The Influence of UN Security Council Sanctions on the North Korean Economy[1]

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Abstract

This article examines the economic sanctions imposed by the UN Security Council (UNSC) on the Democratic People's Republic of Korea (DPRK or North Korea) in 2006–2017 in response to Pyongyang's nuclear tests and missile launches. The UNSC adopted a number of resolutions containing obligations for all UN member states. Some of them have a direct impact both on North Korea's economic contacts with the outside world and on the country's economic development. The restrictive measures imposed against the DPRK in 2016–2017 were particularly biting.

The purpose of this study is to explore economic sanctions imposed on the DPRK by the UNSC and examine their possible consequences for the North Korean economy.

The study is based on a systems approach. It examines the DPRK's economy as a system, and the UNSC sanctions as an external factor that influences its development. Methods of comparative analysis are applied to explore the dynamics of the tightening sanctions regime. Statistical and analytical methods are also used to evaluate the current state of the North Korean economy, identify the key factors of its development and the potential impact of multilateral sanctions.

In the 1960s, the DPRK classified most of its economic statistics and sometimes released only certain indicators, such as the gross domestic product (GDP) for certain years. Therefore, to analyze the long-term dynamics of North Korean economic development it is necessary to use evaluations from secondary sources, including international organizations and government agencies of the Republic of Korea (ROK). It is estimated that the last decade was marked by the growth of North Korea's GDP despite the restrictions imposed by the UN Security Council. Pyongyang's efforts to expand foreign economic relations, as well as the growth of a market sector in the country's socialist economy contributed to that upward trend.

The present study identifies important consequences that multilateral sanctions might have for the North Korean economy. By the end of 2017, North Korea was effectively cut off from the global banking system and substantially restricted in its foreign trade, investment, transport and scientific ties. In addition to a significant drop in exports, all external transactions for North Korean companies have become more expensive. The DPRK will have to search for new ways of interacting with the world economy, including the use of cryptocurrencies. Previously export-oriented producers in North Korea will be forced to focus on the domestic market. With increased local competition and limited access to resources, big companies connected with the state will probably oust smaller "private" forms of business from the market. An important unintended result of international sanctions is the negative humanitarian impact on the civilian population of the DPRK.

Key words: DPRK; North Korea; UN Security Council; sanctions; nuclear programme; economy

For citation: Zakharova L. (2019) The Influence of UN Security Council Sanctions on the North Korean Economy. *International Organisations Research Journal*, vol. 14, no 2, pp. 192–211 (in Russian and English). DOI: 10.17323/1996-7845-2019-02-09.

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[1] The editorial board received the article in May 2018.

The research was supported by Russian Science Foundation (project № 17-78-10126).

Introduction

Since 2006 the UN Security Council (UNSC) has imposed sanctions against the Democratic People's Republic of Korea (DPRK or North Korea) in response to nuclear tests and missile launches conducted by the republic. The main objective of this strategy is to exert pressure on Pyongyang to force the country's leadership to abandon the nuclear and missile programme that poses a threat to international peace and security. In response, the DPRK sped up the creation of nuclear weapons, simultaneously developing a mechanism to circumvent the Security Council's restrictions [Kiku, 2016, p. 89]. In 2013 the North Korean leadership announced a new strategic line aimed at parallel development of the economy and nuclear weapons. Within this framework, the leader of the DPRK, Kim Jong Un, set a goal to simultaneously strengthen the country's nuclear and missile potential and develop civilian sectors of the economy. The country managed to achieve some success with the expanded foreign economic relations being one of the main factors. However, the situation changed after tensions on the Korean peninsula escalated and the international sanctions against the DPRK were unprecedentedly toughened in 2017. According to estimates by the Bank of Korea, in 2017 the gross domestic product (GDP) of the DPRK shrank by 3.5% as a result of the reduction in the country's foreign trade [Bank of Korea, 2018, p. 2].

Multilateral economic sanctions against the DPRK are stipulated in several UNSC resolutions, the most important being Resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), 2321 (2016), 2371 (2017), 2375 (2017) and 2397 (2017). This study analyzes the main provisions of these documents concerning economic contacts of North Korea with the outside world, examines strengthening restrictive measures in key areas and explores potential effects of sanctions on the country's economic development. A detailed study of restrictions on military cooperation with the DPRK and unilateral sanctions imposed by individual states on North Korea is beyond the scope of this paper.

This study is methodologically based on a systems approach and regards the DPRK's economy as a system which is in dynamic interaction with the external environment. The international sanctions regime is one of the key factors influencing the external environment and the development prospects of the whole system. The historical approach and methods of comparative analysis of the texts of UN Security Council resolutions and official statements by North Korean representatives are used to examine the dynamics of the situation. Statistical and analytical research methods are applied to study the potential impact of sanctions on the DPRK's economy.

With the lack of official statistics on the North Korean economy, the present research is based on open access statistics of international organizations, as well as assessments of South Korean state organizations such as the Bank of Korea and the Korea Trade-Investment Promotion Agency (KOTRA) which have been monitoring the economic development of the DPRK for many years. The author studied the relevant data from official North Korean sources and the results of research conducted by Russian and foreign specialists on the DPRK, as well as information on changes in the country's economic situation received through various channels and published by specialized Internet resources. Important empirical material for the study was sourced during the author's academic trip to Pyongyang in May – June 2017.

