

NORTH KOREA: THE ECONOMY UNDER UN SANCTIONS
AND COMMUNIST RULE

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NORTH KOREA: THE ECONOMY UNDER UN SANCTIONS
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ABSTRACT

The Democratic People's Republic of Korea (North Korea), one of the most heavily sanctioned countries in the world, continues to generate enough capital to make consistent strides in nuclear and missile technology. To this point, it has been successful in avoiding regime collapse. This analysis details how the isolated regime has been able to function economically in spite of numerous sanctions from the United Nations and other countries around the world.

Sanctions have been aimed at both at the political elite and general citizen levels. Elites use state institutions as well as businesses to generate substantial amounts of foreign currency to fund a lavish lifestyle and a nuclear program. Normal citizens rely on border regions and black markets for their survival. The pervasive use of foreign currency among North Korean citizens has appeared to keep the general economy afloat. North Korea has had numerous economic setbacks, but the reactions of sympathetic governments and the average citizen seem to have created an economic system that is increasingly resistant to crash. This paper synthesizes information from defector interviews, global trade reports, and UN effectiveness reports to create a comprehensive illustration of how the economy of North Korea continues to function in a relatively stable manner.

I. INTRODUCTION

The Democratic People's Republic of Korea (North Korea) has long been considered a rogue state in the international community because of the nation's dictatorial rule and its continued progression towards nuclear and ballistic missile programs. As such, North Korea has become one of the most heavily sanctioned countries in the world.¹ However, the extensive trade and financial sanctions that have been levied against the North do not seem to have had the intended effect of suppressing their nuclear program or depressing their economy to the point of compliance.² The amplifying factors of the country's communist command economy, history of famine, and economic crises pose the question of how North Korea still has the ability to pursue nuclear weapons advancement without economic crash. The answer is largely explained by the North's ability to avoid economic sanctions, the economic advancements and opportunities given to the North by countries sympathetic to its goals, and the influx and use of foreign currency by everyday citizens.

To provide context to the current state of the DPRK demographics and economy, see Table 1.1 below.

¹ Jong-Woon Lee and Kevin Gray, "Cause for optimism? Financial sanctions and the rise of the Sino-North Korean border economy," *Review of International Political Economy* 24, no. 3 (June 2017): 425.

² Stephen Haggard and Marcus Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," *Asian Survey*, no. 3 (2010): 539-540.

TABLE 1.1: North Korean Economic Demographics

CATEGORY	DATA	ESTIMATION YEAR
Population	25.24 million	2017
GDP	US\$28 billion	2013
GDP per capita	US\$1,800	2013
Labor Force	14 million	2014
Unemployment Rate	25.6%	2013
Imports Market	90.3%	2016
Exports Market	85.6%	2016

All data are estimates compiled by the Central Intelligence Agency of the USA.³

³ "The World Factbook: Korea, North," Central Intelligence Agency, last modified April 03, 2018, <https://www.cia.gov/library/publications/the-world-factbook/geos/kn.html>.

II. EVALUATION OF UN SANCTIONS

The impact or effectiveness of sanctions, in this case, is measured by the extent to which sanctions have changed the behavior of North Korea. Their initial aim was to halt the North's nuclear program with the ultimate goal (or at least the perceived ultimate goal of Western nations) of causing a regime change in a nation seen by many as a threat to global security.⁴ In order to fully comprehend the impact, or rather non-impact, of sanctions against North Korea, the history and progression of international sanctions must first be understood. The modern era of sanctions against the North began during the 1993-94 nuclear crisis on the Korean Peninsula.⁵

The implementation of sanctions was discussed among the United States, South Korea, and Japan. However, all parties had two principal concerns: (1) North Korea would react in a violent manner against South Korea, and (2) that sanctions would be ineffective because of Russian and/or Chinese noncompliance.⁶ These two concerns have been expressed each time sanctions are negotiated. Yet, history has shown that the North does not react militaristically towards South Korea when additional sanctions are implemented. Continued arms development and missile tests may constitute military responses, but insofar as directly attacking the South, North Korea has never done so in response to sanctions. In regard to Chinese and Russian responses to sanctions, their actions have been mixed and increasingly complicated.

⁴ "Economic sanctions and the rhetorical responses of totalitarian regimes: Examining North Korean rhetorical strategies, 1949-2010," *Communist and Post-Communist Studies* 47, no. 2 (n.d.): 160.

⁵ Marcus Noland, "The (Non-) Impact of UN Sanctions on North Korea," *Asia Policy*, no. 1 (2009): 64.

⁶ Noland, "The (Non-) Impact of UN Sanctions on North Korea," 64.

After the North tested both long and short-range missiles in July 2006, Chinese support for sanctions seemed to shift. China had warned them not to conduct the tests. When North Korea blatantly disregarded their warnings, China supported the adoption of UN Resolution 1695 (see appendix 1).⁷ The Resolution was the strongest action taken by the United Nations Security Council against North Korea since the Korean War in 1950. However, China did block harsher sanctions proposed by the US and Japan.⁸

Sanctions progressed even further after the North's first nuclear test. Despite an expectation that those tests would completely change the way the international community dealt with North Korea, the world's actions and rhetoric did not match those expectations. Stronger sanctions that included an embargo of heavy arms and luxury goods to the North was implemented and supported by China in the form of UN Resolution 1718 (see appendix 2). But it was in the enforcement of those sanctions that their main problem began to be realized.^{9,10}

Sanctions have continually been ineffective on altering trade with and hurting the economy of North Korea because the administration of sanctions is left to each individual countries' discretion.¹¹ The UN has been unable to pass any resolution that requires every country to implement sanctions in the same way. For example, countries define the restricted trade goods so narrowly that it negates the goal of the embargo. In the case of

⁷ Noland, "The (Non-) Impact of UN Sanctions on North Korea," 65.

⁸ Noland, "The (Non-) Impact of UN Sanctions on North Korea," 65.

⁹ Noland, "The (Non-) Impact of UN Sanctions on North Korea," 66.

¹⁰ Jina Kim, "UN Sanctions as an Instrument of Coercive Diplomacy against North Korea," *Korean Journal of Defense Analysis* 26, no. 3 (September 2014): 321.

¹¹ Noland, "The (Non-) Impact of UN Sanctions on North Korea," 66.

Russia, they defined luxury goods as watches that cost more than \$2,000 and fur coats that cost more than \$9,637. When countries submit reports on how they implemented sanctions, the reports are so vague that the international community has no idea if the sanctions are truly being enforced, as is the case with China.¹²

Analysis of trade between North Korea and the rest of the world after sanctions has found no evidence that the nuclear testing or UN Resolutions have had any substantial impact on the regime's trade with China.¹³ Even more surprising is that trade with its other main partner, South Korea, did not change after the nuclear tests. In fact, trade with the South increased after the first test in 2006.¹⁴ This can partially be explained again because of the narrowness of sanctions, which do not include humanitarian aid and actions that support denuclearization (a large percentage of South Korea's dealings and trade with the North).¹⁵

Outside of Chinese or Russian noncompliance, there is a geopolitical reason why sanctions involving trade are more often than not ineffective. The problem is that countries who support sanctioning the most, like the US and Japan, already do not trade with or invest in North Korea.¹⁶ Because of that, the main proponents of sanctions are unable to wield enough, if any, leverage against the North to halt their nuclear program.

