

Wednesday, April 6, 2011

**Testimony before the Committee on Foreign Affairs
Subcommittee on Terrorism, Nonproliferation, and Trade**

Prepared Statement of Dr. David Asher

Non-Resident Senior Fellow, Center for a New American Security

Chairman Royce, Ranking Member Sherman, and members of the committee, thank you for the opportunity to testify today on the subject of using financial pressure as an element in national security strategy.

I had the honor of serving as the coordinator from 2001-2005 of the Bush administration's strategy against the Kim Jong Il regime's illicit activities and finances. I am pleased to be testifying today with my key Treasury Department counterpart at the time, Juan Zarate. Juan pioneered the use of the USA Patriot Act Section 311 against bad banks that were involved in supporting terrorism, organized crime, and WMD proliferation, including the designation of North Korea-linked Banco Delta in Macau as a primary money laundering concern in 2005. This single action served as a financial shot heard around the world and compelled banks globally to cut off or severely curtail North Korea's financial access.

Today I am a Non-Resident Senior Fellow at the Center for New American Security (CNAS), where I specialize in economic and security issues. Recently, CNAS published a report where two co-authors and I reviewed the history of coercive economic pressure strategies. This report includes detailed case studies on both the North Korea Illicit Activities Initiative and the path-breaking sanctions effort mounted against the Slobodan Milosevic regime in the Balkans during the 1990s. With your permission I would like to submit this report, *Pressure: Coercive Economic Statecraft and U.S. National Security*, in its entirety for the record.

In addition to our historical review, CNAS convened a series of expert working groups to review lessons learned from previous experiences in coercive statecraft. From these discussions, a series of recommendations and key conclusions emerged. Let me briefly highlight five of them:

1. In the last decade the Treasury Department has pioneered a new era of financial *operations other than war* and created a "revolution in financial affairs" (RFA) – akin to the revolution in military affairs (RMA) engendered by the employment of precision guided munitions and high tech networked systems.

In an inter-connected and globalized world, finance can serve as a fulcrum for making coercive diplomacy considerably more powerful and effective than in the past. The use of a carefully planned international campaign of targeted and coordinated financial measures, economic sanctions, and law enforcement actions can abet and in some circumstances even supplant the use of military force in intimidating, deterring, denying, coercing, and even defeating adversaries who may otherwise seem difficult to effect.

2. The effectiveness of a campaign of coercive economic statecraft depends on the clarity of the desired end state; the backing of senior leaders, the sophistication of planning and integration of domestic and international capabilities and authorities; and the quality of intelligence support for planning, execution and monitoring. The U.S. government is not well organized for any of these tasks and in each case, the appointment of a high level interagency coordinator and the development of a true whole of government campaign plan was essential. None of this comes naturally in the U.S. government.
3. Law enforcement remains perhaps the most neglected tool of national power. We found that enforcing the law against state directed illicit activities and finances was a highly effective, non-sanctions based way of pressuring North Korean leaders. The strategy remains relevant today.

Law enforcement also can be used to enhance Treasury's effort to pressure financial and business leaders to comply with executive orders and sanctions. Banks and bankers that break the law in support of adversaries should be held legally accountable. In the case of money laundering for the Iranian government, for example, the Justice Department and the Treasury Department have investigated and fined numerous banks for falsifying billions of dollars in wire transfers and "stripping" data from financial accounts corresponding with banks in the United States. Rather than just levying fines, there should be serious prosecutions of these banks and bankers for illicit conduct. Arrests and prosecutions would send a stronger, more credible and effective message to financial institutions that earn billions of dollars per year and see fines as merely "the cost of doing illicit business." Finally, the use of the USA Patriot Act Section 311 remains a potent regulatory enforcement tool as was shown last month against the Lebanese Canadian Bank, which laundered hundreds of millions of dollars for drug trafficking organizations linked to Hezbollah.

4. Economic coercive diplomacy is a matter of national security and national defense and the DoD needs to get smart about how to use it. Economic coercive diplomacy constitutes what the DOD calls an "economy of force" - a way of fighting and defending at relatively low expense - or avoiding the conventional fight altogether. It is being employed to considerable effect in a military context in interagency counter threat finance cells in Iraq and Afghanistan. However, there is much more that can be done to use economic and financial lines of operation within and outside of war zones and conflict areas. Attacking an enemy's economic depth, lines of communication, and its leaders' finances proved viable and important in the Balkans, in Iraq, and in North Korea. It should be a larger part of current military campaigns. Around 44 BC Roman Philosopher-statesman Marcus Tullius Cicero wrote, "Endless money forms the sinew of war." Cicero's insight remains relevant today.

5. The power of economic and financial coercive diplomacy can be underestimated. The Iraq case in particular is an instance where the pressure strategy succeeded but, ironically, was perceived to have been a failure. Had policymakers known how well they had defanged Saddam's regime there would have been no need for an invasion of Iraq in 2003. Likewise, in 2005-2006 we had the Kim Jong Il regime's finances in a vice. Had this leverage been amplified I have little doubt that the ground would have started to weaken under Kim Jong Il's feet and he would have been compelled to make a strategic choice. But, had he not reacted positively we had the credible means prepared and planned to bring decisive forces of change to bear against him – without firing a shot.

