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**Economic Sanctions during Humanitarian Emergencies:  
The Case of North Korea**

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**Summary**

North Korea is experiencing yet another cycle of humanitarian distress. While sanctions are not the primary cause, they are a contributing factor. This essay examines the channels through which sanctions affect the North Korean economy and reaches four conclusions: First, sanctions have contributed to a deterioration of economic performance. Second, the UNSC's 1718 Sanctions Committee should consider a thorough review to identify goods that would warrant blanket humanitarian exemptions or removal from the sanctions lists altogether. Third, financial sanctions have raised the risk premium on all financial transactions with North Korea; the sanctioning authorities need to do a better job of clarifying transactions permissible under humanitarian exemptions. Finally, while the global community should reassess its policies, the government of North Korea bears responsibility as well. The benefits of sanctions relief will be diminished if North Korea refuses to engage constructively with the international community on a broader range of issues running from basic humanitarian relief to economic reform.

Although information is unusually scarce because of North Korea's draconian COVID policies, the country is probably experiencing yet another cycle of humanitarian distress. A variety of indicators--from grain balances, to data on food prices, to satellite imagery tracking the effects of natural disasters<sup>i</sup>--point to an aggregate shortfall in supply and elevated prices. What obligations do North Korea and the international community have in responding to rising distress, and what role in particular should sanctions relief play in this process?

The right to food is recognized in article 25 of the Universal Declaration on Human Rights and article 11 of the International Covenant on Economic, Social and Cultural Rights (ICESCR), and has undergone a steady elaboration, most notably in the Committee on Economic, Social and Cultural Rights General Comment 12 of 1999. The simplest definition, contained in paragraph 6 in General Comment 12, is that "the right to adequate food is realized when every man, woman and child, alone and in community with others, has physical and economic access at all times to adequate food or means for its procurement."

This document goes on to elaborate a number of state obligations including

- That states take the necessary steps to the maximum of its available resources to ensure access to adequate food,
- That states not to take any measures that result in preventing access to adequate food,
- That states forewear “any discrimination in access to food, as well as to means and entitlements for its procurement, on the grounds of race, colour, sex, language, age, religion, political or other opinion, national or social origin, property, birth or other status,” and that
- Ultimately states are obliged to fulfill or provide that right directly.

The government of North Korea is the ultimate guarantor of these rights and has violated this most basic obligation in multiple ways. These include, at the most general level, its pursuit of economic policies that have dampened the country’s growth potential and a lack of attention to the interests of cultivators in particular. It has also acted unconstructively in broader senses: in its response to the COVID-19 crisis, in the continuing emphasis being put on its nuclear and missile programs, and in the repeated rejection of offers of engagement and assistance.

Yet at the same time it is inescapable that multilateral and bilateral sanctions on the North Korean economy have contributed to this humanitarian crisis. In this essay we examine the implementation of sanctions on North Korea and the channels through which they are likely to affect welfare. We cannot provide meaningful estimates of the size of these effects, but that is not our purpose; we are interested, rather, in obligations that might attend them. First, the broadening of United Nations Security Council (UNSC) sanctions beginning in 2016 has adversely affected overall economic performance. Second, while both bilateral and multilateral sanctions normally provide for humanitarian exemptions, the process for securing those exemptions creates transactions costs that interferes with humanitarian objectives. Third, financial sanctions have raised the risk premium on all financial transactions with North Korea, including permissible humanitarian activities. These effects on the supply of humanitarian goods and the financial channels that support them suggest reforms of the sanctions process.

Finally, however, the government of North Korea bears responsibility as well. Sanctions relief will be ineffective if North Korea refuses to engage constructively with the international

community. Yet the North Korea regime seems relatively uninterested in a resumption of humanitarian operations in the country.

*Sanctions, the pandemic and food security*

Any effort to assess the impact of multilateral and bilateral sanctions on the welfare of North Koreans faces a daunting—and probably insurmountable—problem. How do we disentangle the effect of sanctions from the myriad of other factors driving the protracted humanitarian crisis in the country?

