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# North Korea: Likely Response to Economic Sanctions

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# Key Judgments

- The Intelligence Community believes that economic sanctions *per se* would not cause North Korea to abandon its nuclear weapons program. If P'yongyang had not already signed a safeguards agreement, it might respond to sanctions by agreeing to fulfill some of its NPT commitments, but only to split an international coalition backing sanctions.
- Foreign trade plays an important role in key sectors of North Korea's economy. P'yongyang imports all of its crude oil, coking coal, and advanced technology, and 25 percent of its needed food grains. It exports military equipment to a number of Middle Eastern countries.
- A trade embargo--if fully respected and enforced--would cause a significant falloff in production and impose severe hardships on the North Korean populace. A curtailment of crude oil shipments would be particularly troublesome and would lead to industrial shutdowns, restricted transportation, and reduced agriculture and fishing.
- Most of the North's trading partners would be reluctant to impose, much less to enforce, economic sanctions. China's role would be key, and we believe Beijing would strenuously oppose--and assist P'yongyang in evading--an embargo.
- With imposition of an embargo, at minimum the regime would place its forces on alert, increase austerity measures, and undertake efforts to subvert and evade the sanctions. It might stage incidents along the Demilitarized Zone. It is possible, though not likely, it could resort to a military attack on the South, if P'yongyang perceived sanctions threatened its basic survival.

# Discussion

## The Economic Setting

In our view, the North Korean economy can be hurt by economic sanctions. Years of central planning have debilitated the North; official South Korean estimates place North Korea's per-capita GNP at \$1,065 (see table 1), but we believe living standards have deteriorated since the mid-1980s:<sup>1</sup>

- Economic performance in 1990 was particularly bad. GNP declined by almost four percent, and shortages of food and fuel were widespread, due largely to a meager harvest and the breakdown of concessionary trade arrangements with the Soviet Union and Eastern Europe.
- The North appears to be doing slightly better this year; grain production is up, and P'yongyang has had some success in finding new suppliers of crude oil. But shortages remain a fact of life for most North Koreans, and industry continues to lack important material.

The economy's vulnerability to economic sanctions reflects the importance of trade in key sectors, although foreign purchases and sales—including arms sales—account for only about 20 percent of GNP. North Korea relies on imports for several commodities, such as crude oil, coking coal, and advanced

<sup>1</sup>A lack of official economic statistics complicates any assessment of the North's economic performance, but we believe South Korean estimates are reasonable given the pricing assumptions noted in table 1.

technology. In addition, food grain has become a critical import over the past few years; last year North Korea was forced to import roughly 25 percent of its grain requirements. Its principal suppliers of needed imports are the Soviet Union, China, and Japan. (See table 2.)

As relations between the USSR and P'yongyang have cooled over the past few years, Soviet trade as well as military and technical assistance have diminished. Military deliveries have declined steadily since 1989, and many Soviet technicians have returned home. These developments may hinder the North's efforts to modernize its military, as P'yongyang would probably not be able to produce a modern tank or fighter aircraft without Moscow's help. Moscow still provides some military materiel, as well as coking coal, refined petroleum products, building materials, machinery, and some consumer goods to P'yongyang. Total bilateral trade in 1991 is running far behind last year, perhaps by as much as 50 percent.

China provides important military and economic assistance to North Korea but has reduced its aid in recent years. The Chinese have not supplied major weapons systems to the North since the early 1980s. They still provide technical assistance in defense industries such as munitions production, and may assist in maintaining some weapons such as Silkworm antiship missiles. China was a major source of crude oil—providing an estimated 40 percent of P'yongyang's imports. Beijing appears reluctant to increase economic aid because of its own domestic economic problems, but still provides trade credits and recently agreed to postpone a

planned switch from barter to hard currency trade because of P'yongyang's economic woes.

Japan is a major source of capital goods, dual-use vehicles, semi-finished manufactures, and electronic components. In addition to this legal trade, pro-P'yongyang Korean residents in Japan provide the North with COCOM-controlled equipment. P'yongyang has a trade surplus with Japan, and uses excess foreign exchange to purchase needed goods from elsewhere.

Arms sales--principally to the Middle East--also brought in nearly \$200 million in needed foreign currency in 1990 (see table 3). In the last year, P'yongyang has established firm partnerships to trade weapons for petroleum. For example, the North purchased 600,000 tons of Iranian crude this year by drawing against credits from the sale of Scud missiles and equipment to Tehran.<sup>2</sup>

#### Impact of an Embargo

A trade embargo--if fully respected--would compound the problems plaguing the North Korean economy and would impose severe hardships on the North Korean populace. The reduction of crude oil would be particularly troublesome. Shortages of gasoline, diesel fuel, and lubricants

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<sup>2</sup>The total value of arms deliveries in 1990 was far below the US \$450 million in average annual sales during 1981-89, when the Iran-Iraq war increased demand for the low technology arms P'yongyang produces. The figure is expected to rise in 1991.

are already chronic, slowing production and transportation throughout the economy.

