

EFFICACY OF ECONOMIC SANCTIONS: NORTH KOREA AND IRAN CASE STUDY

BY

LIEUTENANT COLONEL SEAN P. MCDONALD
United States Army Reserve

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U.S. Army War College, Carlisle Barracks, PA 17013-5050

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EFFICACY OF ECONOMIC SANCTIONS: NORTH KOREA AND IRAN CASE STUDY

by

Lieutenant Colonel Sean P. McDonald
United States Army Reserve

Lieutenant Colonel David Bolgiano
Project Adviser

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U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

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Since World War I, the popularity of using economic sanctions by western nations to influence the behavior of states not conforming to international norms has increased. The end of the Cold War renewed the zeal within the international community and unleashed a wave of new sanctions during the 1990s that earned it the “Sanctions Decade” title. Questions regarding the success of recent sanctions to influence Iraq, Haiti, Iran, and North Korea have fueled the debate among scholars and diplomats regarding the effectiveness of economic sanctions. This paper will summarize some of the key theories of economic sanctions along with criteria for successful implementation as learned from lessons. How sanctions have been applied towards Iran and North Korea will be presented along with an evaluation of their effectiveness to date. These two case studies will be examined by applying theory, practice, and historical context to evaluate and make recommendations regarding the continued use of economic sanctions to persuade North Korea and Iran to abandon their nuclear ambitions.

EFFICACY OF ECONOMIC SANCTIONS: NORTH KOREA AND IRAN CASE STUDY

Are economic sanctions useful in forcing the modification of a nation's behavior? Has globalization of the world's economies made sanctions ineffective except in minor disagreements? Are the US and UN left with only the military option to dissuade the proliferation of nuclear weapons? Unfortunately recent cases increasingly indicate that successful application of sanctions is becoming a rare outcome.

Economic sanctions are currently the instrument of choice by western nations to influence or modify the behavior of actors deemed not meeting accepted norms set by the international community. The use of sanctions has risen to prominence exponentially since World War I, peaking in the 1990s.

This paper will review the relevant theories on the application of economic sanctions as a tool of national power and their effectiveness in achieving success. The theories and lessons will be applied to analyze the effectiveness of the current sanctions imposed against Iran and North Korea in order to identify if success can be expected by maintaining the current course. The commonalities and differences between the two case studies will be highlighted and recommendations to change implementation in order to improve the possibility of success will be provided.

Economic Sanction Theory

Economic sanctions represent one tool available as nations exercise their instruments of national power, generally categorized in terms of diplomatic, military, informational, and economic, to influence the behavior of other actors in the pursuit of national objectives. The popularity of sanctions has risen in the twentieth century for a variety of reasons. The scar of World War I left many with a desire of never again using

military force. World War II, nuclear weapons, and the Cold War provided further incentives to find other tools beside military force. Many saw the collapse of the Soviet Union, leaving the US as the sole remaining super power, as fertile ground for increased use of sanctions. Richard Haas suggested one intangible reason for their rise in popularity may be that they sooth the conscious of a reluctant diplomat who may be concerned about using military force:

Sanctions can offer what appears to be a proportional response to a challenge in which the interests at stake are judged to be less than vital. They thus satisfy a domestic political need to do something and can serve to reinforce a commitment to a behavioral norm, such as respect for human rights or opposition to proliferation.¹

While different forms of sanctions exist, their underlying purpose is the same: to influence the behavior of another state. Brendan Taylor defined a sanction as “an economic instrument which is employed by one or more international actors against another, ostensibly with a view to influencing that entity’s foreign and/or security behavior.”² Risa Brooks expanded the definition of a sanction to emphasize the political effects that sanctions create from pressure on economic and social systems within a targeted country as:

Sanctions involve the imposition of punitive measures on a target state, measures which seek to limit the state’s access to economic resources or cultural and social engagement, and limit movements of its nationals in order to elicit a change in the target’s policies consistent with the imposer(s) preferences.³

Sanctions can and have been used for a variety of goals. The most common purposes for imposing sanctions are:⁴

- Discourage the proliferation of Weapons of Mass Destruction (WMD) and ballistic missiles
- Promote human rights

- End support for terrorism
- Thwart drug trafficking
- Discourage armed aggression
- Protect the environment
- Replace governments

History. An early reference to a form of economic sanctions can be found 2400 years ago by Thucydides. Similar to a modern day trade embargo, the Megarian Decree excluded Megarian merchants from Athenian harbors and markets. The measure was in response to claims that the Megarians had cultivated consecrated ground and were harboring runaway slaves. The decree represents an early example of the use of economic sanctions by one state to modify the behavior of another.⁵

United States (US) history is marked with examples of economic sanctions. The American Revolution was partially caused by British sanctions on the colonies. Haas wrote: “Sanctions helped trigger the War of 1812, weakened the Confederacy a half century later, and were levied against Spain during the Spanish-American War of 1898.”⁶ President Woodrow Wilson, a strong proponent, was very optimistic after World War I that sanctions could be used to peacefully resolve all future disagreements without the use of force. Yet the steel and fuel embargo imposed against Japan by the US is viewed as part of the motivation for the 7 December 1941 attack on Pearl Harbor.⁷

The collapse of the Soviet Union in 1991 and the perceived uncontested economic and military power of the US brought a wave of optimism about the efficacy of economic sanctions. The new optimism resulted in an increase in sanctions during the 1990s with a high of thirteen in 1992. The new world order unfortunately did not

translate into a change in efficacy. The success rate, as interpreted by Hufbauer, Schott, and Elliot (HSE), remained steady at thirty-four percent just as it had been since World War II. The end of the Cold War brought second and third order effects that altered the 'diplomatic chessboard.' New power players emerged such as China, India, Germany, France, and Great Britain that diffused US economic power. HSE wrote: "The absence of an overriding global security threat made it harder for the industrial countries to reconcile their different strategies and priorities for using sanctions in regional trouble spots."⁸

In 1985 HSE published the first comprehensive review of economic sanctions and rebutted the conventional wisdom that sanctions never work through a detailed review of 103 sanction cases. In the second edition published in 1990, HSE expanded the case studies to 116 and found that unilateral measures had limited effectiveness. HSE and Barbara Oegg published the third edition in 2007 with 174 case studies and an examination of the impact of globalization and the end of the Cold War.⁹ While the results presented by HSE have occasionally been disputed, it still remains the premier study in which most subsequent studies and articles have been based.¹⁰

