

Responding to North Korean Provocations: Limitations of Sanctions

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Abstract

Over the past two decades, economic sanctions and inducements to influence North Korea have not always failed, but the successes have been limited and the obstacles to effectiveness have grown. In general, the application of economic leverage will only be successful if the costs to the target of defying the demands of the sanctioning country or coalition outweigh the costs that the targeted regime perceives it will bear from complying with those demands. Among the factors affecting those costs are the potential economic and political leverage the sanctioner has over the target, the willingness and ability to use that leverage effectively, and the risks that the sanctioner's demands pose for the target in terms of wealth, power, or political stability and survival. With respect to the sanctions imposed after the sinking of the Cheonan naval ship, only the United States and South Korea took action and it was fairly limited. Even if the sanctions were only intended to punish the North and to send a signal that such behavior would carry a price, the shelling of Yeonpyeong island in November is a further setback.

Key Words: North Korea, economic sanctions, China, nonproliferation, Cheonan

The findings [of this report] include a stark reminder that U.S. and China interests regarding North Korea are largely incongruent. While the United States presses for elimination of North Korea's nuclear weapons program, China's primary focus is on preserving regional stability.

Senator Richard Lugar (Republican-Indiana), October 22, 2010¹

As with past provocations by North Korea, the governments of South Korea and the United States responded to the sinking of the Cheonan naval ship last spring with economic sanctions against the Kim Jong-il regime, which they held responsible. But also as has happened so often in the past, China chose to accept North Korea's denial and to continue as the regime's major supplier of fuel, food, and other products, thereby rendering the sanctions primarily symbolic. Overall over the past two decades, economic sanctions and inducements to influence North Korea have not always failed, but the successes have been limited and the obstacles to effectiveness have grown.

In writing about the utility of economic sanctions in persuading North Korea to forgo nuclear weapons development in 1993, and again a decade later, I said that the outcome depended on whether Kim Il Sung, later Kim Jong-il, viewed that capability as essential to their survival. If so, no economic inducement—positive or negative—would be sufficient to achieve the sanctioners' goals.² I further argued that, if the program was negotiable, effectiveness would depend on the cooperation of key commercial partners, such as China. In subsequent years, North Korea's

¹- The report is Congressional Research Service, Memorandum on Implementation of U.N. Security Council Resolution 1874, Washington, October 8, 2010.

²- The 1993 paper, initially prepared for a Nautilus Institute conference, was published as Kimberly Ann Elliott, "Will Economic Sanctions Work Against North Korea?" In Young Whan Kihl and Peter Hayes (eds.), *Peace and Security in Northeast Asia: The Nuclear Issue and the Korean Peninsula* (New York: M.E. Sharpe, 1997); the later paper is Kimberly Ann Elliott, "Economic Leverage and the North Korean Nuclear Crisis," *International Economics Policy Briefs* No. PB03-3 (Washington: Institute for International Economics, 2003).

nuclear program advanced to the testing of an explosive device, crossing a threshold that cannot now be erased, and the transition to a third Kim generation further complicates policymaking.

In particular, shifting goals and priorities in key countries undermine consistent and coherent policy implementation, while the opaqueness of the regime in Pyongyang makes it nearly impossible to detect the impact of those policies.³ In what follows, I analyze key factors that affect the likely effectiveness of economic sanctions and what that means for the use of this instrument against North Korea.

A Framework for Analysis⁴

Stripped down to the fundamentals, the formula for a successful sanctions effort is deceptively simple: *the costs imposed on the target from defying the sanctioner's demands must be greater than the perceived costs to the target of complying with those demands*. Or, even more simply, the political and economic costs to the target from an economic sanctions policy should exceed the political, security, or other costs of complying with the sanctioner's demands.⁵ The difficulty lies in accurately predicting both the magnitude of those costs *and* how they will be perceived and weighed by the target. In addition, since they are rarely the only tool used, making the case that sanctions should share the credit for a positive policy result

³- A forthcoming paper by Stephan Haggard and Marcus Noland analyzes in detail how coordination problems undermine the implementation of strategies using inducements, whether positive or negative.

