
Getting Tough on North Korea

How to Hit Pyongyang Where It Hurts

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For the past quarter century, the United States and South Korea have tried to convince North Korea to abandon its nuclear aspirations. Beginning in the early 1990s, Washington attempted to bargain with Pyongyang, while Seoul pursued a strategy of economic engagement, effectively subsidizing Pyongyang with aid and investment even as it continued to develop nuclear weapons. Then, after North Korea tested an atomic bomb in 2006, the United States pressed the UN Security Council to impose sanctions on North Korea. Yet at the urging of South Korea and for fear of angering China, the United States failed to use its full diplomatic and financial power to enforce those sanctions. All along, the goal has been to induce North Korea to open up to the outside world and roll back its nuclear and missile programs.

This combination of sanctions and subsidies has failed. North Korea already possesses the ability to hit Japan and South Korea with nuclear weapons and will soon have the ability to hit the continental United States with one. Despite what some in Washington and Seoul want to believe, the country's leader, Kim Jong Un, is no reformer. He has staked his legitimacy on perfecting the nuclear arsenal his father and grandfather bought at the cost of billions of dollars and

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millions of lives. If he will disarm at all, he will do so only under duress so extreme that it threatens the survival of his regime.

To protect the United States and its allies from the North Korean threat and prevent further nuclear proliferation, the Trump administration must end the incoherent policy of simultaneously sanctioning and subsidizing Pyongyang. Instead, it should crack down on the foreign financial dealings of North Korean officials and companies and the foreign states that help them. The world is facing its greatest nuclear emergency since the Cuban missile crisis. It's past time for the United States to act decisively.

ROGUE STATE

For decades, North Korea has represented a second-tier crisis for the United States—never topping Iran, for example, as a nonproliferation priority, or Sudan as a humanitarian priority, or Iraq as a security priority. Every president since Bill Clinton has played for time, hoping that the North Korean regime would collapse while doing nothing to undermine it, and at times even propping it up with aid and by relaxing sanctions. The last three administrations cut a series of deals that traded hard cash for false promises. Time and again, North Korea agreed to dismantle its nuclear weapons program but did not.

In 1994, Clinton signed the first U.S. deal with Pyongyang: a pact, known as the Agreed Framework, that offered generous fuel aid and help building two expensive nuclear power reactors in return for promises from North Korea's then leader, Kim Jong Il, to halt both his uranium- and his plutonium-based nuclear programs. In 2002, U.S. President George W. Bush, having learned that Pyongyang was cheating by secretly enriching uranium, responded by stopping the flow of aid. After that, Kim pulled out of the agreement, withdrew from the Nuclear Nonproliferation Treaty, and restarted his plutonium reactor. Despite this history, Bush signed his own agreement with North Korea in 2007, under which he allowed North Korean entities to use the dollar system, provided more aid, relaxed sanctions, and removed the country from the list of state sponsors of terrorism. Within a year, Pyongyang balked at signing a verification protocol, and the deal collapsed as Bush left office.

U.S. President Barack Obama entered office promising to reach out a hand if Kim would unclench his fist. Within months, Kim answered by testing first a long-range missile and then a nuclear device.



Special delivery: unloading North Korean coal in Dandong, China, December 2010

Yet Obama persisted in his outreach to Pyongyang. Under the 2012 Leap Day agreement, the United States promised North Korea aid in exchange for a freeze of its nuclear and missile tests. Just six weeks after agreeing to the deal, Pyongyang tested a long-range missile.

The lesson to be learned from all these experiences is clear: yet another piece of paper will not resolve the United States' differences with North Korea. After all, Pyongyang has already signed and then unilaterally withdrawn from two International Atomic Energy Agency safeguards agreements and the Nuclear Nonproliferation Treaty and violated an inter-Korean denuclearization agreement, the 1994 Agreed Framework, a 2005 joint statement, and both the 2007 and the 2012 agreements.