¹² Noland, "The (Non-) Impact of UN Sanctions on North Korea," 67.

¹³ Haggard and Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," 562.

¹⁴ Noland, "The (Non-) Impact of UN Sanctions on North Korea," 68-70.

¹⁵ Haggard and Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," 563.

¹⁶ Haggard and Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," 564.

These countries have already divested themselves from any stake in the North Korean economy. As such, there is little else available to do when trying to achieve their goals on the peninsula.

Because of that lack of involvement, North Korea has begun to depend on developing countries for an ever-increasing portion of its economic activity. In particular, North Korea has turned to the Middle East for trade (specifically Algeria, Saudi Arabia, and Lebanon). Its trade volume with these countries has grown twice as fast as the regime's trade with the rest of the world.¹⁷ Furthermore, countries like Iran, Syria, and Yemen do not have strong relationships with the West and, despite reporting no trade between the countries to the UN, have been known to actively participate in arms trading with North Korea.¹⁸ These arms activities have even extended to a cooperative construction of a nuclear reactor in the Syrian desert, showing just how involved these countries have been in the North's proliferation of nuclear weapons.¹⁹

The only sanctions that have shown any true effect are targeted financial sanctions, or so-called "smart sanctions." In 2005, the US Treasury accused Banco Delta Asia (BDA) in Macao, China of participating in laundering North Korean funds and trafficking counterfeit money. This led BDA officials to freeze the bank accounts of 52

¹⁷ Haggard and Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," 552.

¹⁸ Haggard and Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," 552.

¹⁹ Haggard and Noland, "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," 553.

North Koreans, worth roughly \$24US million.²⁰ The goal of the Treasury was not necessarily to take that money away from the North, as \$24 million was not a substantial amount of money, but to send a message to the rest of the world that banks dealing with North Korea run the risk of being labeled money launderers and complicit in the proliferation of nuclear weapons.²¹

After BDA assets were frozen, two dozen financial institutions throughout Europe and Asia began limiting their interactions with North Korea or shutting down their accounts altogether.²² As a result, the North's ability to interact with the global financial system was severely hindered. The effectiveness of these types of sanctions were made clear when a North Korean deputy negotiator admitted to a senior White House official that, "You finally found a way to hurt us," shortly after the US's actions towards BDA.²³ Rare glimpses into the minds of North Korean government officials like this make indirect financial sanctions appear to be the most effective strategy against the increasingly bold regime. Trade sanctions have proven to be easily avoided, lack substantive enforcement, and require much more international cooperation than the targeted financial sanctions that can be implemented by a single country.

Furthermore, the recent enactment of UN Resolution 2270 in April 2016 (see appendix 3), which was the first to specify items banned from trade with the North (i.e.

²⁰ Lee and Gray, "Cause for optimism? Financial sanctions and the rise of the Sino-North Korean border economy," 429.

²¹ Lee and Gray, "Cause for optimism? Financial sanctions and the rise of the Sino-North Korean border economy," 429.

²² Lee and Gray, "Cause for optimism? Financial sanctions and the rise of the Sino-North Korean border economy," 429.

²³ Lee and Gray, "Cause for optimism? Financial sanctions and the rise of the Sino-North Korean border economy," 425.

coal, iron ore, gold, and rare earth minerals), shows exactly how countries like China have skirted true enforcement of the embargo.^{24,25} Like they have in the recent past, China publicly supports further sanctions against the North after nuclear and ballistic missile tests. However, the data on their trade with them tells another story.

In March 2016, one month before the North tested another round of ballistic missiles, imports of coal from the North to China skyrocketed.²⁶ Once the tests were conducted and new sanctions passed, China slashed their imports from the North. It appears that China has taken on a strategy of rapidly expanding its imports from the North directly before they know another missile test is going to occur. In doing so, their enactment of sanctions “appears” to be genuine, when in reality China is just preemptively accounting for the sanctions so that they do not have a substantial impact on North Korea.²⁷ The same strategy has been seen with not only coal, but also with iron and iron ore.

²⁴ Jih-Un Kim, "Pseudo Change: China's Strategic Calculations and Policy Toward North Korea after Pyongyang's 4th Nuclear Test," *East Asia: An International Quarterly* 34, no. 3 (September 2017): 165.

²⁵ Scott Snyder and See-won Byun, "China-Korea Relations: New Sanctions, Old Dilemmas," *Comparative Connections: A Triannual E-Journal on East Asian Bilateral Relations* 18, no. 1 (May 2016): 91.

²⁶ Kim, "Pseudo Change: China's Strategic Calculations and Policy Toward North Korea after Pyongyang's 4th Nuclear Test," 167.

²⁷ Kim, "Pseudo Change: China's Strategic Calculations and Policy Toward North Korea after Pyongyang's 4th Nuclear Test," 168.

III. CHINESE SUPPORT AND NONCOMPLIANCE

Aside from unreliable enforcement of sanctions, China has been able to prop up the economy of North Korea and keep a steady flow of money into the state. North Korea's nuclear brinkmanship and poor investment environment is enough to keep most countries in the world from investing any capital into its economy.²⁸ However, that is not the case with China, who accounts for the largest portion of investment in North Korea (80-90%). The Chinese funnel hundreds of millions of dollars into numerous projects across various industries in the North.²⁹ There are three main reasons that explain why Chinese investment in the North continues to grow each year:

1. increased investment means stronger influence over the country,
2. a saturated market in China paired with preferential treatment of Chinese investors,
3. China's need to secure more natural resources.³⁰

The Chinese government sees North Korea as a significant strategic asset and ally. Economic instability in the North could lead to the economic and political collapse of the regime. That would threaten regional stability and open up the possibility of a democratic nation heavily supported and armed by the United States on its border.³¹ This fear has caused China to consistently invest in the North's economy to minimize any risk

²⁸ Hanhee Lee, "Foreign Direct Investment in North Korea and the Effect of Special Economic Zones: Learning from Transition Economies," *Journal of Economic Development* 40, no. 2 (June 2015): 35.

²⁹ Jae Cheol Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," *Asian Survey*, no. 6 (2006): 898-901.

³⁰ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 898-913.

³¹ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 906.

of a regime collapse, an event that would be considered politically catastrophic to Beijing. And perhaps unexpectedly, Chinese investment in the North has been coupled with attempts by Beijing to bring about economic reform in the country.³²

The market-based reforms that China is advocating for are the same ones that made their economy the fastest growing in the world. In China's view, if North Korea was to embrace these reforms, they would not need as much aid and investment. It would certainly put them on a substantially better path of sustainability than they are currently on by constantly pulling the nuclear card.³³ Although North Korean acceptance of economic reform has been sporadic and unreliable, China is still setting the country up for long-term economic prosperity. The primary way they are doing so is through heavy investment in infrastructure expansion in North Korea.³⁴ By building roads and railways throughout the country, many of which create a clear path back to China, the North is better able to move resources within the country, driving economic growth and self-reliability.

