

RESEARCH NOTE

# The (Non-) Impact of UN Sanctions on North Korea

---

*Marcus Noland*



**MARCUS NOLAND** is Senior Fellow at the Peterson Institute for International Economics and Non-resident Senior Fellow at the East-West Center. He can be reached at <[mnoland@petersoninstitute.org](mailto:mnoland@petersoninstitute.org)>.

**NOTE** ≈ The author would like to thank Kimberly Elliott, Stephan Haggard, Gary Hufbauer, Michael Mussa, and two anonymous referees for helpful comments on an earlier draft, and Erik Weeks and Jennifer Lee for research assistance.

**KEYWORDS:** NORTH KOREA; SANCTIONS; TRADE

---

**EXECUTIVE SUMMARY**

---

This article examines the extent to which UN Security Council sanctions imposed on North Korea following Pyongyang's nuclear test have impacted North Korea's foreign trade.

**MAIN ARGUMENT**

Before North Korea conducted an underground nuclear test on October 9, 2006, it was widely believed that such an event would have cataclysmic diplomatic ramifications in Asia. Based on a visual inspection of the data and statistical models, this study finds that, although the UN Security Council imposed economic sanctions against the export of heavy arms and luxury goods to North Korea within one week of Pyongyang's nuclear test, the imposition of these sanctions has had no perceptible effect on North Korea's trade with the country's two largest partners, China and South Korea.

**POLICY IMPLICATIONS**

- North Korea appears to have calculated correctly that the direct penalties to its foreign trade for establishing itself as a nuclear power would be modest (or, alternatively, Pyongyang put such a high value on demonstrating the country's nuclear capability that it outweighed the downside risks, however large). Presumably this experience will condition the reactions of North Korean policymakers in the future—making deterrence with respect to this issue and other sources of conflict more difficult.
- Despite pre-test diplomatic warnings not to test, the post-test behavior of public and private sector actors in China and South Korea has been accepting of North Korea's nuclear status. Thus if such warnings are to be heeded in the future, they must embody credible threats of penalty, be much more enthusiastically implemented, and be more broadly targeted.

On October 9, 2006, North Korea conducted an underground nuclear test, despite warnings by the country's principal economic benefactors, China and South Korea, not to proceed. Before the test, it was widely believed that such an event would have cataclysmic diplomatic ramifications in Asia, possibly even prefiguring war. Indeed, the South Korean stock market dropped on the day of the test but began rising the next day and regained the lost ground the following week. Markets in the rest of Asia were largely unaffected.


Five days later, on October 14, the UN Security Council unanimously adopted Resolution 1718 imposing economic sanctions on North Korea, specifically placing a ban on the exportation of luxury goods and large-scale arms-related goods, technology, and services to North Korea, as well as on the importation of North Korean heavy arms.<sup>1</sup>

These developments could have been expected to attenuate North Korea's trade with the rest of the world. The sanctions specifically prohibited the importation and exportation of certain products to North Korea. Tensions over these nuclear developments in North Korea, therefore, might have been expected to raise the risk premium on economic interaction with North Korea, particularly affecting the behavior of foreign private sector entities. Such increased sensitivity to risk could have been motivated either by firms' anticipation of possible additional restrictive actions or by guidance from their home governments, as well as by their own heightened assessments of risks regarding business with North Korean counterparties. The result could have been a reduction in cross-border commerce, even with respect to activities not directly covered by the sanctions.

Whether or not these effects materialized is an important issue: if sanctions are toothless or major powers acquiesce in the face of such provocations, it makes deterring North Korea all the more difficult in future conflicts, as well as establishes an unwelcome precedent for other countries contemplating emulation.

This paper examines the empirical evidence on North Korean trade before and after the nuclear test with its two neighbors and principal trade partners, China and South Korea, which together account for nearly half of the country's merchandise trade.<sup>2</sup> The article finds that it is virtually impossible to uncover

---

<sup>1</sup> See "Security Council Condemns Nuclear Test by Democratic People's Republic of Korea, Unanimously Adopting Resolution 1718 (2006)," UN Security Council, Press Release, October 14, 2006  <http://www.un.org/News/Press/docs/2006/sc8853.doc.htm>.

<sup>2</sup> Stephan Haggard and Marcus Noland, "North Korea's Foreign Economic Relations," *International Relations of the Asia-Pacific* 8, no. 2 (2008): 219–46, table 1.

any statistical evidence that the nuclear test and subsequent sanctions had any impact on North Korean trade. The analysis of the trade data suggests that, for better or worse, North Korea correctly calculated that the penalties for nuclear action, at least in this primary sphere, would be trivial to the point of being undetectable—potentially establishing a very unwelcome precedent with respect both to the country’s future behavior and to the behavior of potential emulators.

