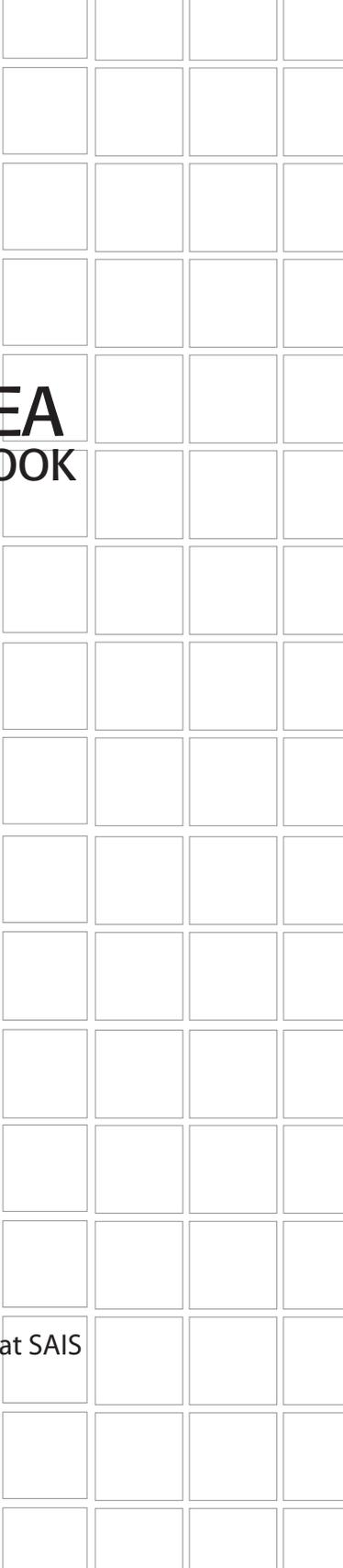


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Realism and Liberalism in Economic Sanctions: An Analysis of South Korea's Sanctions on Iran in 2010

By Soo Kook Kim

“When a country like Japan or South Korea or China or Russia—all of whom have commercial dealings with Iran—make these decisions, they do so at great cost to themselves.”

~ Barack Obama, in an interview with BBC Persian

I. INTRODUCTION

On June 9, 2010, the United Nations Security Council (UNSC) adopted UNSC Resolution 1929 (hereafter, “UNSCR 1929”), which puts additional sanctions on Iran on top of UN Resolutions 1737 (2006), 1747 (2007), and 1803 (2008). The resolution was targeting Iranian companies and officials that were allegedly supporting terrorist groups and transferring prohibited weapons. Within two months, the U.S. Department of Treasury announced the release of a new list of 21 Iranian businesses and several individuals involved in terroristic acts prohibited by Resolution 1929. At the same time, Robert Einhorn, the U.S. State Department’s special adviser for nonproliferation, visited Seoul and Tokyo, accompanied by Daniel Glaser, Treasury’s deputy assistant secretary for terrorist financing. On August 2-3 in Seoul, they met with the Ministry of Foreign Affairs and Trade (MOFAT), the Ministry of Strategy and Finance (MOSF), and the Blue House, calling for Seoul’s cooperation in banning economic ties between South Korea and Iranian blacklisted entities.

In response to the United States’ appeal, South Korea announced on September 8 a new set of sanctions on Iran under UNSCR 1929. The U.S. president, Barack Obama, lauded South Korea’s action of joining international efforts to strengthen sanctions against Iran to pressure the Islamic country to abandon its suspected nuclear weapons ambitions. It is the first time that South Korea has voluntarily taken harsh measures against Iran. Aside from the obligatory UN sanctions, it has kept a balanced position between its strong, decades-old alliance with the United States and economic considerations with its biggest trading partner in the Middle East. Iran, South Korea’s fourth-largest crude oil supplier, accounted

for nearly 10 percent of South Korea's oil consumption last year. Key South Korean businesses, including LG, Hyundai, Samsung Electronics, Hanjin Heavy Industries, and Daewoo Shipbuilding, have signed billion-dollar contracts with Iran in recent years.