Given the lack of official statistics, it is difficult to provide accurate quantitative characteristics of the effect of international sanctions. However, using available estimates of the dynamics and growth factors of the North Korean economy and applying analytical research methods, the author identifies and describes the potential influence of UNSC sanctions on the DPRK's foreign economic activities and its socio-economic development.

The results of the study are significant from both the theoretical and the practical points of view. Theoretically, this article contributes to the accumulation of knowledge about the modern North Korean economy in Russian academic science. From a practical point of view, to build an effective policy on the Korean peninsula it is important for Russia to understand internal processes taking place in the neighbouring country. As was stated by high-ranking Russian officials, the development of economic relations with North Korea is an important task even amid sanctions [RIA Novosti, 2018].

The study consists of three main parts. The first analyzes the imposition of UNSC economic sanctions on the DPRK and their content. The second part evaluates the state of the North Korean economy and the key factors of its growth during the period of sanctions. The third part considers the potential influence of the restrictions on North Korea's economic development.

UNSC Economic Sanctions Against the DPRK, 2006–17

The UN Security Council began to impose sanctions against the DPRK after North Korea's first nuclear test on 9 October 2006. Acting under Chapter VII of the Charter of the United Nations, and taking measures under Article 41, the UNSC unanimously adopted Resolution 1718 on 14 October 2006. It contained a ban on deliveries to and from North Korea of a number of armaments, "items, materials, equipment, goods and technology determined by the UN Security Council ..., which could contribute to DPRK's nuclear-related, ballistic missile-related or other weapons of mass destruction related programmes." In addition, restrictive measures were put in place to prevent the supply of so-called luxury goods to North Korea; there was no list of specific goods, so this question was left to the discretion of each particular UN member state [UNSC, 2006, Para. 8 (a)]. The resolution also called upon all countries to inspect cargo going to and from the DPRK, if necessary, to ensure compliance with the adopted requirements [Ibid., Para. 8 (f)]. Later this provision was transformed into the obligation to inspect ships and seize prohibited goods [UNSC, 2013b, Para. 16].

Resolution 1718 provided for the freeze of financial assets and other economic resources of persons or entities "designated by the Committee[2] or by the Security Council, as being engaged in or providing support for" the prohibited DPRK activities [UNSC, 2006, Para. 8 (d)]. In the following resolutions, lists of persons and entities subject to targeted sanctions, including the travel ban and freezing of assets, were expanded.

In response to further DPRK nuclear tests and missile launches, the UN Security Council adopted several new resolutions – 1874 (2009), 2087 (2013), 2094 (2013) – gradually strengthening the sanctions regime. In Resolution 1874 all member states and international institutions were called upon not to provide North Korea with "grants, financial assistance, or concessional loans," except for those destined for humanitarian and developmental purposes, or the promotion of denuclearization [UNSC, 2009, Para. 19]. The UN member states were advised not to provide public financial support for trade with the DPRK (including export credits, guarantees and insurance) where it could contribute to North Korea's prohibited activities [Ibid., Para. 20]. Subsequently, in Resolution 2094 this provision changed from a recommendation to a commitment [UNSC, 2013b, Para. 15], and Resolution 2270 prohibited the provision of financial support for trade with the DPRK through public and private channels [UNSC, 2016a, Para. 36].

[2] Resolution 1718 established a special committee (Committee 1718) consisting of representatives of all the UNSC members to monitor the compliance of the UN member states with the imposed sanctions against the DPRK.

Resolution 2087, adopted in 2013, emphasized violations of sanctions by the DPRK and their evasion through various means of transferring money, including the use of bulk cash. Therefore, Resolution 2094 imposed financial sanctions against North Korea. In particular, the UN Security Council called upon all states to prohibit in their territories the opening of new branches, subsidiaries or representative offices of DPRK banks, or the maintenance of correspondent relationships with DPRK banks [UNSC, 2013b, Para 12]. In addition, the resolution contained a requirement for UN member states to ban their financial institutions from opening branches or bank accounts in the DPRK [Ibid., Para. 13] and recommended that they control transfers of large amounts of cash to North Korea [Ibid., Para. 14]. These recommendations were accompanied by a reservation "if they have information that provides reasonable grounds to believe that these activities could contribute to the DPRK's nuclear or ballistic missile programmes, or other activities prohibited" by the UNSC resolutions. However, given the informational closeness of the DPRK, many banks simply closed accounts of North Korean individuals and entities to avoid the risk of violating sanctions.

The UNSC specified and compiled a list of "luxury goods" banned for deliveries to North Korea in Resolution 2094. In Annex IV, jewellery and luxury vehicles (yachts and cars) were mentioned. In Resolution 2270 luxury watches, personal watercraft, items of lead crystal, recreational sports equipment and snowmobiles were added to the list.

In their article entitled "The North Korean Crisis Through the Prism of UN Security Council Resolutions," A.V. Ilyin and O.Yu. Kurnykin [2014] explore the political vector of the international community toward the DPRK. They analyze the content of resolutions regarding North Korea adopted by the UNSC in the period from 1993 to 2013 and conclude that the Security Council has chosen financial and economic sanctions as a key strategy to exert pressure on the DPRK and would stick to it. That forecast proved correct in 2016–17, when in response to the DPRK's new tests and launches, further measures were taken to restrict North Korea's economic contacts with the outside world.