The wellbeing of North Koreans is affected first and foremost by economic policies that have prioritized military over social spending and isolated the country from the world economy. Under Kim Jong Un, the leadership continued to acquiesce to the operation of a de facto market sector and undertook modest reforms in the agricultural sector.<sup>ii</sup> Nonetheless, there is little evidence that the regime is open to the types of reforms that would firmly institutionalize and protect private property and contracting, liberalize the external sector, and generate more rapid growth. Every year, the UN's Office for the Coordination of Humanitarian Affairs publishes a report on North Korea's needs and priorities. The report for 2016—written prior to the tightening of sanctions that began in that year—notes that “more than three quarters of the population remain food insecure and highly vulnerable to shocks.”<sup>iii</sup>

Assessing the effect of sanctions during the most recent period is further complicated by the country's aggressive strategy for managing the COVID pandemic, which can be seen by considering the path of the country's trade over the longer run. Figure 1 shows that North Korean trade stagnated in the aftermath of the end of the Cold War and the famine years (1994-98) but started to turn up around 2000 as a result of North-South engagement and an opening to China. Apart from some sanctions on luxury goods aimed at the elite, early UN Security Council sanctions following the missile and nuclear tests of 2006 were tightly targeted on weapons of mass destruction (WMD) programs and did not appear to have significant effect on the country's overall trade, which saw steady growth through its peak in 2014-5. After that time, both multilateral and bilateral sanctions—most notably the closing of the Kaesong Industrial Complex in 2016--began to have a significant impact. Although data on foreign investment is even more

limited, it was clearly minimal to begin with outside of investments by Chinese firms and tightening trade and financial sanctions would only have the effect of further deterring it.

The key to the new effectiveness of multilateral sanctions can be found in a change of attitude in Beijing. Up until 2016, China—with Russian backing—had acted to limit UN sanctions to transactions that could be demonstrably linked to the WMD program and conventional arms trade. Starting with UNSC Resolution 2321 in 2016 and continuing under subsequent resolutions, China supported sanctions that placed restrictions on commercial trade: they banned a number of key North Korean exports (coal, iron ore, seafood, textiles), placed caps on imports of oil, and severely complicated the ability of North Korea to access the international financial system.

Chinese customs data should be regarded with some skepticism; China has stopped reporting its oil trade with North Korea, for example. Nonetheless, Figure 2 demonstrates the significance of the new sanctions regime. While China's exports to North Korea fell to a new plateau in 2018-19, North Korean exports to China virtually collapsed. In January 2020, the fall in North Korean exports was matched by an even more dramatic decline in North Korean imports due to the border closure. There is ample evidence that North Korea has long engaged in sanctions evasion and that in recent years such evasion has reached wholesale proportions.<sup>iv</sup> Sanctions evasion only increased in the wake of deteriorating US-China relations and Russia's invasion of Ukraine. North Korea is reportedly selling artillery and missiles to Russia, a Security Council member, in violation of existing UNSC resolutions.<sup>v</sup> Yet it is doubtful that smuggling is able to fully substitute for almost the entirety of the country's commercial trade.

Concerns about the humanitarian situation in North Korea have increased accordingly. While far from the severity of the 1990s famine period, both quantity and price data point to a deteriorating situation, made worse by the regime's self-isolating response to the COVID-19 pandemic and the war in Ukraine. Food availability has likely fallen below minimum human needs, and on one metric is the worst since the 1990s famine. Grain prices are higher than world or Chinese prices, and have been rising and becoming more volatile.<sup>vi</sup> Yet despite these worrisome signals, the regime is keeping UN and bilateral relief agencies at bay