However, breaking the balance between Iran and the United States posed a conundrum for the Korean government as it weighed conflicting domestic and foreign interests. Internally, a great deal of speculation rose about Korea's economic troubles that might result from sanctions on Iran. Internationally, however, South Korea was required to join UNSCR 1929. In addition, it also desired to maintain a viable alliance with the United States. From the South Korean perspective, the economic loss was a tangible, short-term impact of the sanctions, whereas the result of the alliance weakening and failure to meet international obligations were long-term and less tangible.

This paper fundamentally questions why South Korea put sanctions on Iran. It also questions whether or not it was a successful course of action. In order to answer the questions, it borrows classical international relations concepts of realism and liberalism, although with narrowed meanings. In this paper, "realism" refers to the calculation of materialistic and strategic gain and loss. Conversely, "liberalism" means the pursuit of a greater cause in spite of materialistic damages.

At first sight, South Korea appears to have given up economic gains for other reasons. Does South Korea, then, show liberalism by pursuing the virtue of peace and alliance instead of materialistic gains? Or is Seoul's decision a realistic outcome from a close cost-benefit calculation? This paper will first discuss the measures that South Korea has taken in this regard, examine the impact of Iranian sanctions on South Korea, and then move on to South Korea's quandary regarding its decision and its relevance to other issues of U.S.-ROK relations. Finally, it will conclude with an answer to those questions as well as suggestions for the ROK government.

II. WHAT ARE THE SOUTH KOREAN SANCTIONS AND THE UN RESOLUTION?

South Korea's sanctioning measures are largely formulated in accordance with that of UN resolutions. Major details in the measures are the following: a proliferation-sensitive nuclear and ballistic missile programs-related embargo;

a ban on the export and procurement of any arms and related material from Iran; a ban on the supply of the seven categories of conventional weapons and related materials to Iran; and travel bans and asset freezes on designated persons and entities (see table 1).

These new measures are also in line with measures imposed by Japan and the European Union. Although the degree of sanctions that Washington demanded from Seoul remains unclear, Washington was reportedly not satisfied with the UN measures, which were merely recommendations. Sources say that Washington asked each ally to put bilateral sanctions on Iran. Presumably, this is the reason Einhorn and Glaser went to Seoul. Einhorn reported during a press conference in Seoul in August, “We suggested to the South Korean government that they take a look at what the Europeans have done, and look at that as a kind of very positive example, and to consider whether it could adopt similar kinds of measures.” In response to the U.S. request, South Korea adopted comprehensive measures against Iran, including particularly extensive sanctions in the energy sector. South Korea banned investment and construction in petroleum and gas development in Iran, which was not specified but only vaguely mentioned in UNSCR 1929.

It is certain that Korea took a parallel step with the United States within the context of international cooperation. Foreign Ministry spokesman Kim Young-sun said that the sanctions further reinforced UNSCR 1929, the latest in a series of measures taken by the international community in an effort to halt Iran’s nuclear program. He explained, “South Korea expects Iran to join international efforts for nuclear nonproliferation and take steps to faithfully implement its obligations under the relevant UN Security Council resolutions.”

Table 1. List of Republic of Korea (ROK) Measures

	Details of ROK Measures	Relevant Provisions of UNSC Resolution 1929
Finance	Designation of 102 entities and 24 individuals – Severe penalty on Bank Mellat Seoul	Provisions 11, 12, 19, 22 Annex of Resolution 1929
	Prior authorization scheme (for over €40,000) and prior reporting requirements (for over €10,000) for financial transactions with Iran	Provision 21
	Prohibition of the opening of new branches of Iranian banks in the ROK and vice versa	Provisions 23, 24
	Prohibition of the establishment of new correspondent banking relationships with Iranian banks	Provision 23
	Gradual termination of existing correspondent banking relationships with the Iranian banks subject to financial sanctions	Provision 23
	Prohibition of the sale or purchase of national bonds (if there are reasonable grounds to believe such activity could contribute to Iran's proliferation-sensitive nuclear activities and the development of nuclear weapons delivery systems)	Provision 21
	Prohibition of the provision of insurance and reinsurance (if there are reasonable grounds to believe such activity could contribute to Iran's proliferation-sensitive nuclear activities and the development of nuclear weapons delivery systems)	Provision 21
Trade	Reduction of export guarantees to Iran	Preamble and Provisions 21, 22
	Prohibition of the export of strategic items, including dual-use items	Provisions 8, 9, 13

