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January 28, 1968

VULNERABILITY OF NORTH KOREA TO FREE WORLD ECONOMIC PRESSURES

Objective

To cause economic inconvenience to North Korea, symbolize Free World disapproval of the illegal seizure of the Pueblo, and increase pressures on the regime to release the crew and vessel.

Concept

The following measures might be attempted:

- 1) Total multilateral embargo on trade with North Korea. COCOM countries (NATO plus Japan) prohibit the export to North Korea of a selected list of strategic items. The United States has, for several years, been exploring the possibility of obtaining COCOM agreement for more restrictive controls on exports to communist areas of East Asia than on exports to Eastern Europe and the USSR (the so-called "China differential"). The United States prohibits virtually all trade and financial transactions with North Korea and could propose that others do the same.
- 2) Japanese prohibition of trade and withdrawal of ships. Most North Korean trade is with the USSR and Communist China and most goes by land routes. However, about 13 per cent is with the Free World. Japan is the largest Free World importer of North Korean goods; the majority of Free World ships calling at North Korean ports are of Japanese registry.
- 3) Cessation of Free World wheat exports. Wheat accounts for half of Free World exports to North Korea. Australia and France are currently shipping wheat.

Communist Reaction

The impact of increased Free World controls on trade and shipping would be small. Total wheat imports are running at a level of only 5 to 10 per cent of North Korean requirements. If this trade were stopped, North Korea could either cut rations, switch to other food grains, or circumvent the embargo (in 1966 they imported 117,000 tons of Canadian wheat via the USSR). The other half of Free World exports to North Korea represents a range of equipment, manufactures, and industrial raw materials which can probably be obtained from alternative communist sources without serious delay. If Free World vessels were removed from the trade, an additional burden would be thrown either on communist flag or communist chartered vessels or on land transport routes. The preliminary CIA view is that the added burden on shipping or on land routes would not be significant.

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Free World Reaction

Our COCOM partners would regard a total embargo as going far beyond the COCOM criteria for selective strategic controls. They would observe that, even during the Korean war, the multilateral embargo was selective. They would view our motivation as unrelated to the COCOM objective of limiting the communist military potential. If the embargo were proposed with a definite cut-off date, it might have a slightly better chance of acceptance (other participating countries were unhappy that the original China-North Korea controls continued until 1957). But it is unlikely that COCOM would agree to even a temporary total embargo (adoption would require unanimous agreement). If we attempted this, prospects for the "China differential" might be damaged. France, the United Kingdom, Japan and West Germany have all indicated their opposition to any significant increase in controls on exports to East Asia.

Japan would probably respond to a separate approach by pointing out the political impossibility for them to deny exports to a communist country in Asia in the absence of parallel action by other major Western trading countries.

Australia might be sympathetic to a request to stop wheat shipments. But there would probably be problems of breaking contracts. In any event, it would be difficult to impose effective controls on wheat because of the number of potential suppliers and of circuitous routes.

Summary of Advantages and Disadvantages

The unlikelihood of obtaining agreement to trade denial in COCOM or in bilateral efforts with major trading countries plus the estimate that the communist countries could promptly provide substitutes for Free World supplies seriously limit the prospects for these possible economic measures.

We might alternatively consider holding out the bait of relaxing an existing U.S. economic control as a quid pro quo for North Korean action. We believe we may hold some North Korean assets that were blocked in 1950 (probably not more than one or two million dollars; Treasury is checking the figures). Although small, the unblocking of such assets might under certain circumstances be considered an acceptable alternative to payment of a "fine."

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The substance of this paper has been coordinated with:

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CIA - [REDACTED]

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INR - Mr. Arthur Smith

Also see INR papers on North Korean Foreign Trade
and on North Korean Fishing Fleet

Treasury - Mr. Stanley Sommerfield

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