HSE presented "nine commandments" in their original work as a guide to governments on how to implement sanctions. While HSE generally stands behind their original recommendations, thirty years of additional analysis has resulted in a revision to seven recommendations that better represent 21st century challenges.¹¹

- Don't Bite Off More Than You Can Chew
- Friends Are More Likely to Comply than Adversaries
- Beware Autocratic Regimes

- Slam the Hammer, Don't Turn the Screw
- More Is Not Necessarily Merrier
- Choose the Right Tool for the Job
- Don't Be a Cheapskate or a Spendthrift

The collapse of the Soviet Union also triggered a more aggressive intervention by the United Nations (UN). The UN Security Council (UNSC) had only twice implemented mandatory economic sanctions prior to 1990: Rhodesia (1966) and South Africa (1977). The UNSC became more aggressive during the 1990s and instituted partial or comprehensive sanctions against Iraq (1990), the former Yugoslavia (1991, 1992, & 1998), Libya (1992), Liberia (1992), Somalia (1992), Cambodia (1992), Haiti (1993), Angola (1993, 1997, & 1998), Rwanda (1994), Sudan (1996), Sierra Leone (1997), and Afghanistan (1999). The goals ranged from restoring democratically elected leaders, promoting human rights, reversing territorial aggression, deterring terrorism, or promoting disarmament. Over three dozen additional sanctions were imposed either unilaterally or bilaterally by member states for regional conflicts. David Cortright and George Lopez affectionately declared the 1990s the "Sanctions Decade."¹²

Iraq was dubbed the "Mount Everest of sanctions" by HSE due to the effect on international opinion. A sense of "sanctions fatigue" within the international community was created starting with the failure to force Iraqi troops from Kuwait, followed with the inability to liberate Iraq of Saddam Hussein, and coupled with negative experiences over Yugoslavia and Haiti. Concern for the suffering and death of women, children, and the elderly caused by comprehensive sanctions against Iraq along with the deterioration

of the social and health care system in Haiti caused a backlash resulting in a movement for the use of targeted or 'smart sanctions.'¹³

Types of Sanctions. The economic element of national power has several strategies that can be applied to influence a target state: economic sanctions; trade wars; and economic warfare. Economic sanctions are used to reduce the economic welfare of the target state in order to change its political behavior. Pressure to change can be applied directly against the target government or indirectly through the target population which then pressures the government. Trade wars do not seek to influence the target state's political behavior but instead attempt to persuade for more favorable trade terms. Typically trade wars occur between nations who have existing trade relations. Economic warfare also seeks to reduce the economic welfare of the target state like sanctions, but not for political reason. Warfare is used instead to reduce or weaken a target state's military capabilities, either prior to or during a state of armed conflict. This strategy focuses the attacks on the target's military production capability.¹⁴

The tools available to implement the strategies are: trade restrictions; travel restrictions; and financial restrictions. Trade restrictions use a number of mechanisms to limit exports and restrict imports to and from the target state. The drawback to trade restrictions is that there is often an associated cost that the sender state must be willing to bare. Travel restrictions, the most benign of the three restrictions, normally focus on visa denials of individuals who are capable of influencing the intended target state. Financial restrictions are used to freeze the overseas assets of the target state and to restrict access to the global banking system. HSE and Oegg noted that "financial sanctions offer the potential for greater effectiveness as a foreign policy tool because

they are relatively easier to enforce, harder to evade, and may spur market-reinforcing effects.”¹⁵ Several forms that the three restrictions can take are:¹⁶

- Arms embargoes
- Foreign assistance reductions and cut-offs
- Export and Import limitations
- Asset blockages and freezes
- Tariff Increases
- Import quota decreases
- Revocation of most-favored-nation (MFN) trade status
- Votes in international organizations
- Withdrawal of diplomatic relations
- Visa denials
- Cancellation of air links
- Prohibitions on credit, financing, and investment

Sanctions can be implemented multilaterally or unilaterally. While Haas noted that “unilateral sanctions are rarely effective,”¹⁷ today’s global society makes achieving consensus among different national interests challenging. Achieving agreement on the definition of banned goods and consistent enforcement have been the two primary obstacles to an effective application of sanctions against N. Korea and Iran. As written by Stubbs: “gaining agreement on a course of action often requires compromise and results in a watered down sanctions regime.”¹⁸ And as written by Taylor, “third-party support for Pyongyang and Tehran has had the biggest impact in terms of helping these

countries to circumvent the worst effects of sanctions, particularly those targeting trade.”¹⁹

Sanctions can be designed to influence either the whole or designated parts of a target state’s economic infrastructure and are categorized as comprehensive, selective, or targeted. Comprehensive sanctions are best described as ‘blunt instruments’ that tend to affect the entire population and economy of the targeted country. In an opposite fashion, selective sanctions involve restrictions on particular products or financial elements. Targeted (also called smart sanctions) refers to sanctions designed to produce very narrow effects. Cortright and Lopez wrote that:

The key distinction between targeted and selective sanctions is that the former explicitly seek to limit the impact on the populace at large by forcing the coercion and restrictions of sanctions as much as possible on the activities and assets of particular individuals in the society who are responsible for the norms violations that prompted the sanctions.²⁰

Using targeted or smart sanctions instead of comprehensive sanctions became popular within the international community during the 1990s. After Iraq invaded Kuwait in 1990 the UNSC passed Resolution 661, imposing the most comprehensive sanctions ever implemented by the UN. The sanctions did not succeed in forcing Iraqi forces to leave Kuwait;²¹ instead forcing the UN to use military force to achieve the resolution objectives. Continuation of sanctions after the Gulf War failed to achieve full compliance by Iraq of the cease-fire resolution, providing partial justification for the invasion and toppling of the Iraqi government in 2003.²²

Resolution 661 created a humanitarian crisis in Iraq in the late 1990s. The bombing during the Gulf War pushed Iraq back to a ‘pre-industrial age’ with the destruction of virtually all of its power plants, oil refineries, water treatment plants, and water pumping facilities. Destruction of the basic infrastructure coupled with the

economic sanctions caused unemployment and inflation to spiral upward. The second-order effects were malnutrition and infectious diseases. In a March 1998 report by Richard Garfield of Columbia University:

The number of excess deaths among children under five years of age for the period August 1991 through March 1998 was at least 100,000 and most likely 227,000. Approximately three-quarters of the deaths were associated with the consequences of economic sanctions.²³

Another mechanism available to enforce sanctions is secondary sanctions. Secondary sanctions are tools that penalize countries and foreign companies for involvement with blacklisted third parties. One very successful use of secondary sanctions occurred in December 2009 when the US Treasury settled a \$536 million fine with Credit Suisse for illegally processing Iranian transactions through US banks.²⁴

Determining Success. If and how sanctions actually work is a continuing debate among scholars and politicians. The first disagreement is how to declare if a sanction has been successful. Hovi, Huseby, and Sprinz defined sanctions as “successful if – and to the extent that – they extract political concessions from the target country.”²⁵ Cortright and Lopez suggested defining success through a series of questions.²⁶

1. Did sanctions help to convince the targeted regime to comply at least partially with the senders’ demands?
2. Did sanctions contribute to an enduring, successful bargaining process leading to a negotiated settlement?
3. Did sanctions help to isolate or weaken the military power of an abusive regime?

Yet this and other definitions have not quenched debate on how to define success. History shows that just threatening to impose sanctions has sometimes

resulted in the capitulation of the target. How should a case be evaluated if the threat is unsuccessful but the imposition of actual sanctions succeeds? Can the same case be both a success and failure? Also of a dilemma is how to determine if economic sanctions caused a target to change actions or if it was a natural evolution of the target state's political objectives. But the one issue that causes most debate is how to evaluate cases when other elements of national power such as military force are used in conjunction with economic sanctions. Does the economic sanction get successful credit, or was it a failure because the sender had to resort to military force?

Defining when a sanction has successfully met its goal is an important yet difficult step. The answer depends on what goals they are measured against; either the officially declared objectives or the symbolic goals. The official objectives are those publicly identified in order to legitimize and gain support for the sanctions and can usually be measured in some fashion. Symbolic objectives on the other hand are more challenging to measure because they are often not stated and include demonstrating allied resolve, signaling disapproval to objectionable behavior, and deterring future wrongdoing. But as noted by Cortright and Lopez, "when sanctions are meant as a signal of disapproval or as a gesture of support for international norms, the very fact of nations joining together to impose such sanctions is in itself a manifestation of success."²⁷

The odds of success are improved when sanctions are specifically tailored toward the structure and tendencies of the targeted regime and leadership. 'One size fits all' sanctions rarely succeed and therefore should be customized depending on both the desired goals and the target. Just as important, sanctions must be accompanied by

other elements of national power for success especially when the goals are significant.

As Meghan O'Sullivan wrote:

Only a foreign policy amateur would expect diplomacy to work without other tools, military force to bring satisfaction in the absence of other efforts, or economic engagement to reap strategic gains without complementary actions. Why so many expect sanctions to deliver complex results without the help of other tools is a mystery.²⁸

HSE and Oegg noted that sanctions often don't meet their goals and identified four reasons that may lead to their failure:²⁹

- Sanctions cause the targeted population to 'rally around the flag' and increase support for the sanctioned government while encouraging the people and government to find means to circumvent the sanctions.
- Encourage 'black knights' (powerful or wealthy allies of the targeted country) to fill in the vacuum created by the sanctions.
- "The goals may be too elusive; the means too gentle; or cooperation from other countries, when needed, too tepid."
- Sanctions alienate allies of the sender resulting in either refusal to participate, to stall, or water-down the impact of imposed sanctions.

HSE began their comprehensive study back in the 1980s to appraise the conventional wisdom that sanctions never work in coercing the target to conform to the sender's demands. What they determined was that sanctions are partially successful and dependent on the desired purpose. Overall, sanctions were successful in thirty-four percent of the cases. Success increased to fifty percent in cases that involved modest policy changes but decreased to thirty percent when used to destabilize a regime or weaken military potential.³⁰

Cortright and Lopez analyzed the efficacy of eleven UN sanctions from the 1990s. A sanction was defined successful if “they had a positive, enduring impact on bargaining dynamics or if they helped isolate or weaken the power of an abusive regime.” The study found that while three cases were complete failures, three cases did achieve a measure of success, translating into twenty-seven percent effectiveness.³¹

Robert Pape defined success more narrowly than HSE. For sanctions to be considered successful, the target state had to concede to most or all of the sender’s demands, sanctions had to actually be threatened or applied, and that there was no other logical explanation why the targets changed their behavior. Evaluating HSE second edition data cases by this more restrictive definition, Pape concluded that the sanctions had an effectiveness rate of only four percent.³²

These studies and others indicate that sanctions do work, though their efficacy is narrow. Each of the studies relies on a subjective evaluation of success. Not captured in the statistical results are other influences such as personalities and luck which can influence success. As HSE and Oegg noted: “much depends on the kaleidoscope of contemporaneous world events and factors not captured by our variables.”³³

North Korea

The US national interest is for a stable, peaceful, non-nuclear Korean peninsula. Success continues to be impeded by N. Korean actions which are a source of concern and tension to the United States regarding weapons proliferation, anti-terrorism, counterfeiting, money-laundering, human-rights, and military aggression.

Background. The history of the United States imposing economic sanctions against N. Korea goes back to the 1950s. At the start of the Korean War, the US enacted an embargo against all exports to N. Korea. These restrictions were revised

and reduced in the years following the signing of the armistice on 27 July 1953. In December 1987, Korean Air Flight 858, in route to Bangkok, exploded over the Andaman Sea from a bomb planted by two N. Korean agents. In response the US State Department designated N. Korea as a state sponsor of terrorism resulting in new trade and financial restrictions that remained in effect until 2008, when Pyongyang agreed to dismantle a plutonium processing plant at Yongbyon.

The biggest concern for the United States and her allies has been N. Korea's pursuit of nuclear weapons. In March of 1993, N. Korea announced that it planned to withdraw from the Nuclear Non-Proliferation Treaty (NPT) and prevent inspections of its nuclear sites. By the next year, the US speculated that N. Korea had accumulated enough plutonium to produce ten bombs. Sanctions were considered but never enacted due to fear of a violent response by Pyongyang and concern that Chinese and Russian reluctance to support would make them ineffective.