MONEY FOR NOTHING

While Washington negotiated deal after deal with Pyongyang, Seoul pursued a program of economic aid and subsidized investment in North Korea, hoping to draw it into the global economy, sow the seeds of capitalism, and gradually liberalize its regime. Between 1991 and 2015, Seoul poured at least \$7 billion into Pyongyang's coffers. The United States contributed an additional \$1.3 billion in aid, and private investment from China, South Korea, and Europe likely contributed billions more. The heyday of engagement, known in South Korea

as “the sunshine policy,” lasted from 1998 to 2008, under the presidencies of Kim Dae-jung and Roh Moo-hyun. The cash that the sunshine policy provided Kim came just in time to rescue him from a spiraling economic crisis that had already led to a major mutiny within the North Korean army.

The failure of engagement was just as inevitable as the failure of the Agreed Framework. Its premise—that capitalism would spur liberalism in a despotic state—was flawed. After all, over the past two decades, both China and Russia have cracked down on domestic dissent and threatened the United States and its allies abroad, even as they have cautiously welcomed in capitalism. In 2003, even as it cashed Seoul’s checks, Pyongyang warned party officials in the state newspaper that “it is the imperialist’s old trick to carry out ideological and cultural infiltration prior to their launching of an aggression openly.” For the regime, engagement was a “silent, crafty and villainous method of aggression, intervention and domination.” Given this attitude, it’s no surprise that Kim Jong Il never opened up North Korea. The political change that engagement advocates promised was exactly what he feared the most.

North Korea did allow a few capitalist enclaves to be built. But while Pyongyang collected the financial windfall, it carefully isolated the enclaves from the rest of North Korean society. Starting in 2002, South Korean tourists booked overpriced and closely supervised hikes along the scenic but secluded Kungang Mountain trail in North Korea’s southeastern corner. (The tours abruptly ended in 2008, when a North Korean soldier shot and killed a South Korean woman as she took an unauthorized morning walk.) And beginning in 2004, South Korean companies employed thousands of North Korean workers at the Kaesong Industrial Complex, an inter-Korean factory park a few miles north of the demilitarized zone. By 2015, the companies in Kaesong employed over 54,000 North Koreans. (The regime probably stole most of the laborers’ low wages.)

In 2016, after North Korea’s fourth nuclear test and a missile launch, Seoul finally conceded that Pyongyang was probably using revenues from Kaesong to fund its nuclear program and withdrew from the project. The leading candidate in South Korea’s presidential election this year, Moon Jae-in, has called for the Kaesong complex to reopen and expand, but a UN Security Council resolution passed in 2016 bans the kind of “public and private financial support” for trade with North

Korea that kept the industrial complex afloat, absent approval from a UN committee, approval that the United States could—and should—block.

Engagement has not changed Pyongyang, but it has often corrupted the engagers. Take the case of the Associated Press. In 2012, when it opened a bureau in Pyongyang, it promised to chart “a path to vastly larger understanding,” while following “the same standards and practices as AP bureaus worldwide,” to “reflect accurately” the lives of the North Korean people. Yet it is the AP, not North Korea, that has been compromised, by submitting to censorship and broadcasting the regime’s propaganda around the world, at the same time overlooking newsworthy events—such as an apartment collapse and a hotel fire—that took place just minutes from its bureau. Meanwhile, the foreign tour agencies that promote themselves as agents of glasnost have done little more than supply the North Korean government with hard currency—and, occasionally, hostages—while shuttling tourists through a circuit of propaganda spectacles. The Pyongyang University of Science and Technology was founded by Christian missionaries in 2010 to, in the founders’ words, help North Korea “contribute as a member within the international community.” But defectors

have alleged that the regime is using the university to train hackers. And to avoid expulsion or imprisonment, aid workers in North Korea must collaborate with the government’s discriminatory rationing system, which favors those citizens it deems the most loyal to the state.

The promised results of engagement have never materialized. Since the death of his father, Kim Jong Un has accelerated the pace of North Korea’s nuclear and missile tests, stamped out foreign media, and tightened the seals on the country’s already closed borders. He has expanded prison camps and carried out bloody purges, and he even seems to have sent a team of assassins to murder his half brother in a Malaysian airport earlier this year. Pyongyang’s party elites are richer than they were ten years ago, but they also live in greater fear of falling out of favor with the regime and are defecting in greater numbers. Although there is no wide-scale famine of the type that ravaged North Korea’s countryside in the 1990s, most North Koreans barely scrape together enough to eat.