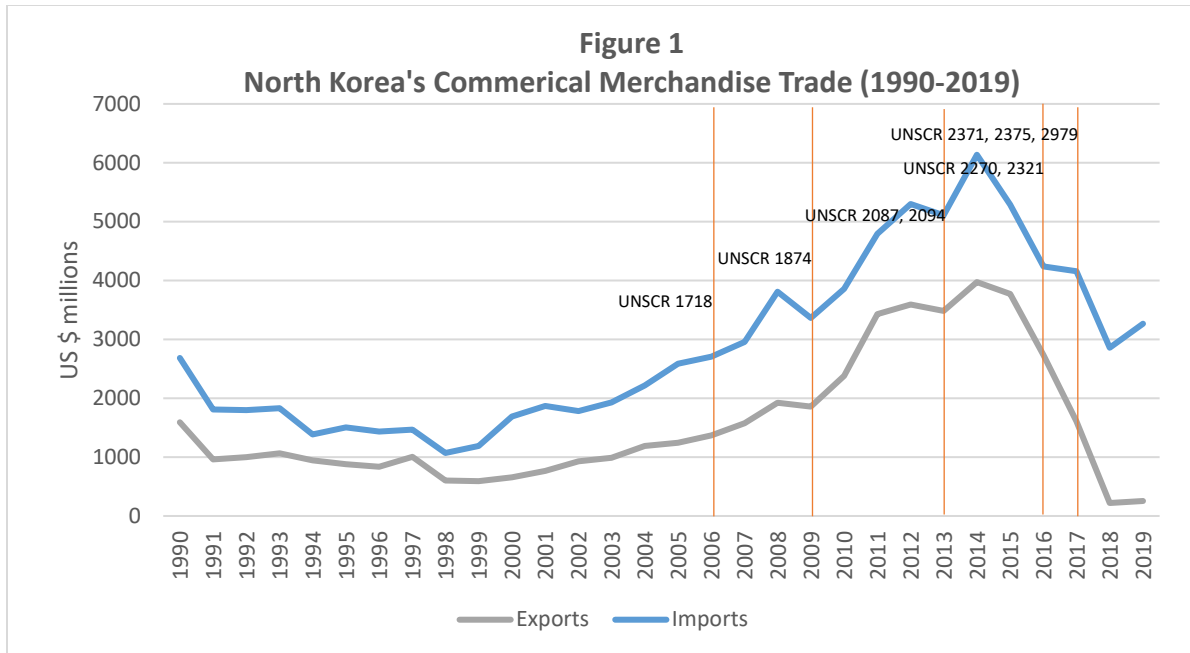


Figure 2



### *The Effect of Sanctions on Livelihoods I: the Macroeconomic Lens*

Yet even if we separate out the effect of the border closure, there can be little question that the sanctions imposed since 2016 do constitute a significant external shock. We can think of sanctions operating on DPRK livelihoods through at least three different channels. First, and most significant, is the fact that sanctions have macroeconomic effects. They reduce overall

growth from what it might have otherwise been and thus reduce employment and income. Sanctions on exports have an adverse effect on export-oriented sectors. Some of these like mineral extraction are capital intensive, but others such as textiles and apparel are labor intensive and have been key growth sectors in the economic takeoff of other countries in the region. Sanctions on North Korean exports also reduce foreign exchange earnings and thus limit the capacity to import.

Sanctions on imports reduce access to needed capital and intermediate goods that are inputs to other industries. North Korea is significantly reliant on the importation of capital equipment and parts, and between 2017 and 2018 these imports from China are estimated to have fallen by as much as 95 percent.<sup>vii</sup> Of particular importance are imports of energy, the crucial role of fertilizer in the agricultural sector and the knock-on effects of decline in these inputs on agricultural output; these problems were openly acknowledged and given priority by the leadership at the 8<sup>th</sup> Party Congress in January 2021.<sup>viii</sup> But even sanctions on the import of consumer goods have an adverse effect not only on consumption but on the retail sector, which includes small traders.

If we take the estimates put forward by the Bank of Korea at face value—and they are controversial—we can see clear evidence that the recent decline in total output correlates with the timing of tighter sanctions and preceded the COVID shock associated with the closing of the border.<sup>ix</sup> From 2010 to 2016, real GDP growth averaged just under 1 percent, already anemic by any standard. From 2017-2019 the economy contracted: GDP declined an average of 2.4 percent a year. In 2020, the BOK estimated a decline of 4.5 percent, the steepest economic decline in BOK series since the great famine. Open statements from the leadership about the failure to meet plan targets and even food shortages suggest significant distress.<sup>x</sup> It has been estimated that between 2014-16 and 2017-19 household income declined 25 percent.<sup>xi</sup>

This macroeconomic lens leads to our first conclusion. The tightening of sanctions from 2017 forward had its most significant effect on welfare through its impact on overall economic performance, although this was exacerbated greatly from 2020 by the regime's COVID-related border closure. The most efficacious way to improve the welfare of the North Korean population is to reach a broader political settlement that would permit a gradual relaxation of *all* sanctions. However, there may be particular advantages in relaxing sanctions first on activities that are

labor intensive, such as export-processing zones, while thinking about ways that labor rights could be protected.<sup>xii</sup>