The set of new economic sanctions imposed by Resolution 2270 was characterized as unprecedented by the representatives of the Security Council members themselves. For the first time measures were introduced to restrict the DPRK's commercial trade. Paragraph 29 imposed a ban on the export of coal, iron and iron ore from the DPRK [UNSC, 2016a]. At the same time, exceptions were made for the transit supply of coal from the port of Rajin, as well as for transactions "determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programmes or other activities prohibited" by UNSC resolutions. Such exemptions were beneficial primarily to Russia, which is implementing the Hasan-Rajin logistics project with the DPRK and transporting its coal to China via Rajin, as well as to China; using the provided clause, it could buy coal and iron ore from North Korea.

A much more precise Paragraph 30 [Ibid.] introduced a complete ban on the export of gold, titanium ore, vanadium ore and rare earth minerals from the DPRK. The UNSC also prohibited the supply of aviation and rocket fuel to Pyongyang, with the exception of aviation fuel to civilian passenger aircraft outside the DPRK exclusively for consumption during flights to and from the DPRK [Ibid., Para 31].

Financial sanctions were also expanded. In particular, Resolution 2270 required all countries, within 90 days, to close all existing branches and representative offices of DPRK banks, joint ventures established with them and existing correspondent banking relationships [Ibid., Para. 33]. Paragraph 34 [Ibid.] prohibited financial institutions of the UN member states from opening new representative offices or subsidiaries, branches or banking accounts in the DPRK, and required them to close existing branches and banking accounts within 90 days [Ibid., Para. 35] if reasonable grounds existed to believe such financial services could contribute to the DPRK's nuclear or missile programmes or could violate UNSC resolutions. The only exception was made for banking accounts required for the delivery of humanitarian assistance or the activities of diplomatic missions in the DPRK.

In response to Pyongyang's nuclear test on 9 September 2016, on 30 November 2016 the UN Security Council adopted Resolution 2321 (2016) containing a package of sanctions that the UN secretary-general called the toughest and most comprehensive sanctions regime in the history of the UN Security Council.

To reduce North Korea's profit from coal exports which had been limited by Resolution 2270 in such a way that the restriction could be circumvented, Resolution 2321 introduced a specific ceiling on the annual sales volume. In particular, beginning 1 January 2017, total exports of coal originating in the DPRK to all member states in the aggregate could not exceed $400,870,018 or 7,500,000 metric tons per year, whichever is lower [UNSC, 2016b, Para. 26]. This meant a more than 50% decrease in the coal supply, the main export commodity from North Korea to China [KOTRA, 2017, p. 46]. The document completely prohibited North Korea from exporting copper, nickel, silver and zinc [UNSC, 2016b, Para. 28], as well as statues [Ibid., Para. 29]. Paragraph 11 [Ibid.] required member states to suspend scientific and technical cooperation involving persons or groups officially sponsored by or representing the DPRK with the exception of medical exchanges. All other cases should be reported to the sanctions committee in advance.

Resolutions 2371, 2375 and 2397, adopted in August, September and December 2017, respectively, in response to missile launches and a nuclear test by the DPRK, stipulated further measures to reduce the sources of foreign currency for Pyongyang. In particular, Paragraph 8 of Resolution 2371 [UNSC, 2017a] completely prohibited the export of coal, iron and iron ore from North Korea. The only exception was made for "coal that... originated outside the DPRK and was transported through the DPRK solely for export from the Port of Rajin." In addition, a ban was imposed on the DPRK's export of seafood (including fish, crustaceans, mollusks and other aquatic invertebrates in all forms) [Ibid., Para. 9], lead and lead ore [Ibid., Para. 10], as well as textiles [UNSC, 2017b, Para. 16]. In 2016, North Korea exported coal amounting to $1.19 billion (about 42% of total exports) and various metals and ores, including iron ore, worth $225 million (8% of total exports) [KOTRA, 2017, pp. 7, 41]. The export of textiles, the second-largest export group for North Korea after coal, amounted to $752 million in 2016, or more than 26% of the total exports, whereas fish and seafood sales stood at almost $196 million or 7% of the DPRK's total exports [KOTRA, 2017, pp. 4, 7].

Resolution 2397 expanded the list of goods banned for export from the DPRK to include food and agricultural products, machinery, electrical equipment, earth and stone including magnesite and magnesia, wood and vessels [UNSC, 2017c, Para. 6]. Thus, the UNSC seriously restricted sales of all major categories of North Korea's exports worth about $2.82 billion in 2016 [KOTRA, 2017, p. 3].

According to specialists, the export of labour was an important source of foreign currency for the DPRK [Toloraya, Yakovleva, 2016, p. 61]. Some reports estimated that about 100,000 North Korean overseas workers brought the state about $500 million per year [U.S. Mission to the UN, 2017]. In September 2017 the UN Security Council imposed a ban on issuing new work authorizations to DPRK nationals working in foreign countries [UNSC, 2017b, Para. 17] and Resolution 2397 [UNSC, 2017c, Para. 8] established a specific time limit for all North Korean workers to be repatriated, no later than 24 months from the date of the resolution's adoption (i.e. 22 December 2019).

