

## ARGUMENT

# Sanctions Relief for Pyongyang Should Start Small

A gradual lifting of sanctions can keep North Korea incentivized to dump nukes.

BY TROY STANGARONE | FEBRUARY 27, 2019, 2:06 PM

**D**espite previous U.S. insistence that sanctions would not be lifted until North Korea dismantles its nuclear weapons program, sanctions relief appears to be on the table for the summit in Hanoi this week.

Ahead of U.S. President Donald Trump and North Korean leader Kim Jong Un's second meeting, Trump suggested that North Korea needs to take "meaningful" steps toward denuclearization to receive sanctions relief, but also that he "wouldn't be surprised to see something work out." Stephen Biegun, the U.S. special representative for North Korea, in his remarks at Stanford University last month also indicated a willingness by the United States to be flexible to fulfill the commitments made at last year's summit in Singapore.

The increase in U.S. flexibility comes as South Korean President Moon Jae-in has suggested that Seoul is prepared to engage in inter-Korean economic cooperation "if that's the way to lessen the U.S. burden," when it comes to sanctions relief, and in response to continued North Korean insistence that sanctions relief and dismantlement must go hand in hand.

But as the chance of relief grows, the real question is how best to provide it.

After more than a decade of applying sanctions bilaterally and at the United Nations, there is a wide menu of options for the Trump administration to choose from. But there are certain principles it should also consider as it begins a process of dismantlement and sanctions relief to improve the prospects for a successful process.

While sanctions relief will need to be flexible, it should also be temporary until dismantlement is complete. Lifting rather than providing temporary waivers of sanctions would risk North Korea becoming comfortable with the status of sanctions

By using this website, you agree to our use of cookies. This use includes personalization of content and ads, and traffic analytics. Review our [Privacy Policy](#) for more information. X

as North Korea becomes comfortable with a new status quo. In the absence of overt action by North Korea, it is unlikely that the U.N. would reapply sanctions that had been lifted, freezing the relief in place.

---

## **If North Korea knows that sanctions will snap back into place if it stalls, or if the process breaks down, it gives Pyongyang an incentive to fulfill its obligations.**

Temporary sanctions relief can also help incentivize the process of denuclearization. If North Korea knows that sanctions will snap back into place if it stalls, or if the process breaks down, it gives Pyongyang an incentive to fulfill its obligations and allows Washington to maintain a degree of leverage as the process goes forward.

Initial sanctions relief should start with simple and small items rather than North Korea's more significant export items or complex projects. Not all sanctions are created equal. Some, such as coal exports, are significantly more important to the North Korean regime than others. There should be a progression from lower-value exports to higher-value exports as the process moves toward dismantling higher-value items, giving North Korea a powerful incentive to continue as it sees tangible benefits on the ground.

At the same time, some sanctions are more complex than others and touch on a wider set of sanctions. For example, reopening the Kaesong Industrial Complex would violate U.N. prohibitions on textile exports, providing political risk insurance, and the transfer of bulk cash to North Korea. In contrast, providing a waiver for North Korea to export a specific good would be more streamlined and touch on fewer interconnecting sanctions.

The United States should also consider beginning sanctions relief by allowing North Korea to purchase more of goods that it is prohibited from importing before moving toward allowing North Korea to export a greater number of goods. Pyongyang has sought to evade sanctions to import refined petroleum. If the current caps were raised, it would avoid the issue of North Korea earning excess hard currency early in the process and provide relief to North Korea's domestic economy.

The United States should also work to avoid providing sanctions relief that encourages North Korea to not live up to agreements. The regulations for the Kaesong Industrial Complex call for workers to be paid directly, but instead they were paid indirectly.

By using this website, you agree to our use of cookies. This use includes personalization of content and ads, and traffic analytics. Review our [Privacy Policy](#) for more information. X

Received By NSD/FARA Registration Unit 02/27/2019 4:13:00 PM

reopen Kaesong, the United States should insist that it be done under the terms in the existing regulations for the complex that require workers to be paid directly.

This would also help with fulfilling the statement from the Singapore summit that calls for building a new U.S.-North Korea relationship. If North Korea is going to join international financial institutions such as the World Bank, it will need to begin meeting international standards and living up to existing obligations. It would be difficult to build a new relationship if North Korea continues to operate outside of existing international rules and norms. Kaesong will be a test case for North Korea's willingness to follow its obligations.

Lastly, for sanctions relief to work it will need specific benchmarks, if not timelines. Ideally those would be structured to kick in as North Korea concludes certain steps in dismantlement rather than as upfront payments.

With those principles in mind, what sanctions could the United States support lifting in return for steps toward dismantlement by North Korea? These could include waiving U.S. bilateral sanctions, creating exemptions through the U.N. 1718 Committee process, or providing temporary waivers from U.N. sanctions.

The United States maintains a wide range of sanctions on North Korea related to Pyongyang's nuclear and missile programs, cyber-activities, human rights violations, and illicit financial activities. In the case of most U.S. bilateral sanctions, the president or a member of the cabinet can waive those sanctions in the national interest. The significant exception to this is the provision of nonhumanitarian aid.