Hopes were renewed in October 1994 that the Agreed Framework, signed by the US and N. Korea, would provide a temporary solution to the nuclear crisis and could be used as a spring-board for a long-lasting solution. The agreement called for the construction of light water reactor power plants and delivery of 500 ktons of fuel oil per year (provided by US and South Korea) in return for N. Korea freezing construction on its two nuclear reactors which could easily produce weapons grade plutonium. Unfortunately the agreement ran into challenges from the start when Republicans gained control of the US Congress in 1994. As stated by Stephen Bosworth, a former US ambassador to South Korea: "The Agreed Framework was a political orphan within two weeks after its signature."³⁴ The agreement limped along until October 2002 when

US Assistant Secretary of State James Kelly confronted N. Korea over evidence that Pyongyang was secretly developing nuclear weapons. Shortly afterwards the US halted delivery of fuel oil while N. Korea expelled all International Atomic Energy Agency (IAEA) inspectors. N. Korea officially withdrew from the NPT on April 10, 2003. A new round of diplomacy called the Six-Party talks began in August 2003 between N. Korea, South Korea, Japan, Russia, China, and the US regarding N. Korea's nuclear program but had limited success and have been stalled since 2007.

The latest nuclear and missile provocations occurred in July 2006 when N. Korea test-fired seven intermediate-range *Taepo-dong-2* ballistic missiles. The situation further intensified in October of the same year when N. Korea conducted its first nuclear test. Similar events unfolded in 2009 with another launch of a *Taepo-dong-2* ballistic missile in April and then a second successful underground nuclear test in May.

The UNSC passed three resolutions in response to N. Korea's successful underground nuclear and ballistic missile tests. UNSC Resolution 1695, passed on 15 July 2006, demanded that N. Korea suspend its ballistic missile program and return immediately to the Six-Party Talks. The resolution called for two forms of sanctions. The first sanction required that UN members "prevent the procurement and transfer of 'missile or missile-related items, materials, goods and technology' to and from N. Korea." The second required all UN members to "prevent the transfer of 'financial resources in relation to missiles or WMD programmes'."³⁵

In response to the October 2006 nuclear test, the UNSC quickly passed Resolution 1718. Items such as missiles, tanks, jet fighters, and ships which could support N. Korea's WMD program, dual-use items, and luxury goods were banned for

trade. Additionally, all UN member nations were encouraged to inspect N. Korean vessels suspected of hauling weapons materials.

While the ballistic missile test in 2009 did not trigger UN reaction, the nuclear test in May 2009 resulted in passage of Resolution 1874 in June 2009 which added four new sanctions. Exports of all arms, not just heavy military equipment as previously specified, were banned. UN members were authorized to inspect suspicious ships leaving N. Korea, but only if prior approval of the vessel's flag state were obtained. Financial institutes had to suspend all forms of support such as loans and export credits to N. Korea. And all UN members had to stop training of N. Korean nationals who could enhance or support the country's nuclear-weapons program.³⁶

Two recent incidents have threatened the stability of the Korean peninsula. The first was the sinking of the S. Korean Navy Ship *Cheonan* with a loss of 46 crew members on March 26, 2010. The subsequent investigation by the S. Korean Ministry of National Defense and five other nations determined that the sinking was a result of a N. Korean torpedo. The UNSC condemned the attack in a Presidential Statement on July 9, 2010.³⁷ The US response announced by President Obama on August 30, 2010 authorized expanding "the scope of the national emergency declared in 2006, and [that] the United States was taking additional steps to curtail economic activity in N. Korea."³⁸ The second incident was the N.Korean attack on a S. Korean held island on November 23, 2010. The UNSC resolution condemning this attack was blocked by China.

Effectiveness of Sanctions. The US policy objective regarding N. Korea is for a verifiable denuclearization of the Korean Peninsula in a peaceful manner.³⁹ For this objective to be met, Pyongyang must abandon all nuclear weapons and programs and

return to the NPT. The US has used sanctions (or incentives) in an attempt to coerce N. Korea to the diplomatic table.

After sixty years of applying military, diplomatic and economic power the US and the world are no closer to modifying the behavior of N. Korea's leader Kim Jong-II. The one thing that the world community feared most, N. Korea with nuclear and missile capability willing to export to other rogue countries, has occurred. Economic sanctions are not known for achieving resolution quickly, but ample enough time has passed that it is wise to question whether the current application of this element of national power against N. Korea is the best method to achieve the desired goal.

There is a growing chorus that economic sanctions against N. Korea are not working. A 2010 UNSC report indicates that while the sanctions themselves are for the most part working as designed, "there are no indications as yet that the Democratic People's Republic of Korea is ready to move forward on denuclearization or to step back from its other existing weapons of mass destruction and ballistic missile development programmes."⁴⁰ Bredan Taylor emphasized that: "...there is little evidence to suggest that sanctions are significantly influencing Pyongyang's decision-making calculus."⁴¹ And Marcus Noland wrote in an article in *Asia Policy* that:

North Korea appears to have calculated correctly that the direct penalties to its foreign trade for establishing itself as a nuclear power would be modest... Presumably this experience will condition the reactions of North Korea policymakers in the future – making deterrence with respect to this issue and other sources of conflict more difficult.⁴²

There are several factors that impact the effectiveness of sanctions and a review of these factors vis-à-vis the challenges faced with N. Korea is in order. Air Commodore David Stubbs identified the type of adversary as the most important of six factors that influence the success of economic sanctions.⁴³ Autocratic regimes are extremely

difficult to coerce because internal domestic pressure felt by the masses is easily suppressed by harsh methods. To say it more succinctly, “It is hard to bully a bully with economic measures.” A study of 174 cases reviewed by Hufbauer *et al* showed that sanctions only succeeded twenty-eight percent of the time in autocratic regimes as compared to forty-seven percent against democracies.⁴⁴ While officially a socialist republic led by the Korean Workers’ Party, N. Korea is considered to be a totalitarian Stalinist dictatorship due to the consolidation of power by Kim Jong-II. The best way to counter, when a regime change is unlikely, is the use of “smart sanctions” such as an import ban on luxury goods (purposely designed to personally impact Kim Jong-II who uses such items as bribes to high ranking government officials in order to maintain control).