In 2017 the UNSC also placed significant restrictions on the supply of fuel to the DPRK and raw materials for its production. In particular, the export to North Korea of all condensates and natural gas liquids (used as raw materials for processing gasoline, kerosene, etc.) was banned [UNSC, 2017b, Para. 13]. Supply of all refined petroleum products to the DPRK was limited to a volume of two million barrels per year [Ibid., Para. 14], and the export of crude oil to the DPRK was frozen at the level of the preceding 12 months [Ibid., Para. 15]. Resolution 2397 put a cap on the supply of crude oil to the DPRK at four million barrels or 525,000 tons in the aggregate per year [UNSC, 2017c, Para. 4], and the supply of refined petroleum products was limited to 500,000 barrels per year [Ibid., Para 5]. Given that in 2016 North Korea imported about 4.5 million barrels of oil products [U.S. Mission to the UN, 2017], the imposed restrictions were very significant for the country's economy.

The December resolution of the UNSC also banned the sale and transfer to North Korea of all industrial machinery, transportation vehicles, and iron, steel and other metals [UNSC, 2017c, Ibid., Para. 7], with the exception of spare parts for commercial civilian passenger aircraft (including Antonov, Ilyushin and Tupolev models). According to the United States, in 2016 these goods accounted for about 30% of North Korean imports worth about $1.2 billion [U.S. Mission to the UN, 2017].

In the financial sector, the UNSC limited opportunities for foreign investment in the DPRK. In particular, Paragraph 12 of Resolution 2371 [UNSC, 2017a] prohibited the opening of "new joint ventures or cooperative entities with DPRK entities or individuals," as well as the expansion of existing joint ventures through additional investments. Furthermore, Paragraph 18 of Resolution 2375 [UNSC, 2017b] required all member states to prohibit the operation of existing joint ventures with DPRK entities or individuals and to close them within 120 days. Exceptions were made only for non-commercial, public utility infrastructure projects not generating profit which had been approved by the committee in advance on a case-by-case basis, existing China – DPRK hydroelectric power infrastructure projects and the Russia – DPRK Rajin – Khasan joint venture.

In general, since Pyongyang's first nuclear test the UNSC has imposed significant limitations on the DPRK's economic relations with foreign countries in several major sectors. North Korea was banned from exporting almost all of its trade items. Imports of industrial equipment were also prohibited while supply volumes of crude oil and oil products were seriously limited. North Korea was effectively cut off from the world's financial system, and all joint ventures with foreign partners were banned from functioning or expanding. Compulsory checks of any cargo heading to or from the DPRK made the country's transportation links extremely vulnerable to external scrutiny and disruptions. Scientific and technical cooperation with Pyongyang was also considerably restricted, while the export of labour from North Korea was effectively prohibited.

Although all the above-mentioned resolutions were adopted unanimously, the UN Security Council often faced a struggle over the scope of the imposed restrictions and their specific wording. The U.S. traditionally insisted on the most severe restrictions – even suggesting a total trade and economic embargo on North Korea – while Russia and China made efforts to mitigate sanctions provisions [Russian Federation, 2017].

In 2009 the UN Security Council established a panel of experts to assist Committee 1718 in monitoring compliance with the sanctions regime. In its annual reports the body has raised serious questions concerning the effectiveness of the UNSC sanctions against the DPRK. In 2016 the experts on the panel linked Pyongyang's successful actions to circumvent the imposed restrictions with a low implementation level of the relevant resolutions by UN member states [Kiku, 2016, p. 89–90]. The monitoring process was complicated by the fact that not all countries reported to the UN Security Council on the implementation of sanctions decisions. For example, by 2016, 90 states had never submitted their national reports describing the specific measures taken to implement anti-North Korean resolutions [UNSC, 2016c, p. 10]. In 2018 the panel of experts emphasized the sophisticated methods used by the DPRK to evade sanctions, including global oil supply chains, complicit foreign nationals, offshore company registries and the international banking system [UNSC, 2018, p. 4].

The State of the North Korean Economy and Its Development Factors Amid UNSC Sanctions

In the 1960s the DPRK classified its economic statistics and, with rare exceptions, does not publish them. Therefore, foreign researchers must use data provided by international and foreign organizations to assess the dynamics of the country's development [Marumoto, 2009]. The UN Statistics Division, based on the data provided by the DPRK Central Bureau of Statistics, estimates the average GDP growth rate of North Korea as having been 0.32% per year in 2006–2016 (Table 1).

Table 1. Growth Rates of the DPRK's Economy in 2006–16, % Change From the Previous Year

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Growth Rate	7.9	2.7	–7.2	–9.7	–16.0	7.7	5.4	2.7	4.8	1.9	3.3

Source: calculated by the author based on data from the UN Statistics Division [UN, 2018] on the GDP of the DPRK in national currency at current prices.

Estimates from the Bank of Korea (ROK) present an even more optimistic picture. The bank's experts consider that the average GDP growth rate of North Korea in 2006–2016 accounted for 0.59% per year (Table 2).

Table 2. Growth Rates of the DPRK's Economy in 2006–16, % Change From the Previous Year

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Growth Rate	–1.0	–1.2	3.1	–0.9	–0.5	0.8	1.3	1.1	1.0	–1.1	3.9

Source: [Bank of Korea, 2016].

An external factor – more precisely a significant expansion of the country's external trade and economic ties in the 2010s – has played a special role in the DPRK's economic growth in recent years. According to the estimates by KOTRA, a South Korean state organization, North Korea's foreign trade (excluding inter-Korean trade) increased from $4.174 billion in 2010 to $6.546 billion in 2016, reaching its peak in 2014 ($7.610 billion) (Table 3). Moreover, according to UNCTAD [2017] estimates, despite some decline in volume after 2013, the annual inflow of foreign direct investment (FDI) to the DPRK stood at around $80–90 million in 2014–2016 (Table 4). By increasing exports, the country's leadership was able to direct significant revenue toward the civilian sector of the economy, among others. North Korea's enterprises from the manufacturing and service industries, which depend on foreign supplies of raw materials and equipment as well as on foreign markets, have largely become involved in external relations.