Also propelling Chinese investment is the saturated domestic market and preferential treatment from both North Korea and China towards investors. It is not the big state-owned Chinese companies that are investing in the North, but rather small and

³² Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 906.

³³ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 907.

³⁴ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 902.

medium-sized companies and entrepreneurs.³⁵ These are the people that cannot compete against the big brand names in China, but see North Korea, whose citizens have virtually no brand name recognition and an increasing standard of living, as an untapped market for their goods.³⁶ Additionally, the Chinese government has implemented numerous financial incentives for investing in the North.

Officials have allowed more companies to invest overseas, state-run banks have provided companies with investment capital, and the government has given preferential treatment to products produced in the North by guaranteeing them better access to Chinese markets.³⁷ It is also much cheaper for Chinese companies to produce in North Korea due to low labor costs. And because Chinese investors all have experience operating in a communist country that has begun to liberalize, they feel more comfortable investing in the North and better able to predict future economic conditions.³⁸ All of these incentives can be tied back to China's goal of making North Korea less reliant on aid and investment from the Chinese government.

Securing natural resources for its growing population has also been a main contributing factor for Chinese investment in North Korea. By 2020, China will only be sufficient in six of 45 essential resources, meaning that they are going to have to rely on

³⁵ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 904.

³⁶ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 904.

³⁷ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 908.

³⁸ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 909-910.

substantial and stable import flows to meet the consumption demands of the country.³⁹ Resources like iron ore are essential for China to continue its industrialization, and provinces close to North Korea are already well equipped to handle and process an influx of resources.⁴⁰ China has excess production capacity in this sector, and North Korea has guaranteed to redeem all foreign investment costs accrued by China if they continue to develop natural resource productive capacity.⁴¹

The North's policy towards Chinese investment drastically reduces the risk assumed by financiers and entices even more investment. While Chinese investment helps to keep North Korea solvent, the foreign currency that it brings, and its subsequent use by the general North Korean citizen, is what has helped prevent further famine and economic crises and is a large factor in the increased quality of life of the North Korean people.

³⁹ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 911.

⁴⁰ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 904.

⁴¹ Kim, "The Political Economy of Chinese Investment in North Korea: A Preliminary Assessment," 912.

IV. FOREIGN CURRENCY ACQUISITION AND USE

According to Lee and Gray, “it is no exaggeration to say that the Sino-North Korean border economy has become central to North Korea’s economic survival.”⁴² The border economy has funneled foreign currency into the market and has helped to fuel an environment where the informal economy, also referred to as the shadow economy, has the opportunity to positively affect the average citizen.⁴³ In a communist country, the informal economy constitutes any economic action that is conducted by the citizen and not a state-run entity (i.e. private business activities). The shadow economy provides for at least 70% of total income for North Koreans and the same percentage in terms of labor force participation rate, a portion of the economy that is far greater than the informal sector of any socialist country in the past.⁴⁴ To understand how this part of the economy became so large, one must first understand the economic history of the previous two and a half decades.

There have been three incidents during this time period that have caused a large portion of North Koreans to begin using foreign currency in their everyday transactions and as a store of value:

1. the currency revaluation of 1992,
2. the July 1 Economic Management Improvement Measure of 2002,

⁴² Lee and Gray, “Cause for optimism? Financial sanctions and the rise of the Sino-North Korean border economy,” 426.

⁴³ Alexander Dukalskis, “North Korea’s Shadow Economy: A Force for Authoritarian Resilience or Corrosion?” *Europe-Asia Studies* 68, no. 3 (May 2016): 488.

⁴⁴ Byung-Yeon Kim and Min Jung Kim, “The Evolution of the Informal Economy in North Korea,” *Seoul Journal of Economics* 29, no. 4 (Winter 2016): 458.

3. the flash currency reform of November 2009.⁴⁵

In 1992, North Korea's economy was rapidly declining, in part because of the demise of the Soviet Union who had consistently propped up the North economically.⁴⁶ Because the economy was in free-fall, the government was looking to transfer the wealth that accumulated in private hands back to state coffers.⁴⁷ Resultant of basic economic theory, printing large amounts of money and keeping it in the possession of the state will drastically increase inflation. This devalues the money held by citizens and transfers that value back to the state (who is now in possession of a majority of the currency).

The result was an extreme economic downturn and a nation-wide famine. North Korean currency became nearly useless to the citizens, and they turned to the more stable Chinese and American currency as a means of retaining purchasing power. They also resorted to private economic activities to survive.^{48,49} At the same time, the Public Distribution System, the means by which the North Korean government rationed out food and other resources to citizens, collapsed. This amplified the famine and pushed citizens towards foreign currency even more.⁵⁰ The revaluation increased the overall risk of

⁴⁵ Christopher Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," *Asian Perspective* 40, no. 3 (July 2016): 423.

⁴⁶ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 424.

⁴⁷ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 424.

⁴⁸ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 425.

⁴⁹ Kevin Gray and Jong-Woon Lee, "Following in China's footsteps? The political economy of North Korean reform," *Pacific Review* 30, no. 1 (January 2017): 54.

⁵⁰ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 420.

holding North Korean currency and added to the economic uncertainty that was already widespread in the country.

The second shock to the economy, the July 1 Economic Management Improvement Measure of 2002 (the 7.1 Measure), very closely resembled the currency revaluation of 1992 in that it appeared its purpose was to again transfer wealth back to the state.⁵¹ However, the reasoning for why the state needed money differed. North Korea transferred value back to state accounts in 1992 because Russia and China started demanding hard currency as payment for goods at global prices.⁵² The North had to increase the wealth it held in order to comply with those demands. However, in 2002 farmers' prices were lower than the state's creating a larger commercial market than the state one.⁵³ This was counter to the socialist command economy the regime is constantly looking to uphold, so they again devalued their currency to shift the wealth, and therefore power, back to the state.

Of all the currency shocks throughout the past 25 years, the flash currency reform of November 30, 2009 caused the greatest uptake of foreign currency by citizens.⁵⁴ North Koreans woke up that day to hear that the currency they were holding was no longer to be

⁵¹ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 425

⁵² Sung Min Mun and Seung Ho Jung, "Dollarization in North Korea: Evidence from a Survey of North Korean Refugees," *East Asian Economic Review* 21, no. 1 (March 2017): 82.

⁵³ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 425.

⁵⁴ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 426.

accepted and that it had to be traded in for a new currency at a rate of 100:1.⁵⁵ Again, the North Korean government was looking to fill public finance coffers. But the hasty way the reform was carried out created substantially more economic fallout than the shocks of 1992 and 2002.⁵⁶ The economy suffered months of hyperinflation (inflation defined as greater than 50% per month), which at one point caused prices to double every 11.8 days.⁵⁷ Those who were holding foreign currency became very wealthy because of the devaluation of North Korean currency. This only added to the motivation of private citizens to obtain and hold as much foreign currency as they could.