The amount of multilateral compliance is another factor. N. Korea’s primary trading partners are also its physically closest neighbors – China and S. Korea. China and S. Korea account for 80% of N. Korea’s total exports (\$1.997B - 2009) and 82% of total imports (\$3.096B – 2009).⁴⁵ Noland concluded from his study that “the imposition of these sanctions has had no perceptible effect on North Korea’s trade with the country’s two largest partners, China and S. Korea.” In fact, Noland further noted that “Chinese exports of luxury goods to North Korea did not fall to zero in 2007 under any variant; indeed, luxury goods exports increased between 2006 and 2007 under all three definitions.”⁴⁶ Data regarding S. Korea is similar, and only the sinking of the *Cheonan* forced the southern neighbor to strengthen enforcement. In regards to the export of nuclear and missile technology that Kim Jong-II uses for financial funding, the UNSC report indicated finding “continuing involvement of the Democratic People's Republic of

Korea in nuclear-related and ballistic missile-related activities in certain other countries, including the Islamic Republic of Iran, the Syrian Arab Republic and Myanmar.”⁴⁷

US options available to achieve a verifiable denuclearization of the Korean Peninsula are limited. N. Korea, ruled by an autocrat with supreme control over the government and population, shows little indication that a change in government is likely in the future. Little support exists in either the US or the world community to use military power to force N. Korean compliance. Economic sanctions are currently being used to partially punish, but primarily to force N. Korea to return to the Six-Party talks.

There is no disagreement that the current sanctions are having an economic impact on N. Korea. The UNSC report stated that trade deficits, lack of foreign currency reserves, food shortages and a recent currency restructuring are having “a substantial negative impact on the overall economy and the well being of large segments of the general population.” The report further stated: “a considerable share of the general rural population remains on the edge of starvation and is largely dependent on international food assistance.”⁴⁸ All of these are a consequence of the current sanctions.

If the sanctions are meant to force Kim Jong-II to return to the bargaining table, they must affect his personal decision calculus. Smart sanctions must be expanded so as to personally affect him and his power base. The scope of the smart sanctions must be expanded, but more importantly enforcement must increase. As stated in the UNSC report, N. Korea is using “a number of masking techniques in order to circumvent the Security Council measures.”⁴⁹ Universal compliance of the ban on luxury items and military arms must be enforced. Aggressive interdiction must be authorized and instituted if third-party trade is to be curtailed. The US must focus its diplomatic effort on

convincing China to fully enforce the sanctions, otherwise N. Korea will feel embolden to continue defying the US and the world community.

N. Korea presents an extremely difficult challenge for the US. Kim Jong-II realizes that the US and the world will not resort to military force. As long as enforcement of the sanctions can be circumvented through China and other third-parties, Kim Jong-II has no incentive to change his path.

Iran

The US national interest is for a stable and peaceful Middle East. Success continues to be partially impeded by Iran's pursuit of a nuclear program and military assistance to Hamas, Hezbollah, and armed groups in Iraq and Afghanistan. The US, UN, EU, and others are attempting to curtail Iranian actions and ambitions by imposing a laundry list of sanctions.

Background. The US and Iran had good relations prior to the collapse of the Shah's government in February 1979. An anti-communist, the Shah was viewed by the US as "a bulwark against the expansion of Soviet influence in the Persian Gulf."⁵⁰ With the collapse of the Shah's government, Ayatollah Khomeini returned to Iran from exile and established the Islamic Republic of Iran which was anti-West, especially toward the US. Relations became hostile in November 1979 when pro-Khomeini radicals seized the US Embassy which developed into a hostage situation for 52 Americans that lasted 444 days. President Carter instituted sanctions; first making it illegal for Americans to purchase goods from Iran and then later a ban on all commerce and travel except for food and medicine.

In what is considered a successful example of financial restrictions, President Carter's administration seized Iranian government assets in November 1979 as a

response to the taking of US hostages. The amount seized, estimated from \$9 to \$14 billion, applied to Iranian government funds in US banks and its overseas branches. Christopher Warren, Deputy Secretary of State, wrote: "It is unquestionable that . . . the freeze of some \$12 billion in Iranian assets placed a heavy burden on Iran and contributed to the ultimate conclusion on the part of the Iranian leaders that it was in their interest to resolve the crisis." Cortright et al. noted that the "Iranian assets freeze was a success not only because of the speed with which it was carried out but because of the substantial economic ties that had previously existed between Iran and the US."⁵¹ One provision pushed hard for by Tehran in the Algiers Accord, the agreement for the release of the hostages, was restoration of full economic relations with Iran.

While the US has not had diplomatic relations with Iran since 1979, economic ties were restored in 1981 with no barriers which lasted until 1984 when Secretary of State George Schultz declared the country a supporter of international terrorism. The designation triggered economic restrictions that have since steadily increased. Sanctions started with a ban on economic assistance in the form of loans or aid from the US and increased in 1987 to include all US imports from Iran. In 1995 President Clinton expanded sanctions to include nearly all US economic transactions. The next year Congress passed the Iran Sanctions Act (ISA)⁵² which targeted foreign firms that invested more than \$20 million in Iran's oil and gas developments. In 2000 the Iran Nonproliferation Act was passed to authorize the president to take punitive action against companies aiding Iran with its WMD program. To this point, sanctions had been imposed largely in response to Iran's support of international terrorism and generally to

deter proliferation of WMD - primarily chemical and biological – but that was soon to change.

Iran started developing a uranium-enrichment program secretly in response to chemical attacks during the Iran-Iraq War (1980-88). While suspicions had existed, it was not until 2002 that the program was exposed by an exiled Iranian dissident group. It was confirmed that Iran had a uranium-enrichment plant in Natanz and a heavy water plant in Arak.⁵³ From this point forward the focus of sanctions from both the US and the international community would be altered.

Through a series of feints, Iran was able to delay enactment of new sanctions by the international community until 2006. In July the UNSC passed Resolution 1696 that threatened economic and diplomatic sanctions if Iran did not suspend uranium-enrichment activities and cooperate with the IAEA inspections within thirty days. Iran ignored the deadline and the UNSC took action through a series of four additional resolutions during the next four years. Resolutions 1737(2006), 1747(2007), and 1803(2008) primarily focused on Iran's WMD infrastructure but also included three major Iranian banks, freezing of assets of individuals identified with links to the nuclear development programs, and a ban on all arms transfers.