The cutoff of oil deliveries would probably cause the regime to accelerate the shutdown of even essential industries and move to inefficient alternative forms of transportation--ox carts, bicycles, and charcoal-burning vehicles. Fertilizer and pesticide production would be cut, adversely affecting the agricultural sector. Fuel shortages also would hamper the fishing industry.

The reduction of grain imports eventually would prove serious. P'yongyang has suffered grain shortages for several years and has coped by reducing rations and encouraging citizens to eat only two meals a day, according to travelers and defectors. Even with an improved harvest this year, the North may need to import as much as half a million tons of grain just to keep the already reduced consumption levels from falling further. North Korea reportedly stores large supplies of food as military reserve stocks, but we are unable to quantify amounts.

#### North Korea's Likely Reaction

If they had not already signed an IAEA safeguards agreement, P'yongyang might try to weaken the international community's resolve by agreeing to fulfill its NPT commitments, albeit with conditions. The IAEA safeguard procedures provide ample opportunity--even after P'yongyang signs--to delay implementation. We doubt an embargo ~~per se~~ would cause P'yongyang to abandon its nuclear weapons program.

Harsher economic conditions caused by sanctions would not necessarily threaten the regime. Rather, past practice suggests the North would portray the sanctions as a warlike act and call for greater sacrifices to defend the country. Such rhetoric could be accompanied by moves to place forces on alert, declare a state of emergency, and initiate an intensive propaganda campaign. In the short run at least, the result could produce more popular support for the leadership rather than any backlash or pressure for change.

Diplomatically, P'yongyang would appeal to China, the Soviet Union, and its Middle Eastern friends to help end or evade the sanctions. P'yongyang almost certainly would ask the Soviets and Chinese to maintain trade across their borders.

The North might resort to more hostile actions, particularly if the embargo were to be enforced militarily. The regime almost certainly would encourage demonstrations in South Korea. It could suspend the North-South dialogue as a means of pressuring the South; it also could carry out a terrorist action against US or South Korean facilities or personnel.

The North could raise tensions by staging military incidents along the Demilitarized Zone, laying blame on the United States and South Korea. Although we believe the probability is low, given the current attitudes in P'yongyang--deeply suspicious of the West and fundamentally concerned about survival--the regime might see an embargo as sufficient provocation to launch an attack against the South.

#### International Response

Although there is widespread international interest in bringing North Korea's nuclear program under IAEA safeguards, several key countries would be reluctant to impose, much less to enforce, economic sanctions.

We believe China--which has publicly opposed pressure tactics against the North--would not support trade sanctions and would veto UN action either to impose or militarily enforce an embargo. At a minimum, we believe Beijing would break the embargo by expanding trade with North Korea in an effort to preserve the P'yongyang regime. In particular, China would probably provide needed food and medical supplies, and could also increase oil deliveries. A blockade could lead Beijing to place its forces in northeast China on alert and aggressively patrol its territorial boundaries in the Yellow Sea--raising the danger of an accidental clash. The sharper anti-US environment that an embargo would likely create in Beijing might also prompt greater Chinese military assistance to North Korea.

The Soviets support the goal of ending the North Korean nuclear program, but would be unenthusiastic about imposing international sanctions on North Korea, which they believe would strengthen P'yongyang's intransigence. The Soviet leadership would probably argue for food and medicine to be excluded from any embargo and for a deadline that allows P'yongyang time to implement safeguards before sanctions would begin. We doubt they would endorse a blockade, but probably would not attempt to break one.

Japan would probably go along with economic sanctions--even though the Japanese would prefer exhausting all diplomatic options first. Japan would lose some China trade through North Korean ports, would probably face domestic disorder from the pro-P'yongyang Korean residents, and would see its efforts to normalize relations with the North ruined. But the evident concerns about North Korea's nuclear program and a desire to remain in step with Washington--factors already toughening Tokyo's stance in normalization talks with P'yongyang--would probably lead Tokyo to support an embargo. [redacted]

We believe South Korea would be reluctant to impose sanctions--particularly if food were embargoed--for security and domestic political reasons. South Koreans would worry that sanctions could provoke a military response from the North, particularly if the UN called for a blockade to enforce the measures. The certain termination of the North-South dialogue and possibility of an economic collapse in the North also would weigh heavily. With national elections scheduled in 1992, popular reaction would be a critical factor. We believe Seoul would be willing to support a limited embargo, but a decision would involve difficult and conflicting goals and probably come with conditions attached. [redacted]

Several Middle East nations that have close military ties with P'yongyang [redacted] probably would attempt to evade the embargo. In East Asia, ASEAN countries probably would support a UN-sponsored embargo, but with reservations about the possible use of

military force to advance what they view as US interests. Other countries with ongoing nuclear programs [redacted] would argue against the imposition of sanctions. [redacted]