Due to the above-mentioned shocks and citizens' reactions to them, foreign currency has become extremely prevalent in North Koreans' day to day lives as it is often used in place of North Korean currency in most shadow economic activities.⁵⁸ Without the extensive use of foreign currency by average citizens, the North Korean economy would be much more unstable. The risk posed by their own currency, and therefore the risk of sudden poverty and famine, would be much greater without its use.

⁵⁵ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 425.

⁵⁶ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 426.

⁵⁷ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 426.

⁵⁸ Green, "The Sino-North Korean Border Economy: Money and Power Relations in North Korea," 429.

V. OFFICE 39

Office 39, also commonly referred to as Room 39 or Bureau 39, is a highly secretive branch of the North Korean government that conducts both licit and illicit business activities ranging from counterfeiting to drug smuggling and arms dealing. By operating through government agencies and front companies, these activities generate substantial amounts of capital to support the Kim regime and its leadership.⁵⁹ Office 39 was originally created in the 1970s by Kim Il-Sung, the founding father of North Korea, as a royal slush fund.⁶⁰ The money generated through these companies is used to support the lavish lifestyles of North Korean elites.

According to Lim Soo-ho, a research fellow at the Samsung Economic Research Institute, Office 39 oversees roughly 120 trading companies and mines.⁶¹ The exact amount of revenue these companies actually bring into the country is exceedingly difficult to determine. For one, intelligence agencies have notoriously had a difficult time infiltrating the Kim regime, which would help determine what companies are operating under Office 39. Additionally, trade reports into and out of North Korea are also often unreliable. Even then, the fact that some of the companies are engaged in legal trade makes it more difficult to determine Office 39's true reach. Current estimates suggest that Office 39 is responsible for between \$US500 million and \$US2 billion in annual trade

⁵⁹ "Treasury Designates Key Nodes of the Illicit Financing Network of North Korea's Office 39," *States News Service*, November 2010.

⁶⁰ Matthew Carney, "Defector reveals secrets of North Korea's Office 39, raising cash for Kim Jong-un," *ABC News*, January 5, 2018.

⁶¹ Kim Kwang-Tae, "Report: Director of North Korean leader Kim Jong Il's secret moneymaking bureau fired," *The Canadian Press*, February 2010.

revenues for North Korea.⁶² With global sanctions against the country consistently increasing, the revenue generated from Office 39 is essential to the survival of the Kim regime.

In a 2018 interview, a North Korean defector stated, “Office 39 is an organization to get foreign currency for the leader. We exported whatever we could – gold, jewelry, farming goods – everything we sold to get money for him.”⁶³ Office 39 uses a wide range of activities to generate its income, from counterfeiting and cybercrime, to legitimate businesses like trade companies and banking. According to the US Treasury Department, these companies have also been involved in exporting workers to use their wages for revenue.⁶⁴ This export of human labor has increased in the past several years, along with coal exports, as the marketplace for illegal drugs, counterfeit currency, and other illicit goods have shrunk for North Korea.⁶⁵ Other non-state actors and criminal enterprises have entered the global market and reduced the potential for profit, causing the shift in what the North (Office 39) exports.

The DPRK has instead begun to focus heavily on cybercrime and hacking to steal money. Office 39 has thousands of hackers that are working in an arena much harder to police and more difficult to detect. In 2016 alone, North Korea stole \$81US million from the New York Federal Reserve, attempted to rob accounts at the Bangladesh Central

⁶² Carney, “Defector reveals secrets of North Korea’s Office 39, raising cash for Kim Jong-un.”

⁶³ Carney, “Defector reveals secrets of North Korea’s Office 39, raising cash for Kim Jong-un.”

⁶⁴ Peter Martin and Jiyeun Lee, “Sanctions on North Korea Inc. Hit Kim’s Secretive ‘Office 39,’” *Bloomberg News*, August 10, 2017.

⁶⁵ John Park and Jim Walsh, “Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences,” MIT Security Studies Program, August 2016, 27.

Bank, and conducted a ransomware attack that crippled hundreds of thousands of computers in dozens of countries, bringing down Britain's National Health Service in the process.⁶⁶

Policing the actions of Office 39, whether through sanctions or other means, has proven to be extremely difficult. When sanctions specifically target entities that are known to be a part of Office 39 (see appendix 4), North Korea is able to very easily avoid those sanctions by simply changing the entity's name or moving the sanctioned entity's operations under the jurisdiction of a different state company.⁶⁷ North Korea has been operating under a global sanctions regime for decades and has come to develop a multitude of ways to avoid the full effects of those sanctions. Office 39 and its methods and tactics are substantive evidence of the success North Korea has had in ensuring a constant stream of capital into the country, and just how normal operating an economy under extensive sanctions has become.

⁶⁶ Carney, "Defector reveals secrets of North Korea's Office 39, raising cash for Kim Jong-un."

⁶⁷ Martin and Lee, "Sanctions on North Korea Inc. Hit Kim's Secretive 'Office 39.'"

VI. STATE TRADING COMPANIES AND THEIR EFFECTIVENESS

Because North Korea operates under a communist regime, nearly all legitimate companies in the country are managed and run by the state. While many of these companies operate under the direction of Office 39, most of these State Trading Companies (STCs) are simply the procurement vehicles for the government as a whole. A notable distinction is that companies under Office 39 generate funds directly for the Kim regime and party elites, while most other STCs' revenue funds the government in general, including its nuclear and ballistic missile programs.

STCs in North Korea as they are known and operate today began in the 1980s, but really began to expand in number and significance after the fall of the Soviet Union.⁶⁸ After the Soviet Union collapsed, the DPRK was forced to rely less on the state-to-state trade that had characterized the past several decades and shift instead towards STCs that could more easily conduct business with both other state entities and private businesses, namely in China. The second, and more relevant shifts in how STCs operate today have occurred since 2000.

As mentioned before, the Banco Delta Asia sanctions of the mid-2000s made the North realize that their illegitimate funds were not safe from US sanctions when kept in international banks. This realization prompted them to find new partners and financial instruments that would allow them to operate outside the scope of the US Treasury Department. Fortunately for the DPRK, a state visit to Pyongyang by China's Premier Wen Jiabao in 2009 created the opportunity for those new partners and financial

⁶⁸ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 19.

strategies. Wen signed bilateral agreements with the Workers' Party of Korea that created the system that allowed the DPRK to expand its coal exports with China and increase its overall procurement capabilities with the Chinese.⁶⁹ But perhaps even more significantly, these agreements signaled to private Chinese firms that business with the DPRK and its entities was now allowed.⁷⁰ As such, STCs have prominently dealt with private Chinese firms since 2009. Additionally, Kim Jong-un's *byungjin* policy, which aims to increase the North's nuclear capabilities alongside a growing economy, has created a large uptick in overall trade into and out of North Korea.⁷¹

All of these significant events triggered a substantial shift in DPRK procurement. There are four changes to the STC system that are particularly important to note:

1. utilization of more capable Chinese middlemen,
2. entrenchment in China,
3. use of Hong Kong and other commercial hubs in Southeast Asia,
4. an increase in embassy and diplomatic personnel's role in procurement.⁷²

To begin with, the increase in dealings with private Chinese firms since 2009 have led to an increase in STCs' use of Chinese middlemen. STCs are unable to directly procure their desired resources because of sanctions and are therefore forced to work

⁶⁹ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 20.

