



AUTHORITARIAN REGIMES AND ECONOMIC SANCTION EFFECTIVENESS: THE CASE OF NORTH KOREA

By Dursun Peksen

Abstract

North Korea has been under several rounds of economic sanctions since the beginning of the Korean War in 1950. Economic coercion, however, has had no major effect on the Kim regime's political stability and nuclear program. Drawing from the literature on the survival of authoritarian regimes and sanction effectiveness, this article focuses on key domestic policies the regime has employed to survive foreign pressure. I posit that Pyongyang has been able to remain defiant against foreign pressure through the use of two main domestic strategies: positive inducements and repression. I specifically argue that the North Korean regime has evaded the negative effects of sanctions by offering selective rewards to the small ruling coalition in exchange for loyalty and quelling opposition through the total surveillance of society and efficient institutions of repression. The analysis suggests that neither comprehensive economic sanctions targeting the entire economy nor selective sanctions aiming at the ruling elites have been fully successful in achieving the ambitious goals of regime change and denuclearization in North Korea. Extensive sanctions might have even done more harm than good by further worsening the dire living conditions of ordinary citizens. The U.S. and other major sanctioning countries should have instead sought alternative policies to empower average citizens to create a strong domestic opposition pushing for political liberalization and other reforms. Selective sanctions targeting the regime's nuclear and military capabilities could still be useful to slow down the development of advanced nuclear weapons and contain aggressive state behavior.

Key Words: *North Korea, Economic Sanctions, Sanction Effectiveness, Authoritarian Regimes, Coercive Diplomacy*

Introduction

Economic sanctions are popular policy tools in foreign affairs. The U.S. in particular has threatened or imposed sanctions against more than 100 different countries since 1945, more than any other state.¹ Policymakers initiate sanctions to deal with a wide spectrum of foreign policy issues such as nuclear proliferation, human rights violations, terrorism, and trade disputes. Despite the frequent use of sanctions, there is some consensus among scholars and policymakers that sanctions rarely attain their intended policy goals. Scholars estimate that sanctions fail 65-95 percent of the time.² Existing research on the consequences of sanctions suggest that economic coercion might even become a counterproductive tool causing major economic distress, humanitarian crises, and human rights violations in target countries.³

North Korea has been one of the main targets of international sanctions since the onset of the Korean War in 1950. Pyongyang has been subject to several rounds of sanctions in the form of trade embargoes, financial restrictions, aid cuts, and travel sanctions. The U.S.-led sanctions during the Cold War intended to destabilize the authoritarian Kim regime and maintain peace on the Korean Peninsula. The UN, the U.S., and other countries have levied additional sanctions in the post-Cold War era to stop the regime's nuclear program. Sanctions have inflicted major economic damage over the years and excluded North Korea from the global economy. The country today has very limited trade and financial ties with the rest of the world. In fact, just one country, China, accounts for about 90 percent of North Korea's foreign trade.⁴

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Though Pyongyang has been under foreign economic pressure for over six decades, the sanctions have had no major impact on the regime's stability and nuclear program. It appears that regime change may not occur in the near future as the regime under the leadership of Kim Jong-un faces no major domestic opposition. Further, the defiant North Korean leadership does not seem to be deterred by the sanctions directed at its nuclear program and military capacity. To prove its resilience, the regime responded to foreign pressure by conducting more nuclear and ballistic missiles tests in recent years.

Why has economic coercion failed against North Korea? What are the possible policy implications of the failed North Korean sanctions? Can sanctions be better designed to extract concessions from authoritarian regimes such as the one in North Korea? Drawing on the literature on the survival of authoritarian regimes and economic sanctions, I posit that economic coercion against North Korea has been ineffective in part because the Kim regime evaded sanctions by pursuing two key strategies: selective rewards and repression.⁵ Pyongyang has been able to keep its relatively small coalition intact through supplying selective incentives and rewards in exchange for loyalty. The regime has also been successful in quelling dissent and opposition. Hence, a cohesive ruling coalition combined with a nonexistent opposition has enabled the regime to stay firm against external demands for policy change. I also argue that both comprehensive and more targeted sanctions have had no major influence on the longevity of the regime and its pursuit of nuclear weapons.⁶

In the next section, I discuss how policymakers in sanctioning countries tend to assume that sanctions work to achieve their intended goals. Then, I explain why economic coercion against authoritarian targets might not operate in practice as expected by policymakers. I specifically discuss how autocrats opt for two key domestic strategies, positive inducements and repression, to defy sanctions. I conclude with a discussion of possible policy implications of the ineffective sanctions against North Korea.