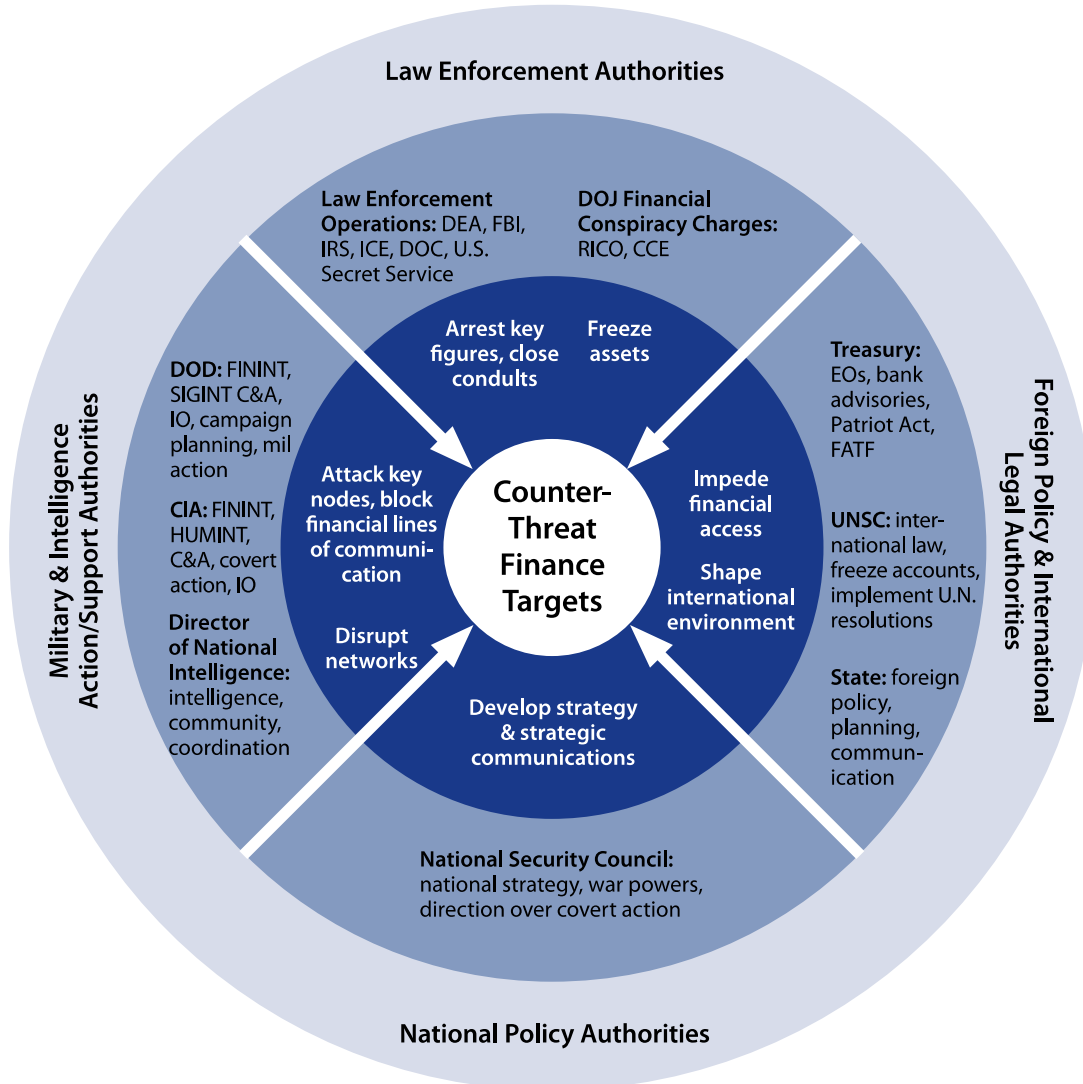
Given the increasing danger that North Korea will use its growing stockpile of enriched uranium to provide Iran the materiel that successful denial, interdiction and systemic sabotage appear to have forestalled, North Korea's continued proliferation is clearly a geo-strategic disaster in the making. There is an obvious need to re-launch the Illicit Activities Initiative – focused both on applying active pressure against the regime in Pyongyang and its proliferation activities and related finances. We proposed taking down North Korea's WMD networks repeatedly between 2003-2005, in concert with action against the AQ Khan network, and today the imperative is far greater than before. U.N. Sanctions and Treasury designations have complicated, but certainly not eliminated, these networks and today they simply cannot be allowed to exist.