⁷⁰ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 21.

⁷¹ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 22.

⁷² Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 22-26.

through middlemen to obtain those resources under the guise of other, often Chinese, companies. The increased sanctions against the North have increased the risk of doing business with STCs, but the DPRK has responded by paying higher fees to compensate for the risk, which in turn has attracted more competent Chinese businessmen to dealings with the North.⁷³

More competent businessmen have helped to create a rather clever way for STCs to circumvent sanctions. STCs sign contracts directly with private Chinese brokers (the middlemen). These brokers then sign contracts with Chinese suppliers, who assume they are doing business with another Chinese firm. The brokers then acquire whatever goods they were contracted for and those goods are then delivered back to the original customer, the DPRK, with the Chinese suppliers none the wiser.⁷⁴ This type of business is extremely difficult for sanctions to impact as private Chinese citizens are, on paper, operating within the law, and are very willing to deal with the DPRK in exchange for increased profits.

As STCs have started to utilize more Chinese middlemen, they naturally have begun migrating to mainland China altogether. STC managers and their families are now moving to commercial hubs in China as direct operations in the country allow the opportunity for deeper relationship building with Chinese suppliers and access to the Chinese banking system.⁷⁵ Managers are able to gain the tacit, informal knowledge that

⁷³ Park and Walsh, “Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences,” 22.

⁷⁴ Park and Walsh, “Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences,” 22.

⁷⁵ Park and Walsh, “Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences,” 24-25.

comes along with direct interaction in China and are now better able to navigate the business and financial sectors of China. Most notably, STCs are setting up on-shore bank accounts to conduct their business. This has made it even harder for the Chinese government to detect illicit activity as the bank and payment records between all of their transactions show as legitimate Chinese accounts and businesses, not North Korean ones.⁷⁶

Outside of China, North Korean STCs have looked to Hong Kong and other commercial hubs in Southeast Asia to expand their reach and improve their ability to avoid sanctions. The higher fees the DPRK pays for the risk associated with doing business with them has allowed STCs to utilize Hong Kong's central role in trade and finance in the region. STCs establishing bank accounts across the Southeast Asian region reduces the STCs' risk of getting caught and allows them to operate within more local markets.⁷⁷

Finally, the DPRK has continually taken advantage of the diplomatic privileges and immunities granted under the Vienna Conventions on Diplomatic and Consular Relations. North Korea has normal diplomatic relations with most countries around the world, particularly those in Asia. It is afforded normal consular privileges in those countries. The privilege the North abuses is that of "diplomatic pouches," which can travel through countries and across borders with diplomatic couriers without the risk of

⁷⁶ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 25.

⁷⁷ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 26.

search and immunity from arrest.⁷⁸ These diplomatic couriers are often also agents for STCs carrying unreported cash or other illicit items that are helping to further an STC's success.

⁷⁸ Park and Walsh, "Stopping North Korea, Inc.: Sanctions Effectiveness and Unintended Consequences," 26.

VII. UN SECURITY COUNCIL SANCTIONS EVALUATIONS

The Security Council Committee that was established pursuant to Resolution 1718 has been evaluating the impact and overall effects of Security Council resolutions and sanctions against the DPRK since 2009. The most recent report was released March 5, 2018 evaluating Resolution 2345 and includes 292 pages of in-depth analysis of nearly every sanction that is currently in place today. In addition to what has been previously addressed in this analysis, the Committee's report also evaluates specific instances of methods the DPRK has used to avoid international sanctions, particularly in regard to trade and shipping.

Listed below are the major conclusions regarding the economic implications of the March 5 report:

- The DPRK is already violating the most recent UN resolutions by “exploiting global oil supply chains, complicit foreign nationals, offshore company registries and the international banking system.”
- The DPRK has continued to export nearly all commodities that are prohibited in current resolutions.
- DPRK diplomats are violating the Vienna Convention on Diplomatic Relations and play a key role in logistical support for the regime's prohibited programs.
- The DPRK has had continued access to the international financial system resultant of significant sanction implementation deficiencies.
- The DPRK has been able to easily create offshore front companies to open and maintain bank accounts to move money around the world.

- The “expansion of the regime is yet to be matched by the requisite political will, international coordination, prioritization and resource allocation necessary to drive effective implementation” of sanctions.⁷⁹

The tables below depict the two products imported most by other countries from North Korea between January and September 2017 (iron/steel and coal) and the values of those imports in US dollars.

Table 7.1: Iron and Steel Imports from North Korea (January – September 2017)⁸⁰

COUNTRY	VALUE (US Dollars)
Barbados	\$317,365
Bolivia	\$40,277
Chile	\$35,027
China	\$52,449,266
Costa Rica	\$232,494
El Salvador	\$315,892
India	\$1,408,906
Ireland	\$17,280
Mexico	\$43,330
Pakistan	\$4,851,130
Philippines	\$2,305,895
Russian Federation	\$167,953

North Korea exported a total of \$62,184,815 worth of iron and steel to countries around the world between January and September 2017. All exports before September 4, 2017 violated paragraph 26 of Resolution 2321 (see appendix 5) unless there was an exemption made under paragraph 26(c) of the same Resolution, and all exports after

⁷⁹ "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)," United Nations, accessed April 2, 2018, http://www.un.org/ga/search/view_doc.asp?symbol=S/2018/171.

⁸⁰ United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

September 4, 2017 violated paragraph 8 of Resolution 2371 (see appendix 4).⁸¹ China was by far the most significant importer of North Korean iron and steel, which is in line with China’s historical actions and role in trade with the DPRK.

