

# North Korea

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RISK & COMPLIANCE REPORT

DATE: October 2018

## Executive Summary - North Korea

<b>Sanctions:</b>	UN, EU and US Financial and Arms
<b>FAFT list of AML Deficient Countries</b>	Yes
<b>Higher Risk Areas:</b>	Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues) (Average Score)
<b>Medium Risk Areas:</b>	US Dept of State Money Laundering assessment
<b>Major Investment Areas:</b>  <b>Agriculture - products:</b> rice, corn, potatoes, soybeans, pulses; cattle, pigs, pork, eggs  <b>Industries:</b> military products; machine building, electric power, chemicals; mining (coal, iron ore, limestone, magnesite, graphite, copper, zinc, lead, and precious metals), metallurgy; textiles, food processing; tourism  <b>Exports - commodities:</b> minerals, metallurgical products, manufactures (including armaments), textiles, agricultural and fishery products  <b>Exports - partners:</b> China 67.2%, South Korea 19.4%, India 3.6% (2011 est.)  <b>Imports - commodities:</b> petroleum, coking coal, machinery and equipment, textiles, grain  <b>Imports - partners:</b> China 61.6%, South Korea 20%, European Union 4% (2011 est.)	

**Investment Restrictions:**

North Korea is one of the world's most centrally directed and least open economies.

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## Section 1 - Background

An independent kingdom for much of its long history, Korea was occupied by Japan beginning in 1905 following the Russo-Japanese War. Five years later, Japan formally annexed the entire peninsula. Following World War II, Korea was split with the northern half coming under Soviet-sponsored communist control. After failing in the Korean War (1950-53) to conquer the US-backed Republic of Korea (ROK) in the southern portion by force, North Korea (DPRK), under its founder President KIM Il Sung, adopted a policy of ostensible diplomatic and economic "self-reliance" as a check against outside influence. The DPRK demonized the US as the ultimate threat to its social system through state-funded propaganda, and molded political, economic, and military policies around the core ideological objective of eventual unification of Korea under Pyongyang's control. KIM Il Sung's son, KIM Jong Il, was officially designated as his father's successor in 1980, assuming a growing political and managerial role until the elder KIM's death in 1994. KIM Jong Un was publicly unveiled as his father's successor in September 2010. Following KIM Jong Il's death in December 2011, the regime began to take actions to transfer power to KIM Jong Un and KIM has now assumed many his father's former titles and duties. After decades of economic mismanagement and resource misallocation, the DPRK since the mid-1990s has relied heavily on international aid to feed its population. The DPRK began to ease restrictions to allow semi-private markets, starting in 2002, but then sought to roll back the scale of economic reforms in 2005 and 2009. North Korea's history of regional military provocations; proliferation of military-related items; long-range missile development; WMD programs including tests of nuclear devices in 2006, 2009, and 2013; and massive conventional armed forces are of major concern to the international community.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

North Korea is subject to a FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from the on-going and substantial money laundering and terrorist financing (ML/FT) risks emanating from the jurisdictions.

### FATF Statement re AML Strategic Deficiencies: 19 October 2018

The FATF remains concerned by the DPRK's failure to address the significant deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime and the serious threats they pose to the integrity of the international financial system. The FATF urges the DPRK to immediately and meaningfully address its AML/CFT deficiencies. Further, the FATF has serious concerns with the threat posed by the DPRK's illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing.

The FATF reaffirms its 25 February 2011 call on its members and urges all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies, financial institutions, and those acting on their behalf. In addition to enhanced scrutiny, the FATF further calls on its members and urges all jurisdictions to apply effective counter-measures, and targeted financial sanctions in accordance with applicable United Nations Security Council Resolutions, to protect their financial sectors from money laundering, financing of terrorism and WMD proliferation financing (ML/FT/PF) risks emanating from the DPRK. Jurisdictions should take necessary measures to close existing branches, subsidiaries and representative offices of DPRK banks within their territories and terminate correspondent relationships with DPRK banks, where required by relevant UNSC resolutions.

### Compliance with FATF Recommendations

North Korea has not yet undertaken a Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards.

