



Will China Cooperate with the United States on Economic Sanctions?

Gary Clyde Hufbauer assesses the prospects for President Obama winning agreement from China to cooperate on possible economic sanctions against Iran and North Korea.

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- Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Gary Hufbauer, senior fellow at the Institute, has studied the value and impact of economic sanctions for many years. And that's quite relevant right now as President Obama prepares for his first trip to Asia, especially to China, to discuss among other things the sanctions regimes against North Korea and Iran. Gary, thanks for coming here to give us an update.
- Gary Hufbauer: Thanks.
- Steve Weisman: With Mr. Obama scheduled to go, there's a lot of talk about strengthening sanctions against both countries if negotiations fail to produce progress on their nuclear weapons issues. What is your sense of these discussions right now?
- Gary Hufbauer: Getting China on board the sanctions regimes, even if only in a symbolic way, is the most important thing that President Obama can do to persuade the North Korea leadership and the Iranian leadership to change course or to slow down the course they're on. The United States, of course, has had sanctions on North Korea since about 1950, so we're into our 60th year. And we've had sanctions against Iran since 1979, so we're into 30 years. And there's very little that the United States can do unilaterally, or even with our Western allies—Europe, Japan—against either of those two countries.
- The Chinese hold the cards. The Chinese are the key suppliers to North Korea and they are big purchasers from Iran. And if China just slightly changes its posture, which so far has been not to impose any sanctions, not even to block them, that I think would cause both the regimes to rethink.
- Steve Weisman: What is China's reason for resisting? They have made it clear that they don't want either of these countries to have nuclear weapons; it's not in their interest.
- Gary Hufbauer: The reasons differ. In the case of Iran, China's long-term policy has been to diversify all suppliers. And Iran is the second or third largest potential oil producer in terms of its reserves, also a big natural gas producer. And China is a big purchaser from them; China is also a big supplier of refined gasoline to Iran. Now, the refined gasoline is not so critical to China's long-term thinking as the supply of crude petroleum and natural gas. So that's the key thing with respect to Iran. With respect to North Korea, many Chinese officials have said to me that they understand our concerns; they have similar concerns on and on and on. But they have the additional concern

that they don't want the North Korean regime to collapse and a lot of North Koreans to flood into China. That's what they say. Now, you ask, what's the connection between the nuclear weapons and the collapse of the regime and the flooding of the immigrants? Well, I think it is hard to connect those dots.

But in the Chinese mind, an agreeable relationship with North Korea stabilizes the regime, keeps everything kind of quiet on that northern North Korean border. They regard that as satisfactory and finally, it should be added—and the Chinese will say this toward the end of the conversation—they don't see themselves as a target of North Korean weapons, so they don't feel any immediate threat.

Steve Weisman: Let's talk about the different kinds of sanctions: there's financial sanctions and commercial sanctions. Many people—many experts including our own colleague, Marc Noland, who has studied North Korea, feel that the financial and banking sanctions do have some bite.

Gary Hufbauer: That's true. The United States could probably engineer essentially a blockade of all Korean banking transactions with what I would call respectable banks in the West and indeed in the world. Because if the United States requires that Hong Kong banks, for example, to certify that they don't do business with North Korea or we wouldn't do business with them—meaning Hong Kong/Shanghai Banking Corporation based in London (HSBC) or Lloyds or Bank of America or whatever—that would be pretty effective. That would cut the North Koreans out of banking transactions globally and they would have to go to an all cash economy or deal strictly through shady banking relations with very third-tier or fourth-tier banks. Yes, that would have a bite. What I would have to say is that over the years, the North Korean leadership has proven itself quite able to take all the punishment that is visited on them by their own terrible policies and by sanctions, and has pushed that pain down to the lower levels of society within North Korea. So, the upper echelons don't suffer very much, if at all. And my guess is that that would be a pattern to be repeated but there would be some bite. And that probably is the remaining thing that we could do without cooperation from China. Now China does control a lot of other trade that is way outside the banking sphere.

Steve Weisman: What about Iran? The Iranians deal with a lot of the second- and third-tier banks, don't they? In the Gulf, in South East Asia, East Asia?

Gary Hufbauer: Sure, but Iran is much more subject to this kind of pressure than North Korea because North Korea is really the hermit kingdom and has very little trade or commerce with anybody except China, and it's quite isolated. Iran on the other hand is an international economy, and it sells a lot of oil obviously worldwide and buys a lot of gasoline and all industrial supplies—from refrigerators to tractors and everything in between. And of course, they have an extensive banking relationship.

Now the United States has already boycotted the Central Bank [of Iran], and our European allies have done the same. But that leaves a lot of secondary banks, and they still do business in Europe, I'm sure Latin America and elsewhere. And they would be quite subject to paying on the banking frontier, if we could get a group of countries to not do any banking business with any of the banks or corporations in Iran. At this stage we can't pull along our European allies, much less China, to that pasture.

Steve Weisman: As Mr. Obama goes to China, what is the latest state of play? Do you think the Chinese may be more receptive or less because of the financial leverage that they have over the United States?

Gary Hufbauer: I think the Obama administration has done quite an exemplary job of trying to get along with the Chinese leadership, across a range of issues. I think they've built up chips. They've, for the most part, not aggravated trade relations. Now the tires...

Steve Weisman: There was the exception of the tires case.

Gary Hufbauer: There was the exception of the tires case and that took away some of the chips. But they haven't made a big deal of the currency yet on the whole, and they haven't made a big deal of complaining about human rights in a loud and visible way. I'm sure they do it privately, but they don't make a big public posture of it.

Steve Weisman: And in that vein the president declined to meet with the Dalai Lama before the trip.

Gary Hufbauer: Yes, actually symbolically that was very important. So, the Obama administration has put itself out of the way, I'd say, to work out an accommodating posture with China. I think there's a possibility—I don't say a high possibility, but certainly at least a good chance—that the Chinese will reciprocate by taking some symbolic measures, either against North Korea or Iran or possibly both. And symbolic could just mean they're willing to let it go up to the security council, in the case of Iran, for a vote, for a discussion. And they may do something on North Korea. They could do all sorts of things; they could interrupt some shipment or other just to show that they're leaning to be on the United States agenda on this issue. If Obama comes back empty handed on these two important files, I think the White House will reconsider how well this—what could you call it?—this friendship policy toward China is paying off.

Steve Weisman: Mr. Obama is leaving on November 11, he'll be back on the 20th. So let's talk before and after then. Thanks, Gary.

Gary Hufbauer: Thank you.