North Korean society has changed in the past two-plus decades. Markets now provide people with most of their food, consumer goods,

*U.S. relations with
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to get worse before
they can get better.*

and information. Yet as the economists Marcus Noland and Stephan Haggard have documented, those changes have occurred despite, not because of, official efforts. They have been driven by the country's poorest and most marginalized people, those who turned to smuggling to earn a living, often at the risk of death or life in a prison camp. The United States and its allies should focus on these signs of real change, not on brokering yet another deal with the regime that would only perpetuate the status quo.

GOOD COP, GOOD COP

In 2006, after more than a decade of negotiations and aid shipments, North Korea conducted its first nuclear test. In response, the UN Security Council approved a series of sanctions resolutions, and the United States began a halfhearted campaign to use its own sanctions to pressure North Korea into disarming. Bush and Obama talked tough after various nuclear tests, but both failed to back up their words with action. Worse still, continued economic aid and investment canceled out much of the effect of the sanctions.

The lax enforcement of sanctions allowed Pyongyang to launder the money that paid for its nuclear arsenal and perpetuated its crimes against humanity through banks in the United States. Pyongyang earned much of that money from illicit activities and mingled dirty funds with legitimate profits to conceal the dirty money's origin. As reports from the UN and documents from the U.S. Justice Department confirm, North Korea continues to pay, receive, and store most of its funds in U.S. dollars. The U.S. Treasury Department could end this practice, because nearly all transactions denominated in dollars must pass through U.S. banks.

From late 2005 to early 2007, it did just that. Treasury Department officials warned bankers around the world that North Korean funds were derived in part from drug dealing, counterfeiting, and arms sales and that by transacting in those funds, banks risked losing their access to the dollar system. To show that they were serious, officials targeted Banco Delta Asia, a small bank in Macao that was laundering illicit funds for North Korea, and blocked its access to the dollar system. After that, other banks around the world froze or closed North Korean accounts, fearing similar sanctions or bad publicity. Even the state-owned Bank of China refused to follow the Chinese government's request to transfer funds from the tainted Banco Delta Asia to other accounts controlled by Pyongyang. As Juan Zarate, a former U.S. Treasury official, has

explained, the U.S. effort “isolat[ed] Pyongyang from the international financial system to an unprecedented degree.” The episode also showed that when the interests of Chinese banks diverge from those of the Chinese government, the banks will protect their access to the dollar system. As Zarate recounted, “Perhaps the most important lesson was that the Chinese could in fact be moved to follow the U.S. Treasury’s lead and act against their own stated foreign policy and political interests.”

Yet in early 2007, as part of Bush’s effort to denuclearize North Korea, the Treasury Department returned to its policy of letting most of Pyongyang’s dollars flow freely through the U.S. banking system. By July 2014, the Treasury Department had frozen the assets of just 43 (mostly low-ranking) people and entities in North Korea, compared with about 50 in Belarus (including its president and his cabinet), 161 in Zimbabwe, 164 in Myanmar (including its junta and its top banks), nearly 400 in Cuba, and more than 800 in Iran. Foreign banks that processed transactions for Cuba, Iran, or Myanmar risked getting hit with secondary sanctions and multimillion-dollar fines. The result was that many banks avoided doing business with those countries altogether. But doing business with North Korea posed no such risks and so continued freely, until last February, when Congress passed the North Korea Sanctions and Policy Enhancement Act. The law banned North Korean banks from processing payments through the dollar system. But because the restriction did not take effect until last November, it is too early to gauge its effects. It took three years for strong, well-enforced sanctions on Iran to begin to bite.

UN sanctions look strong on paper, but member states have often failed to enforce them. China, in particular, has made a show of voting for each round of sanctions, only to flagrantly violate each of them. China’s state-owned companies have sold missile trucks to Pyongyang; its banks have laundered the regime’s money; its government has allowed UN-sanctioned companies and the North Korean hackers who attacked Sony Pictures in 2014 to operate on its soil; and its ports have allowed the transshipment of arms, materials for North Korea’s nuclear and missile programs, and luxury goods headed to North Korea—all without fear of punishment.