Table 3. Foreign Trade of the DPRK in 2010–16, $ Billion

Year	2010	2011	2012	2013	2014	2015	2016
Export	1.513	2.789	2.880	3.218	3.164	2.696	2.821
Import	2.661	3.568	3.931	4.126	4.446	3.555	3.725
Total trade	4.174	6.357	6.811	7.344	7.610	6.251	6.546

Source: [KOTRA, 2017, p. 3].

Table 4. Foreign Direct Investment Inflow to the DPRK in 2011–16, $ Million

Year	2011	2012	2013	2014	2015	2016
FDI Inflow	119	228	119	79	82	93

Source: [UNCTAD, 2017, p. 223].

North Korean scientists themselves recognize the importance of developing foreign economic relations as an integral element in the construction of an “economically powerful country” [Pak, 2017, p. 12]. They also emphasize the task of diversifying trade partners, as well as promoting North Korean products in the international market [Jon, 2017, p. 22].

Experts consider North Korea’s close economic cooperation with China to be an important factor in the economic growth of the DPRK. China accounts for more than 90% of the country’s total foreign trade (according to KOTRA estimates, 92.51% in 2016 [KOTRA, 2017, p. 44]). China supplied North Korea with electrical and communications equipment, vehicles, household appliances and electronics, plastic products, mineral fuel, food products, various clothes and other goods, and also provided crude oil which is not included in Chinese customs statistics (according to existing estimates about 500,000 tons per year) through a pipeline. In response, until recently North Korea exported coal, iron ore and other minerals, textiles, fish, seafood and some other goods to China. According to foreign experts, it was Chinese companies and financial intermediaries that provided a lifeline for the DPRK’s economy and connected it with the outside world. Chinese firms have contributed to mitigating the effect of international sanctions by exporting North Korean goods under Chinese brands, as well as by mediating purchases of foreign products for the DPRK’s consumers.

Expansion of the private capitalist sector in the formally socialist economy is one of the most important domestic factors contributing to the DPRK’s recent economic growth. After the current North Korean leader came to power in 2011, he has put special emphasis on economic development and the improvement of people’s living conditions. With the lack of financial and material resources, the DPRK government is forced to turn a blind eye to the expanding private activities of the citizens. Although the existence of the private sector is not officially recognized, some experts argue that certain instructions and decrees approved by the government are based on the premise that the private sector exists and is interacting with the public sector [Lankov, 2016]. Western researchers emphasize that despite few changes in the DPRK’s political system, de facto economic reforms are taking place in the country [Haggard, Noland, 2017, p. 227]. Private capital is especially visible in the service sector, fishing and even in construction. According to some estimates, this “shadow economy” might constitute from 30% to 50% of the North Korean GDP, and Kim Jong Un has a more lenient approach toward market elements than the country’s previous leadership [Lankov, 2016].

At the official level innovations in the economic mechanism of the DPRK under Kim Jong Un are implemented in the form of “encouraging the creative initiative of business units” through the introduction of a “socialist responsibility system” into the management of agricultural cooperatives and enterprises.[3] As North Korean scholars from the Institute of Economics of the DPRK Academy of Humanitarian Sciences explained in a personal conversation in June 2017 in Pyongyang, this system is in full accordance with the socialist principles of management and cannot be regarded as the beginning of market reforms. Nevertheless, the country’s leadership probably expects that giving more independence to enterprises and agricultural coopera-

[3] For more information about the domestic economic policy of the DPRK, see L.V. Zakharova [2017].

tives will stimulate the people's motivation, increase their productivity and favourably affect the economic growth of the country.

In the agricultural sector certain results have already been achieved, due to which the DPRK managed to maintain a relatively high level of harvested crops, despite the annual natural disasters of recent years [Babson, 2016, p. 166]. According to the estimates of the UN Food and Agriculture Organization (FAO), the total volume of harvested crops (in grain equivalent) in the DPRK for the 2016–17 agricultural year was about 5.15 million tons, while the minimum needed to meet domestic requirements was 5.608 million tons [FAO, 2017, p. 8]. North Korea covered the grain deficit with commercial imports and supplies of humanitarian aid.

The Effect of UNSC Sanctions on the DPRK's Economy

International sanctions have had both direct and indirect influence on the North Korean economy. From 2006 to 2015 they were comparatively "light" and did not cause serious problems for the DPRK's economic complex. Only in 2016 did the UNSC start to impose significant restrictions in areas which are crucial to the functioning of the North Korean economic system.

Multilateral sanctions exert pressure on North Korea's foreign trade as the high risk of dealing with such a difficult partner increases the costs of all external transactions for DPRK companies [Haggard, Noland, 2017, p. 62]. Worsening conditions for international activities make North Korea exploit various instruments for evading sanctions. In particular, DPRK companies use "shell firms," cash payments and financial institutions which are not part of the international banking system, as well as a network of foreign intermediaries to continue trade in prohibited goods. All of this has increased transactional costs for North Korean enterprises as they have had to spend more on mediators and bribes to officials [Babson, 2016, p. 160–1].