The latest UNSC action is Resolution 1929 which was passed in June 2010. This resolution only slightly stiffens previous sanctions to include sanctioning several firms associated with the Revolutionary Guard, mandatory ban on travel for Iranians who previously had their assets frozen, authorizes countries to inspect shipments suspected to carry contraband items, requires countries to insist that their companies refrain from

doing business with Iran if likely to support its WMD program, and requests that Iranian banks be prohibited from opening in their countries.⁵⁴

Upon discovery of Iran's nuclear program in 2002, the US found itself in a quandary regarding how to respond. The US was uncertain what remaining economic pressure points it still had because trade between the two countries was nearly zero due to all the previously enacted sanctions. In response, Washington chose to take actions similar to those imposed by the US and International community towards North Korea – smart sanctions. As written by Kenneth Katzman:

“The U.S. view – shared by major allies – is that sanctions should target the development of Iran's energy sector that provides 80% of government revenues, and try to isolate Iran, particularly its Revolutionary Guard Corps, from the international financial system.”⁵⁵

The US started by freezing individual assets of those designated as engaging or supporting the proliferation of WMD. Using Executive Order 13382 issued in June 2005, the goal was to deny those designated from access to US financial and commercial markets. The GAO report noted that as of October 2007, 53 parties with ties to Iranian proliferation activities had been designated and sanctioned.⁵⁶ In July 2010 the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) was signed and significantly expanded the restrictions previously put in place by ISA. Notably, CISADA sanctions are tailored to further restrict Iran's ability to import gasoline which it depends on for forty percent of its needs.⁵⁷

Effectiveness of Sanctions. Iran is central to many of the crises that are preventing peace in the Middle East. Common to Hamas ascendancy in Gaza, Hezbollah influence in Lebanon, political instability in Iraq, support of terrorist organizations, and proliferation of nuclear weapons is Iran. All of these issues are

challenging America's policy, influence, and role in the Middle East. US policy objectives regarding Iran is to prevent the development of nuclear weapons while acknowledging Tehran's legitimate rights to the peaceful use of atomic energy and for Iran to cease supporting terrorist organizations which are causing destabilizing actions both regionally and globally.⁵⁸ For these objectives to be met Iran must restore the confidence of the international community, beginning with the resumption of IAEA inspections, and to end support to terrorist organizations.

The conclusion of a James A Baker III Institute for Public Policy report written in 1998 regarding US policy toward Iran up to that point portentously suggested that "the U.S. policy of imposing economic sanctions on Iran was doomed to failure from the start." The rationale behind the conclusion was not because the sanctions wouldn't have an economic impact on the country but because it was so deeply opposite the fundamental values of its society and it would "ask Iranians to behave contrary to deeply held religious and ideological beliefs." The report predicted that sanctions would be resisted and suggested that the US reconsider its policy.⁵⁹

Changing Iran's nuclear ambitions is a daunting challenge for several reasons. First is that the prestige that possession of nuclear weapons will bring for Iran. Iran, which sees itself as equal to India and Pakistan in size, population, and strategic importance to the region, has broad national support to join the nuclear club. Secondly, nuclear weapons represent a means of self-defense from the destruction that the country suffered during the Iran-Iraq War. Thirdly, possession of nuclear weapons will discourage attempts of a regime change by the US. And fourth is Iran's desire for religious equality. As Giora Eiland wrote:

In the eyes of Iranians, everyone has nuclear weapons: Christians, Hindus (e.g., India), Buddhists (in other words, China), Jews (Israel), and even Sunni Muslims (Pakistan). Why is it just the Shi'ites that are not allowed to have nuclear weapons?⁶⁰

A challenge in finding a solution for the international community is the structure and Islamist ideology of the Iranian government. Iran is a theocratic republic based on a constitution adopted in 1979. The Supreme Leader, Ayatollah Ruhollah Khomeini, is selected for a life term and is the most powerful office in Iran. Iranians do elect the president, members of the Majles (parliament), Assembly of Experts, and local councils but only after the candidates have been approved by the Guardian Council whose members are directly and indirectly appointed by the Supreme Ruler.

The President, Mahmoud Ahmadinejad, is the face of the Iranian government to the world. Ahmadinejad's policies have caused rifts among segments of Iran's population and Majles in recent years. The rift or unrest of the population gained attention after the June 2009 presidential elections, but appears to have subsided. Some US policymakers have complained that the emphasis on sanctions has neglected actions that could promote human rights which might lead to change in regime behavior or even in the government. The current situation in Iran has caused some diplomats to question if Ahmadinejad has the support within his country to deliver on any promises even if they can work past his rhetoric. Divisive comments made by Ahmadinejad further complicate the international community's ability to negotiate with Iran. Recent claims that the American government orchestrated the 9/11 attacks, western powers created the Holocaust myth, and that Israel must be "wiped off the map"⁶¹ make it difficult for western governments to seriously discourse with the Iranian president. U.K. Deputy Prime Minister Nick Clegg told the UN General Assembly:

I was ready today to welcome the progress made in this week's meeting . . . But instead, once again, an issue of grave global concern has been overshadowed by the bizarre, offensive and attention-grabbing pronouncements by President Ahmadinejad.⁶²

While US officials and experts report that sanctions are having an effect on Iran's economy, trade data questions these conclusions. Iran's exports grew from \$8.5 billion to \$70 billion from 1987 to 2006, while imports grew from \$7 billion to \$46 billion for the same period. The annual real growth rate of Iran's exports was almost 9 percent during this time frame.⁶³

Iran's gross domestic product is over twenty-one times larger than North Korea's and its trading partners are equally more diverse than the Asian country. China is Iran's largest export partner with seventeen percent share followed by Japan, India, South Korea, and Turkey totaling only fifty percent of total exports (\$78.69B – 2010). Petroleum accounts for eighty percent of export commodities. Iran's primary import partner is the UAE with fifteen percent share followed by China, Germany, South Korea, and Italy totaling just over fifty percent of total imports (\$58.97B – 2010). Russia, which many mistakenly believe is a major trading partner based on its UNSC voting record toward Iran, accounts for less than five percent of imports.⁶⁴

Unfortunately, four years of isolation and hardship have not forced Iran to change their decision-making calculus. Brendan Taylor identified three overarching factors that have weakened the efficacy of the many sanctions imposed on Iran. First, Iran has been very adaptable in circumventing the sanctions by increasing cooperation with other governments, such as Syria, North Korea, and UAE, whose financial institutions and currencies are loosely influenced by the US. A second factor has been the willingness of companies to fill the void left by those who opted to curtail their operations. Iran's oil

is a commodity that has both strong strategic and monetary value in the global market. Chinese and Malaysian companies have profited with lucrative new deals. The third factor is that compromise on the final wording is often necessary in order to secure agreement among the great power states, mainly China and Russia, for economic sanctions which often result in limited effectiveness. Often driving the need for concession is disagreements on how to apply sanctions. The US views the use of sanctions as a 'stick', while Russia, China, and the EU more favor using them as a 'carrot' in order to achieve results.⁶⁵