### US Department of State Money Laundering assessment (INCSR)

**Democratic People's Republic of Korea is categorised by the US State Department as a Country/Jurisdiction of Concern in respect of Money Laundering and Financial Crimes. The last report released in 2017 is as follows: -**

## **OVERVIEW**

The Democratic People's Republic of Korea (DPRK or North Korea) has a history of involvement in currency counterfeiting, drug trafficking, terrorist financing, and the laundering of related proceeds, as well as the use of deceptive financial practices in the international financial system. The DPRK regime continues to present a range of challenges for the international community through its pursuit of nuclear weapons, weapons trafficking and proliferation, and human rights abuses.

On June 1, 2016, the U.S. Department of the Treasury identified the DPRK as a jurisdiction of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act, and issued a proposed rulemaking generally prohibiting U.S. financial institutions from establishing or maintaining correspondent accounts with DPRK financial institutions and prohibiting the use of U.S. correspondent accounts to process transactions for North Korean financial institutions. This proposed rule was finalized on November 4, 2016.

Furthermore, in October 2016, the FATF again expressed its serious concerns with the threats posed by DPRK's illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing, and urged the DPRK to immediately and meaningfully address its AML/CFT deficiencies. The FATF strengthened the public statement by aligning it with the key financial operative paragraphs of UNSCR 2270 in urging all jurisdictions to terminate correspondent accounts and close existing branches and subsidiaries of DPRK banks. The FATF reaffirmed its earlier calls on its members to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies, financial institutions, and those acting on their behalf. In addition to enhanced scrutiny, the FATF further called on its members and urged all jurisdictions to apply effective countermeasures and targeted financial sanctions in accordance with applicable UNSCRs in order to protect their financial sectors from money laundering and proliferation financing risks emanating from the DPRK.

## **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Access to current information on the financial and other dealings of the DPRK is hampered by the extremely closed nature of its society, but it has reported on its AML framework through engagement with the international AML community.

## **KEY AML LAWS AND REGULATIONS**

In April 2016, DPRK adopted an AML law through Decree No. 1113 of the Presidium of the Supreme People's Assembly, replacing the previous AML law of October 2006. The new AML law covers the main elements of the money laundering offense (conversion, transfer, concealing, disguising, acquisition, possession and use of property, knowing that such property is the proceeds of an offense) and the coverage of the offense extends to any type of property,

regardless of its value, that directly or indirectly represents the proceeds of crime. However, the law remains significantly deficient, and there is no evidence of an AML infrastructure in the DPRK capable of implementing the law.

The DPRK is not a member of a FATF-style regional body but is an observer of the APG. It has been subject to the FATF call for countermeasures since 2011.

## **AML DEFICIENCIES**

There is little available information on the DPRK's financial system, and it is not clear what kinds of financial institutions currently operate in the DPRK or the type of financial activities conducted. The DPRK has not been subject to a review of its AML regime based on international standards.

## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The AML law nominally sets out a supervisory framework by the Financial Supervisory Bureau, which has broad responsibilities for implementation and enforcement of the AML law. However, there is no evidence the DPRK can effectively supervise its financial institutions and enforce AML practices. Moreover, although the AML law mentions effective monitoring and supervisory mechanisms, including powers to sanction financial institutions and other businesses and professions that do not comply with AML requirements, there is neither explanation for how this is achieved nor evidence of any established framework to implement sanctions.

The DPRK is party to a number of international conventions, including the 1988 UN Drug Convention. There is no evidence, however, that the DPRK has taken sufficient steps to properly implement provisions contained in the conventions.

### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, North Korea does not conform with regard a significant amount of government legislation that is required to combat money laundering.

### **EU White list of Equivalent Jurisdictions**

North Korea is not currently on the EU White list of Equivalent Jurisdictions

### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)



## **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

## **Offshore Financial Centre**

North Korea is not considered to be an Offshore Financial Centre

### **US State Dept Narcotics Report 2017:**

The United States' ability to evaluate the drug control situation within North Korea is extremely limited due to the regime's minimal international engagement and ongoing repression of all independent media and civil society. The best available information on the subject continues to come from DPRK refugees, defectors, and media reports from neighboring countries. According to these sources, methamphetamine production and consumption appears to be relatively widespread within North Korea, supplied primarily by independent criminal entrepreneurs.