Transportation & Travel	Strengthening of inspections on vessels or aircrafts to and from Iran that are suspected of carrying prohibited items	Provisions 14, 15, 16
	Prohibition of the provision of services to Iranian vessels or cargo aircrafts suspected of carrying prohibited items	Provision 18
	Prohibition of the access to domestic airports of cargo aircrafts operated by Iranian carriers (if there are reasonable grounds to believe such activity could contribute to Iran's proliferation-sensitive nuclear activities and the development of nuclear weapons delivery systems)	Provision 14
	Travel ban on the individuals designated pursuant to the UNSC resolutions	Provision 10
Energy	Prohibition of new investment, technical, or financial services and construction contracts in petroleum resources/gas development; restraint and caution when performing existing contracts	Preamble and Provision 22
Steps Necessary for the Implementation of the Measures	Opening of a won-denominated account	
	Implementation of "Guideline on Trade with and Investment in Iran," "Guideline on Contracts for Overseas construction with Iran," and "Guideline on Settlements in Relation to Iran"	Provisions 21, 22

III. BITTER IMPACT ON KOREA

As the Iran sanctions are an ongoing issue, it is hard to measure how large the impact has been on South Korea. The impact can be roughly analyzed in three dimensions—short-term, mid-term, and long-term. These distinctions were made in accordance with statistical findings and through interviews with government and bank personnel.

Short-Term: Direct Economic Hardships for South Korean Firms

Even before South Korea announced sanctions, South Korean firms were suffering from UNSCR 1929 and the U.S. sanctions toward Iran. Early in August, a survey conducted by the Korea Federation of Small and Medium Business showed that more than half of Korea's small firms trading with the Middle Eastern country have already suffered a loss. This was because of the

announcement of U.S.-led sanctions against Iran, the Comprehensive Iran Sanction, Accountability, and Divestment Act of 2010 (CISADA). CISADA, signed by President Obama on July 1, includes new provisions designated for foreign firms currently doing business with Iran.

With concerns spreading about CISADA, Korean small businesses have voluntarily halted 31.5 percent of exports to Iran. These preemptive measures taken by domestic firms brought a great loss to the economy. For instance, a trading firm was left holding unsold inventory worth several hundred million *won* because it was unable to open a credit account. Others complained about the inability to collect export payments from Iran. In a *JoongAng Daily* article in August 2010, one company official complained, “We had plans to export \$1.03 million worth of automobile components to Iran but due to difficulty in settling payment, we are left with nothing but to break the contract.”

According to the article, local companies—especially in steel, chemicals, and automobiles—have encountered difficulty sending money to and from Iran since the July UN sanctions on the country. Some local banks have stopped transactions with Bank Mellat, the only Iranian bank operating in Korea, to prevent potential criticism from the international community.

After South Korea put the sanctions into law, economic damage expanded further. According to a report from the Korea Trade-Investment Promotion Agency (KOTRA) released on October 17, Korean companies are not receiving payment for goods—equivalent to approximately 250 billion *won*—since South Korea implemented sanctions against Iran. The report was based on a survey of 301 Iranian export businesses and found that these sums are not recoverable and should be considered as a direct loss. Among the 301 companies surveyed, 73.8 percent (222) suffered a loss of business and 21 percent (63) of the companies are facing bankruptcy. “Companies are complaining that the government should let them carry on their business with Iran as long as the deals are not related to weapons of mass destruction or nuclear bombs,” said Kim Yong-suk, chief of the Middle East team at KOTRA. He estimates some 2,000 Korean firms will be affected by the international sanctions. “Not all, but many of Korean exporters to Iran have used Bank Mellat for receiving payments,” he continued, “[and] small firms are more vulnerable because they do not have financial firewalls like big firms do.”

Furthermore, Congressman Kim Jae-kyun from the Democratic Party argued on October 17, that Korean SMEs would not be able to get receivables of roughly

\$225 million from Iran. In addition, an annual deficit of around \$655 million is expected due to the export halt towards Iran. In the short-term, it is clear that South Korean firms are experiencing direct economic hardships resulting from the trade restrictions.