Table 7.2: Coal Exports of North Korea (January – September 2017)⁸²

MONTH	VALUE (US Dollars)
January	\$129,390,037.84
February	\$104,590,640
March	\$575,219.40
August	\$138,000,000
September	\$44,000,000

North Korea exported a total of \$413,555,897.24 worth of coal between January and September of 2017. There was an export cap of \$400,870,018 on coal specified in paragraph 26(b) of Resolution 2321 (see appendix 5), which was exceeded by \$12,685,879.24 during this time period. The export overage is in violation of said paragraph in Resolution 2321.⁸³ The DPRK’s methods of exporting coal specifically showcase yet another way the state avoids trade sanctions. The North has implemented “extensive use of a combination of multiple evasion tactics, including indirect routes, detours, loitering, false documentation, trans-shipment through third countries and manipulation of Automatic Identification System signals.”⁸⁴ The shipping vessels’ class,

⁸¹ United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

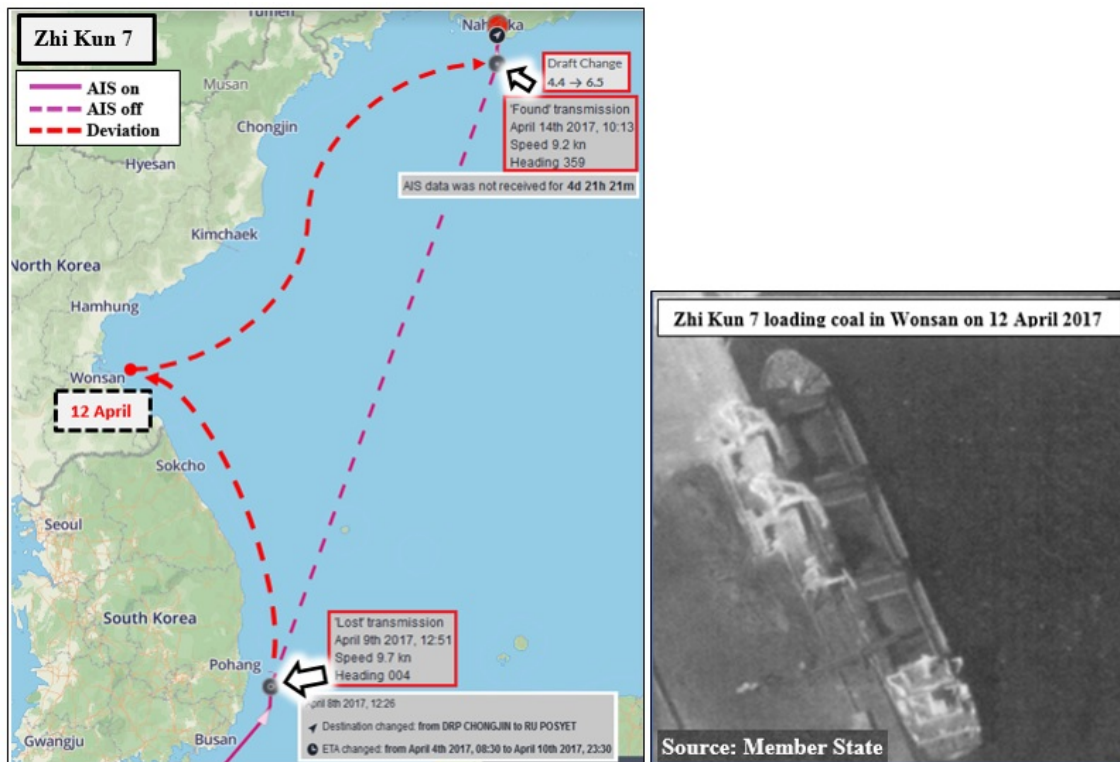
⁸² United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

⁸³ United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

⁸⁴ United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

length, and draft are often altered in those signal manipulations. The figure below illustrates a North Korean coal vessel using several of the aforementioned evasion tactics.

Figure 7.1⁸⁵



The *Zhi Kun 7* was a Fijian-flagged ship that deviated from its destination, Posyet, Russian Federation. On April 9, 2017, it turned off its Automatic Identification System and then sailed to Wonsan in the DPRK to load coal. After picking up its illegal cargo in Wonsan, it rejoined its original voyage and reactivated its Automatic Identification System on April 14 before entering Nakhodka port in Russia. The vessel was in Nakhodka until May 17 but changed its name to the *Orient Lidu* registered to Mongolia

⁸⁵ United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

on May 11 before it unloaded its cargo. The vessel then used the same route deviation tactic to load coal in Chongjin, North Korea on May 28 and delivered that coal to Nanjing, China on June 7. This type of deception has been documented on multiple occasions by the United Nations and continues to be a successful method for the North to avoid the trade sanctions against its coal under the guise of legitimate trade vessels and voyages.⁸⁶

⁸⁶ United Nations, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2345 (2017)."

VIII. CONCLUSION

North Korea continues to advance its nuclear and ballistic missile programs. Despite repeated attempts by the international community to persuade it otherwise, sanctions have proven ineffective. Principal among the reasons is noncompliance of even the most agreeable sanctions by China and other sympathetic states. North Korea continues to find ways to avoid their full impact. Even though North Korea is one of the most secretive and reclusive nations in the world, its economy continues to operate at a level that avoids both political and economic collapse. Foreign investment, primarily from China, has allowed the North Korean government to remain solvent, while at the same time strengthening their relationship.⁸⁷ Furthermore, the pervasive use of foreign currency among North Korean citizens has kept the general economy afloat, and has allowed citizens to more effectively secure a standard of living above mere survival level. While North Korea has had economic setbacks, the reactions of sympathetic governments seem to have created an economic system that is increasingly resistant to collapse.

⁸⁷ Kwang-Ho Kim, "Impacts of Foreign Direct Investment on the Most Centralized Country: Evidence from Gaeseong Industrial Complex in North Korea," *Thunderbird International Business Review* 58, no. 4 (July 2016): 306.

APPENDIX SECTION

Appendix 1:

United Nations

S/RES/1695 (2006)



Security Council

Distr.: General
15 July 2006

Resolution 1695 (2006)

**Adopted by the Security Council at its 5490th meeting,
on
15 July 2006**

The Security Council,

Reaffirming its resolutions 825 (1993) of 11 May 1993 and 1540 (2004) of 28 April 2004,

Bearing in mind the importance of maintaining peace and stability on the Korean peninsula and in north-east Asia at large,

Reaffirming that proliferation of nuclear, chemical and biological weapons, as well as their means of delivery, constitutes a threat to international peace and security,

Expressing grave concern at the launch of ballistic missiles by the Democratic People's Republic of Korea (DPRK), given the potential of such systems to be used as a means to deliver nuclear, chemical or biological payloads,

Registering profound concern at the DPRK's breaking of its pledge to maintain its moratorium on missile launching,

Expressing further concern that the DPRK endangered civil aviation and shipping through its failure to provide adequate advance notice,

Expressing its grave concern about DPRK's indication of possible additional launches of ballistic missiles in the near future,

Expressing also its desire for a peaceful and diplomatic solution to the situation and welcoming efforts by Council members as well as other Member States to facilitate a peaceful and comprehensive solution through dialogue,

Recalling that the DPRK launched an object propelled by a missile without prior notification to the countries in the region, which fell into the waters in the vicinity of Japan on 31 August 1998,

Deploing the DPRK's announcement of withdrawal from the Treaty on Non-Proliferation of Nuclear Weapons (the Treaty) and its stated

pursuit of nuclear weapons in spite of its Treaty on Non-Proliferation of Nuclear Weapons and International Atomic Energy Agency (IAEA) safeguards obligations,

Stressing the importance of the implementation of the Joint Statement issued on 19 September 2005 by China, DPRK, Japan, Republic of Korea, the Russian Federation and the United States,