According to unconfirmed reports, methamphetamine use is common in the northern areas of North Korea bordering China, and the drug is apparently widespread across multiple strata of society, reflecting its prevalence and relatively low-cost. Some North Koreans reportedly use the drug for purported medicinal purposes. No information exists to determine whether demand reduction or treatment services are provided by the state. Drug use remains technically illegal in North Korea, and according to unconfirmed media reports, convicted violators are subject to lengthy imprisonment or, in extreme cases, execution.

There is insufficient information to determine whether DPRK state entities are currently involved in the production or trafficking of methamphetamine or other illicit drugs. Starting in the 1970s and most recently in 2004, numerous law enforcement incidents implicated DPRK officials in illicit drug sales, including large-scale maritime transshipment. The absence of incidents over the past decade could indicate either curtailed involvement by DPRK officials in drug trafficking, or, alternatively, better concealment methods.

The best available information suggests that most methamphetamine production now takes place in small clandestine laboratories that appear to operate independently of the state, facilitated by bribes. China is the main destination for DPRK traffickers. Unconfirmed media reports have alleged that Chinese authorities have pressed North Korea to crack down on this trade, and Chinese enforcement against cross-border smuggling has intensified in recent years. Perhaps motivated by this pressure, North Korea appears to have increased its own border enforcement since 2015. No methamphetamine of North Korean origin has been detected in Japan for several years, though absence of law enforcement cooperation between North Korea and its neighbors prevents thorough attempts to trace trafficking routes in the region.

### **US State Dept Trafficking in Persons Report 2016 (introduction):**

North Korea is classified a Tier 3 country - a country whose government does not fully comply with the minimum standards and is not making significant efforts to do so.

The Democratic People's Republic of Korea (DPRK or North Korea) is a source country for men, women, and children who are subjected to forced labor and sex trafficking.

Government oppression in the DPRK prompts many North Koreans to flee the country in ways that make them vulnerable to human trafficking in destination countries. Within North Korea, forced labor is part of an established system of political repression. The government subjects its nationals to forced labor through mass mobilizations and in North Korean prison camps. Many North Korean government-contracted laborers in foreign countries also face conditions of forced labor. North Korea holds an estimated 80,000 to 120,000 prisoners in political prison camps in remote areas of the country. In many cases, these prisoners have not been charged with a crime or prosecuted, convicted, or sentenced in a fair, judicial hearing. In prison camps, all prisoners, including children, are subject to forced labor, including logging, mining, or farming for long hours under harsh conditions. Political prisoners are subjected to unhygienic living conditions, beatings, torture, rape, a lack of medical care, and insufficient food. Many prisoners do not survive. Furnaces and mass graves are used to dispose the bodies of those who die in these prison camps. The North Korean government operates regional, local, or sub-district level "labor training centers" and forces detainees to work for short periods doing hard labor, receiving little food, and subject to abuse, including regular beatings. Authorities reportedly send people to such centers if they are suspected of engaging in simple trading schemes or are unemployed.

The North Korean government sends laborers to work abroad under bilateral contracts with foreign governments. The majority work in Russia and China, but Middle Eastern, African, European, and Asian countries also host North Korean laborers. Credible reports show many North Korean workers under these contracts are subjected to conditions indicative of forced labor, such as working excessively long hours in hazardous temperatures with restricted pay, for up to three years. Their movement and communications are monitored and restricted by North Korean government "minders." North Koreans sent overseas do not have a choice in the work the government assigns them and are not free to change jobs. These workers face threats of government reprisals against them or their relatives in North Korea if they attempt to escape or complain to outside parties. Workers' salaries are appropriated and deposited into accounts controlled by the North Korean government, which justifies its retention of most of the money by claiming various "voluntary" contributions to government endeavors. Workers receive only a fraction of the money paid to the North Korean government for their work and face punishment if they fail to meet production or work targets. Wages of some North Korean workers employed abroad reportedly are withheld until the laborers return home, increasing their vulnerability to coercion and exploitation by authorities. Other reports note these laborers work on average between 12 and 16 hours a day, and sometimes up to 20 hours per day, and are allowed only one or two rest days per month.

The DPRK government system of harsh punishment through forced labor camps or the death penalty can fuel trafficking in neighboring China. Many of the estimated 10,000 North Korean women and girls who have migrated illegally to China to flee from abuse and human rights violations are particularly vulnerable to trafficking, and traffickers reportedly lure, drug, detain, or kidnap some North Korean women upon their arrival. Others offer jobs but subsequently force the women into prostitution, domestic service, or agricultural work through forced marriages. These women are subjected to sexual slavery by Chinese or Korean-Chinese men, forced prostitution in brothels or through Internet sex sites, or compelled service as hostesses in nightclubs or karaoke bars. If found by Chinese authorities, victims are often forcibly repatriated to North Korea where they are subject to harsh punishment, including forced labor in labor camps or death.