Mid-Term: Possibility of Losing Biggest Trading Partner in the Middle East

In 2009, South Korea's trade with Iran reached \$10 billion. South Korean firms are concerned that limits on business with Iran will greatly undermine their long-term opportunities in the petrochemical, construction, and plant export industries. The Iranian ambassador in Seoul said on August 7 that "South Korea has 25 business conglomerates and 2,000 small and mid-sized companies operating in Iran. If the bilateral economic ties come to a halt, it will have a negative impact on some 150,000 South Koreans who will lose their jobs." Ambassador Mohammad Reza Bakhtiari emphasized the noneconomic relations between the two: "The two countries will celebrate their fiftieth anniversary of establishing diplomatic ties next year. [Just as there] is a 'Teheran Road' in Seoul, Iran also has a 'Seoul Park' and 'Seoul Bridge.' The South Korean dramas are very popular in Iran. I don't want to see our two countries' relationship backpedal because of this incident."

Recent trade statistics between the two countries show a slight decline in trade after the sanctions against Iran were implemented (see tables 2 and 3). In table 2, net exports decreased by 19.6 percent in August. When the Korean government announced sanctions in September, trade fell by an additional 39 percent. However, taking into consideration the large declines in trade of 49.5 percent in February 2009 and 47.6 percent in April 2009, before sanctions were announced, it is hard to judge whether the fall in trade from August to October 2010 was a direct result of sanctions. Additionally, cumulative trade statistics indicate that Korean exports actually declined throughout all of 2009, whereas in 2010, the rates are positive even after accounting for the sanctions.

Table 2. South Korea's trade (export) with Iran (net)

Year 양식의 맨 위 Month 양식의 맨 아래	Iran		Year 양식의 맨 위 Month 양식의 맨 아래	Iran	
	Total amount (in \$1,000)	Increase rate (%)		Total amount (in \$1,000)	Increase rate (%)
2009-01	259,479	-24.1	2010-01	366,998	41.4
2009-02	264,554	-49.5	2010-02	372,667	40.9
2009-03	270,106	-32.6	2010-03	427,642	58.3
2009-04	267,764	-47.6	2010-04	439,117	64
2009-05	293,155	-28.5	2010-05	491,876	67.8
2009-06	365,889	22.5	2010-06	457,221	25
2009-07	324,440	-10.9	2010-07	363,272	12
2009-08	308,588	8.6	2010-08	248,125	-19.6
2009-09	392,883	83.8	2010-09	239,800	-39.0 양식의 맨 아래
2009-10	361,003	35.5	2010-10	326.390	-9.6
2009-11	366,259	5.3			
2009-12	517,777	36.3			

Table 3. South Korea's trade (export) with Iran (cumulative)

Month	2009		2010 (1~09)	
	Value (in \$1,000)	Increase rate (%)	Value (in \$1,000)	Increase rate (%)
01	259,479	-24.1	366,998	41.4
02	524,033	-39.5	739,665	41.1
03	794,139	-37.3	1,167,307	47.0
04	1,061,902	-40.3	1,606,423	51.3
05	1,355,058	-38.1	2,098,299	54.8
06	1,720,947	-30.8	2,555,520	48.5
07	2,045,387	-28.2	2,918,793	42.7
08	2,353,975	-24.9	3,167,039	34.5
09	2,746,858	-18.0	3,406,838	24.0
10	3,107,861	-14.0	3,733,229	20.1
11	3,474,120	-12.3	-	-
12	3,991,897	-8.1	-	-

As it has been only four months since the sanctions came into effect and as the data fluctuates each month, it is too early to conclude that the sanctions actually led to a significant change in the amount of trade between Korea and Iran. Although statistical data to date did not show a significant decline of trade between the two nations, Lee Hu-myung, director of the International Finance Bureau at MOSF, estimates the damage to be between \$7 and 15 billion. This figure includes the mid-term decline of exports to Iran, the drop in crude oil imports from Iran, and the fall in orders in construction and shipping sectors.

