

# North Korea

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RISK & COMPLIANCE REPORT

DATE: February 2017

<b>Executive Summary - North Korea</b>	
<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
<p><b>Major Investment Areas:</b></p> <p><b>Agriculture - products:</b> rice, corn, potatoes, soybeans, pulses; cattle, pigs, pork, eggs</p> <p><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</p> <p><b>Exports - commodities:</b> minerals, metallurgical products, manufactures (including armaments), textiles, agricultural and fishery products</p> <p><b>Exports - partners:</b> China 67.2%, South Korea 19.4%, India 3.6% (2011 est.)</p> <p><b>Imports - commodities:</b> petroleum, coking coal, machinery and equipment, textiles, grain</p> <p><b>Imports - partners:</b> China 61.6%, South Korea 20%, European Union 4% (2011 est.)</p>	

**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: 24 February 2017

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 threat this poses to the integrity of the international financial system. The FATF urges the DPRK to immediately and meaningfully address its AML/CFT deficiencies. Further, FATF has serious concerns with the threat posed by 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)

North Korea was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

## Perceived Risks:

The Democratic People's Republic of Korea (DPRK or North Korea) has a history of involvement in currency counterfeiting, drug trafficking, 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.

Access to current information on the financial and other dealings of the DPRK is hampered by the extremely closed nature of its society. The economic practice of *juche*, a constitutionally enshrined ideology in North Korea characterized by the goals of independence and self-reliance, has contributed to minimizing transparency and international trade relations and discouraging foreign investment.

In 2015, the FATF continued to include the DPRK on its Public Statement, stating its concerns about the DPRK's failure to address the significant deficiencies in its AML/CFT regime and reiterating the serious threat this poses to the integrity of the international financial system. The FATF reaffirmed its earlier call upon its members to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies and financial institutions. In addition to enhanced scrutiny, the FATF called upon its members and urged all jurisdictions to apply effective countermeasures to protect their financial sectors from money laundering and financing of terrorism (ML/FT) risks emanating from the DPRK. The FATF likewise called on jurisdictions to protect against correspondent relationships used to bypass or evade countermeasures and risk mitigation practices, and to take into account ML/FT risks when considering requests from DPRK financial institutions to open branches and subsidiaries in their jurisdictions. The FATF also urges jurisdictions to undertake additional measures and safeguards to ensure effective implementation of the sanctions and other measures contained in the UN Security Council resolutions on the DPRK.

China is by far North Korea's largest trading partner. Chinese banks and intermediaries are integral in sustaining North Korea's economic and financial pipeline.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

### CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: Not available  
Are legal persons covered: criminally: Not available civilly: Not available

### KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: Not available Domestic: Not available  
KYC covered entities: Not available

### REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available Number of CTRs received and time frame: Not available STR covered entities: Not available

**MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:**

Prosecutions: Not available

Convictions: Not available

**RECORDS EXCHANGE MECHANISM:**

With U.S.: MLAT: NO Other mechanism: NO

With other governments/jurisdictions: NO

The DPRK is not a member of a FATF-style regional body. It is an observer of the Asia/Pacific Group on Money Laundering (APG), but it has not met the requirements for full membership.

**ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:**

There is little available information on the DPRK's financial system. The DPRK has never undertaken a review of its AML/CFT regime based on the international standards, and calls for the DPRK government to be involved in the mutual evaluation process have been unsuccessful.

Following the FATF's October, 2014 plenary meeting, the DPRK sent a letter to the FATF indicating its commitment to implement the action plan developed with the FATF. However, meaningful progress has not been observed to date.

In 2006, the DPRK adopted the Law on the Prevention of Money Laundering, which states that the DPRK has a "consistent policy to prohibit money laundering," but it is impossible to determine what standing this law has in the DPRK. The law is significantly deficient in most respects, and there is no evidence of an AML/CFT infrastructure in the DPRK capable of implementing the law. Lacking any type of sufficient AML/CFT regulatory authority, the DPRK cannot effectively supervise its financial institutions and enforce AML/CFT practices. Moreover, although the law mentions effective monitoring and supervisory mechanisms, including powers to sanction financial institutions and other businesses and professions that do not comply with AML/CFT requirements, there is neither explanation for how this is achieved nor evidence of any established framework to implement sanctions.

Although the DPRK is party to a number of international conventions, including the 1988 UN Drug Convention, there is no evidence the DPRK has taken sufficient steps to properly implement provisions contained in the conventions. The DPRK is also a party to the UN Convention for the Suppression of the Financing of Terrorism. There is no evidence of efforts to implement the UN resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly UNSCRs 1267 and 1373.

**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 2016:

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 have expanded considerably within North Korea over the past decade. The increased availability of the drug has also fueled cross-border smuggling of the drug into China and other countries.

