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Opinion

Unleash the financial furies against North Korea

Political sanctions rarely work, but Pyongyang responds quickly when its bank accounts are threatened.

By Juan Carlos Zarate

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On Monday, the U.N. Security Council voted to condemn North Korea's recent missile launch and ordered the Sanctions Committee to enforce financial sanctions and an arms embargo against Pyongyang.

It remains to be seen how far countries such as China and Russia will actually go in tightening sanctions. But the U.S. should ensure that the condemnation has meaning by taking decisive action with or without the Security Council.

We know what works: leveraging smart financial power to pressure North Korea and disrupt the regime's continued proliferation and illicit financial activity.

In September 2005, as part of a strategic pressure campaign, the Treasury Department ordered U.S. financial institutions to close correspondent accounts for a private bank in Macau -- Banco Delta Asia. This bank was facilitating money laundering, proliferation and counterfeiting on behalf of the North Korean regime.

The regulation cut the bank off from the U.S. financial system. More important, the unilateral regulation unleashed the global financial furies against North Korea. Banks in China, Asia and Europe stopped doing business with North Korea, denying it access to the international financial system. North Korean bank accounts were closed, its transnational commercial transactions were canceled, and officials' financial activities were carefully scrutinized.

This hurt Pyongyang. The North Korean regime scrambled to regain access to money and accounts around the world while trying to undo the official damage done to its reputation in the international financial community. Key state actors, including China, had no incentive to block the full effect of the market reaction. On the contrary, they did not want their banks or financial

reputations caught up in the taint of North Korea's illicit financial activity.

This pressure became the primary leverage for the United States to press for North Korea's return to the six-party negotiating table. Once the six-party talks reassembled, the financial pressure campaign against North Korea ended, resulting in a loosening of the financial squeeze.

Unlike traditional state-based sanctions, this kind of financial leverage relies more on the risk-based calculus of global financial institutions than the policy decisions of governments. For legitimate financial institutions, there are no benefits to the risk of facilitating illicit transactions that could bring high regulatory costs and damage to their reputations if uncovered. Rogue actors who misuse the financial system can be exposed and shut out by the financial community itself. In this context, government sanctions and regulatory actions serve as prompts for the international financial community to act preventively. If financial institutions act according to their own interests, targeted actors and their suspected fronts will be denied access to the facilities of the international financial system.

Thankfully, the implements to launch such a campaign are in place. The U.S. has relevant regulatory and executive powers created post-9/11 to address specific money-laundering and proliferation threats and to target relevant sanctions to individuals and entities; the Treasury has created an international financial coalition focused on the problem of proliferation and has built credibility with the private sector regarding the protection of the financial system.

The United Nations could help by including in its recommendation an obligation to freeze the assets of North Korean companies, regime elements and leaders engaged in illicit and proliferation activity. Wisely, President Obama has kept in place the Bush administration's Treasury team, led ably by Undersecretary Stuart Levey, which knows how to unleash the financial furies against rogue regimes.

This smart financial power, which falls in the space between diplomacy and military force, is no silver bullet, but it is one of the few effective national security tools that give teeth to our diplomacy. It is a lever on which the Obama administration will rely heavily when dealing with Iran, Burma (renamed Myanmar by the ruling junta) and other rogue regimes that appear beyond the reach of traditional tools of statecraft. And it is a tool that it should rely on now, to unleash again a pressure campaign against North Korea and send a clear message to the regime that its dangerous recalcitrance will be met with real and painful actions to stop it.

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