⁴- This and the following section draw heavily on Gary Clyde Hufbauer, Jeffrey J. Schott, Kimberly Ann Elliott, and Barbara Oegg, *Economic Sanctions Reconsidered* (3rd ed.) (Washington: Institute for International Economics, 2007); that volume and the accompanying CD-ROM review the broader literature on economic sanctions and the major case studies in detail.

⁵- Unless otherwise specified, I use the term sanctioner generically to refer to the party imposing sanctions whether it is one country, an ad hoc coalition of countries, or an international organization, such as the United Nations.

can be tricky.

The starting point for gauging the probability of success in a sanctions episode is the economic leverage that the sanctioner has over the target. If trade and financial flows between the two parties are minimal, then the odds of a successful sanction are low, unless the goal is an extremely narrow and modest one. In an increasingly integrated global economy, compiling significant leverage will also usually entail coordination among a number of key players trading with, investing in, or providing economic assistance to the target country. The failure to elicit Chinese cooperation has often undermined the effect of sanctions against North Korea.

Moreover, *potential* leverage, while necessary, is not sufficient. If the sanctioner is not strongly interested in achieving the target's compliance, or if the sanctioning government is motivated by a desire to mollify domestic political demands to "do something" in response to another country's misbehavior, then whatever potential leverage exists may not be fully deployed or used effectively. In general, one can expect that sanctions will rarely if ever succeed when the target country is larger and has more leverage over the sanctioner, in terms of trade and financial flows. If the issue is relatively unimportant to the larger target country and the sanctioner cares intensely about it, sanctions occasionally achieve their goals, but not often. By contrast, the odds for a successful outcome are higher when the sanctioner is larger and has extensive leverage over the target, but success is still not guaranteed if the perceived costs of compliance for the target are high.

The costs of defiance that the target faces in a given case begin with the estimated direct costs of the sanctions, in terms of lost trade or finance. These costs can be increased if the sanctioner is able to attract international cooperation in its sanctioning efforts and the political costs may be amplified if the sanctions are endorsed by an international organiza-

tion that the target country views as legitimate. The impact of the sanctions may be intensified if economic and political conditions in the target are fragile, or, they can be mitigated if the target government is able to evade them or to elicit offsetting assistance from a rival of the sanctioner. The costs of defiance can also be raised by threatening or actually escalating to the use of military force. Finally, whether the pain of sanctions produces the desired change also depends on the political situation inside the target country and whether economic pain produces a rally-round-the-flag effect that strengthens the government, or leads to political dissatisfaction that weakens the target's ability to resist.

The costs of compliance for the target are determined primarily by the nature of the sanctioner's goals and the nature of the target regime. Foreign policy objectives that threaten national security or internal regime stability will obviously be difficult to achieve since the regime will stoutly resist. In many such cases, it is simply impossible to make sanctions costly enough to gain the target's acquiescence. For example, autocrats, such as Saddam Hussein, have little incentive to comply when the demand is for democratization or other regime change that means sacrificing the leadership's source of wealth, power, and, possibly, physical safety. In such cases, economic sanctions can only contribute to a successful outcome if they change the balance of incentives or capabilities among groups within the country so that more acceptable leaders can win power.

How Effective Are Economic Sanctions and When?

Overall, the Hufbauer, Schott, Elliott, and Oegg analysis of 204 episodes of economic sanctions in the 20th Century concluded that they contributed to positive policy results about one-third of the time.⁶ A

⁶- For details, see Hufbauer, Schott, Elliott and Oegg, *op cit*.

successful outcome by their definition does not mean that the outcome was a rout, or that sanctions were the decisive factor. But at a minimum, for sanctions to be judged successful, they must make an important contribution to substantial achievement of the sanctioner's goals. The case studies begin with World War I and go through those initiated in 2000, with ongoing cases updated at least through 2006.

For the post-World War II period, the overall success rate is similar that for the century as a whole, but that apparent consistency hides substantial variability in the U.S. experience. The United States was far more effective with economic sanctions in the early part of the post-World War II era, when it was a dominant economic and military power. American success with sanctions declined sharply in the latter decades of the century, however, from more than 50 percent in the period 1945-70 to less than 25 percent after that.