The Government of North Korea does not fully meet the minimum standards for the elimination of trafficking and is not making significant efforts to do so. The government did not demonstrate any efforts to address human trafficking through prosecution, protection, or prevention measures. The government participated in human trafficking through its use of forced labor in prison camps and labor training centers, and its provision of forced labor to foreign governments through bilateral contracts. It failed to protect trafficking victims when they were forcibly repatriated from China or other countries.

### **US State Dept Terrorism Report 2016**

**Overview:** In October 2008, the United States rescinded the designation of the Democratic People's Republic of Korea (DPRK) as a state sponsor of terrorism in accordance with criteria set forth in U.S. law, including a certification that the DPRK had not provided any support for international terrorism during the preceding six-month period and the provision by the DPRK of assurances that it would not support acts of international terrorism in the future.

Four Japanese Red Army members who participated in a 1970 jet hijacking continued to live in the DPRK. The Japanese government continued to seek a full accounting of the fate of 12 Japanese nationals believed to have been abducted by DPRK state entities in the 1970s and 1980s. In May 2014, the DPRK agreed to reopen its investigation into the abductions, but as of the end of 2016, had not yet provided the results of this investigation to Japan.

**Legislation, Law Enforcement, and Border Security:** In May, the United States re-certified the DPRK as a country "not cooperating fully" with U.S. counterterrorism efforts pursuant to Section 40A of the Arms Export and Control Act, as amended. In making this annual determination, the Department of State reviewed the DPRK's overall level of cooperation with U.S. efforts to counterterrorism, taking into account U.S. counterterrorism objectives with the DPRK and a realistic assessment of DPRK capabilities.

**Countering the Financing of Terrorism:** In July 2014, the DPRK became an observer, but not a full member, of the Asia/Pacific Group on Money Laundering, a Financial Action Task Force (FATF)-style regional body. It has been subject to FATF countermeasures since 2011 on the continued concerns about DPRK's "failure to address the significant deficiencies in its [anti-money laundering/countering the financing of terrorism (AML/CFT)] regime and the serious threat this poses to the integrity of the international financial system." Nevertheless, the DPRK failed to demonstrate meaningful progress in strengthening its AML/CFT infrastructure. Similarly, in June 2016, the U.S. Department of the Treasury announced that the DPRK is a jurisdiction of "primary money laundering concern" and released special measures to further protect the U.S. financial system from abuse.

### UN Security Council resolutions

The UN adopted [Resolution 1718](#) on 14 October 2006. This imposed a partial embargo on arms exports to and imports from North Korea. The resolution prohibits the supply (directly or indirectly) of conventional weapons and certain weapons of mass destruction, sensitive goods and technology, and technical assistance.

Additionally the resolution encompasses an export ban on luxury goods a travel ban and an asset freeze against those persons designated as persons who engage in or provide support for, including through other illicit means,

### EU Sanctions

Following the adoption of the UN resolution in 2006, the EU adopted [Common Position 2006/795/CFSP](#) in November 2006. The EU arms embargo prohibits the transfer of all arms and related material to North Korea. The embargo has subsequently been extended, renewed and modified by the following measures:

- [Commission Regulation \(EC\) No 689/2009](#) adopted on 29 July 2009 and came into force on 31 July 2009 - made amendments to Annex I list (goods and technology) by adding certain graphite and fibrous or filamentary materials and to Annex IV (list of persons, entities and bodies whose funds and economic resources were frozen)
- [Council Regulation \(EU\) No 1283/2009](#) adopted on 22 December 2009 and came into force on 23 December 2009 - extends prohibition on the supply, sale or transfer of certain items, materials, equipment, goods and technology which could contribute to North Korea's nuclear, weapons of mass destruction (WMD) and ballistic missile related programmes. Also imposes new restrictions on obtaining technical and financial assistance from North Korea.