China's reluctance for sanctions stem from the fact that Iran is China's second-largest supplier of oil, a commodity that it desperately needs to sustain its growing economy. Russia's motives are more indirect. With the world's second largest gas reserves and third largest oil reserves, Russia views Iran as a potential competitor. Russia currently holds a position of influence over Europe by sending them eighty percent of their oil and one hundred percent of their gas imports. Postponing Iran's development of its energy resources and ties with European markets benefits Russia.⁶⁶

As reported in a December 2007 General Accounting Report: "Iran's global trade ties and leading role in energy production make it difficult for the United States to isolate Iran and pressure it to reduce proliferation and support for terrorism." The report went further to state that Iran's overall world trade had grown since the imposition of US sanctions, trade which included imports of weapons and nuclear technology. Between 2003 and 2007, the Iranian government has reportedly signed contracts with foreign firms to develop energy resources totaling \$20 billion. Additionally, Iranian banks are circumventing sanctions by conducting business in currencies other than the dollar.⁶⁷

CISADA is showing promise. Eleven of Iran's main suppliers have announced that they have stopped selling gasoline to Tehran in response to CISADA and two major insurers have stopped writing policies. It has been reported that gasoline deliveries in November 2010 to Iran have reduced from 3.5 million barrels per day to 900,000 barrels as a result of CISADA.⁶⁸ Even so, a January 2011 Congressional Research Service Report to the 112th Congress stated: "there is not a consensus that sanction are causing a demonstrable shift in Iran's commitment to its nuclear program – the key strategic objective of the sanctions."⁶⁹ The GAO report also concluded that despite all the sanctions and reported affects to their economy, Iran still "continues to enrich uranium, acquire advanced weapons technology, and support terrorism."⁷⁰

Military Option

When application of diplomatic and economic elements of national power fails to change the actions of a belligerent country, politicians are inclined to turn to the use of military force for favorable conclusion. As example, President Obama has indicated that all options are viable regarding Iran. Admiral Mullen, Chairman of the Joint Chiefs of Staff, spoke last year that "The military options have been on the table and remain on the table ... It's one of the options that the president has."⁷¹

Other examples of saber rattling by the US for both North Korea and Iran have occurred in the last ten years. The US gained considerable credibility, that it was willing to use military force when sanctions fail, by invading Iraq in 2003 to curtail what was perceived as Saddam's ambitions for WMD. The impression made on Iran was so powerful that Tehran allegedly offered broad dialogue that included "full cooperation on nuclear programs, acceptance of Israel and the termination of Iranian support for Palestinian militant groups." Glenn Kessler wrote that "the U.S. victory in Iraq frightened

the Iranians because U.S. forces had routed in three weeks an army that Iran had failed to defeat during a bloody eight-year war.⁷² The US, convinced that the Iranian government was on the verge of collapse, did not seriously respond back and many now lament that a golden opportunity was lost. Eight years of conflict since 2003 has dulled the luster of the US victory and Iran's offer is no longer available.

It is reasonable to expect that the US will use military force if S. Korea or Israel are directly attacked by N. Korea or Iran respectfully. A recent example is the US demonstration of resolve for S. Korea after the N. Korean artillery attack in November 2010. But it seems unlikely that the current US administration will use military force to achieve non-proliferation goals. Regardless of the fact that the US is economically and militarily constrained with wars in Iraq and Afghanistan, use of military force against Iran or N. Korea present other risks and dangers that must be weighed. An attack on Iran for example could result in responses against the US and its allies, spreading of regional turmoil, threat to the flow of oil, spur of terrorist recruiting, and most certainly scorn by most of the Muslim world.⁷³ Similar tangible risks exist for a N. Korea scenario.

Both Israel and S. Korea pressure the US government to insure that their concerns regarding their agitating neighbors are aligned with US policy. There is speculation that Israel may unilaterally attack Iran's nuclear capability. Doing so, if successful, would disrupt Iran's nuclear program only temporarily but will more likely rally support for Iran both internally and regionally. Neither Israel nor S. Korea can attack, either operationally or strategically, without US support. Also, resorting to a military option would be a blow to the Obama administration because he would be blamed domestically for failing to prevent another costly war.

The realization that a military option is not viable may be behind recent asymmetrical attacks in 2010 against Iran's nuclear program such as bombings against several scientists and the Stuxnet worm attack that destroyed many nuclear-fuel centrifuges. It has been alleged, though never proven, that the Stuxnet worm was developed and tested in Israel in cooperation with the US.⁷⁴ Regardless of the origin, it could represent a change in tactics from sanctions to cyber attacks in order to curtail Iran's nuclear ambitions.

Conclusion

At the heart of both Iran's and N. Korea's desire to obtain nuclear weapons is security and respect. Iran's nuclear ambitions began in response to use of chemical weapons by Iraq. Today the Iranian regime is convinced that Washington is planning attacks to overthrow the government. Tehran envisions that nuclear weapons will give it security from the US, while increasing the measure of respect and influence that Iran deserves from neighbors and the world. Nuclear weapons will also provide Iran with the capability to threaten Saudi Arabia and Israel.

North Korea is sandwiched between two superpowers; China in the north and US in the south. Kim Jong-II is isolated, secretive, and forced to maintain control both internally and externally through military means. Nuclear weapons are seen as a means to command respect from his neighbors and the world. In this case, Kim Jong-II identifies nuclear weapons with legitimacy for his government and protection from what he perceives as aggressive desires of S. Korea and the US.

There are no easy solutions to the diplomatic crises in either Iran or N. Korea. Admiral Mullen said during a speech at Columbia University in April of 2010 that: "I think Iran having a nuclear weapon would be incredibly destabilizing. I think attacking them

would also create the same kind of outcome.”⁷⁵ It is hard to fathom in today’s political environment of the US or any other western power (exception being Israel) initiating war for the sole purpose of destroying another countries nuclear capability. While neighbors of both Iran and N. Korea may feel threatened to the point of striking due to either a real or perceived menace, it is hard to imagine either doing so without at least a tacit approval from the US.