In order to identify the conditions under which economic sanctions are most likely to be effective in contributing to foreign policy goals, the Hufbauer, Schott, Elliott, and Oegg analysis examines a number of political and economic variables (*ibid.*). But many factors affecting outcomes are missing or cannot be measured, and statistical analysis reveals that the variables selected for examination explain only around 15-20 percent of the variation in outcomes. Nevertheless, both quantitative and qualitative analysis support three broad conclusions that are consistent with the basic framework comparing costs of compliance and defiance. Unfortunately, these results are not likely to be very satisfying for policymakers that want non-military tools to use against hostile adversaries. The evidence from sanctions in the 20th Century suggests that:

- modest goals are more likely to be achieved than others;
- sanctions have more influence over regimes that are relatively more democratic and have relations with the sanctioner that are friendly rather than hostile; and,

- the economic costs imposed on the target must be proportionate to the goal sought.

Episodes involving modest and limited goals, such as the release of a political prisoner, succeeded half the time. Cases involving attempts to change regimes (e.g., by destabilizing a particular leader or by encouraging an autocrat to democratize), to impair a foreign adversary's military potential or prevent nuclear proliferation, or to otherwise change policies in a major way, succeeded in about 30 percent of those cases. Efforts to disrupt relatively minor military adventures by third parties succeeded in only a fifth of cases where that was the goal.

It is also not particularly surprising that sanctioners have more influence over allies than adversaries. Friendly countries have more to lose, diplomatically as well as economically, than countries with which the sender has limited or adversarial relations. These target countries may be less likely to face the threat that a dispute will be escalated or that force will be used, but they are more likely to receive foreign aid or to have extensive trade and financial relations with the sender country. In addition, allies will not be as concerned as adversaries that concessions will undermine the government's reputation and leave it weaker in future conflicts.⁷ Thus, the higher compliance with sanctions by allies and trading partners reflects their willingness to bend on specific issues in deference to the overall relationship with the sender country. In cases where Hufbauer et al. (*ibid.*) judged relations between sanctioner and target to be cordial, about half were deemed successful, versus 19 percent

⁷- For detailed analysis of this argument, see Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge: Cambridge University Press, 1999), esp. pp. 4-6; for an alternative analysis, Michael Mastanduno, "Economic Statecraft, Interdependence, and National Security: Agendas for Research," In J.M.F. Blanchard, E.D. Mansfield, and N.M. Ripsman (eds.), *Power and the Purse: Economic Statecraft, Interdependence, and National Security* (London: Frank Cass, 2000), pp. 298- 299.

of those where relations were hostile. With respect to regime type, nearly half of sanctions against democratic governments (as measured in the Polity IV database) achieved some degree of success, versus 28 percent of sanctions against autocrats.

Finally, it is not necessary to impose maximum costs on the target in every case, even when the stakes are limited; rather, the costs of sanctions should be proportional to the goal sought. Overall, the average cost of sanctions as a share of the target's GNP was twice as high in successes (3.3 percent) as in failures (1.6 percent). The average cost in successful cases involving modest goals was 2.6 percent, while in the "other major policy change" category, it was 5.5 percent. The success rates and values for key variables are summarized in Table 1.

Table 1. Factors in Successful Sanctions Cases

Goal Category	Successful Cases	Failed Cases	Success Rate	Sanctions Cost to Target as % of GNP		
				Success Cases	Failure Cases	
Modest policy changes	22	21	51%	2.6	1.1	
Regime change and democratization	25	55	31%	3.4	2.3	
Disruption of military adventures	4	15	21%	0.9	2.3	
Military impairment	9	20	31%	2.1	0.7	
Other major policy changes	10	23	30%	5.5	0.7	
All cases	70	134	34%	3.3	1.6	
Goal Category	Success Rate Conditional on Relations between Parties			Success Rate Conditional on Regime Type		
	Cordial	Neutral	Antagonistic	Autocracy	Anocracy	Democracy
Modest policy changes	50%	68%	13%	39%	50%	69%
Regime change and democratization	46%	22%	15%	23%	28%	78%
Disruption of military adventures	20%	33%	0%	33%	11%	25%
Military impairment	50%	10%	40%	37%	50%	0%
Other major policy changes	56%	29%	0%	9%	67%	29%
All cases	46%	33%	19%	28%	34%	47%

Source: Hufbauer, Schott, Elliott, and Oegg (2007), chapter 6.