### Financial

Current EU regulations

- [26.03.2013 – Council Regulation \(EU\) No 296/2013](#)
- [20.12.2011 Commission Implementing Regulation \(EU\) No 1355/2011](#) Amended Annex V to Regulation 329/2007.
- [22.12.2010 Commission Regulation \(EU\) No 1251/2010](#) Amended Annex V to Council Regulation (EC) No 329/2007
- [22.12.2009 Council Regulation \(EU\) No 1283/2009](#) Amended Council Regulation (EC) No 329/2007. Provided, amongst other matters, for the EU to identify targets (Annex V) of the measures in addition to those listed by the UN (Annex IV).
- [29.07.2009 Commission Regulation \(EC\) No 689/2009](#) Amended Annex IV to Council Regulation (EC) No 329/2007.
- [12.05.2009 Commission Regulation \(EC\) No 389/2009](#) Amended Annex IV to Council Regulation (EC) No 329/2007.

- [27.03.2007 Council Regulation \(EC\) No 329/2007](#) Implemented the measures in UNSCR 1718 (2006) including the freezing of funds and economic resources of persons designated by the United Nations Sanctions Committee or the Security Council.

## **OFAC Sanctions**

On 20th September 2017, the US expanded sanctions against North Korea. The new executive order, for the first time, authorizes the U.S. Treasury Department to sanction foreign banks that engage in "significant" transactions with North Korea, and to block specific bank accounts linked to North Korea. Also, new commercial sanctions target North Korea's business operations and international partners, including by authorizing new blocking sanctions against both North Korean persons and third-country nationals that undertake certain business activities in or involving North Korea. To access FAQs, [Click here](#).

On 2 January 2015, the US Treasury issued the following press release regarding further sanctions imposed against North Korea in response to the cyber-attack against Sony Pictures Entertainment

"In response to the Government of the Democratic People's Republic of Korea's numerous provocations, particularly the recent cyber-attack targeting Sony Pictures Entertainment and the threats against movie theaters and moviegoers, President Obama today signed an Executive Order (E.O.) authorizing the imposition of sanctions against the Government of North Korea and the Workers' Party of Korea. This step reflects the ongoing commitment of the United States to hold North Korea accountable for its destabilizing, destructive and repressive actions, particularly its efforts to undermine U.S. cyber-security and intimidate U.S. businesses and artists exercising their right of freedom of speech.

Pursuant to the authorities of this new E.O., Treasury today has designated three entities and 10 individuals for being agencies or officials of the North Korean government.

"Today's actions are driven by our commitment to hold North Korea accountable for its destructive and destabilizing conduct. Even as the FBI continues its investigation into the cyber-attack against Sony Pictures Entertainment, these steps underscore that we will employ a broad set of tools to defend U.S. businesses and citizens, and to respond to attempts to undermine our values or threaten the national security of the United States," said Secretary of the Treasury Jacob J. Lew. "The actions taken today under the authority of the President's new Executive Order will further isolate key North Korean entities and disrupt the activities of close to a dozen critical North Korean operatives. We will continue to use this broad and powerful tool to expose the activities of North Korean government officials and entities."

### **Targeting the Government of North Korea and the Workers' Party of Korea**

The E.O. signed today escalates financial pressure on the Government of North Korea, including its agencies, instrumentalities, and controlled entities, by authorizing targeted sanctions that would deny designated persons access to the U.S. financial system and prohibit U.S. persons from engaging in transactions or dealings with it.

The E.O. authorizes the Secretary of the Treasury, in consultation with the Secretary of State, to apply sanctions against officials of the Government of North Korea and the Workers' Party

of Korea, and persons determined to be owned or controlled by, or acting for or on behalf of, or to have provided material support for the Government of North Korea, Workers' Party of Korea, or any other person whose property and interests in property are blocked pursuant to the Order."

[Read Full Press Release \(includes names of blocked entities and persons\)](#)

## **Other**

On June 26, 2008, the US President issued Executive Order 13466 ("E.O. 13466") pursuant to the International Emergency Economic Powers Act ("IEEPA"). In E.O. 13466, the President declared a national emergency to deal with the threat to the national security and foreign policy of the United States constituted by the current existence and risk of the proliferation of weapons-usable fissile material on the Korean Peninsula, and continued certain restrictions with respect to North Korea that had been imposed under the authority of the Trading With the Enemy Act ("TWEA"). Also on June 26, 2008, the President signed Proclamation 8271 terminating the application of TWEA authorities with respect to North Korea, effective June 27, 2008. The Foreign Assets Control Regulations, 31 C.F.R. part 500, to the extent they were promulgated under TWEA authority, are therefore no longer in force with respect to North Korea.

