

China joins US in freezing North Korean bank accounts

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Showing just how willing Beijing is to accommodate to Washington, it was revealed in late July that the state-owned Bank of China (BOC) has cooperated with the Bush administration's efforts to freeze North Korean finances in a number of Macau-based banks.

The US launched the freeze campaign immediately after what had been billed as a breakthrough at six-party talks last September to resolve the standoff over North Korea's nuclear programs. In the same month, the US Treasury Department issued a statement branding Banco Delta Asia (BDA), based in Macau, as "a willing pawn" of North Korea's "illicit" activities", finally pressuring the bank to freeze \$24 million worth of North Korean assets in February.

The US actions effectively scuttled any further six-party talks, as Pyongyang insisted that the Bush administration's actions were an obvious breach of good faith and demanded that it end its efforts to impose a financial blockade. In a rather desperate attempt to pressure the US to make concessions, North Korea test-launched seven missiles on July 5—a move that only played into the Bush administration's hands by further isolating the Pyongyang regime.

The Bush administration's pressuring of banks to stop any business dealings with North Korea, on the pretext of shutting down counterfeiting, drug running and other illicit activities, have been quite widely reported. But it was only last month that details of China's complicity in Washington's plans came to light.

Like Hong Kong, the former Portuguese colony of Macau is a Chinese special administrative zone. While it has its own autonomous administration, its governing bodies function under close supervision from Beijing. Any significant decision by authorities in Macau, particularly if it had implications for Chinese foreign policy, would necessarily require Beijing's approval.

The Macau government could not afford to ignore US threats to impose financial restrictions on banks allegedly involved in laundering money from North Korea's "illicit

activities". Eventually the authorities intervened directly and took over the running of Banco Delta Asia in order to ensure it cooperated with US demands for a thorough investigation.

Once Banco Delta Asia had fallen into line, a number of other banks based in Macau also closed down their North Korean accounts. Two other banks under US scrutiny were the state-owned Bank of China and a private Seng Heng bank. Under threat of US reprisals, Hong Kong authorities have conducted similar investigations into the Banco Delta Asia branch in that city.

Banco Delta Asia was controlled by Stanley Au—a financial tycoon who serves as Macau legislator and a political adviser to the Chinese government. The Seng Heng Bank is controlled by billionaire gambling mogul Stanley Ho, who had a casino in Pyongyang and has close ties with Beijing leaders. It is highly unlikely that a major state-owned bank, two "red" tycoons and Macau authorities froze the funds of North Korea, a formal ally of China, without first seeking approval from Beijing.

After a trip to Washington, a South Korean opposition legislator Park Jin told the media for the first time on July 24 that the Bank of China had frozen North Korean accounts. According to the *Korea Times*, Park cited a senior White House official as saying: "The Bank of China froze North Korea bank accounts. Pyongyang is more frustrated as China is virtually imposing sanctions on its trade with North Korea."

Park said the US operation, code-named "Smoking Dragon", had probed a Macau branch of the Bank of China, which then cut its relations with North Korea. "I think the United States did not announce it due to the sensitivity of the issue," he said. "Beijing and Washington are running a cooperation system to control the North's illegal trading of the counterfeited bills."

Park also pointed out that what worried Pyongyang was not just the \$24 million frozen in Macau, but an estimated \$200-300 million of assets in Singapore, Austria, Switzerland and Russia targetted as part of the worldwide US campaign.

Park provided no details of the amount of money frozen by the Bank of China or when, but White House spokesman Tony Snow confirmed that the US knew about China's action in freezing North Korean accounts. "We think it's a dangerous thing to be counterfeiting currency and using that as a way to engage in the drug trade, or arms trade. And we're encouraged by the fact that the Chinese government has taken affirmative steps—the Chinese bank has."

China's support for the US campaign marks a significant shift in Beijing's stance and was no doubt interpreted in Pyongyang as a hostile act by its ally. The aim of the Bush administration's financial sanctions is not to crack down on North Korea's alleged production of fake US bank notes but to further tighten the economic stranglehold around North Korea and precipitate its economic collapse. As North Korea's main economic lifeline, China's actions pose a major threat to Pyongyang.

A *Financial Times* article on July 25 pointed out that China accounted for \$1.58 billion of North Korea's total foreign trade of \$4 billion last year. North Korea is running a \$500 million trade deficit with China, with cheap Chinese exports making up almost 80 percent of manufactured consumer goods sold in the country. Chinese investment jumped from \$1.3 million in 2003 to \$90 million in 2005 and accounts for around 85 percent of North Korea's total foreign investment. Last year, more than 90 percent of China's overseas food aid went to North Korea. Beijing is also North Korea's main supplier of oil.

Throughout the protracted US provocations against North Korea, China has attempted to maintain a delicate balancing act. On the one hand, Beijing does not want the collapse of the North Korean regime or the establishment of a new pro-US state on its borders. On the other hand, Pyongyang's desperate responses threaten to trigger an arms race in North East Asia by providing Japan with a pretext to rearm and even acquire its own nuclear arsenal.

China sponsored the six-party talks in an effort to reach a negotiated solution to the confrontation over North Korea's nuclear programs. The Bush administration, however has shown no signs of being willing to enter into genuine negotiations or to make concessions to North Korea. As far as Washington is concerned, the talks have simply been a venue for pressuring the other parties—China, Japan, South Korea and Russia—into taking tough action against North Korea.

Unwilling to confront Washington, Beijing has pressured Pyongyang to return to the six-party talks and give in to US demands. The decision to freeze North Korean funds in Macau banks is the first time that China has resorted to overt economic means to bully Pyongyang into line. The move carries the implied threat of further economic actions, which

would have a catastrophic impact on the North Korean economy.

It is not surprising that there has been a discernable cooling of relations between the two countries. Following North Korea's missile tests in early July, China sent a high-level delegation to Pyongyang to persuade North Korean leader Kim Jong Il to return to the six-party talks. In a deliberate snub, Chinese officials waited for five days but Kim refused to even meet them.

It appears that Pyongyang did not even bother to inform China of the missile tests. According to the Hong Kong-based *Standard*, General Guo Boxiong, vice-chairman of China's Central Military Commission, told a gathering at the National Defence University last month: "We only learned of North Korea's missile tests on July 5 through US intelligence, broadcast by the media. At that time, I myself and the relevant people in our government were all very surprised."

China further distanced itself from North Korea by voting for the Japanese-sponsored resolution in the UN Security Council condemning the missile tests. The resolution calls on UN member states to end any connection with North Korea's missile and nuclear programs. It also carried the potential threat of more draconian economic sanctions and even military action.

Efforts to hold informal negotiations at the annual Association of South East Asian Nations (ASEAN) Regional Forum on July 28 in Kuala Lumpur failed. North Korea refused to attend, insisting that the US had to lift financial sanctions before any resumption of talks—formal or informal. US Assistant Secretary of State Christopher Hill immediately seized on North Korea's decision to belligerently declare: "They are completely isolated. If it's isolation they want, it's going to be isolation they get."

By acquiescing to the Bush administration's demands, the Chinese government is no doubt trying to deflect US pressure and to buy some time. In doing so, however, Beijing is simply setting the stage for more aggressive diplomatic and potentially military action by the US, and its ally Japan. In the final analysis, the US campaign is directed not so much against North Korea, but against China itself.



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