Other variables that could affect the size of the economic and political costs imposed by sanctions vary in importance according to the category of goal sought. Thus, international cooperation with the lead sanctioner, offsetting assistance to the target by a political rival of the sanctioner, or the use of companion policies, such as military force, appear in frequently in episodes involving relatively modest goals and make little discernible difference to the outcome in those cases. Military force is an important variable in the military impairment cases, however, and international cooperation is present in far more successes than failure when the goal is a major one, such as the surrender of territory.

In one of the more surprising results, international cooperation with the lead sanctioner, on average, is not correlated with the probability of a successful outcome. Rather, the idea that international cooperation is necessary in *all* sanctions cases is misplaced. A sanctioning country looks to its allies for help when its goals are ambitious; in cases involving truly modest goals, cooperation is usually not sought. In cases involving high policy goals, however, international cooperation was markedly higher in successes than failures. Even in cases where significant cooperation is achieved, it may not be sufficient if the costs of compliance are too high. On the other hand, active non-cooperation by other countries can sabotage the effort by providing offsetting assistance to the targeted regime. Adversaries of the sanctioning country may be prompted by a sanctions episode to assist the target, as happened frequently in episodes that either provoked or derived from East-West rivalry.

Applying the Framework to North Korea

Unfortunately, these results do not bode for the effective use of economic sanctions against North Korea. The goals of preventing and, later, dismantling North Korea's nuclear program involve core national

security concerns and are among the most challenging for sanctions users. Moreover, economic leverage over the autarkic North Korean economy is limited and mostly not under the control of the United States, the chief sanctions proponent through most of the period under study. Thus, cooperation from other key players is required but support for sanctions among them has been ambivalent at best. Finally, the regime itself is authoritarian and has hostile relations with the United States and other key members of the sanctioning coalition.

History suggests that the odds of success are not high under these circumstances and yet, the threat of economic sanctions, with hints of military strikes as a last resort, combined with promises of economic and energy assistance, were key factors in the framework agreement that resolved the nuclear dispute in 1993-94. Contrary to more negative assessments, I would agree with William J. Long, writing in this journal in 2006, that the 1994 framework agreement was an example of the successful use of economic leverage.⁸ After the breakdown of that agreement in the early 2000s, however, the story became more complicated.

In analyzing this experience of economic inducements vis-à-vis North Korea, the key is how the different potential sanctioners and the regime perceived what was at stake and how that changed over time. Things changed both because of shifting goals, which affected the potential costs of compliance for the Kim Jong-il regime, and shifting priorities among coalition members, which affected their willingness to impose sanctions and, thus, the potential costs of defiance. The shifting and sometimes divergent goals also complicated negotiations because they generated frictions among participants in the six-party talks and made coordination even more difficult. With regard to the use of economic sanctions as a

⁸ William J. Long, "Assessing Engagement: Why America's Incentive Strategy toward North Korea 'Worked' and 'Could Work' Again," *International Journal of Korean Unification Studies*, Vol. 15, No. 2 (2006), pp. 1-20.

tool, the ambivalence, at best, and opposition at worst, of China was particularly important because of the major role that China plays in trade and investment with North Korea. The fluctuating views of various South Korean governments, North Korea's second most important trade partner, also importantly affected the potential economic impact of any sanctions package. In what follows, I will not review in detail the events of the past decade, since those have been well-covered in the pages of this journal, but I will discuss them in relation to the use of economic leverage.

Costs of Compliance: Shifting Goals

While the overarching goal of the sanctioning coalition since the 1990s has been to limit North Korea's nuclear weapons options, the specific goals shifted over time because of both shifting political dynamics in the United States and changes in the political, economic, and military situation on the ground in North Korea. Thus, after the October 2006 weapons test, the goal shifted from preventing acquisition of a weapons capability by North Korea to reversing its declared nuclear weapons status. In addition, under President George W. Bush, both the goals and the strategy changed when at least parts of his administration advocated destabilization of the regime and the focus of policy shifted from engagement to isolation.