Other countries deserve a share of the blame, as well. Until 2016, South Korea let approximately \$100 million a year flow into Pyong-

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yang through Kaesong without questioning how Pyongyang used the money, despite UN resolutions requiring Seoul to ensure that the North Korean regime would not use South Korean funds for its nuclear program. The fleet of ships that North Korea uses to smuggle weapons has flown Cambodian and Mongolian flags; its nuclear and missile scientists have visited Indian and Russian laboratories; its slave laborers have toiled at Qatari construction sites, Malaysian mines, and Polish shipyards; its military has trained Ugandan pilots and built weapons for Iran and Namibia; its doctors have sold quack medicines in Tanzania; and its generals have bought Swiss watches. In testimony before a U.S. congressional committee in 2015, the scholar Larry Niksch estimated that North Korea receives over \$2 billion a year from “various forms of collaboration” with Iran alone. The cash that Pyongyang has gained by disrupting sanctions enforcement may be modest by global standards, but it has been enough to keep the regime in power and advance its nuclear program.

TURNING THE SCREWS

North Korea’s fourth nuclear test, in January 2016, forced the United States and South Korea to apply more coherent financial and diplomatic pressure. Seoul could hardly ask other governments to enforce the sanctions when it was violating them itself in Kaesong. Closing the industrial complex there allowed it to use its substantial diplomatic influence to persuade allies to crack down on North Korea.

In Washington, the passage of the North Korea Sanctions and Policy Enhancement Act forced the Obama administration to designate North Korea a money-laundering concern under the Patriot Act and label several North Koreans, including Kim, human rights abusers. Today, the U.S. Treasury Department has frozen the dollar assets of about 200 North Korean entities. This number represents progress, but it does not approach the level of pressure applied to Iran. Nor does it represent a determined effort to find and freeze North Korea’s money-laundering network. Another UN Security Council resolution, passed in November 2016, aimed to coax wavering states to enforce UN sanctions against North Korea, but absent a threat of secondary sanctions, Fiji and Tanzania will continue to reflag North Korean ships, Iran and Syria will continue to buy North Korean weapons, Namibia will continue to host a North Korean arms factory, and Chinese banks will continue to launder North Korean cash.

In September 2016, in the wake of North Korea's fifth nuclear test, the United States for the first time indicted a Chinese firm for breaking UN and U.S. sanctions and seized its Chinese bank accounts. According to the indictment, the Dandong Hongxiang Industrial Development Company knowingly helped a sanctioned North Korean bank launder millions of dollars through U.S. banks. But the Obama administration stopped short of going after the Chinese banks that had facilitated the scheme, even though both UN sanctions resolutions and U.S. Treasury Department regulations obligated the banks to investigate and report the company's suspicious activities. That was a mistake: sanctions will not work if Chinese banks continue to break them, and Chinese banks will not enforce the sanctions until the United States begins penalizing violators. Indeed, it was secondary sanctions that isolated North Korea from 2005 to 2007, helped force Myanmar to accept political reforms in 2012, and got Iran to return to the negotiating table in 2014.

BEEN THERE, TRIED THAT

Doves in the United States and South Korea still call for a return to economic engagement and even a halt to joint U.S.–South Korean military exercises, in the hope that North Korea will reciprocate by freezing its nuclear program. Yet Obama repeatedly attempted to negotiate, all for naught. In 2009, then former President Clinton flew to Pyongyang to meet with Kim Jong Il. He won the release of two American journalists and invited the North to denuclearization talks, but Pyongyang declined the invitation. Later that year, Stephen Bosworth, the U.S. special representative for North Korea policy, visited Pyongyang to invite the government back to the negotiating table and came back empty-handed. In 2013, Obama tried to send Robert King, the U.S. special envoy for North Korean human rights issues, to Pyongyang, but North Korea canceled the visit at the last moment. Shortly before the January 2016 nuclear test, U.S. and North Korean diplomats discussed the possibility of starting negotiations for a peace treaty, but Pyongyang insisted that its nuclear program would not be on the agenda.