Our CNAS report concludes that effectively applying pressure on a network, an organization, or a state requires a stratified, sequenced, and blended approach, incorporating a mix of national and international legal authorities and capabilities in a well-planned campaign strategy. True interagency planning and execution remain the biggest challenges today for the U.S. government. Even toward critical threats like Iran and North Korea, or in support of national security objectives in Afghanistan or Libya, many aspects of national and international financial and economic power are underutilized or not applied effectively. The National Security Council needs to be more imaginative and operational in coordinating the development and use of financial pressure strategies. I believe a special assistant for counter-threat finance position should be established to oversee whole-of-government planning and coordinate interagency activities. Especially in this resource-constrained era, we need to be prepared to financially go to war with our enemies as an alternative to dropping bombs and deploying troops.

I ask the Committee to consider the following graphic from our report that attempts to illuminate what a true whole of government approach entails and use it as a metric to measure past, current, and future efforts.

I look forward to your questions, comments, and opinions.

COUNTER-THREAT FINANCE: BALANCING NATIONAL SECURITY RESOURCES



KEY

C&A: Collection and Analysis

CCE: Continuing Criminal Enterprise

DEA: Drug Enforcement Administration

DOC: Department of Commerce

DOJ: Department of Justice

EO: Executive Order

FATF: Financial Action Task Force

FININT: financial intelligence

HUMINT: human intelligence

ICE: U.S. Immigration and Customs Enforcement

IO: Information Operations

RICO: Racketeer Influenced and Corrupt Organizations Act

SIGINT: signals intelligence

UNSC: United Nations Security Council

Background on the North Korea Illicit Activities Initiative, 2001-2005

Between 2002-2006 the U.S. government organized a multi-agency and multinational initiative to restrict the illicit activities and finances of the Kim Jong Il regime in North Korea. The Illicit Activities Initiative (IAI) sought to pressure Kim Jong Il to back away from his nuclear development and proliferation programs. It aimed to undercut the Kim regime's ability to profit from illicit activities. By impeding the regime's misuse of the international financial and trading system and threatening its accumulated fortune deposited in overseas banks, the initiative sought to create leverage over Pyongyang, without resorting to conventional coercive strategies – such as large-scale threats of military attack – or employing broader economic sanctions (for which it would be difficult to garner international support, let alone effectively enforce).

As a senior advisor to former Assistant Secretary of State for East Asian and Pacific Affairs James Kelly, I led this initiative under Kelly's direction. I also served as the North Korea working group coordinator, reporting directly to former Deputy Secretary of State Richard Armitage, and in 2004-2005, co-chaired a special policy coordinating committee at the National Security Council called the North Korean activities group (NORKAG).

The Illicit Activities Initiative (IAI) ultimately involved 14 different U.S. government departments and agencies, 15 foreign government partners and more than 200 policy officials, intelligence analysts and law enforcement officers around the world. In addition to wide ranging and sensitive diplomatic efforts to curtail North Korea's illicit financing and weapons proliferation, the IAI featured multiple international law enforcement investigations, including two of the largest undercover Asian organized crime cases in U.S. history, and the innovative use of Treasury Department authorities in conjunction with those investigations.

The IAI drove North Korea out of a range of criminal businesses and cut the nation's illicit trading companies and leadership off from bank accounts around the world. Through the IAI, the U.S. government generated significant diplomatic leverage over North Korea, a point made clear by the regime's reaction to the imposition in September 2005 of the Patriot Act's section 311 against Banco Delta Asia, a Macau bank accused of laundering money for the Kim regime and other North Korea entities. I believe that if this leverage been sustained and used effectively, North Korea's ability to defy international rules and norms could have been crippled, compelling Kim Jong Il to make a strategic choice toward denuclearization.

Biography

David Asher

Non-Resident Senior Fellow, Center for a New American Security



Dr. David Asher is a Non-Resident Senior Fellow at CNAS, where he specializes in issues related to Asia, economics and security.

Dr. Asher has worked extensively as a subject matter expert on countering illicit financial networks and trans-national threats for the U.S. government, including advising OSD Policy, U.S Special Operations Command, Central Command, and the Drug Enforcement Administration. From 2001-2005, Dr. Asher served as Senior Adviser for East Asian and Pacific Affairs and coordinator of the North Korea Working Group at the State Department, where he helped plan and participated in the Six Party Talks. He also directed the North Korea Activities Group at the National Security Council, overseeing the Bush administration's strategy against the Kim Jong Il regime's illicit activities and finances.

Dr. Asher has a deep background in Asian economic and security relations and is fluent in Japanese. From 1999-2001, he was a resident fellow and Associate Director of the Asian Studies Program at the American Enterprise Institute and from 1998-99 he was a fellow with the Center for International Studies and the Japan Program at the Massachusetts Institute of Technology. From 1994-95 he was assigned to the East Asian Affairs office in the Pentagon, supporting the development of the U.S.-Japan "Nye Initiative" to update the bilateral security alliance. From 1990-1993, he ran a congressional task force on U.S.-Japan economic relations. Over the last 20 years, David also has worked as a principal, strategist, and management consultant in the financial services and asset management industries, focused on Asia.

He graduated from Cornell University and received his doctorate in International Relations from the University of Oxford. His doctoral dissertation examined the failure of economic reform in interwar Japan and the rise of military nationalism.