---

### **It will take years for North Korea to meet the standards necessary to join international financial institutions and become eligible for international development assistance.**

While providing bilateral sanctions relief might be the easiest route, it also would not offer immediate benefits to North Korea, and foreign policy is an area where Congress has shown a willingness to confront Trump administration policies.

It will take years for North Korea to meet the standards necessary to join international financial institutions and become eligible for international development assistance. Additionally, since the United States is unlikely to remove North Korea as a jurisdiction

By using this website, you agree to our use of cookies. This use includes personalization of content and ads, and traffic analytics. Review our [Privacy Policy](#) for more information. X

Received By NSD/FARA Registration Unit 02/27/2019 4:13:00 PM

of primary money laundering concern (Section 311) anytime soon, even loosening strictures on trade between the United States and North Korea would not be of benefit.

As the process continues, the United States will need to remove bilateral sanctions, such as requirements that U.S. representatives to organizations such as the World Bank vote against assistance for North Korea. However, bilateral sanctions relief makes the most sense at the end of the process rather than the beginning.

With the prospect of inter-Korean projects being a part of any agreement in Hanoi, exemptions by the 1718 Committee for the resumption of tourism at Mount Kumgang, the rebuilding of North Korea's railways, or reopening the Kaesong Industrial Complex are potential options.

If the decision in Hanoi is to allow for inter-Korean exemptions, Mount Kumgang and starting repairs on the railways would be reasonable options—especially as tourism is not banned under U.N. sanctions.

So far, the humanitarian exemptions provided by the 1718 Committee have been valid for six months. In the absence of a longer exemption, that is unlikely to provide the type of certainty that businesses would need to reopen in Kaesong. However, a six-month timeframe would allow Mount Kumgang and efforts to repair the railways in North Korea to operate without much difficulty and to be paused if needed.

One challenge for inter-Korean projects, however, will be payment. Even if the U.N. includes an allowance for the payment of North Korea in bulk cash, in the past it took payment in U.S. dollars. It is unlikely that the United States would remove North Korea from Section 311 measures at this point, raising the question of whether Pyongyang would accept alternative payment.

---

## **The United States could consider tying funds earned from exports to specific projects and reinvesting the funds in North Korea.**

The United States and South Korea could propose other methods. It has been reported that the Trump administration is trying to create an escrow account to hold assets seized under international sanctions, but it could also be used to hold new funds earned by North Korea under sanctions relief. While an escrow account that Kim could not

access until later in the process would provide an incentive to continue dismantlement, it also would not provide tangible immediate benefits.

Instead, the United States could consider tying funds earned from exports to specific projects and reinvesting the funds in North Korea. For example, if the decision is made to resume tourism at Mount Kumgang, the United States could allow the proceeds to go toward South Korean costs for additional inter-Korean projects related to infrastructure.

The third option would be for the Trump administration to agree to allow time-limited, but renewable, waivers for sanctions relief at the United Nations. Rather than providing an exemption for a certain project, the waivers would allow North Korea to import or export a specific item that has been banned under U.N. sanctions. As part of the waiver, the administration could also use caps of imports or exports to ensure that North Korea's gains are measured.

One area to consider for a sanctions waiver is energy. While data for North Korea are limited, petroleum prices are one of the few areas where we have seen price fluctuations in North Korea since greater restrictions from sanctions were put in place.

Before the U.N. caps on refined petroleum, North Korea imported 2.2 million barrels a year, but that has now been curtailed to 500,000 barrels of refined petroleum. The administration could raise the cap for a set time period to allow North Korea to import additional petroleum with the promise of future increases if continued progress is made on nuclear dismantlement.

Beyond raising the caps on refined petroleum, the administration could also consider lifting the sanctions prohibiting the export of solar panels to North Korea. Enabling North Korea to resume imports of solar panels could also appeal to the regime's desire to become more energy self-sufficient, as it would not need to depend on a constant supply of new solar panels.

However, if sanctions relief is to work as an incentive, the Trump administration will need to ensure that these measures have Russian and Chinese support. If either government views sanctions relief as an opportunity to further loosen restraints on economic cooperation with North Korea, the sanctions regime as a whole will be weakened.

When Trump meets Kim in Hanoi, sanctions relief will be a significant part of their discussions. In light of estimates that dismantling North Korea's nuclear programs

By using this website, you agree to our use of cookies. This use includes personalization of content and ads, and traffic analytics. Review our [Privacy Policy](#) for more information. X

moving. The key will be developing a process for sanctions relief that incentivizes North Korea to continue the process, provides proportional relief for North Korean dismantlement, and does as little as possible to undermine the current sanctions if the process falters.

**Troy Stangarone** is the senior director for congressional affairs and trade at the Korea Economic Institute of America. The views expressed here are the author's alone.

---

TAGS: ARGUMENT, NORTH KOREA, UNITED STATES

VIEW  
COMMENTS

## A DECADE OF GLOBAL THINKERS

*THE PAST YEAR'S 100 MOST INFLUENTIAL THINKERS AND DOERS* | [READ NOW](#)

By using this website, you agree to our use of cookies. This use includes personalization of content and ads, and traffic analytics. Review our [Privacy Policy](#) for more information. X