In the beginning, however, coalition goals, while ambitious, were more limited than what came later. The ultimate negotiating goals in the mid-1990s were to prevent (further) development of a nuclear weapons capability in North Korea and to discover what had been done previously; to support the international non-proliferation regime; and to prevent further proliferation of weapons of mass destruction beyond the peninsula. The immediate objectives were to freeze North Korea's program and to allow International Atomic Energy Agency inspectors to monitor the program and investigate past operations. These intermediate goals were

mostly achieved through a combination of sticks (sanctions threats) and carrots that prevented North Korea's withdrawal from the Non-Proliferation Treaty and resulted in negotiation of the framework agreement, which froze the nuclear program in place in exchange for a variety of economic and other incentives.

With the transition from President William J. Clinton to George W. Bush, the U.S. position hardened and isolation rather than engagement was, for a time, the preferred *modus operandi*. The stated goal of U.S. policy toward North Korea shifted from containment of its nuclear program to "complete, verifiable, and irreversible dismantlement," and, once North Korea was declared part of the "axis of evil," along with Iran and Iraq, destabilization of the regime appeared to be the underlying goal. When that strategy failed and North Korea tested a nuclear device, the immediate goal shifted back to preventing further development of the program in the short run, with dismantlement of the nuclear weapons capability pushed down the road.

Thus, both decisions in Washington and changing facts on the ground in North Korea ratcheted up the costs of compliance over the past decade. To the degree that isolation and destabilization was a goal of the first Bush administration, neither the ends nor the means were within their control and, at that time, the governments in both South Korea and China were opposed and uncooperative. With regard to the non-proliferation goals, the nuclear tests meant that keeping North Korea a non-nuclear power, or even maintaining ambiguity about its status, was no longer possible, which was a blow to the non-proliferation regime. Having crossed that threshold, getting North Korea to agree to completely dismantle the program, surrender all its nuclear materials, and revert in the future to non-nuclear status also seems unlikely, unless or until there is a fundamental change in the government. While dismantlement is never-the-less likely to remain as at least the nominal goal, the immediate

goals of negotiation will likely have to focus on, again, freezing and preventing the further development of the nuclear program, as well as preventing proliferation outside the peninsula.

Costs of Defiance

There are three key elements in analyzing the costs to North Korea from defying sanctioners' demands. The first is the scope and depth of economic relations between the sanctioning group and the target country, which determines the potential leverage available to the sanctioners. The second is the degree to which members of the sanctioning coalition are willing to employ the leverage at their disposal to impose costs on North Korea. The third is how regime leaders in North Korea view the costs of sanctions, not to the country but to themselves, and how they view the potential benefits, or costs, of deeper engagement with the outside world.

With respect to potential sanctions leverage and who controls it, Figure 1 shows the shares of North Korea's total trade (exports plus imports) held by its major trading partners according to one source. The first thing to note is that the United States, which is not even shown in the chart, has very little unilateral leverage over North Korea as a result of the long-standing economic sanctions related to the Korean War. The United States has provided some food aid over the years and, under the framework agreement, it agreed to lift most trade sanctions and provide fuel oil. But commercial trade remains negligible because of the situation in North Korea, the lack of attractive opportunities, and remaining sanctions on finance and U.S. government programs to promote trade and investment.