### *The Effect of Sanctions on Livelihoods I: Poor Targeting*

There is a second way in which sanctions might have an adverse effect on welfare: through poor targeting. Initial sanctions efforts sought to narrowly target sanctions around trade which was directly related to WMD as well as trade in luxury goods designed to hit the elite. However, the proliferation of shell companies and other techniques of sanctions evasion meant that such efforts probably had little material effect; thus the shift toward targeting commercial trade more broadly. Of course, the purpose of sanctions is to impose costs on the target. But UNSC resolutions were always explicit that sanctions should seek to minimize adverse humanitarian impact.<sup>xiii</sup>

Detailed studies of the precise goods that have been sanctioned show numerous products the prohibition of which have adverse effects on the most vulnerable. For example, with respect to agriculture the sectoral sanctions under UNSCR 2397 include products such as hand-tools for agriculture (HS code 8201), irrigation equipment (HS 842482), and tractors and spare tractor parts (HS 8701). Some banned items could have direct and quite obvious effects on the public health system even if not imported in great quantities previously: examples include X-ray machines (HS 9022) and UV lamps for disinfection (HS 853939). Imports of these products are presumptively eligible for a humanitarian exemption.

The initial UNSC resolution on sanctions (UNSCR) established a comprehensive humanitarian exemption mechanism which has been repeatedly updated.<sup>xiv</sup> One issue is that implementation is left to member states, and for example, the South Korean humanitarian exemption regulation appears more narrowly drawn than the one of the US. Uncertainty can also induce disengagement by private firms such as shippers averse to legal entanglement. It is hard not to conclude that the exemption rules are unwieldy and have a deterrent effect on the export of needed goods.

This leads to a second conclusion: the 1718 Sanctions Committee and its principles should consider a thorough review of existing sanctions lists to identify goods that would warrant blanket exemptions or removal from the sanctions lists altogether.



### *The Effect of Sanctions on Livelihoods III: Friction in Humanitarian Operations*

In parallel with steadily widening trade sanctions, UN Security Council resolutions gradually added financial sanctions as well. These included limits on the number of bank accounts held by diplomats and missions, asset freezes on entities and individuals, and bans on all joint ventures.

However, the United States has exploited its central position in the international financial system to impose secondary sanctions on entities and individuals doing business with North Korea as well. In President Trump's first year in office, he authorized the Treasury Department to block any foreign business or individual that facilitates trade with North Korea from the US financial system.<sup>xv</sup> As noted above, the UN sanctions regime was accompanied by the creation of an exemptions process. US secondary sanctions not only created a new layer of licensing requirements but generated a low tolerance for risk on the part of banking institutions and suppliers, thus making it difficult to pay staff or counterparts or secure goods for which there was financing. Even projects involving knowledge transfer could potentially run afoul of sanctions if they involve paying stipends to North Koreans inside or outside the country.

This leads to a third set of conclusions. Even if both the multilateral and bilateral exemption processes were streamlined following the onset of the COVID pandemic, that streamlining has not addressed the adverse effects of financial sanctions on humanitarian operations—both multilateral and through NGOS. At a minimum, we need something resembling an impact study of the effects of financial sanctions on the ability of the humanitarian community to operate in the country. In particular, international banks need to be more fully informed of the crucial role they play in humanitarian operations and make sure they are apprised of trade that is legitimate under existing sanctions.

### *By Way of Conclusion: A Note on the Ethical Issues*

In conclusion, it is important to return to the point raised in the introduction: that it is notoriously difficult to separate out the effects of sanctions from other factors exacerbating North Korea's longstanding humanitarian crisis. This became particularly evident following the onset

of COVID, when the leadership doubled down on its nuclear and missile programs, codifying the country's nuclear status and articulating a first strike doctrine;<sup>xvi</sup> articulated economic policies that would strengthen central control;<sup>xvii</sup> and made it virtually impossible for the humanitarian community to operate in the country. By 2021, humanitarian aid workers were pushed out of the country, leaving a worrying gap in information about conditions in the country. Similar isolation at the time of the famine had the effect of blocking a full appreciation of the extent of the tragedy before it was too late.