With the existing international sanctions, the DPRK banks have had to outsource key financial infrastructure abroad using foreign (most often Chinese) intermediaries to make deals [Macdonald, 2017]. In addition to an extensive network of offshore companies, the DPRK uses cargo ships registered under the flags of third countries to circumvent sanctions. Another way to evade sanctions is by ship-to-ship transfers of prohibited or restricted goods, including coal and oil products, in open sea [UNSC, 2018, p. 4].

American experts who monitor the effect of sanctions imposed by the UN Security Council on North Korea concluded that the DPRK leadership was able to absorb a significant part of the costs associated with the tightened conditions for foreign economic activities [Haggard, 2017, pp. 32–3]. However, in 2016 the UNSC started to introduce measures to which the DPRK economy is much more sensitive. Moreover, it was in 2016 that important changes occurred in the position of China, the key economic partner of North Korea. If earlier Beijing had opposed the serious tightening of the sanctions regime against the DPRK, after Pyongyang's fourth nuclear test China agreed to impose restrictions against commercial trade and certain sectors of the North Korean economy [Haggard, Noland, 2017, p. 240].

If China consistently implements the three resolutions adopted by the UN Security Council in 2017, they should lead to a significant reduction in the export and import operations of the DPRK. In 2017 North Korea's foreign trade declined by 15% to $5.55 billion, with exports shrinking by 37% to $1.77 billion due to a record drop in the exports of mineral resources (55.7%), textiles (22.2%) and products of animal origin (16.1%) [Bank of Korea, 2018, p. 4]. The ban on up to 90% of the country's traditional exports weakens the foreign trade and investment potential of the DPRK. Before 2016 foreign firms had considered the North Korean mining industry as a possible sphere for large investments while local cheap skilled labour encouraged the opening of textile production and assembly plants.

Against the background of shrinking traditional forms of external economic relations, the DPRK was forced to look for new sources of foreign currency. One option may be the use of cryptocurrencies in which Pyongyang shows increased interest. In November 2017 the Pyongyang University of Science and Technology organized a series of lectures on blockchain technology and bitcoin. According to U.S. data, in 2017, North Korea could earn up to $200 million in cryptocurrency [The Korea Times, 2018].

Despite the efforts of DPRK authorities to attract foreign investments, the country is not an attractive target for overseas investors. After the adoption of UNSC sanctions resolutions in 2017 the possibility of establishing and operating joint ventures in the country was limited at the international level. Theoretically, foreign companies can work in the DPRK if they establish a 100% foreign-owned enterprise, which is allowed by North Korean law. However, the existing restrictions in the financial (i.e., the inability to transfer money), transport and trade spheres will hardly allow Pyongyang to find serious foreign partners in the medium term.

At the same time, the inflow of foreign investment is necessary for North Korea to remove fundamental obstacles to its economic development such as its energy and transport problems. Without large-scale financial injections and foreign technologies, serious modernization and construction of power stations, roads and railways is impossible. In such circumstances the DPRK's leadership has a stake in scientific and technological progress, expecting its scientists to use foreign inventions for the modernization and development of the national economy, including the energy sphere and infrastructure. However, the embargo on the supply of industrial equipment and spare parts to the DPRK imposed at the end of 2017 might affect the prospects for this plan's implementation.

The provisions of UNSC resolutions limiting energy imports to the DPRK have significant consequences for the country's economy. Interruptions in the supply of foreign fuel led to a sharp jump in gasoline prices in April and September 2017 [Abrahamian, 2018].

Special attention should be paid to the negative humanitarian consequences of the international sanctions. In Paragraph 25 of Resolution 2375 [UNSC, 2017b], the UN Security Council refers to the findings of the UN Office for the Coordination of Humanitarian Assistance that more than half of the people in the DPRK suffer from major insecurities in food and medical care, and almost a quarter of North Koreans are chronically undernourished. In such conditions the activities of international humanitarian organizations are especially important. Although the UNSC resolutions stipulate that the measures they are imposing are not intended to have negative consequences for the civilian population of the DPRK, it has not been possible to implement this provision in practice. In his report to the UN General Assembly on 3 August 2017, UN Secretary-General A. Guterres noted that the imposed sanctions led to a reduction in resources for humanitarian assistance to North Korea. Since February 2017, the World Food Programme operating in the DPRK has reduced its food rations for children and pregnant and lactating women to two thirds of the standard ration needed to obtain a tangible nutritional result [UNGA, 2017, p. 8]. After the UN Security Council adopted Resolution 2270, humanitarian missions in North Korea experienced problems caused by delays in the procurement process due to the additional costs of licenses and the need to ensure that the items delivered to the country were not specified on the sanctions list. In addition, the financial restrictions imposed by Resolutions 2270 and 2321 limited the ability of United Nations organizations working in North Korea (the World Health Organization, the UN World Food Programme, the Food and Agriculture Organization, UNICEF and the UN Population Fund) to receive funds allocated in the budget for the implementation of humanitarian projects in the DPRK. The only solution was Russia's initiative to obtain permission for the Russian Sputnik bank to establish correspondent relations with the DPRK's Foreign Trade Bank, which created a special banking channel for humanitarian assistance to North Korea [Kiku, 2017, p. 106]. Nevertheless, in 2018

Russian Ambassador to the DPRK Alexander Matsegora noted that the international sanctions continued to have a significant negative impact on the humanitarian situation in this country [TASS, 2018a].

