

# Policy Forum 04-28A: US Economic Diplomacy Toward North Korea

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US Economic Diplomacy Toward North Korea

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## US Economic Diplomacy Toward North Korea

by Marcus Noland

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### I. Introduction

This essay by Mark Noland, Senior Fellow at the Institute for International Economics, argues that

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"the US conditions its international economic diplomacy on a variety of political concerns that redound to the detriment of the DPRK." Thus as long as "the trend is toward adding more such conditions to US policy, and absent significant changes in North Korean behavior, these considerations will remain relevant for the foreseeable future."

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## **II. Essay by Marcus Noland**

-US Economic Diplomacy Toward North Korea

Essay by Marcus Noland

As demonstrated at the Asian Development Bank (ADB) meeting at Jeju-do, American economic diplomacy toward North Korea reflects US laws that use restrictions on economic relations as a means of encouraging desirable action or behavior with respect to global policy concerns such as workers' rights or nuclear proliferation causes often promoted by political progressives in the United States. Unlike trade sanctions these laws are not directed at North Korea per se, but they affect the DPRK nonetheless.

North Korea currently is excluded from US government programs that effectively subsidize trade (through Export-Import Bank financing) and outbound foreign investment (through Overseas Private Investment Corporation (OPIC) guarantees). As in the case of normal trade relations tariff status, North Korea is among a handful of countries ineligible for these programs because of their status as Marxist-Leninist states. Even if North Korea were somehow able to convince US authorities that it was no longer communist, under existing US law it still would not qualify for these programs due to its repression of workers' rights, and in the case of the Ex-Im Bank, the country's withdrawal from the Nuclear Non-Proliferation Treaty.

The DPRK is also affected by US policy toward the international financial institutions (IFIs) such as the International Monetary Fund, World Bank, and ADB. The US executive directors at these institutions are instructed to vote against lending and technical assistance to countries that are designated by US authorities as being state sponsors of international terrorism, drug trafficking, the proliferation of chemical and biological weapons, and the egregious abuse of human rights, including religious rights.

North Korea remains on the US government list of state sponsors of terror, although it is not known to have committed any terrorist acts since 1987, and has subsequently made public statements condemning terrorism. It continues to harbor aging Japanese Red Army airline hijackers however. Under a US law enacted when US airplanes were regularly hijacked to Cuba, the provision of sanctuary to hijackers is one of the specific legal triggers for US opposition to IFI lending. The DPRK has also not resolved the issue of Japanese abductees. Both issues are mentioned in the recent US State Department report on terrorism, and until they are settled it is doubtful that the United States will remove North Korea from the list of terror-sponsors. Even if the United States were to drop its opposition to DPRK membership in the IFIs, it is unclear whether the DPRK would accept the degree of financial transparency required for membership.

With respect to narcotics, despite apparently increasing involvement in the production and trafficking of drugs by the North Korean state, in its annual report, the State Department declined to list the DPRK as a major producer or trafficker in illicit drugs. In this regard, the on-going resolution of the Pong Su case involving alleged heroin trafficking in Australia may significantly affect future

US action.

The DPRK government is probably world's worst abuser of human rights and it would be hard to certify North Korean human rights practices under any meaningful criteria. That said, under current US law the executive probably can act with more discretion with respect to the human rights requirements than those relating to other concerns, so while the North Korean human rights situation is dismal, it probably constrains US-DPRK economic interaction less than the previously mentioned issues.

Finally, North Korean involvement in the smuggling of endangered species parts also runs afoul of US policy. (Due to repeated instances of North Korean diplomats using diplomatic pouches to smuggle endangered species parts, the DPRK was issued a formal diplomatic demarche by the secretariat of the multilateral Convention on the International Trade in Endangered Species, the only government to have achieved this dubious distinction.) The issue is of prospective political importance, precisely because it puts the DPRK in the crosshairs of yet another political constituency, and Greens favor economic sanctions as tool to encourage compliance with international environmental agreements - even with respect to nonsignatories. Currently the ability to bring sanctions to bear against state sponsors of this kind of activity is limited. But it is would not be surprising if environmental provisions were added during the periodic legislative reauthorizations of GSP, Ex-Im, OPIC, and US support for the IFIs.

The US conditions its international economic diplomacy on a variety of political concerns that redound to the detriment of the DPRK. Ironically, from a South Korean perspective, these causes are typically associated with political progressives in the United States. The president has a fair amount of discretion in implementing the rules, so there is room for diplomatic maneuver. Yet the trend is toward adding more such conditions to US policy, and absent significant changes in North Korean behavior, these considerations will remain relevant for the foreseeable future.

### **III. Nautilus Invites Your Responses**

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Nautilus Institute

2342 Shattuck Ave. #300, Berkeley, CA 94704 | Phone: (510) 423-0372 | Email:

[nautilus@nautilus.org](mailto:nautilus@nautilus.org)