This consideration of sanctions' effects leads to a final set of moral questions about what obligations the international community has to offset human suffering in North Korea and what role sanctions relief might play in that process. Hazel Smith has provided the most elaborate ethical argument that sanctions violate widely accepted ethical tenets.<sup>xviii</sup> Drawing on just war theory, she argues that multilateral and bilateral sanctions violate the standards of effectiveness (because they were highly unlikely to ever work in achieving denuclearization), necessity (because of the likelihood that more aggressive diplomacy was more likely to have worked) nor proportionality (because the sanctions contributed to widespread food shortages, particularly through caps on oil imports). The last point is of particular significance. Smith makes the powerful argument that even if the sanctions did not cause the underlying humanitarian problems, they exacerbated them and the responsibility for that marginal additional impact—however small it might be compared with North Korean obligations--lies with those imposing the sanctions.

The ethical arguments against sanctions were complicated over the course of 2020-2021 by the refusal of the Kim Jong Un regime not only to engage in diplomacy but to even allow humanitarian aid into the country; in effect, North Korea was sanctioning itself.<sup>xix</sup> Moreover, Smith's argument raises the question of whether sanctions relief would necessarily have the intended effect.

We believe that some portion of any sanctions relief would trickle down to the public through increased growth and incomes. However, four additional considerations must be weighed. First, it is possible that the regime itself would reject partial sanctions relief or humanitarian assistance that was intended to alleviate current distress, for example, in the form of food aid or vaccines. This concern is not hypothetical; the regime has in fact rejected vaccines<sup>xx</sup> and made statements to the effect that humanitarian aid—at least from the US--served

a “sinister purpose.”<sup>xxi</sup> Second, it is at least possible that sanctions relief would *not* trickle down to the most vulnerable, or would not trickle down to the most vulnerable unless sanctions were lifted wholesale. But this possibility raises a third ethical concern: that there are other stakeholders in any moral balance sheet. While those facing immediate vulnerability would seem to deserve priority, sanctions also serve the function of reducing the capacity of the regime to threaten others who have a legitimate right to live in peace without a risk of devastating conflict.

Finally, it is worth considering that sanctions relief is not the appropriate instrument for addressing the vulnerability that we currently observe. Rather, it may be more effective for the international community to focus on the standard means for alleviating severe distress: by shifting the discussion away from sanctions and back toward a revival of humanitarian assistance. That conversation will, of necessity involve North Korea making strategic choices. But from what we have seen to date, the regime seems relatively uninterested in a resumption of humanitarian operations in the country or has not figured out the extent to which it is comfortable with such a prospect.

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<sup>i</sup> Marcus Noland, “North Korea as a complex humanitarian emergency: Assessing food insecurity,” *Asia and the Global Economy*, vol 2 no. 3 <https://www.sciencedirect.com/science/article/pii/S2667111522000263>

<sup>ii</sup> For example, Stephan Haggard and Marcus Noland, *Witness to Transformation: Refugee Insights into North Korea* (Washington DC. Peterson Institute for International Economics, 2011)

<sup>iii</sup> *DPR Korea Needs and Priorities 2016*, p. 5.

<sup>iv</sup> The definitive source on these issues are the periodic reports from the Panel of Experts established pursuant to UNSCR 1874 of 2009. The most recent report is UNSC S/2021/777 of September 8, 2021.

<sup>v</sup> David Brunnstrom and Idees Ali, “White House says North Korea supplying Russia with artillery shells,” Reuters, November 2, 2022 <https://www.reuters.com/world/white-house-says-north-korea-supplying-russia-with-artillery-shells-2022-11-02/>

<sup>vi</sup> Noland, “North Korea as a complex humanitarian emergency: Assessing food insecurity.”

<sup>vii</sup> Taehyoung Cho, Min Jung Kim, and Sang Hyup Lee, “Macroeconomic Features over the Last Five Years and Prospects,” presentation at the 8<sup>th</sup> Meeting of the Dialogue on the DPRK Economy, Washington, United States Treasury, 6-7 September.