HSE noted that the success rate of economic sanctions to dissuade countries from obtaining nuclear weapons is mixed. In the cases of S. Korea and Taiwan, both were friends that required strong economical and political ties with the US and were dissuaded with assurances of protection. Libya and Iraq, whose desires for nuclear weapons were partially for security but more hegemonic, were both subjected to sanctions that eventually required reinforcing by military action to finally force compliance (or to confirm compliance in the case of the former). Economic sanctions have had minimal effect in dissuading India, Pakistan, N. Korea, and Iran from pursuing and obtaining nuclear weapons. In these four cases the feeling of insecurity was strong and outweighed any negative costs from sanctions.⁷⁶

The inability of sanctions to achieve their desired goals in N. Korea and Iran is not surprising if one refers, in hindsight, back to HSE’s seven commandments. A review identifies several that have been violated. In both case studies neither target country can be viewed as friends, they have governments that are tightly controlled, sanctions were incrementally increased over time which has allowed them to be circumvented, and the reinforcing mechanism of military threat by the sender has not always been

credible. But probably more important is that Iran and N. Korea both perceive the attainment of nuclear weapons essential to their security and regime survival.

What conclusion, then, can one reach on how the US and International Community should proceed with economic sanctions to deter nuclear ambitions of Iran and N. Korea? First, and probably most important, the intentions of the sanctions should be made clear. Both countries have to be reassured that their security is not in jeopardy. The international community and the US must convince Tehran and Pyongyang that stopping nuclear proliferation and support to terrorism are the only objectives of the sanctions; not regime change. It must be demonstrated that security can be achieved and they are better off without nuclear weapons.

Second, the sanctions must have a strategic direction. Objectives must be established and all elements of national power applied. Layered sanctions should support the objectives and be complimentary with the other elements of power. Sender countries should not impose sanctions without first analyzing the second and third order effects. All too often in a rush to satisfy public demand for action, sanctions are enacted hastily without clearly identifying what are the desired effects. The implementation of sanctions against Iran during the 1990s and 2000s are an example where the sanctions were so comprehensive and rigid that it isolated Tehran so completely that it prevented political and diplomatic interaction. The type of sanctions used must support achieving the objective and not be counterproductive. Choosing to use trade, travel, or financial restrictions should depend on the behavior to be influenced. A holistic review of the situational environment in both N. Korea and Iran should be conducted to assure that the current portfolio of sanctions facilitates the strategic direction.

Third, sanctions need to be flexible. The US has too often used sanctions as a stick and less as a carrot, intending to punish the target country for its behavior instead of providing an incentive to change. There are times that the carrot is more appropriate than the stick. The US must reverse the trend to always use sanctions as a stick and consider using them like a carrot as Europe, Russia, and China tend to view their use, an issue that has often been an obstacle in reaching international agreement. Using flexible sanctions allows for suspension as an award when the target country makes incremental progress but quick resumption if behavior falls below acceptable norms.

Fourth, the sanctions imposed must have multinational support. The global economy has changed the game and the US is no longer the sole queen piece on the economic chess board. All too often economic sanctions are diluted in order to get consensus within the UN. Once approved, the level of implementation by member states often vary, further weakening the effectiveness of the sanctions. Target nations often find it easy to circumvent sanctions by changing habits, finding alternate sources on the black market, or directing the effects away from the regime and down on the populace. This behavior is often enabled by UN members who yield to financial or national interests. Diplomacy is paramount in developing a comprehensive approach that is not only acceptable but will be implemented by all nations. The US has actually done a better job in building diplomatic consensus with UN and EU sanctions leading up to passage of CISADA.

Fifth, the US needs to be careful about using secondary sanctions particularly if they impact countries necessary for international support. The US can cause resentment among European countries by using its economic power through secondary

sanctions to compel companies to act in a manner that could not be negotiated through diplomacy. The 1996 ISA is a case in point because it gave the president the authority to impose secondary sanctions on third-party entities that invested in Iran's energy sector. CISADA provides similar authority to the president to use against third-party entities that support military programs, invest in the energy sector, and sell or increase the self-sufficiency of refined products in Iran. Imposing secondary sanctions on companies from Pakistan, India, China, Turkey, and Russia could damage the consensus for the primary sanctions. The US requires support from Pakistan for operations in Afghanistan, Turkey to stabilize Iraq, and India as a regional counterweight to China.⁷⁷ The US needs to carefully consider imposing secondary sanctions and risk losing international support, especially when these countries have companies willing and able to fill the void created by the new sanctions.

And finally, efforts to promote human rights in Iran and N. Korea need to be decoupled from sanctions to dissuade nuclear proliferation and support to terrorism. While the opening provisions of CISADA clearly state that the sanctions are meant to discourage support for terrorism and nuclear ambition, another portion requires the executive branch to sanction individuals within Iran identified with human rights abuses.⁷⁸ Similar disconnects occur in verbal statements made by politicians. This complicates the message to Iran and N. Korea. Here is a case where the US interest for non-proliferation has to take priority over US values. This will be a hard sale to Congress and the people who often espouse interests with values; but is necessary to convince the targets that their security is not in jeopardy.

This paper reviewed the relevant theories on the application of economic sanctions as a tool of national power and their effectiveness in achieving success. The review indicates that while economic sanctions can work in certain cases, globalization has reduced their efficacy and politicians should put less faith in their universal applicability. The history of how the US and UN have imposed sanctions on N. Korea and Iran were reviewed with the purpose of identifying recommendations on future implementation in hopes of curtailing or ceasing pursuit of weapons of mass destruction by these two nations. Without question the imposed sanctions have influenced the economies of both North Korea and Iran. The mixture of comprehensive and smart sanctions has caused inconvenience and hardship to both the general populations and the ruling regime. What the sanctions have failed to do is meet the desired objective which has been to curtail the nuclear ambition of each nation. Both nations have defied the US and the international community and continue to pursue WMD technology. For North Korea the situation has progressed to the point that deterrence has evolved to containment. It is believed that Iran is still a few years away from becoming a nuclear state. Changes in how the international community applies economic, diplomatic, and military pressure must occur if the situation is to be salvaged.

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²¹ There is scholarly debate if the sanctions imposed by Resolution 661 had adequate enough time to produce the desired effects before the Gulf War was started.

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