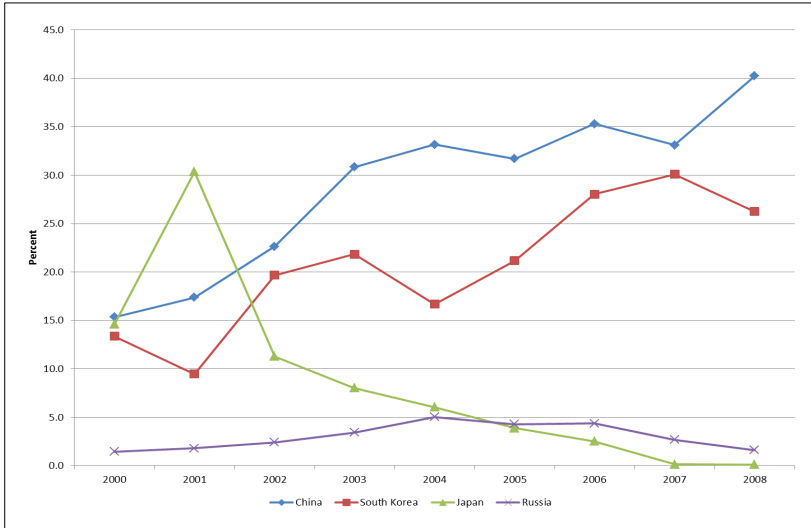
The key partners for North Korea are China and South Korea and their roles increased over the past decade to where they accounted for perhaps two-thirds of total North Korean trade in 2008. Stephan Haggard and Marcus Noland estimate that total South Korean and Chinese trade with North Korea is a bit lower than that (under 60 percent) and they also

argue that sharply increasing trade with the Middle East is missing from most analyses, but they agree that China and South Korea are still the North's most important trading partners.⁹ These two countries also provide the bulk of foreign aid to North Korea, though the South Korean portion was reduced after President Lee came into office and again after the Cheonan incident. But even the latter sanctions excluded trade with the Gaesong Industrial Complex, thereby exempting a growing share of trade between the two Koreas. It is nevertheless possible that South Korea's trade with the North dropped further in the past two years, but that data is not yet available.

In terms of willingness to exploit its potential leverage to influence North Korean policies, China has consistently prioritized regime stability over non-proliferation and has resisted U.S. pressures to impose sanctions, except when North Korea pushed the envelope with its long-range missile and nuclear tests. South Korea has also generally been more concerned with avoiding a sudden and destabilizing regime collapse in the North, but President Lee has taken a somewhat harder line and shown more willingness to reduce aid to the North, especially after the Cheonan sinking. Japan has also increasingly taken a harder line with North Korea in recent years and bilateral trade is now virtually nil.

⁹- See Stephan Haggard and Marcus Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," *Asia Survey*, Vol. 50, No. 3 (2010), pp. 539-568.

Figure 1. North Korea's Total Trade Shares by Partner



Source: Nanto and Chanlett-Avery (2010), p. 38.

Given these constraints, United Nations sanctions in recent years have been relatively limited and narrow. U.N. Security Resolution 1718, approved after North Korea's first nuclear test in the Fall of 2006, banned exports of luxury goods, but left the definition of those goods to individual member states, restricted trade in arms and dual use goods (exports and imports), and called for a freeze on the assets of designated entities linked to North Korea's nuclear or missile programs. It also authorized cargo inspections to enforce the restrictions. But enforcement was, in practice, weak and no entities were designated and no assets frozen under the U.N. resolution until 2009. According to analysis by Marcus Noland, Chinese exports of luxury goods actually appear to have increased after the resolution was passed (under several alternative definitions of the list published by other U.N. members).¹⁰ The Congressional

¹⁰- Marcus Noland, "The (Non) Impact of U.N. Sanctions on North Korea," *Asia Policy* 7 (2009), pp. 61-88.

Research Service report cited earlier also concluded that China, at least prior to the Cheonan incident, was not enforcing the luxury goods sanctions.¹¹

After a provocative long-range missile test in spring of 2009, the president of the U.N. Security Council Resolution called for implementation of the 1718 sanctions and then, after the second nuclear test, the Security Council approved Resolution 1874 further expanding the sanctions. It expanded the restrictions on arms trade, and the use of cargo inspections to enforce it, and shortly after passage made the first designations under 1718 for the freezing of assets. It also called on countries to prevent the provision of any financial services that could contribute to North Korea's missile or nuclear programs. The interpretation of which services might contribute to those programs is likely to be highly disparate, however, just as was the definition of luxury goods under UNSCR 1718.