According to unconfirmed reports, drug use is common in the northern areas of North Korea bordering China, particularly in the industrial cities of Hamhung and Sunchon. Methamphetamine use is apparently widespread across multiple strata of society, including students, workers, and the relatively affluent. In the absence of available medicines or effective public education, some North Koreans use the drug for 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 state involvement in drug trafficking, or, alternatively, that the DPRK regime has become more adept at concealing its involvement.

The best available information suggests that most methamphetamine production now takes place in small laboratories operated by criminal entrepreneurs that appear to operate independently of the state, and reportedly engage in bribery to facilitate their operations. 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 appeared to have increased its own border enforcement in 2015. Some North Korean methamphetamine has been interdicted farther afield. In August 2015, a British national pled guilty to conspiring to smuggle 100 kilograms of North Korean methamphetamine to the United States through the Philippines and Thailand. The 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 2014 (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. Within North Korea, forced labor is part of an established system of political repression. The North Korean government subjects its nationals to forced labor in North Korean prison camps and through government-contracted labor in foreign countries. North Korea holds an estimated 80,000 to 120,000 prisoners in political prison camps in remote areas of the country; these prisoners have not been charged with a crime or prosecuted, convicted, or sentenced by a fair 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, a lack of medical care, and insufficient food; many 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 sends laborers to work abroad under bilateral contracts with foreign governments, including a significant number of laborers sent to Russia and China. DPRK contract workers also labor in Africa, Central Europe, the Middle East, Central Asia, and Mongolia. Credible reports show many North Korean workers under these contracts are subjected to forced labor. Their movement and communications are conducted under surveillance 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 deposited into accounts controlled by the North Korean government, which keeps most of the money, claiming various "voluntary" contributions to government endeavors. Workers receive only a fraction of the money paid to the North Korean government for their work. Thousands of North Korean workers are estimated to be employed in logging, construction, and agriculture industries in Russia's far east, where they reportedly have only two days of rest per year and face punishments if they fail to meet production targets. Wages of some North Korean workers employed in Russia reportedly are withheld until the laborers return home.

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 forcibly repatriated to North Korea where they are subject to harsh punishment, including forced labor in DPRK labor camps or the death penalty.

The North Korean government does not fully comply with 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 domestic forced labor camps and its provision of forced labor to foreign governments through bilateral contracts. It failed to protect victims of trafficking when they were forcibly repatriated from China or other countries.

### US State Dept Terrorism Report 2015

**Overview:** The Democratic People's Republic of Korea (DPRK) is not known to have sponsored any terrorist acts since the bombing of a Korean Airlines flight in 1987. In October 2008, the United States rescinded the designation of the 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 re-open its investigation into the abductions, but as of the end of 2015 had not yet provided the results of this investigation to Japan.

**Legislation, Law Enforcement, and Border Security:** In May, the United States re-certified North Korea 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 counter terrorism, taking into account U.S. counterterrorism objectives with the DPRK and a realistic assessment of DPRK capabilities.

**Countering the Financing of Terrorism:** The DPRK is not a member of any FATF-style regional body. In July 2014, it was admitted as an observer, but not a full member, of the Asia-Pacific Group (APG) on Money Laundering, a FATF-style regional body. Nevertheless, the DPRK failed to demonstrate meaningful progress in strengthening its anti-money laundering/ combating the financing of terrorism (AML/CFT) infrastructure. While encouraging the DPRK's continued engagement with FATF and APG, the FATF highlighted continuing concerns about North Korea's "failure to address the significant deficiencies in its [AML/CFT] regime and the serious threat this poses to the integrity of the international financial system."

### 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 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

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	12
World Governance Indicator – Control of Corruption	8

## 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 output 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. Large-scale international food aid deliveries have allowed the people of North Korea to escape widespread starvation since famine threatened in 1995, but the population continues to suffer from prolonged malnutrition and poor living conditions. Since 2002, the government has allowed private "farmers' markets" to begin selling a wider range of goods. It also permitted some private farming - on an experimental basis - 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, South Korea's government cut off most aid, trade, and bilateral cooperation activities, with the exception of operations at the Kaesong Industrial Complex. In preparation for the 100th anniversary of KIM Il-sung's birthday in 2012, North Korea continued efforts to develop special economic zones with China and expressed willingness to permit construction of a trilateral gas pipeline that would carry Russian natural gas to South Korea. The North Korean government often highlights its goal of becoming a "strong and prosperous" nation and attracting foreign investment, a key factor for improving the overall standard of living. In this regard, in 2013 the regime rolled out 14 new Special Economic Zones set up for foreign investors, though the initiative remains in its infancy. Nevertheless, 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; cattle, pigs, 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 67.2%, South Korea 19.4%, India 3.6% (2011 est.)

**Imports - commodities:**

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

**Imports - partners:**

China 61.6%, South Korea 20%, European Union 4% (2011 est.)

**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 UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) 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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