

Policy Forum 07-026: What Price Denuclearization?

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By Bruce Klingner

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I. Introduction

Bruce Klingner, Senior Research fellow for Northeast Asia at the Heritage Foundation, writes, "The Bush administration's action will have far-reaching ramifications. Since it so closely followed North Korea's threats, Pyongyang will interpret it as a U.S. capitulation. In conjunction with earlier wavering by Washington over Pyongyang's covert uranium-based nuclear weapons program, North Korean negotiators will be emboldened to push back against U.S. demands."

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II. Article by Bruce Klingner

- "What Price Denuclearization?"

By Bruce Klingner

By giving in to North Korea's demands for release of frozen bank funds -- money gained from Pyongyang's illicit activities -- U.S. negotiators have sent a dangerous signal. Washington now appears less resolute in combating North Korean counterfeiting, money laundering and drug smuggling. Worse, the U.S. has lost the leverage it gained from international anger following Pyongyang's October 2006 nuclear test.

The funds in question are in Banco Delta Asia, a Macau-based bank the U.S. Treasury Department in September 2005 designated a "primary money laundering concern" in facilitating North Korean counterfeiting and drug smuggling. Acting under Section 311 of the Patriot Act, Washington banned all U.S. banks from dealing with BDA. Although the \$25 million frozen by Macau banking authorities was seemingly paltry, the seizure had a devastating impact on North Korea's ability to participate in the international financial system.

BDA was Pyongyang's principal conduit to the international financial network for both legal and illicit financial transactions. The U.S. action had a chilling effect for foreign businesses and banks, which became unwilling to engage with North Korea even on legal business ventures for fear of being designated complicit in North Korea's illegal activities.

The Bush administration was criticized for endangering the Six-Party Talks, but it was Pyongyang that linked the issues by boycotting the nuclear talks for 13 months, demanding the U.S. lift the economic restrictions. Earlier this month, North Korea insisted it would comply with the Feb. 13 Beijing Agreement only if the U.S. released all seized BDA funds.

Having State and Treasury Department officials announce all \$25 million would be returned to North Korea needlessly politicized what had been correctly characterized as a law-enforcement issue. Since the U.S. has no control over disposition of the funds, it should have been handled only by Macanese authorities.

The press conference undermined the effectiveness of the Treasury Department's strongly worded March 14 ruling, which cited the bank's willingness to launder hundreds of millions of dollars from North Korea's trade in counterfeit U.S. currency, counterfeit cigarettes and narcotics.

North Korea's claims that the released funds will be used "solely for the betterment of the North Korean people, including for humanitarian and educational purposes" rings hollow. After all, this regime has allowed millions of its citizens to die from starvation-related diseases and diverted U.N. Developmental Program funding.

The Bush administration's action will have far-reaching ramifications. Since it so closely followed North Korea's threats, Pyongyang will interpret it as a U.S. capitulation. In conjunction with earlier wavering by Washington over Pyongyang's covert uranium-based nuclear weapons program, North Korean negotiators will be emboldened to push back against U.S. demands. It appears increasingly unlikely that the U.S. will press for or gain the strict verification measures necessary to ensure North Korea does not again cheat on its denuclearization pledge.

Other countries will see the release of the BDA funds as a sign the U.S. is less willing to confront North Korea over its illegal activities, undermining efforts to constrain Pyongyang's funding of its nuclear and missile programs through illegal activities, as called for in U.N. Resolution 1718.

The U.S. decision will further marginalize Japan, which has resolutely insisted on North Korean compliance with its previous international commitments. Tokyo, now suffering policy whiplash from watching the sudden U.S. turnabout, stands isolated in the nuclear negotiations. Pyongyang will exploit this to minimize Tokyo's demands that North Korean fully account for its kidnapping of Japanese citizens.

South Korea will see the BDA decision as vindicating its policy of overlooking Pyongyang's criminal activities and human-rights violations in the broader interests of improving relations with the North Korean regime. Seoul will now feel less constrained in resuming its largely unconditional provision of aid to the North, which was halted after Pyongyang's 2006 long-range missile launch and nuclear test.

Perhaps the only way to make the best of this situation is to provide the \$25 million to Pyongyang in stacks of North Korean-produced counterfeit \$100 bills.

III. Nautilus invites your responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: napsnet-reply@nautilus.org . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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