The UNSC sanctions have important consequences for the development of the DPRK's social and economic system. On the one hand, the government has no options other than to use market mechanisms to improve the people's living standards and provide investment from domestic sources. Pyongyang is likely to develop the banking sector to attract capital accumulated by the citizens in the shadow economy and redirect it into investments. On the other hand, constant international pressure does not allow the systemic reforms necessary for economic take off to begin.

According to experts who are well-versed in the internal economic situation in the DPRK, unfavourable external conditions for doing business contribute to the bankruptcy of small- and medium-sized enterprises that depend on foreign supplies and markets, and strengthen large diversified enterprises associated with the state. In particular, A. Abrahamian [2018] argues that as a result of sanctions, de facto privately managed medium-sized enterprises may suffer while large state companies will be able to consolidate their dominance in the economy through preferential access to limited resources. Using the example of Myanmar, Abrahamian shows how sanctions led to the creation and strengthening of large corporations that depend on the state and squeezed smaller businesses out of the market.

According to A. Lankov [2017], the measures taken by the UN Security Council in Resolution 2375, if fully implemented by China (as the main trading partner of the DPRK), could seriously affect emerging market forces in North Korean society and the ongoing process of social transformation. The ban on the export of seafood, textiles and minerals hit not only the state-owned enterprises that are believed to bring foreign currency to the regime, but also local entrepreneurs and representatives of small- and medium-sized businesses who depend on external ties in various ways. Having lost foreign buyers, they will have to look for consumers in the domestic market. In this case, they will probably have to sell goods at a lower price, which may influence profitability and eventually lead to bankruptcies.

Bankruptcies of local companies can have serious social consequences since workers in these enterprises will lose their jobs. The same effect is achieved by the ban on the export of labour from the DPRK imposed by the UN Security Council in 2017. As a result, about 100,000 people working and providing for families will lose jobs with decent wages [TASS, 2018b].

At the same time, the supply of locally produced goods which were previously exported (for example, seafood and some types of minerals) can be redirected to the domestic market. Demand for coal, in particular, is already dictated by the DPRK's efforts to master the coal gasification system in order to produce synthetic fuel [Kim, 2016, pp. 53–4]. In addition, the government will need to provide jobs to several tens of thousands of construction specialists who will return home from their foreign trips in the near future. Their incorporation into the domestic labour market may contribute to the expansion of the construction boom that started in Pyongyang and some other cities several years ago to other parts of North Korea. Thus, the DPRK government will be forced to step up its national production based on the country's limited resources. It is interesting to note that such development fully corresponds with the state Juche ideology which calls for self-reliance.

In addition to the UNSC restrictions, the unilateral economic sanctions applied by the United States have serious consequences for the DPRK. Taking advantage of its dominant position in the international financial system and its significance for the world economy, the United States has introduced secondary sanctions against foreign individuals and legal entities [Harrell, Zarate, 2018]. People or companies doing business with North Korea risk being added to Washington's "black list," which means becoming an outcast in the business world. The introduction of Washington's unilateral sanctions denying access to the U.S. market and banking system deters foreigners from cooperation with the DPRK even in areas that have not been restricted by the UN Security Council.

In 2018 the North Korean leader worked to mend fences with China, South Korea and the United States to relieve international economic pressure on his country. As a result, some changes were introduced regarding the practical implementation of the UNSC sanctions regime. In particular, the three China-DPRK summits (in March, May and June) contributed to a softening of Beijing's position and revival of bilateral economic ties [Yonhap News Agency, 2018]. This was interpreted by Washington as non-compliance by China with its earlier commitments to apply sanctions pressure on Pyongyang [Macdonald, 2018]. Two inter-Korean summit meetings identified possible cooperation projects between the two countries [Reuters, 2018]. To implement the agreed plans, particularly the restoration of the military "hotline" between the North and the South, Seoul received approval from Committee 1718 for the delivery of sanctioned items to the DPRK [Kim, 2018].

Before the summit between Kim Jong Un and Donald Trump held on 12 June 2018 in Singapore, the U.S. president did not rule out the possibility of providing economic assistance to North Korea and lifting sanctions if the DPRK fulfils its obligations to denuclearize [White House, 2018]. With such positive developments on the peninsula, reports emerged that large South Korean companies, as well as some foreign investors, were beginning to explore the possibility of doing business in the DPRK in the event that international restrictions are eased and the country becomes more open for external relations [Salmon, 2018]. However, given the complexity of the U.S.-North Korean talks following the summit and Washington's intention to maintain economic pressure on Pyongyang [U.S. Department of State, 2018], the potential process of lifting sanctions promises to be long and problematic. At the same time, China's tacit agreement to keep the DPRK afloat (for example, through allowed humanitarian assistance or a "creative approach" to compliance with UN Security Council resolutions) may once again become a significant factor in the functioning of the North Korean economy while international restrictions remain in place.

Conclusion

Pyongyang's development of a nuclear programme and the testing of intercontinental ballistic missiles brought the Korean peninsula to the brink of war in 2017. The UNSC tried to eliminate the threat and since 2006 has introduced several packages of sanctions designed to limit North Korea's ability to develop nuclear and missile technologies. However, these attempts have not been successful. Inventive North Korean companies managed to easily overcome restrictions imposed on the country's banking relations with the outside world. The opacity of processes taking place in the DPRK, as well as the officially maintained socialist economy in which all resources are de jure owned by the state, were among the factors pushing the UN Security Council to impose sanctions against sectors of the North Korean economy that are not directly related to the development of weapons of mass destruction. The declared goal is to limit the sources of foreign currency which the DPRK government uses to develop its nuclear and missile programmes.