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viii “Supreme Leader Kim Jong Un Makes Opening Speech at 8th WPK Congress,” *KCNA*, January 1, 2021. <https://kcnawatch.org/newstream/1609914831-848334469/supreme-leader-kim-jong-un-makes-opening-speech-at-8th-wpk-congress/>.

ix Bank of Korea Press Release: Gross Domestic Product Estimates for North Korea in 2020 at <https://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10065833&menuNo=400069&pageIdx=2>. For exemplary critiques, of the BOK estimates see Marcus Noland, “BOK’s Estimates of North Korean National Income,” *Witness to Transformation*, July 2, 2014 at <https://www.piie.com/blogs/north-korea-witness-transformation/boks-estimate-north-korean-national-income> William Brown, “South Korea’s Central Bank Report Exaggerates North Korea’s Economic Growth,” *38North* August 6, 2020 at <https://www.38north.org/2020/08/wbrown080620/>.

x Suk Lee “North Korea’s Economic Crisis, How Far Will it Go?” in Suk Lee, ed. *2020/2021 The DPRK Economic Outlook*. (Seoul: Korea Development Institute, 2021).

xi Byung-yeon Kim, “Marketization during the Kim Jong Un Era,” presentation at the 8<sup>th</sup> Meeting of the Dialogue on the DPRK Economy, Washington, United States Treasury, 6-7 September 2022.

xii Marcus Noland, “North Korea: Sanctions, Engagement and Strategic Reorientation,” *Asian Economic Policy Review* 14 (2019): 189-209.

xiii UNSC resolutions have typically contained language that sanctions “are not intended to have adverse humanitarian consequences for the civilian population of the DPRK.” See for example UNSCR 2397, December 22, 2017 at [https://www.undocs.org/S/RES/2397%20\(2017\)](https://www.undocs.org/S/RES/2397%20(2017)) para. 24.

xiv See 1717 Sanctions Committee, “Humanitarian Exemption Requests” at <https://www.un.org/securitycouncil/sanctions/1718/exemptions-measures/humanitarian-exemption-requests>

xv See Executive Order 13810 (September 21, 2017) as well as the wide array of other restrictions that have been imposed by the US unilaterally at <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/north-korea-sanctions>

xvi Min Joo Kim, “North Korea codifies right to launch preemptive nuclear strikes,” *Washington Post*, 9 September 2022 <https://www.washingtonpost.com/world/2022/09/09/north-korea-nuclear-weapons-kim-jong-un/>; Christian Davies, “N Korea proclaims first-strike atomic policy,” *Financial Times*, 10 September 2022.

xvii Kim (2022) argues that the moves to suppress the market were in part driven by the impact of sanctions.

xviii Hazel Smith, “The ethics of United Nations sanctions on North Korea: effectiveness, necessity and proportionality,” *Critical Asian Studies* 2020 at <https://doi.org/10.1080/14672715.2020.1757479>.

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<sup>xix</sup> In a speech excoriating newly elected South Korean President Yoon Suk-yeol, Kim Yo-jong, sister of Kim Jong-un and a member of the State Affairs Commission of North Korea, dismissed the South Korean offer of engagement with “no one barter its destiny for corn cake” Kim Tong-hyung, “North Korea dismisses Seoul’s aid offer as ‘foolish’ repeat,” Associated Press, 18 August 2022 <https://apnews.com/article/united-states-seoul-recycling-south-korea-bfe6820d4b34fc441f67b414476cf77f?s=09> accessed 18 August 2022; Michelle Ye Hee Lee, “North Korea rejects South’s ‘absurd’ offer on disarmament,” *Washington Post*, 19 August 2022 <https://www.washingtonpost.com/world/2022/08/19/north-korea-kim-yo-jong-reject-south-president/> access 19 August 2022.

<sup>xx</sup> After rejecting vaccine assistance from the multilateral agency COVAX as well as bilateral offers from China, Russia, South Korea, and the United States, North Korea announced that a vaccination campaign, presumably based on donated Chinese vaccines, will begin in November 2022; William Gallo, “North Korea Hints at Vaccine Campaign, But No One Knows the Details,” *VOA* 15 September 2022 <https://www.voanews.com/a/north-korea-hints-at-vaccine-campaign-but-no-one-knows-the-details/6748436.html>. On security concerns, see “NK foreign ministry accuses US of using humanitarian aid for ‘sinister purpose,’” *Korea Herald* July 12, 2021 at <http://www.koreaherald.com/view.php?ud=20210712000087>.