the reality that Chairman Kim can shift the costs of sanctions to the general population. Even with a substantially smaller pie, the Kim family and the ruling elite will get the first and biggest slice, which might be enough to keep the system going.

BARGAINING

In negotiations over its nuclear program, the North has sought both positive inducements (e.g., normalized relations, fuel oil, a light water reactor) and sanctions relief. In 2005, it seemed particularly interested in a resolution of the Banco Delta Asia issue and in being removed from the list of state sponsors of terror. U.S. negotiators were able to win concessions from the North in return for sanctions relief. The result was a series of agreements, the most notable and consequential being the 1994 Agreed Framework, which, while it lasted, froze the DPRK's nuclear program and ended long-range missile tests – two conditions most observers would prefer to be in force today. The agreement ended for a number of reasons relating to actions taken by both North Korea and the United States.²⁰ While not sustained, the agreement was successful, while it was in force. To date, it appears that the Trump administration is holding open the possibility of negotiations, and if negotiations begin, the U.S. and other negotiators will be able to use sanctions relief as a chip to trade for changes in North Korean behavior.

PUNISHMENT

When meeting with officials in Washington, Seoul, or Tokyo, one cannot ignore the real anger and emotion that animates the views of some policymakers. One senses, and sometimes it is expressed directly, that particular officials want to simply punish the North for its outrageous actions. In particular, they want Kim (together with members of the ruling family and senior officials) to feel pain and to suffer for their actions. Of all the possible objectives, this is perhaps the most difficult to assess. Data are limited, and it is hard to measure an individual leader's level of pain. It may be that some luxury goods are not available or come at a higher price, and certainly international travel has been restricted, but it is difficult to say that the North's leadership is paying for its sins. And again, as long as the government can extract enough resources from its population, it can insulate itself.

There is not much reason to expect that the ability to punish political elites, and not the general population, will improve in the near term. The North's leaders will likely command enough resources to live in a style to which they have grown accustomed. At this point, it may be that the greatest source of fear and pain for DPRK officials is not international sanctions but their leader, who on any given day might turn on them and have them sent off for "rehabilitation" or even executed.

REGIME CHANGE

Regime change is not the official policy of any government grappling with the North Korea problem. Though it has to be said that some officials privately wish for that outcome, and few would shed tears if it were to suddenly happen. As a matter of policy, however, it is not an objective, and in any case, it does not appear to be happening. Forecasting collapse is a tricky business, and social scientists are better at diagnosing the causes after the fact than they are at predicting it in advance. There appears to be little evidence of political opposition to Kim's rule or of the kind of elite economic hardship that might encourage thoughts of a post-Kim Korea. Naturally, the military in what was once a "military first" society would be a candidate to lead such a change, but there is little evidence to suggest such a scenario. It is also difficult to imagine that the international community could ever impose the political stress and hardship that the North already experienced during the famine of the 1990s, and even then, the Kims survived.

UNSCR 2270 and other measures governments might plausibly introduce could, in theory, dramatically hurt the North Korean economy. If the economy collapsed, perhaps so too would the Kim government. Still, too many "ifs" combined with the demonstrated resilience of the North Korean state make this outcome seem unlikely – at least by intention. One could imagine, though, that China or other actors might impose sanctions on North Korea for the purpose of coercion but miscalculate the North's fragility and instead take steps that have the effect of inadvertently tipping over the regime. This inadvertent outcome is not likely for the same reasons that a purposeful pursuit of it is unlikely to be successful, but it is a possibility.

OTHER IMPACTS

Sanctions aimed at North Korean decision makers create outcomes that affect the North Korean government but also others as well. Some of these impacts involve other North Korean constituencies. It has long been suggested, for example, that sanctions foster corruption, and certainly some observers would say this was true of the late Jang Song-thaek's network. Of greater import are concerns that both international sanctions and the sanctions imposed by U.S. and ROK authorities have negatively affected the status of the civilian population. Sanctions have had an impact on non-governmental actors, and in particular the UN and private humanitarian aid organizations, that provide disaster relief, food aid, and medical treatment for communicable diseases such as TB.²¹

As documented in the Park-Walsh study, sanctions have affected the behavior of private Chinese businesses in ways both good and bad. On the one hand, sanctions have had the positive effect of fostering the growth of "compliance culture" in many larger, internationally oriented Chinese banks and financial firms. On the other hand, sanctions have led to North Korean counter-measures, whose effect has been to attract larger and more sophisticated Chinese partners that operate in black and gray markets on behalf of their North Korean clients.²²

Finally, one might surmise that sanctions have had an impact on the very governments that impose sanctions. In the U.S. case, for example, one might hypothesize about the political consequences of a "sanctions first" mentality. On the positive side of the ledger is the possibility that the sanctions option, effective or not, has given policymakers an alternative to the use of military force and that anything that staves off such a risky option is for the

best. Alternatively, some have argued that a preoccupation with sanctions has crowded out a consideration of diplomatic options and has interfered with using inducements and other approaches.²³

Indeed, though it is too early to say, it may turn out that sanctions have their biggest impact not on the DPRK's nuclear or human rights policies but on other actors and other areas. Chief among those possibilities is an outcome where the people most affected by sanctions are average North Koreans who already suffer the bad luck of living in the DPRK.

POLICY IN A POST-FACTUAL WORLD

Washington is populated by a variety of rare species. There is, of course, the new president and the various departments and executive agencies he oversees. There is the Republican controlled Congress, the media, think tanks, political operatives, and lobbyists. Many of these players know little about North Korea, which does not prevent them from offering views that are strongly held.