The article is organized as follows:

- ≈ pp. 64–66 review the history of sanctions against North Korea
- ≈ pp. 67–74 subject the country’s trade data to screens of escalating rigor: simple visual inspection followed by the estimation of conventional econometric models of trade flows of increasing sophistication
- ≈ pp. 74–77 draw policy inferences

#### SANCTIONS BACKGROUND

During the 1993–94 nuclear crisis on the Korean Peninsula many key players considered, but did not ultimately pursue, sanctions. Policymakers in the United States, Japan, and South Korea all feared a violent and possibly preemptive North Korean response to the imposition of sanctions (North Korea repeatedly threatened war that would turn Seoul into “a sea of fire”).<sup>3</sup> Moreover, there were concerns over the possible ineffectiveness of sanctions, due either to Chinese (and Russian) unwillingness to support sanctions in the Security Council or to the unwillingness of provincial authorities in northeast China to implement a sanctions policy. Nevertheless, the United States, Japan, and South Korea discussed the possibility of pursuing limited sanctions outside the purview of the United Nations in the event that China was unwilling to enforce sanctions, presaging the Proliferation Security Initiative a decade later.<sup>4</sup>

By the time of the July 2006 missile tests, in which North Korea tested short- and long-range missiles, attitudes had hardened considerably. In 2003 China allegedly cut off an oil pipeline to North Korea briefly in response

---

<sup>3</sup> South Korea took some of these threats sufficiently seriously to put its military forces on alert in June 1994. See Leon V. Sigal, *Disarming Strangers: Nuclear Diplomacy with North Korea* (Princeton: Princeton University Press, 1998); and Don Oberdorfer, *The Two Koreas: A Contemporary History* (Reading: Addison-Wesley, 1997).

<sup>4</sup> Sigal, *Disarming Strangers*.

to North Korean diplomatic recalcitrance.<sup>5</sup> China also cooperated in the September 2005 investigation into North Korean assets at Banco Delta Asia (BDA) in Macao, one of China's two special administrative regions, and subsequently allegedly froze North Korean accounts in a Chinese bank.<sup>6</sup>

Before the July missile tests, China publicly and privately warned North Korea not to proceed. When North Korea fired the missiles anyway, China (as well as Russia) supported the adoption of UN Resolution 1695, imposing targeted sanctions on missile proliferators. Although China blocked more sweeping proposals from the United States and Japan, one observer characterized the erosion in North Korea's diplomatic support as a "momentous move."<sup>7</sup> The sanctions were the strongest reprimand of North Korea by the Security Council since 1950 and clearly represented an escalating response on the part of the UN.

When in October 2006 North Korea announced its intention to test a nuclear device, the UN Security Council issued a vague warning that could have been interpreted as alluding to the prospect of tightened sanctions.<sup>8</sup> One prominent observer predicted that such a test could lead to military action by the United States and possibly South Korea as well.<sup>9</sup> As in the case of the July 2006 missile tests, China warned of "grave consequences" if North Korea were to proceed.<sup>10</sup>

When North Korea once again defied Chinese wishes, Beijing described the act as "flagrant and brazen." China quickly supported more robust sanctions—though as in the case of the July missile tests, a less severe package than what the United States and Japan proposed. Resolution 1718 was passed relatively quickly in six days. The resolution imposed an embargo on exports of heavy weapons, dual-use items, and luxury goods to North Korea, as well as on the importation of heavy weapons systems from North Korea.

---

<sup>5</sup> Yoichi Funabashi, *The Peninsula Question: A Chronicle of the Second Korean Nuclear Crisis* (Washington, D.C.: Brookings Institution Press, 2007).

<sup>6</sup> Suh Bohyuk, "Are North Korea and China Drifting Apart after the Missile Test," Nautilus Institute, Policy Forum Online, no. 06-77A, September 2006 ∞ <http://www.nautilus.org/fora/security/0677Suh.html>.

<sup>7</sup> Peter Hayes, "Embrace Tiger, Retreat To Mountain, Test Nuke," Policy Forum Online, no. 06-06A, Nautilus Institute, July 2006 ∞ <http://www.nautilus.org/fora/security/06660Hayes.html>.

<sup>8</sup> Julia Choi and Karin Lee, "North Korea: Economic Sanctions and U.S. Department of Treasury Actions 1955-September 2006," National Committee on North Korea, October 2006.

<sup>9</sup> Michael A. Levi, "Levi: North Korea Nuclear Test Could Lead to Military Response from U.S.," interview by Bernard Gwertzman, Council on Foreign Relations, October 3, 2006 ∞ [http://www.cfr.org/publication/11595/levi.html?breadcrumb=%2Fbios%2F11890%2Fmichael\\_a\\_levi%3Fgroupby%3D2%26hide%3D1%26id%3D11890%26filter%3D19](http://www.cfr.org/publication/11595/levi.html?breadcrumb=%2Fbios%2F11890%2Fmichael_a_levi%3Fgroupby%3D2%26hide%3D1%26id%3D11890%26filter%3D19).

<sup>10</sup> Joseph Kahn, "North's Test Seen as Failure for Korea Policy China Followed," *New York Times*, October 9, 2006 ∞ <http://www.nytimes.com/2006/10/09/world/asia/09china.html>.