Long-Term: China's Strategy

In the long-term, the damage to Korean industries is more serious than its short-term or mid-term impact due to external factors. China, which has invested heavily in Iran despite international sanctions, has said it opposes the new sanctions on Iran by the United States and its allies, calling for more dialogue with Iran to address its uranium fuel. These statements have caused potential trouble for Korea and Japan. *Foreign Policy* magazine recently reported that

China has approached the Iranians with the hopes of taking over many former Korean and Japanese business contracts. Senators Jon Kyl and Chuck Schumer pointed out that the China National Petroleum Company (CNPC) replaced the Japanese firm Inpex and agreed to invest around \$2 billion to develop Iran's South Azadegan oil fields last year. Because of the Chinese strategy to quickly fill in where the sanctions have left open business opportunities, the financial damage on the Iranian side has been significantly cushioned by the Chinese, while the full burden has been felt by both Korean and Japanese businesses.

The Korean Institute for International Economic Policy (KIEP) says that South Korea's comparative advantage in the petrochemicals, plant, and construction sectors in dealing with Iran will largely decline due to the sanctions. The halt of those businesses in Iran can be an opportunity for China to learn skills in the construction and shipping industries. China had not been able to receive contract orders from abroad because of South Korea's superior technology in those fields. Since last year, China started to build value-added vessels, such as very-large crude carriers (VLCCs) and LPG vessels, which used to be the specialty of South Korean shipping companies. Given the present dynamic, it is highly possible that China will soon take the place of South Korean construction and shipping industries, by learning skills during their work in Iran. A South Korean government source explained that in the long-term, Korea may lose the market for shipping companies in the world.

IV. WHAT HAS SOUTH KOREA CONSIDERED?

Consistency with Nonproliferation

The biggest issue in the South Korean consideration of the sanctions on Iran was the nonproliferation of nuclear weapons and weapons of mass destruction (WMD). The nonproliferation effort for South Korea has two unique meanings. First, Korea has an important place in the global fight to curb the spread of nuclear weapons, materials, and technologies. According to Kwon Hee-seog at the Center for Non-proliferation Studies at Monterey Institute of International Studies, Korea has been a staunch supporter of the global nuclear nonproliferation regime, upholding the values of democracy, free-market economy, and human rights. He argued in the U.S.-ROK Workshop on Nuclear Energy and Nonproliferation in January 2010 that “[r]elying on the international trade and investment for its economic prosperity, the country has everything to lose and nothing to gain when the global nonproliferation regime fails

significantly.”

Second, South Korea cannot be distant from the global nonproliferation effort, as it itself faces a huge threat of proliferation—North Korea. This view was strongly supported by MOFAT and the Grand National Party in the ROK National Assembly. Kwon believes that:

Having been under the constant North Korean nuclear menace over the past two decades, Seoul foremost seeks to disarm North Korea of all nuclear weapons and existing nuclear programs, and rejects any attempts to develop or possess nuclear weapons elsewhere in the world. By taking a firm stance against the potential break-out cases worldwide, Korea often had to weather the substantial fallouts from defending the nonproliferation regime.

The issue of sanctions on Iran emerged along with the consideration of resuming the Six-Party Talks with North Korea on the issue of nonproliferation. Also, Korea was looking forward to holding the G-20 Summit in Seoul in November, where the top 20 nations show their cooperative efforts in terms of global norms. With regard to the global status of South Korea and its ongoing considerations with North Korea, the participation of South Korea in the sanctions against nuclear proliferation would have been crucial in terms of consistency.

Preserving a nonproliferation stance for Korea could show a complete inclusion in the international community and its rising responsibility in the global context. The *Wall Street Journal (WSJ)* welcomes Korea’s participation in the sanctions against Iran. Acknowledging the initial unbalanced position that South Korea and Japan held, an editorial stated: “South Korea’s recent announcement that [it will] implement United Nations Security Council Resolution 1929 is worth cheering.” Following laudatory comments, the *WSJ* reports that “the Lee Myung-bak administration realizes that it can’t be a responsible global actor while simultaneously propping up rogue states. That means it is growing up as a democracy.” Moreover, U.S. President Barack Obama asserted that “[t]he reason [South Korea and Japan are] doing it is not simply because we’re pressuring them. The reason they’re doing it is because they, too, see a threat of destabilization if you have an Iranian regime pursuing nuclear weapons and potentially triggering an arms race in the region that could be dangerous for everybody.” The U.S. Treasury and State Departments also gave the U.S. allies credit by acknowledging the sanctions are “not without cost.” Korea’s decision to sanction Iran plants a seed of trust within the participants in the sanctions—

the European Union, Canada, Australia, Japan, the United States, and others—that Korea is also taking on responsibility to support this cause.