Diplomacy has failed because Pyongyang remains determined to build its nuclear arsenal. Resuming talks would achieve nothing, as Pyongyang will not freeze its nuclear and missile programs when it is so close to attaining an effective arsenal. Any U.S. concessions without irreversible progress toward disarmament would do more harm

than good. Suspending U.S.–South Korean military exercises would degrade the readiness of U.S. and South Korean forces at a time when North Korean missiles are still aimed at South Korean cities. And yet Pyongyang will use any resumption of exercises as an excuse to restart its nuclear reactors and missile tests. It will exploit any enforcement of UN sanctions, any interception of a North Korean arms shipment, any acceptance of a North Korean defector, or any criticism of North Korea's crimes against humanity in the same way.

North Korea now says that it will denuclearize only after the United States and South Korea negotiate a peace treaty with it to formally end the Korean War. But Pyongyang does not want peace, or even a peace treaty. It wants a peace-treaty negotiation—the more protracted and inconclusive, the better. By drawing the United States into a peace process, the North hopes to blunt criticism of its crimes against humanity, legitimize its regime, get South Korea to lower its defenses, induce the United States and the UN to lift sanctions, and eventually get U.S. forces to withdraw from South Korea. Yet Pyongyang would ultimately rebuff U.S. requests for verification and would meet any new concessions with yet more demands and more provocations.

NO MORE MR. NICE GUY

The only remaining hope for denuclearizing North Korea peacefully lies in convincing it that it must disarm and reform or perish. Doing that will require the United States to embark on an unrelenting campaign of political subversion and financial isolation. The United States should begin by fining and sanctioning the Chinese banks that illegally maintain relationships with North Korean banks and fail to report suspicious North Korean transactions to the U.S. Treasury Department. The Treasury Department should also require banks to report North Korean ownership of offshore assets. The United States and South Korea should facilitate high-level defections by North Korean diplomats of the kind that exposed large parts of Pyongyang's money-laundering network last year. As Fredrick Vincenzo, a commander in the U.S. Navy, argued in a paper last October, the United States and South Korea should try to convince elites in Pyongyang that they have a future in a free, democratic, united Korea, and that in the event of war, the United States will hold them accountable for any attacks on civilian targets in South Korea. The United States and South Korea should also threaten to prosecute those involved in Pyongyang's ongoing

crimes against the North Korean people and promise clemency for those who mitigate them.

Because Pyongyang has so consistently reneged on its agreements, the United States must continue to pursue the regime's assets until it has permanently and verifiably disarmed. Until then, Washington should work with UN aid agencies to allow Pyongyang to buy and import only the food, medicine, and other goods required to meet the humanitarian needs of the North Korean people. Washington should release blocked North Korean funds only in exchange for verified progress toward the freeze, disablement, and dismantlement of Pyongyang's nuclear and missile programs; the withdrawal of the artillery that threatens Seoul; and humanitarian reforms. As long as North Korea remains a closed society, outside inspectors will find it impossible to verify its disarmament. Only financial coercion stands any reasonable chance of getting North Korea to take the path that sanctions forced on Myanmar: incrementally opening up its society.

Effective sanctions require years of investigation and coalition building; they cannot be turned on and off in an instant. So this strategy will take time, determination, and a willingness to accept that U.S. relations with Pyongyang will have to get worse before they can get better. The same is true of U.S. relations with Beijing. In response to tough sanctions on North Korea, China will likely impose import tariffs on goods from South Korea, Japan, and the United States; increase its domestic anti-American rhetoric; take aggressive military steps in the Pacific; and attempt to circumvent the sanctions by sending food and other goods to Pyongyang. Yet Beijing wants neither a major trade war nor a military conflict. And Chinese banks and trading companies have shown that they value their access to the U.S. economy more than their business with North Korea.

China will be most likely to put diplomatic and financial pressure on North Korea if it believes that failing to do so will lead the United States to destabilize the regime on its northeastern border. Accordingly, Washington must make clear to both Kim Jong Un and Chinese President Xi Jinping that it would prefer the regime's chaotic collapse to a stable, nuclear-armed North Korea. The missing ingredient in U.S. diplomacy with Pyongyang has been not trust but leverage—and the willingness to use it. Washington must threaten the one thing that Pyongyang values more than its nuclear weapons: its survival. 🌐

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