In general, they espouse a set of views that sounds something like this.... “The DPRK's leadership is aggressive and, perhaps, even irrational. The North might attack the United States and is looking to retake the South. Missile defenses can protect the United States and its allies from a nuclear attack. As the North is an evil regime, the United States should not negotiate with it. If Washington were to negotiate, Pyongyang would cheat. Indeed, the Agreed Framework was a disaster that proves you cannot talk to the DPRK. Yes, South Korea is an important ally, but this is really about North Korea versus the United States.”

When it comes to sanctions, the consensus insists that: 1) sanctions are good, 2) sanctions are not working, and 3) we need more sanctions. There is a general and strong preference for coercion, despite its lousy record. And, of course, “this is all China's fault.” In this worldview, “The Chinese could solve this, if they wanted to but they will not because Beijing and Pyongyang are pals. Since China is not helping, we should threaten them –‘sharpen their choices.’ If that means “ringing them with missiles” or sanctioning their banks, then so be it. After all, once we pressure them, they will likely want to cooperate with us, even as we pursue THAAD, contest the South China Sea, and threaten tariffs.”

The Trump administration's contribution to this conventional “wisdom” remains unclear amidst a cacophony of contradictory official messages and unspoken signaling, but the hints coming out of the executive suggest a more muscular approach. It seems that the logic here is that the DPRK does not realize that the United States possesses the largest and most capable military in human history, complete with nuclear weapons. Somehow, despite the yearly large-scale military exercises off their coast, repeated threats by the U.S. civilian and military leadership, and the South's ever-growing conventional capabilities, Chairman Kim does not understand the military balance. If the United States would just simply display some symbolic acts of power or increase the U.S. military budget (whose results would not show up for years, if ever), the North will “get the message” and back down.

Almost every aspect of this “view from Washington” looks to be logically or empirically questionable, with the consequence that this is as dangerous a time for the peninsula as there has been since the Korean War. There have been other dangerous times to be

sure, when events might have gotten away from political leaders in a headlong rush to confrontation, but they did not. Despite a *Choenan* here, a Yeonpyeong Island there, a DMZ mine, or an American hostage, we have managed to muddle through.

It strikes this observer, however, that the odds of calamity, while still relatively modest, are higher than they have been in a while. President Trump and his small, neophyte team of foreign policy advisors have a penchant for bluffing, extemporaneously tweeted red lines, and tough talk. The president describes himself as a “counter-puncher” and recently declared that “I’m a very instinctual person, but my instinct turns out to be right.”²⁴ He abjures his own intelligence community, has little patience for interagency reviews or the counsel of allies, and has yet to fill critical national security appointments. He has little time for the details of policy but is supremely confident in his own abilities. He cares very much about manly strength, abhors embarrassment, personalizes political defeats, is concerned more with symbols than substance, and, it has to be said, seems completely out of his depth.²⁵

Add to this the peculiarities of Chairman Kim, the advancing DPRK missile program, escalatory military doctrines, force postures in the South and perhaps elsewhere, political divisions between most of the main players, inexperienced leadership, and the absence of communication between the North and the relevant governments, one cannot help but wonder about the future. Under the circumstances, the struggle to build a better sanctions regime may be the least of our problems.

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ENDNOTES

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19. The standard Washington narrative of the Agreed Framework was that it was a failure and ended due to cheating by the DPRK. The former claim is just wrong, especially when judged from where things stand today, and the latter claim is simplistic to the point of falsehood. For some eight years, the DPRK froze its production of fissile material and did not conduct long-range missile tests. The North did indeed violate the agreement by initiating a centrifuge procurement program, but long before that point, the United States had begun to undermine the agreement, first with the ascent of a Republican-controlled Congress under Clinton and then under the Bush administration. For example, American promises of normalized relations, a security assurance, and a light water reactor were never fulfilled. If anything, the Bush White House escalated threats against Pyongyang. American officials at the time later reported to the author their belief that something could have been worked out regarding the centrifuge program, but that the Bush administration was intent on destroying the agreement -- just as they had earlier pulled out of the ABM Treaty. For a brief recounting of events at that time, see Mike Chinoy, "How Washington hard-liners helped to create the North Korean crisis," *The Washington Post*, April 19, 2017, <https://www.washingtonpost.com/news/global-opinions/wp/2017/04/19/how-washington-hard-liners-helped-to-create-the-north-korean-crisis/?utm_term=.28ffd5a6699c>
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■ **Kim Joong-ho**

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Dr. Mark Manyin is a Specialist in Asian Affairs at the U.S. Congressional Research Service (CRS), a non-partisan agency that provides information and analysis to Members of the U.S. Congress and their staff. At CRS, Dr. Manyin's area of expertise is U.S. foreign policy toward East Asia, particularly Japan, the two Koreas, and Vietnam. From 2006-2008 and again in 2013, Dr. Manyin served as the head of the CRS' 10-person Asia Section, overseeing the Service's research on East, Southeast, and South Asia as well as Australasia and the Pacific Islands. Prior to joining CRS in 1999, Dr. Manyin completed his Ph.D. in Japanese trade policy and negotiating behavior at the Fletcher School of Law and Diplomacy. He has written academic articles and given numerous lectures on U.S.-East Asian relations, taught courses in East Asian international relations, and worked as a business consultant. From 2005-2010, Dr. Manyin was a Term Member with the Council on Foreign Relations. He also was a 2010-11 Council on Foreign Relations Hitachi Fellow and in 2010 was selected to participate in the Mansfield Foundation's inaugural U.S.-Japan Network for the Future program.

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