How Are Sanctions Expected To Work?

According to traditional understanding of sanctions, economic hardship inflicted by sanctions will undermine both coercive capacity and the support base of the leadership. This would in turn coerce target regimes into conceding to the external demands for policy change.⁷ Sanctions are imposed with the expectation that they will impair the target's coercive capacity by restricting its access to essential economic and military resources. Coercive capacity is crucial for any government to

“ Even if the sanctions might create economic grievances and dissatisfaction with the current leadership, ordinary citizens simply lack channels to organize opposition.”

monopolize economic and military power and to project its authority over the entire country. As foreign economic pressure denies the regime's access to crucial resources, the expectation is that the leadership will give in to foreign pressure to avoid the erosion of its authority.

The traditional understanding of sanctions also assumes that foreign pressure will undermine the support base of the target leadership. Supplying positive inducements to key political elites such as high-ranking military officials and business leaders is crucial for the regime to cling to power.⁸ These inducements could be in the form of subsidies, tax breaks, and access to goods made scarce by economic sanctions. Economic coercion will decrease the regime's ability to provide economic resources to their key support base, as these are made scarce by the sanctions. Diminished economic capacity to offer positive inducements will result in a loss of support among key groups who are accustomed to receiving these benefits. Further, sanctions will mobilize anti-regime groups against the regime. Sanctions create economic frustration among average citizens as the target economy faces higher levels of inflation and unemployment. Growing economic grievances will subsequently lead to more protest against the government. As a result, according to the traditional understanding of sanctions, mounting anti-government protests combined with a decline in support among regime loyalists will force the target regime to capitulate to foreign demands.

How Do Sanctions Operate in Practice?

The logic advanced by the traditional understanding of sanction effectiveness might not apply to most cases involving authoritarian regimes such as North Korea. In this section, I assert that autocratic regimes with a relatively small support base and high degree of institutionalization are likely to evade the anticipated political and economic costs of the coercion. I posit that these autocratic regimes survive foreign pressure by employing two main strategies: selective rewards and repression.



Small Ruling Coalition, Selective Rewards, and Sanction Ineffectiveness

Economic sanctions might inflict considerable damage on a targeted economy's foreign trade and financial ties. Target economies, on average, experience about a 3 percent decline of gross national product (GNP) and suffer from relatively high levels of inflation and unemployment rates during the sanction years.⁹ Yet previous research shows that the target leadership and its support coalition rarely suffer from the sanctions while average citizens disproportionately bear the burden of the coercion.¹⁰ Target regimes respond to foreign pressure by taking control of the economy or intervening in it to affect the distribution of wealth. They do so to divert the cost of sanctions to ordinary citizens and use remaining resources to offer selective rewards to their supporters to shield them from the economic hardship and thus preempt defections from their ruling circle.

Though most leaders facing sanctions might be inclined to provide positive inducements to their followers, their ability to do so could be contingent on the size of their support coalition. Leaders in democratic target regimes rely on a large support base (i.e., all voting-age citizens or a large portion of them) to retain power. Hence, they might lack enough capacity to provide rewards and incentives to satisfy a large segment of society affected by sanctions. They might therefore be more inclined to concede to foreign pressure in order to end the economic suffering of their citizens and thus avoid losing political power. Authoritarian regimes, on the other hand, are dependent on a small group of elites to stay in power.¹¹ Most dictatorial rulers depend on a cohesive, small group of elites such as party leaders, military officials, and business groups.¹² Because of the small size of the support coalition, authoritarian regimes under sanctions might be better positioned to protect their supporters through positive inducements.

North Korea is a prime example of an authoritarian regime with a relatively small and cohesive ruling coalition. The North Korean regime has been in power for over six decades under the leadership of the Kim family. It is a leader-centric regime with established bureaucratic institutions. The class system, *Songbun*, developed by the leadership determines each citizen's status in society, and access to basic needs and employment opportunities. There are three main classifications that include the "core class," the "wavering class," and the "hostile class." The regime essentially relies on a coalition of high-ranking military officials, Korean Workers' Party leaders, and top bureaucrats,

a large portion of which are members of the extended Kim family. Others who hold prominent military and party posts are members of the "core class" and chosen based on their family background and personal connections with the Kim family.¹³

Although the North Korean economy has long suffered from harsh sanctions and domestic difficulties such as the severe famine of the 1990s, the leadership has been able to insulate its support base from the dire economic conditions. The regime provides various private goods and benefits to its ruling coalition in return for their loyalty. For instance, most members of the ruling circle hold desirable jobs in the capital. They are allowed to have residency in Pyongyang and get special housing benefits. The ruling elites also receive more and better quality food, and have access to scarce goods such as luxury cars, jewelry, and electronics.¹⁴ Thus, the North Korean elites appeared to have suffered disproportionately little from the economic deprivation inflicted by the sanctions over the years.