On August 30, 2010, the President issued Executive Order 13551 ("E.O. 13551") pursuant to IEEPA and the United Nations Participation Act (the "UNPA"), expanding the scope of the national emergency declared in E.O. 13466 and adding new restrictions.

On April 18, 2011, the President issued Executive Order 13570 ("E.O. 13570") pursuant to IEEPA and the UNPA, to take additional steps to address the national emergency declared in E.O. 13466 and expanded in E.O. 13551 that will ensure implementation of the import restrictions contained in United Nations Security Council Resolution ("UNSCR") 1718 of October 14, 2006, and UNSCR 1874 of June 12, 2009, and complement the import restrictions provided for in the Arms Export Control Act (22 U.S.C. 2751 et seq.).

The Office of Foreign Assets Control ("OFAC") issued the North Korea Sanctions Regulations, 31 C.F.R. part 510 (the "NKSR") (75 Fed. Reg. 67912, November 4, 2010), to implement E.O. 13466 and E.O. 13551, and will revise the NKSR to implement E.O. 13570. The NKSR replace the Foreign Assets Control Regulations, 31 C.F.R. part 500, to the extent they pertained to North Korea.

## **Prohibited Transactions**

### **A. Blocked Property and Interests in Property**

Property and interests in property of North Korea or a North Korean national that, pursuant to the TWEA and the Foreign Assets Control Regulations, were blocked as of June 16, 2000, and remained blocked immediately prior to June 26, 2008 (the date of E.O. 13466), remain blocked pursuant to E.O. 13466. In addition, E.O. 13551 blocks the property and interests in property of persons listed in the Annex to E.O. 13551, as well as of individuals and entities determined by the Secretary of the Treasury, in consultation with the Secretary of State, to be

facilitating North Korean trafficking in arms and related materiel, facilitating North Korean procurement of luxury goods, or engaging in illicit activities that involve or support the Government of North Korea or its senior officials, including money laundering, the counterfeiting of goods or currency, bulk cash smuggling, and narcotics trafficking.

With certain exceptions, U.S. persons are prohibited from transferring, paying, exporting, withdrawing, or otherwise dealing in the property and interests in property of an entity or individual named in the Annex to E.O. 13551 or designated under the authority of the E.O. The names of such entities and individuals are published in the Federal Register and incorporated into OFAC's Specially Designated Nationals and Blocked Persons List ("SDN List"). The SDN List is accessible via OFAC's Web site at [www.treasury.gov/sdn](http://www.treasury.gov/sdn). The property and interests in property of an entity are also blocked if the entity is owned, directly or indirectly, 50 percent or more by a person listed on OFAC's SDN List pursuant to E.O. 13551, regardless of whether the entity itself is on OFAC's SDN List.

#### B. Transactions Involving North Korean Vessels

U.S. persons are prohibited from registering vessels in North Korea, obtaining authorization for a vessel to fly the North Korean flag, and owning, leasing, operating, or insuring any vessel flagged by North Korea.

#### C. Importing from North Korea

Pursuant to E.O. 13570, goods, services, and technology from North Korea may not be imported into the United States, directly or indirectly, without a license from OFAC. This broad prohibition applies to goods, services, and technology from North Korea that are used as components of finished products of, or substantially transformed in, a third country. Importers seeking a license from OFAC must provide the information specified in 31 C.F.R. part 501, subpart E, to OFAC. Requests for a license must be submitted by mail to the Licensing Division, Office of Foreign Assets Control, U.S. Department of the Treasury, 1500 Pennsylvania Ave., NW, Annex, Washington, DC 20220. After reviewing the importer's application, OFAC will make a license determination. U.S. depository institutions handling letters of credit or documentary collections involving imports from North Korea must obtain a copy of OFAC's license from the importer before proceeding with such transactions. The license must also be provided to U.S. Customs and Border Protection before imports from North Korea will be allowed into the United States.