U.S.-ROK Alliance

Interestingly, the U.S. Treasury, the South Korean Embassy, South Korea's Grand National Party, and MOFAT univocally assert that the sanctions are not imposed in the context of the U.S.-ROK alliance, but only in compliance to the UN resolution. However, it may not be possible to really separate sanctions compliance from alliance issues. The Sejong Institute, a leading think tank in South Korea, analyzed four reasons to adopt restrictions against Iran in terms of a "mature alliance."

First, Iran's theocratic regime that operates in an undemocratic way carries potential threats to international society. Therefore, the justification for sanctions, in the eyes of the U.S.-ROK alliance, comes from two sources: Iran's antidemocratic regime and its possession of WMD. Second, Iran is a country that has an intimate connection with North Korea. Since 1983, Iran and North Korea's symbiotic relationship has continued while Iran has been financing North Korea's fund for developing missiles. Additional nuclear technology exchanges between Iran and North Korea have also forced the United States and Korea to put sanctions on Iran. Third, South Korea's rising status in the world is accompanied by expectation of its meeting certain requirements of global society, especially those imposed by the United Nations. Showing such global responsibility should be considered in the broad context of the U.S.-ROK alliance. Lastly, a direct relationship between the United States and South Korea will be enhanced by cooperation on the Iran issue.

As the South Korean sanctions seem to be closely related to the U.S.-ROK alliance, issues relevant to the alliance were raised domestically after the government announced the implementation of the sanctions. The most attention was put in the *Cheonan* incident in March 2010, but the KORUS FTA and the G-20 Summit in November in Seoul were also addressed. Many suspected that the decision to impose sanctions on Iran stimulated North Korea aggression just several months later. They believe that South Korean participation in sanctioning Iran will bolster the North Korean nuclear program and its provocative acts. Also, some newspapers address the ratification of KORUS FTA as a motivation for sanctions. As President Obama announced that he wanted the free trade agreement to be finalized before the G-20 Summit, it was thought that imposing sanctions would create an amicable atmosphere between the United States and South Korea. For those people who claim that the FTA and sanctions are

closely related, the sanctions on Iran can be seen as a stepping stone for future coordination with the United States.

Regarding the relevancy with other issues, both governments firmly state that they want to insulate other issues from the Iran sanctions. A top U.S. Treasury official indicated that the United States already confirmed the result of the *Cheonan* incident investigation, so this incident has not affected the sanctions. He separated the sanctions from the KORUS FTA as well, by saying that South Korea's participation in sanctioning Iran means nothing but a continuation of international efforts for nonproliferation; therefore Korean sanctions on Iran should be considered in the context of nonproliferation only. Similarly, Counselor Ham Sang-wook at the ROK Embassy in Washington affirms that the sanctions, the *Cheonan* incident, and the KORUS FTA do not bear any relevance on one another.

However, opinions vary even between government institutions. MOFAT, which was pushing the government to follow the cause of nonproliferation, insisted that the sanctions and U.S.-ROK relations were separate issues. Conversely, MOSF, which preferred to maintain economic ties with Iran, argues that the sanctions were highly influenced by the U.S.-ROK security alliance. Director Lee Hu-myung at MOSF expressed his opinion that this cooperation will lead to a positive atmosphere for future issues relevant to U.S.-ROK relations.

Overall, KORUS FTA and the *Cheonan* incident may have been a background for deliberation, although it may not have directly influenced the decision making. Korea's participation certainly promoted the image of Korea within the U.S. government and strengthened their strategic ties. It led to a relatively more favorable mood for other issues. When the Yeonpyeong incident—a North Korean artillery shelling on a South Korean island—occurred in the late November 2010, the United States sent substantial naval support to assist South Korea. This demonstrates how firm the 50-year alliance between the United States and Korea is, built upon numerous instances of mutual cooperation, including the case of the Iran sanctions.