In addition to the U.N. sanctions, U.S. policymakers seeking additional sources of leverage have turned to two other, related, tools. The first, especially prior to UNSCR 1718, which authorized cargo inspections to enforce the trade sanctions, is to use the Proliferation Security Initiative (PSI) to crack down on North Korea's arms trade and thereby reduce financial flows to the regime. The second is to use financial sanctions to cut off North Korea's access to funds and to the international financial system more broadly with the dual motives of squeezing the regime, by preventing the transfer of financial proceeds from illicit activities, and enforcing U.S. laws against counterfeiting and money laundering.

While the United States has limited leverage overall in this case, its central role in international financial markets gives it more leverage over some North Korean activities through market forces—other countries often cooperate in financial sanctions against North Korea (or Iran) in order to preserve their access to the U.S. financial system. Thus, in the

¹¹— Congressional Research Service, *op cit.*, 2010, p. 11.

Banco Delta Asia (BDA) case, U.S. authorities did not have the authority to freeze North Korean assets. Rather, the U.S. Treasury prohibited American banks from doing business with BDA because it was suspected of being used to launder funds derived from illicit North Korean activities, including counterfeiting U.S. currency. That, in turn, raised concerns that other Chinese banks might be blacklisted for doing business with BDA so the Chinese authorities froze North Korean assets.

The “success” of the BDA case is less clear than often asserted, however. While the freezing of the BDA assets “got the attention” of the North Korean regime and return of the assets was clearly a major concern of the regime, whether the incident served U.S. interests is another question entirely. The U.S. designation of BDA occurred about the time that the six-party talks managed to reach agreement on a “roadmap” for resolving the nuclear situation in the wake of the breakdown of the framework agreement. North Korea then left the negotiating table and refused to move forward with the roadmap or to return to the negotiating table until the assets were returned. In the interim, North Korea conducted its first test of a nuclear device, moving irrevocably across that threshold. Thus, while the BDA case demonstrated that the United States potentially has more sanctioning leverage than usually recognized, it is not clear that it was effectively used in this case to achieve coalition goals.

Finally, whatever degree of sanctions leverage the United States might have, it is unlikely to be decisive as long as China is willing to continue supplying fuel, luxury goods, and other items to keep the North Korean economy afloat. This brings the debate back around to the question whether there is a package of incentives that might buy Kim Jong-il’s cooperation. The key to this question is whether the regime, especially during the current leadership transition, views deeper engagement with the global economy as a remedy for the ailing economy, or as a poison pill for their political health. Many observers believe that the recent reversal of

economic reforms, along with the seeming rise in prominence of the military, indicate that North Korea is reverting to a more hardline stance, that they have rejected Chinese pressure to follow its path toward gradual economic reform while retaining political control, and that economic engagement is viewed as more a threat than an opportunity.¹²

Conclusions

The key question for South Korea and the United States after the Cheonan incident remains how to reduce the threat posed by North Korea to regional stability, as well as to stability elsewhere through its proliferation activities. If the regime has turned its back on economic reform and no longer sees international engagement as in its interest, there is relatively little leverage—positive or negative—that the international community can effectively bring to bear. China and South Korea, if they chose, could probably bring the North Korean economy to its knees by cutting off all trade and assistance, but as long as the fear of a destabilizing regime collapse remains greater than the fear of a nuclear-armed North Korea, that is unlikely. The stick of potential sanctions should remain in the toolbox for potential use while the six parties continue efforts to negotiate an acceptable solution.

But the limits to external leverage are severe and the only alternative may be to contain North Korea's destabilizing activities as much as possible. Tighter containment of North Korea's global proliferation activities could be strengthened through more aggressive cargo inspections to interdict illicit shipments of arms or technologies related to weapons of mass

¹²- See in an earlier issue of this journal the articles by Andrei Lankov and Balbina Hwang; Andrei Lankov, "North Korea in Transition: Changes in Internal Politics and the Logic of Survival," Vol. 18, No. 1 (2009), pp. 1-27; Balbina Hwang, "Shattering Myths and Assumptions: The Implications of North Korea's Strategic Culture for U.S. Policy," Vol. 18, No. 1 (2009), pp. 28-52.

destruction to other rogue states. Containment of North Korea's own nuclear capabilities is more difficult and the challenge is finding a strategy to engage that regime, without giving up too much in terms of non-proliferation goals.

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