Affirming that such launches jeopardize peace, stability and security in the region and beyond, particularly in light of the DPRK's claim that it has developed nuclear weapons,

Acting under its special responsibility for the maintenance of international peace and security,

1. *Condemns* the multiple launches by the DPRK of ballistic missiles on 5 July 2006 local time;

2. *Demands* that the DPRK suspend all activities related to its ballistic missile programme, and in this context re-establish its pre-existing commitments to a moratorium on missile launching;

3. *Requires* all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent missile and missile-related items, materials, goods and technology being transferred to DPRK's missile or WMD programmes;

4. *Requires* all Member States, in accordance with their national legal authorities and legislation and consistent with international law, to exercise vigilance and prevent the procurement of missiles or missile related-items, materials, goods and technology from the DPRK, and the transfer of any financial resources in relation to DPRK's missile or WMD programmes;

5. *Underlines*, in particular to the DPRK, the need to show restraint and refrain from any action that might aggravate tension, and to continue to work on the resolution of non-proliferation concerns through political and diplomatic efforts;

6. *Strongly urges* the DPRK to return immediately to the Six-Party Talks without precondition, to work towards the expeditious implementation of 19 September 2005 Joint Statement, in particular to abandon all nuclear weapons and existing nuclear programmes, and to return at an early date to the Treaty on Non-Proliferation of Nuclear Weapons and International Atomic Energy Agency safeguards;

7. *Supports* the six-party talks, calls for their early resumption, and urges all the participants to intensify their efforts on the full implementation of the 19 September 2005 Joint Statement with a view to achieving the verifiable denuclearization of the Korean Peninsula in a peaceful manner and to maintaining peace and stability on the Korean Peninsula and in north-east Asia;

8. *Decides* to remain seized of the matter.

Source: *un.org*



Security Council

Distr.: General
14 October 2006

Resolution 1718 (2006)

**Adopted by the Security Council at its 5551st meeting,
on 14 October 2006**

The Security Council,

Recalling its previous relevant resolutions, including resolution 825 (1993), resolution 1540 (2004) and, in particular, resolution 1695 (2006), as well as the statement of its President of 6 October 2006 (S/PRST/2006/41),

...

Acting under Chapter VII of the Charter of the United Nations, and taking measures under its Article 41,

...

8. *Decides* that:

(a) All Member States shall prevent the direct or indirect supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of:

(i) Any battle tanks, armoured combat vehicles, large calibre artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems as defined for the purpose of the United Nations Register on Conventional Arms, or related materiel including spare parts, or items as determined by the Security Council or the Committee established by paragraph 12 below (the Committee);

(ii) All items, materials, equipment, goods and technology as set out in the lists in documents S/2006/814 and S/2006/815, unless within 14 days of adoption of this resolution the Committee has amended or completed their provisions also taking into account the list in document S/2006/816, as well as other items, materials, equipment, goods and technology, determined by the Security Council or the Committee, which could contribute to DPRK's nuclear-related, ballistic missile-related or other weapons of mass destruction-related programmes;

(iii) Luxury goods;

(b) The DPRK shall cease the export of all items covered in subparagraphs (a) (i) and (a) (ii) above and that all Member States shall prohibit the procurement of such items from the DPRK by their nationals, or using their flagged vessels or aircraft, and whether or not originating in the territory of the DPRK;

(c) All Member States shall prevent any transfers to the DPRK by their nationals or from their territories, or from the DPRK by its nationals or from its territory, of technical training, advice, services or assistance related to the provision, manufacture, maintenance or use of the items in subparagraphs (a) (i) and (a) (ii) above;

(d) All Member States shall, in accordance with their respective legal processes, freeze immediately the funds, other financial assets and economic resources which are on their territories at the date of the adoption of this resolution or at any time thereafter, that are owned or controlled, directly or indirectly, by the persons or entities designated by the Committee or by the Security Council as being engaged in or providing support for, including through other illicit means, DPRK's nuclear-related, other weapons of mass destruction-related and ballistic missile-related programmes, or by persons or entities acting on their behalf or at their direction, and ensure that any funds, financial assets or economic resources are prevented from being made available by their nationals or by any persons or entities within their territories, to or for the benefit of such persons or entities;

(e) All Member States shall take the necessary steps to prevent the entry into or transit through their territories of the persons designated by the Committee or by the Security Council as being responsible for, including through supporting or promoting, DPRK policies in relation to the DPRK's nuclear-related, ballistic missile-related and other weapons of mass destruction-related programmes, together with their family members, provided that nothing in this paragraph shall oblige a state to refuse its own nationals entry into its territory;

(f) In order to ensure compliance with the requirements of this paragraph, and thereby preventing illicit trafficking in nuclear, chemical or biological weapons, their means of delivery and related materials, all Member States are called upon to take, in accordance with their national authorities and legislation, and consistent with international law, cooperative action including through inspection of cargo to and from the DPRK, as necessary;

Source: un.org



Security Council

Distr.: General
2 March 2016

Resolution 2270 (2016)

**Adopted by the Security Council at its 7638th meeting,
on
2 March 2016**

The Security Council,

Recalling its previous relevant resolutions, including resolution 825 (1993), resolution 1540 (2004), resolution 1695 (2006), resolution 1718 (2006), resolution 1874 (2009), resolution 1887 (2009), resolution 2087 (2013) and resolution 2094 (2013), as well as the statements of its President of 6 October 2006 (S/PRST/2006/41), 13 April 2009 (S/PRST/2009/7) and 16 April 2012 (S/PRST/2012/13),

...

Acting under Chapter VII of the Charter of the United Nations, and taking measures under its Article 41,

...

29. *Decides* that the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, coal, iron, and iron ore, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK, and *decides* that this provision shall not apply with respect to:

(a) Coal that the procuring State confirms on the basis of credible information has originated outside the DPRK and was transported through the DPRK solely for export from the Port of Rajin (Rason), provided that the State notifies the Committee in advance and such transactions are unrelated to generating revenue for the DPRK's nuclear or ballistic missile programs or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013) or this resolution; and,

(b) Transactions that are determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programs or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013) or this resolution;

30. *Decides* that the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, gold, titanium ore, vanadium ore, and rare earth minerals, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK;

31. *Decides* that all States shall prevent the sale or supply, by their nationals or from their territories or using their flag vessels or aircraft, of aviation fuel, including aviation gasoline, naphtha-type jet fuel, kerosene-type jet fuel, and kerosene-type rocket fuel, whether or not originating in their territory, to the territory of the DPRK, or unless the Committee has approved in advance on an exceptional case-by-case basis the transfer to the DPRK of such products for verified essential humanitarian needs, subject to specified arrangements for effective monitoring of delivery and use, and *decides* also that this provision shall not apply with respect to the sale or supply of aviation fuel to civilian passenger aircraft outside the DPRK exclusively for consumption during its flight to the DPRK and its return flight;

Source: un.org



Security Council

Distr.: General
5 August 2017

Resolution 2371 (2017)

**Adopted by the Security Council at its 8019th meeting,
on 5 August 2017**

The Security Council,

Recalling its previous relevant resolutions, including resolution 825 (1993), resolution 1540 (2004), resolution 1695 (2006), resolution 1718 (2006), resolution 1874 (2009), resolution 1887 (2009), resolution 2087 (2013), resolution 2094 (2013), resolution 2270 (2016), resolution 2321 (2016), and resolution 2356 (2017), as well as the statements of its President of 6 October 2006 (S/PRST/2006/41), 13 April 2009 (S/PRST/2009/7) and 16 April 2012 (S/PRST/2012/13),

...