Some regime loyalists even gain directly from the sanctions by participating in illegal economic transactions. Members of the ruling coalition have long been involved in illicit economic activities to generate revenue and mitigate the adverse effects of global economic isolation due to the sanctions. Major illegal activities include money laundering, arms and human trafficking, and counterfeiting goods and currency. It is suggested that the regime encourages state officials to participate in and profit from underground economic activities by using state-controlled trading companies to coordinate smuggling and other illicit activities.¹⁵

Overall, there is no strong evidence that the imposed sanctions have succeeded in destabilizing the ruling coalition. On the contrary, foreign pressure might have boosted the allegiance of the ruling elites to the leadership as the regime grants economic rewards and secured access to scarce resources. Since the ruling elites benefit from the current system, they likely have an interest in the survival of the existing regime even though a large majority of North Koreans exist under harsh living conditions which are exacerbated by sanctions.

Coercive State Apparatus, Repression, and Sanction Effectiveness

In addition to sustaining the allegiance of their support coalition through positive inducements, autocratic leaders might resort to repression to eliminate societal opposition triggered by sanctions. The negative economic effects of sanctions on groups outside of the ruling coalition might create economic



grievances and frustration against the state. The international disapproval of current leadership—signaled by the sanctions—might also encourage opposition groups to mobilize dissatisfied citizens against the government. However, existing research on sanctions suggests that target leaders tend to eliminate growing dissent and opposition using various repressive means such as extrajudicial killing, torture, and political imprisonment.¹⁶

Democratic target regimes are less likely to suppress growing opposition using repression. Leaders in democracies are unlikely to pursue repressive strategies since they are constrained by institutional mechanisms such as the rule of law and checks and balances.¹⁷ Autocratic leaders, on the other hand, do not face similar institutional constraints to apply violent means. Therefore, dictators facing domestic or foreign threats might be more inclined to use torture, political imprisonment, and other forms of repressive tactics to cling to power.

The North Korean regime is considered to be among the world's most repressive regimes. The government effectively monitors, discourages, and quells opposition. The regime has no tolerance towards even the mildest criticism of the leadership. Citizens are not permitted to hold independent meetings and gatherings without the regime's approval and surveillance. There is also no independent media in North Korea. The state fully controls the media to ensure the dissemination of biased information. The regime has a system of informants to detect organized dissent. Informants are installed at factories, schools, and party offices. Every citizen is part of a neighborhood unit called *Inminban*. Each member of the neighborhood-watch system is required to monitor fellow members and report anti-regime activities to the party authorities. Those who have been suspected of political disobedience and other subversive activities often face harsh punishments such as public executions, torture, and years of imprisonment in prison camps.¹⁸

Even if the sanctions might create economic grievances and dissatisfaction with the current leadership, ordinary citizens simply lack channels to organize opposition. Its full control over the state apparatus, total surveillance of the society, and efficient institutions of repression help Pyongyang eliminate any challenges to its authority. Thus, the failure of economic coercion against North Korea is consistent with what might be expected given the domestic make-up and practices of the state.

Can Economic Sanctions Be Designed Better?

In this manuscript, I have argued that economic sanctions have been ineffective against North Korea in part because Pyongyang

has been able to shield its support coalition from the economic hardship experienced by the ordinary citizenry, and has employed repression to quell any potential opposition. Can sanctions be better designed to put pressure directly on the ruling circle?

The U.S.-led sanctions during the Cold War were mostly comprehensive measures aimed at fully restricting North Korea's trade and financial transactions with Western economies. The sanctions in the post-Cold War era, on the other hand, are aimed more at the ruling elites. Some of these targeted sanctions have been on the export of luxury goods and products to Pyongyang and travel sanctions against high-ranking party and military officials. The U.S. also levied financial sanctions on foreign banks that do business with the regime in order to disrupt illicit financial activities. There have also been export sanctions on dual-use technologies which could be utilized in the regime's nuclear program. Yet neither extensive sanctions nor more targeted sanctions have been effective in weakening the coercive capacity of the Kim regime and inducing major policy change.