Possible Economic Retaliation from Iran

Based on past experiences with Iran regarding its nuclear power development, South Korea would have seriously contemplated the possibility of retaliation by Iran. In November 2003, Korea participated in informal consultations on the draft resolution, which strongly deplored Iran's past failures and breaches of its

safeguards obligations. When Korea upheld its adoption at the IAEA Board, Iran selected a few countries, including Korea, and warned of closing off business dealings with these countries.

Again in August and September 2005, the IAEA Board adopted two successive resolutions that found Iran in noncompliance and then reported the case to the UNSCR. Subsequently, Iran reacted angrily by expressing its concern and displeasure to Seoul. As a result, for an extended period of time, Iran delayed the issuance of a permit to import critical goods for Korean companies working in the country. This did substantial damage to the companies' business interests, according to the Islamic Republic News Agency (IRNA) and other Iranian media on September 29, 2005. As such, Korea sustained its moral position to buttress the nonproliferation regime and to share in the responsibility of maintaining global security.

This year, Iran warned about the consequences of sanctions, but it did not specify the option of retaliation. The Iranian ambassador in Seoul warned South Korea in August by saying, "Iran's economy is rapidly expanding. There are many other international companies that can replace South Korean companies in Iran. So, countries that sanction Iran will end up sanctioning themselves." The warning was less threatening than the previous responses, and surprisingly, there has been no retaliation to date. Possible reasons behind Iran's behavior, according to Counselor Ham, are the trust built between the two nations since 2005 and the magnitude of the Korean cultural influence on Iran. Due to the improved Korean-Iranian relationship, the Iranian government may have reconsidered the option of retaliation against Korea. Also, Iran may have decided to talk directly to the United States rather than react to each American ally. Although several circumstances prevented retaliation from Iran, South Korea would not have been able to erase the memory of economic reprisal when considering UNSCR 1929.

Prevention of U.S.-Led Economic Retaliation

Unsatisfied with UNSCR 1929, the U.S. State Department announced CISADA, passed overwhelmingly by Congress, signed into law on July 2010, and effective from September 29. On September 30, the State Department imposed sanctions on the Switzerland-based Naftiran Intertrade Company (NICO), based on CISADA, due to its involvement in the Iranian petroleum sector. Also, on September 27, the Government Accountability Office (GAO) released a new report that identified 16 companies in the world as having sold petroleum

products to Iran between January 1, 2009, and June 30, 2010. Of those 16, the GAO reported that five have shown no signs of curtailing business with Iran, making them potential targets of CISADA. *Foreign Policy* reported that “there are some positive signs, however, that international pressure is having an effect on companies’ willingness to do business in Iran.” According to *Foreign Policy*, several firms from Switzerland, the Netherlands, France, India, and the United Kingdom told the GAO that they are halting their refined petroleum business with Iran. Thus, the influence of CISADA has been very powerful in the world.

As mentioned previously, the impact of CISADA on domestic banks and firms was beyond expectation. South Korean banks and firms voluntarily discontinued dealings with Iran, even though they were legal, because they were afraid of the possible repercussions from the United States. Many large domestic firms found an alternative route, such as through Dubai, to maintain business with Iran. However, small and medium-sized enterprises (SMEs) were unable to make similar adjustments and were forced to stop contracts.

If the South Korean government continued to trade with Iran, according to CISADA, the United States would likely have retaliated. As a result, South Korea would likely have given up a portion of the U.S. market and would have faced a different set of economic troubles. Thus, regardless of whether it decided to adopt or reject sanctions on Iran, Korea would have faced certain economic loss. As a result, the most realistic calculation for Korea was to comply with the UN resolution to show its global responsibility and to maintain a strong U.S.-ROK alliance.