As a result, five sanctions resolutions adopted by the UNSC in 2016–17 effectively cut off North Korea from the system of international economic cooperation. The main export goods of the DPRK were denied access to the world market while the import of oil products and various types of industrial goods was heavily restricted. The system of monitoring the implementation of resolutions by UN member states was tightened since the effectiveness of sanctions directly depends on the coordinated actions of North Korea's trading partners.

The officially proclaimed ideology of the DPRK is self-reliance which applies to the economy as well. However, in practice, North Korea essentially depends on the supply of fuel, industrial equipment, vehicles, technology and much more from abroad. Since international sanctions were imposed this dependence has only increased, and foreign economic relations (both trade and investment) began to play an important role in the development of the country's economy. Access to foreign markets contributed to the expansion of commercial relations in North Korea and the establishment of market principles in the North Korean socio-economic system. This helped increase the openness of the country's economy to the outside world, creating prerequisites for further internal liberalization.

The imposed sanctions will inevitably reduce this openness. They will hurt the "private" sector of the DPRK economy, as its development in recent years has been largely connected with the expansion of Sino-North Korean economic ties. Large companies associated with the state will have more chances to get access to the country's limited resources than small- and medium-size firms operating with private capital and without the necessary connections. Given significantly narrowed external opportunities for economic development, the North Korean leadership will have to use both extensive (mass mobilization campaigns) and intensive (material incentives, scientific and technological progress) factors for internal development.

At the same time, Kim Jong Un can try to break through the "sanctions ring" by improving relations with foreign countries. The first half of 2018 witnessed Pyongyang's "peaceful offensive." Three Sino-North Korean summits, two meetings of the Korean leaders and the first ever U.S.-North Korean summit created an atmosphere for defusing tensions in the region. The DPRK leadership believes that it has achieved its goals in the creation of the nuclear armed forces, and declares that it is ready to concentrate on economic construction. However, without abandoning nuclear weapons Pyongyang is unlikely to obtain the much-needed large-scale external assistance which will remain prohibited by the sanctions of the UN Security Council.

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Влияние санкций Совета Безопасности ООН на экономику КНДР[1]

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Статья посвящена экономическим санкциям, введенным Советом Безопасности ООН (СБ ООН) в отношении КНДР с 2006 по 2017 г. в ответ на ядерные испытания и ракетные запуски Пхеньяна. За этот период было принято несколько резолюций, содержащих обязательства для всех государств – членов ООН, часть которых имеет непосредственное влияние как на экономические контакты Северной Кореи с внешним миром, так и на развитие ее экономики в целом. Особой жесткостью отличается пакет ограничительных мер, зафиксированных в резолюциях СБ ООН, принятых в 2016–2017 гг.

Целью исследования является проведение структурированного анализа введенных против КНДР экономических санкций и выявление возможных последствий международных ограничений для северокорейской экономики.

В основе исследования лежит системный подход, представляющий экономику КНДР как систему, а санкционный режим СБ ООН как внешний фактор, влияющий на ее развитие. При анализе текстов резолюций применялся метод сравнительного анализа, позволяющий рассмотреть процесс ужесточения санкций в динамике. Изучение современного состояния северокорейской экономики, ключевых факторов ее развития и влияния международных санкций потребовало использования статистического и аналитического метода исследования.

КНДР в 1960-е годы засекретила большую часть своей экономической статистики и иногда обнародует лишь некоторые показатели, например, объем ВВП за отдельные годы. В связи с этим при анализе динамики развития северокорейской экономики за длительные периоды приходится использовать оценочные показатели из вторичных источников, в том числе международных организаций и государственных учреждений Республики Корея. По имеющимся оценкам, последнее десятилетие было отмечено ростом ВВП Северной Кореи, несмотря на введенные СБ ООН ограничения. Этому способствовали усилия Пхеньяна по расширению внешнеэкономических связей, а также распространение рыночных элементов в социалистической экономике КНДР.

В результате введенных СБ ООН санкций к концу 2017 г. Северная Корея была фактически отрезана от мировой банковской системы, существенно ограничена в своих внешних торговых, инвестиционных, транспортных и научных связях. Среди важных последствий санкций для экономики КНДР автор статьи выделяет сокращение экспорта, «удорожание» всех внешних транзакций для северокорейских компаний, необходимость поиска новых путей взаимодействия с мировой экономикой, вынужденную переориентацию на внутренний рынок для ранее экспортно ориентированных производителей, а также негативные гуманитарные последствия международных санкций для гражданского населения КНДР. Существенное ограничение потока и удорожание поступающих из-за границы ресурсов в долгосрочной перспективе может привести к усилению крупных компаний, связанных с государством, за счет вытеснения малых «частных» форм бизнеса, обладающих меньшими возможностями.

Ключевые слова: КНДР; Северная Корея; Совет Безопасности ООН; санкции; ядерная программа; экономика

Для цитирования: Захарова Л.В. (2019) Влияние санкций Совета Безопасности ООН на экономику КНДР // Вестник международных организаций. Т. 14. № 2. С. 192–211 (на русском и английском языках). DOI: 10.17323/1996-7845-2019-02-09.

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[1] Статья поступила в редакцию в мае 2018 г.

Исследование выполнено за счет гранта Российского научного фонда (проект № 17-78-10126).

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