Comprehensive sanctions against North Korea over the years have deteriorated the already poor living conditions of ordinary citizens as the economic pain has disproportionately fallen on them. Policymakers should avoid extensive sanctions that amplify the economic suffering of ordinary North Koreans while simultaneously doing little to achieve significant behavioral shifts or outright regime change in the capital. On the contrary, sanctions and other policies should seek ways to empower ordinary North Koreans, as they are crucial for a strong civil society and an organized dissent against the current leadership to emerge in the long term.

It also appears to be unrealistic to expect economic sanctions to induce compliance when the target is not economically dependent on sanctioning countries. The U.S. and its two close allies in the region, Japan and South Korea, have very limited economic or diplomatic leverage over Pyongyang. They have either completely cut or minimized their economic and diplomatic ties with the regime due to the sanctions. China is the only major power that maintains relatively strong economic and diplomatic relations with North Korea. Yet, given China's own questionable human rights record and strategic rivalry with the U.S. on the Korean Peninsula, China is unlikely to support any sanctions that promote political liberalization and an eventual regime change in North Korea. Since North Korea is a buffer state between China and the U.S. troops deployed in South Korea, China has more strategic and security interests in the survival



of the Kim regime. Thus, the degree of support China will lend to any UN-led and other sanctions would be confined to slowing North Korea's nuclear ambitions and other policies that do not directly threaten the survival of the Kim regime.

While Pyongyang might not trust the U.S. due to their long history of hostile relations, Japan and South Korea could still develop policies that increase the openness of the North Korean economy to the rest of the world. Rather than seeking direct bilateral or multilateral communication with Pyongyang, higher volumes of trade and investment that benefit the North Korean economy in general might be more beneficial. More economic openness might make average citizens aware of better living conditions and basic rights and freedoms enjoyed by citizens of other countries. More exposure to the rest of the world might in turn prompt North Koreans to demand similar basic rights and freedoms from their own regime.

The failed record of the sanctions does not imply that coercive economic policies should completely be abandoned in dealing with Pyongyang. Export sanctions on dual-use technologies and other materials used for nuclear purposes could still be partially effective. The ruling elites will not dismantle the nuclear program as it is an important deterrent to external aggression and a security guarantee for the regime's survival. Though selective sanctions targeting the nuclear program will not necessarily result in a reversal of the nuclear program, they might at least impede or delay the regime's ability to develop more advanced nuclear technologies and equipment.

Targeted sanctions on luxury goods could also help put some pressure on the ruling elite if implemented effectively. There have been multiple rounds of UN sanctions on the export of luxury goods to North Korea since 2006. These selective sanctions have, so far, failed as the regime has continued to access most luxury items through illicit trade and the use of intermediaries. There is also evidence that some sanctioning countries, such as China, appear to have failed to strictly enforce the export ban on luxury goods to North Korea.¹⁹ The ban on luxury goods has also not been very effective because there is no consensus among sanctioning

countries on what comprise luxury goods, as different countries have different lists of luxury goods. Hence, selective multilateral sanctions on luxury goods and other items would help pressure Pyongyang if the U.S., China, and other sanctioning countries agree on a shared list of luxury goods, create a mechanism to enforce the sanctions, and establish rules and procedures to penalize countries and private actors who breach sanctions.

Financial sanctions on foreign banks could also be used to curb the regime's ability to have access to foreign currency and disrupt its illicit financial activities. For instance, the U.S. Treasury Department's decision to blacklist a Macau-based bank, Banco Delta Asia, accused of money laundering in 2005 forced the government of Macau to freeze North Korean deposits in the bank. Though the impact of the financial sanctions was short-lived, as the regime found other ways to do business through clandestine networks and third-party actors, it still initially restricted the regime's access to hard currency and the international financial system.²⁰ Thus, financial sanctions such as the recent Treasury Department's designation of North Korea as a "primary money laundering concern"²¹ could put more direct pressure on the regime by blocking its access to the U.S. dominated global financial system. Most countries and their financial institutions would be compliant with financial sanctions in order to avoid being kept out of the U.S.-dominated financial system and tarnishing their own reputation by cooperating with countries under financial sanctions.

In conclusion, targeted measures such as financial sanctions and the ban on luxury goods could work if sanctioning countries find ways to effectively enforce them. The biggest challenge with targeted sanctions appears not to be the intention behind them (i.e., pressuring the ruling elites) but rather the difficulties with enforcing them in an efficient manner. The U.S. and other sanctioning countries should devote more attention to the degree of coordination in the enforcement of sanctions and create more sophisticated enforcement mechanisms, such as stricter border controls and financial transaction monitoring procedures, to minimize sanction-busting through overt or clandestine activities.

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