#### **Exporting To North Korea**

Treasury prohibitions on exporting goods to North Korea specifically relate to sales involving parties whose property and interests in property are blocked under E.O. 13551. Otherwise, there are no Treasury prohibitions on exporting goods to North Korea. Depending on the goods involved (e.g., luxury goods), the export may be subject to other U.S. export controls, such as those administered by the U.S. Department of Commerce.



## Bribery & Corruption

<b>Index</b>	<b>Rating (100-Good / 0-Bad)</b>
Transparency International Corruption Index	17
World Governance Indicator – Control of Corruption	5

### Section 3 - Economy

North Korea, one of the world's most centrally directed and least open economies, faces chronic economic problems. Industrial capital stock is nearly beyond repair as a result of years of underinvestment, shortages of spare parts, and poor maintenance. Large-scale military spending draws off resources needed for investment and civilian consumption. Industrial and power outputs have stagnated for years at a fraction of pre-1990 levels. Frequent weather-related crop failures aggravated chronic food shortages caused by on-going systemic problems, including a lack of arable land, collective farming practices, poor soil quality, insufficient fertilization, and persistent shortages of tractors and fuel.

The mid 1990s were marked by severe famine and widespread starvation. Significant food aid was provided by the international community through 2009. Since that time, food assistance has declined significantly. In the last few years, domestic corn and rice production has been somewhat better, although domestic production does not fully satisfy demand. A large portion of the population continues to suffer from prolonged malnutrition and poor living conditions. Since 2002, the government has allowed informal markets to begin selling a wider range of goods. It also implemented changes in the management process of communal farms in an effort to boost agricultural output.

In December 2009, North Korea carried out a redenomination of its currency, capping the amount of North Korean won that could be exchanged for the new notes, and limiting the exchange to a one-week window. A concurrent crackdown on markets and foreign currency use yielded severe shortages and inflation, forcing Pyongyang to ease the restrictions by February 2010. In response to the sinking of the South Korean warship Cheonan and the shelling of Yeonpyeong Island in 2010, South Korea's government cut off most aid, trade, and bilateral cooperation activities, with the exception of operations at the Kaesong Industrial Complex. North Korea continued efforts to develop special economic zones and expressed willingness to permit construction of a trilateral gas pipeline that would carry Russian natural gas to South Korea. North Korea is also working with Russia to refurbish North Korea's dilapidated rail network and jointly rebuilt a link between a North Korean port in the Rason Special Economic Zone and the Russian rail network.

The North Korean government continues to stress its goal of improving the overall standard of living, but has taken few steps to make that goal a reality for its populace. In 2013-14, the regime rolled out 20 new economic development zones - now totalling 25 - set up for foreign investors, although the initiative remains in its infancy. Firm political control remains the government's overriding concern, which likely will inhibit changes to North Korea's current economic system.

#### **Agriculture - products:**

rice, corn, potatoes, soybeans, pulses, beef, pork, eggs

#### **Industries:**

military products; machine building, electric power, chemicals; mining (coal, iron ore, limestone, magnesite, graphite, copper, zinc, lead, and precious metals), metallurgy; textiles, food processing; tourism

#### **Exports - commodities:**

minerals, metallurgical products, manufactures (including armaments), textiles, agricultural and fishery products

**Exports - partners:**

China 75.8% (2015)

**Imports - commodities:**

petroleum, coking coal, machinery and equipment, textiles, grain

**Imports - partners:**

China 76.4%, Republic of the Congo 5.5% (2015)

## Banking

The banking system is one of the weakest points of the embryonic North Korean market economy. To date, banks have been state-owned and there is no capital market. A potential sign of change is that several economic experts have recently been dispatched to foreign countries to join educational programs focusing on the banking system and its international standards.

## Section 4 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

civil law system based on the Prussian model; system influenced by Japanese traditions and Communist legal theory

### International organization participation:

ARF, FAO, G-77, ICAO, ICC (NGOs), ICRM, IFAD, IFRC, IHO, IMO, IOC, IPU, ISO, ITSO, ITU, NAM, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WFTU (NGOs), WHO, WIPO, WMO

## Section 5 - Tax

### Exchange control

For further information - <http://www.korea-dpr.com/>

### Treaty and non-treaty withholding tax rates

For further information - <http://www.korea-dpr.com/>

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions</a> <a href="#">UN Sanctions</a> / <a href="#">US Sanctions</a> / <a href="#">EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International)</a> <a href="#">Control of corruption (WGI)</a> <a href="#">Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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