Acting under Chapter VII of the Charter of the United Nations, and taking measures under its Article 41,

...

Sectoral

8. *Decides* that paragraph 26 of resolution 2321 (2016) shall be replaced by the following:

“Decides that the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, coal, iron, and iron ore, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK, *decides* that for sales and transactions of iron and iron ore for which written contracts have been finalized prior to the adoption of this resolution, all States may allow those shipments to be imported into their territories up to 30 days from the date of adoption of this resolution with notification provided to the Committee containing details on those imports by no later than 45 days after the date of adoption of this resolution, and *decides* further that this provision shall not apply with respect to coal that the exporting State confirms on the basis of credible information has originated outside the DPRK and was transported through the DPRK solely for export from the Port of Rajin (Rason), provided that the exporting State notifies the Committee in advance and such transactions involving coal originating outside of the DPRK

are unrelated to generating revenue for the DPRK's nuclear or ballistic missile programs or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), 2321 (2016), 2356 (2017), or this resolution,"

...

Asset Freeze (Entities)

1. FOREIGN TRADE BANK (FTB)
 - a. *Description:* Foreign Trade Bank is a state-owned bank and acts as the DPRK's primary foreign exchange bank and has provided key financial support to the Korea Kwangson Banking Corporation.
 - b. *AKA:* n/a
 - c. *Location:* FTB Building, Jungsong-dong, Central District, Pyongyang, DPRK
2. KOREAN NATIONAL INSURANCE COMPANY (KNIC)
 - a. *Description:* The Korean National Insurance Company is a DPRK financial and insurance company and is affiliated with Office 39.
 - b. *AKA:* Korea Foreign Insurance Company
 - c. *Location:* Central District, Pyongyang, DPRK
3. KORYO CREDIT DEVELOPMENT BANK
 - a. *Description:* Koryo Credit Development Bank operates in the financial services industry in the DPRK's economy.
 - b. *AKA:* Daesong Credit Development Bank; Koryo Global Credit Bank; Koryo Global Trust Bank
 - c. *Location:* Pyongyang, DPRK
4. MANSUDAE OVERSEAS PROJECT GROUP OF COMPANIES
 - a. *Description:* Mansudae Overseas Project Group of Companies engaged in, facilitated, or was responsible for the exportation of workers from the DPRK to other nations for construction-related activities including for statues and monuments to generate revenue for the Government of the DPRK or the Workers' Party of Korea. The Mansudae Overseas Project Group of Companies has been reported to conduct business in countries in Africa and Southeast Asia including Algeria, Angola, Botswana, Benin, Cambodia, Chad, the Democratic Republic of the Congo, Equatorial Guinea, Malaysia, Mozambique, Madagascar, Namibia, Syria, Togo, and Zimbabwe.
 - b. *AKA:* Mansudae Art Studio
 - c. *Location:* Pyongyang, DPRK

Source: un.org



Security Council

Distr.: General
30 November 2016

Resolution 2321 (2016)

Adopted by the Security Council at its 7821st meeting, on 30 November 2016

The Security Council,

Recalling its previous relevant resolutions, including resolution 825 (1993), resolution 1540 (2004), resolution 1695 (2006), resolution 1718 (2006), resolution 1874 (2009), resolution 1887 (2009), resolution 2087 (2013), resolution 2094 (2013), and resolution 2270 (2016), as well as the statements of its President of 6 October 2006 (S/PRST/2006/41), 13 April 2009 (S/PRST/2009/7) and 16 April 2012 (S/PRST/2012/13),

...

Acting under Chapter VII of the Charter of the United Nations, and taking measures under its Article 41,

...

26. *Decides* that paragraph 29 of resolution 2270 (2016) shall be replaced by the following:

“Decides that the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, coal, iron, and iron ore, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK, and *decides* that this provision shall not apply with respect to:

(a) Coal that the procuring State confirms on the basis of credible information has originated outside the DPRK and was transported through the DPRK solely for export from the Port of Rajin (Rason), provided that the State notifies the Committee in advance and such transactions are unrelated to generating revenue for the DPRK’s nuclear or ballistic missile programmes or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013) or this resolution;

(b) Total exports to all Member States of coal originating in the DPRK that in the aggregate do not exceed 53,495,894 US dollars or 1,000,866 metric tons, whichever is lower, between the date of adoption of this resolution and 31 December 2016, and total exports to all Member States of coal originating in the DPRK that in the aggregate do not exceed 400,870,018 US dollars or 7,500,000 metric tons per year, whichever is lower, beginning 1 January 2017, provided that the procurements (i) involve no individuals or entities that are associated with the DPRK’s nuclear or

ballistic missile programmes or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016) or this resolution, including designated individuals or entities, or individuals or entities acting on their behalf or at their direction, or entities owned or controlled by them, directly or indirectly, or individuals or entities assisting in the evasion of sanctions, and (ii) are exclusively for livelihood purposes of DPRK nationals *and* unrelated to generating revenue for the DPRK's nuclear or ballistic missile programmes or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016) or this resolution, and *decides* that each Member State that procures coal from the DPRK shall notify the Committee of the aggregate amount of the volume of such procurement for each month no later than 30 days after the conclusion of that month on the form in annex V to this resolution, *directs* the Committee to make publicly available on its website the volume of procurement of coal from the DPRK reported by Member States and value calculated by the Committee Secretary, as well as the amount reported for each month and with the number of States that reported for each month, *directs* the Committee to update this information on a real-time basis as it receives notifications, *calls upon* all States that import coal from the DPRK to periodically review this website to ensure that they do not exceed the mandatory aggregate annual limit, *directs* the Committee Secretary to notify all Member States when an aggregate value or volume of coal procurements from the DPRK of 75 per cent of the aggregate yearly amount has been reached, also *directs* the Committee Secretary to notify all Member States when an aggregate value or volume of coal procurements from the DPRK of 90 per cent of the aggregate yearly amount has been reached, further *directs* the Committee Secretary to notify all Member States when an aggregate value or volume of coal procurements from the DPRK of 95 per cent of the aggregate yearly amount has been reached and to inform them that they must immediately cease procuring coal from the DPRK for the year, and *requests* the Secretary-General to make the necessary arrangements to this effect and provide additional resources in this regard; and

(c) Transactions in iron and iron ore that are determined to be exclusively for livelihood purposes and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programmes or other activities prohibited by resolutions 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016) or this resolution.”

Source: un.org

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