V. CONCLUSION: LIBERAL BUT REALISTIC

In order to minimize the cost and maximize the benefit, the government should provide relief measures for domestic firms that are suffering from the sanctions. Measures already taken to alleviate economic shocks are largely two-fold. First, the Korean government opened *won*-denominated accounts in two banks, namely Woori Bank and Industrial Bank of Korea (IBK) (see table 1). The *won*-denominated account procedure can be explained in a simple way: the Iranian Central Bank opens the *won*-denominated accounts in Korean banks so that Korean firms can put money in those accounts and Iranian firms can withdraw money from there, and vice versa. Since most of transactions through Iranian banks are blocked by the UN resolution, South Korea and Iran developed an alternative method to clear their transactions legally. Both MOFAT and MOSF

highly appreciate the opening of the *won*-denominated accounts, describing it as a win-win strategy. With these accounts, firms can legally continue their activities with Iran, and the government can check the South Korean–Iranian transactions that have been opaque. Park Yong-joon, the director of foreign exchange business at Woori Bank, said that Woori Bank first opened the *won*-denominated account on October 1, 2010, and the major domestic companies such as SK and Hyundai Oil Bank started to deposit money in those accounts starting October 18. On October 26, a *won*-denominated credit of 8.6 billion *won* (approximately \$6.2 million) came into Korea from Iran through the account.

Second, on August 25, the South Korean government announced a financial rescue plan for companies that may have been adversely affected by sanctions on Iran. Under the plan, the government provided small firms with 18-month rollovers on maturing loans. Previously this rollover was only six months. It also offered new loans of up to 500 million *won* for three years at low interest rates. An official at the financial regulating body said the rescue plan should be seen as a gesture of goodwill to Iran. “Its message is that the Korean government is helping firms doing business with Iran, which are struggling not because of Korea’s own sanctions but because of sanctions imposed by other countries.” However, those measures have little influence on small firms as there was no way to compensate them for critical lost business. It appears that companies have relied more on the *won*-denominated account than on the financial aid measures.

The government should develop further measures to recover trade between the two countries and revitalize domestic SMEs. The Ministry of Knowledge Economy claimed on August 26 that it will provide export support measures aimed at SMEs, but they have not been implemented yet. Export support measures such as the Entrepreneurship and Small Business Development Fund and the Fast Track program—rapid assessment of export insurance and accident claims—should be taken into consideration. Director Park from Woori Bank also suggests permitting a greater variety of transactions with Iran, including transactions such as transferring students’ expenses, humanitarian aid, and dealings between embassies.

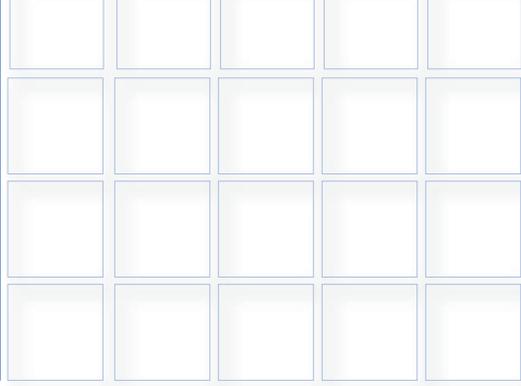
In conclusion, South Korea’s sanctions on Iran were a successful approach to apply liberalism based on realistic calculations. Realistically, South Korea partially lost the Iranian market due to its sanctions on Iran. However, there are several factors that mitigate the actual damage. First, due to the impact of the UN Resolution and CISADA, Korea firms and banks were already losing

market share even prior to the Korean government's announcing restrictions. Regardless of the South Korean sanctions, a substantial degree of loss occurred domestically. Second, the *won*-denominated accounts in Woori Bank and IBK allowed normal transactions between the two countries starting in October. In addition, South Korea also prevented the possible loss of the American market. In sum, the South Korean economic loss from imposing sanctions is less significant than it appears. The most significant loss can be attributed to the Chinese strategy of overtaking South Korea's dominant position in the Iranian market.

From the liberal perspective, South Korea's decision marks a victory. Korea proclaimed that it is a supporter of nonproliferation despite the economic repercussions. At the expense of its sacrifice, Korea firmly held the alliance, showed global responsibility, and experienced greater inclusion into the international community. As a result, the calculation behind the South Korean sanctions on Iran turned out to be both liberalistic as well as realistic.



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