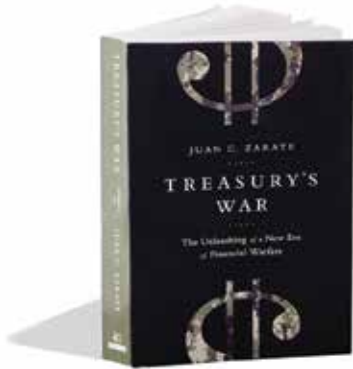


The Continuation of Policy by Other Means



Juan C. Zarate

Treasury's War

The Unleashing of a New Era of Financial Warfare

PublicAffairs, New York, 2013, 336 pp., \$27.99 (cloth).

Treasury's War offers a guided tour of a decade of the U.S. government's efforts to wield its financial and economic power to achieve its strategic interests and alter the balance of various conflicts. Juan Zarate is well positioned to tell this story: he joined the George W. Bush administration's Treasury Department as a young, gregarious former prosecutor with antiterrorism credentials just months before the terrorist attacks of September 11, 2001, and eventually rose to become deputy national security advisor.

Zarate was personally involved in many of the developments recounted in the book, including the "war on terror," the U.S. invasion of Iraq, and efforts to contain the nuclear ambitions of North Korea and Iran and to undermine the Qaddafi and Assad regimes in Libya and Syria.

Following 9/11, financial and economic sanctions and the role of financial intelligence became increasingly important and effective tools in the U.S. national security arsenal. Zarate attributes this to several factors, including the globalization of financial markets and the central role played by the dollar in international trade transactions.

He implies but doesn't state that many of the Treasury's legal authorities had been developed during prior administrations, but he makes quite clear that the U.S. government was willing, after 9/11, to take risks and pursue initiatives that previously would have been considered too controversial. Early on, Treasury Secretary Paul O'Neill directed his subordinates to impose sanctions even in cases where the factual basis was slim: one such case involving Somali Swedes working in the remittance business resulted in human rights protests by the Swedish government, and another in an adverse ruling by the European Court of Justice.

But perhaps the best example of the newly aggressive posture was the secret issuance of targeted subpoenas for the records of the Society for Worldwide Interbank Financial Telecommunication (SWIFT)—the global provider of secure financial messaging services. This program of subpoenas, which was entirely legal and carefully managed, nevertheless has proved difficult to defend and maintain following its public disclosure in 2006.

Many observers have noted that, short of military action, sanctions programs are one of the relatively few options available to contain North Korean and Iranian nuclear ambitions. Although Zarate makes a persuasive case that these measures have had a real impact on the targeted regimes, the question of whether and the extent to which sanctions programs are ultimately effective in changing their calculus is a debatable, second-order one that Zarate's book does not fully address.

Rather, Zarate presents a human, first-person narrative that helps the reader understand how policy decisions were made, what motivated the actors, and how they felt. He recounts how he and a group of Treasury policy officials wearing suits and carrying briefcases felt oddly out of place flying into Kabul on a military jet shortly after the U.S. invasion of Afghanistan, to help the U.S. military

and intelligence communities take advantage of the ancient *hawala* system of money exchange.

Following the creation of the Department of Homeland Security, which stripped the Treasury Department of the Customs Service and the Secret Service, Zarate and his Treasury enforcement colleagues were pressed to prove their relevance to the national security agenda. They set about doing so through the application of sanctions on a few select "rogue" banks that were involved in laundering money for sanctions evaders, drug traffickers, and terrorist organizations. Later, the Treasury's strategy emerges, validated and victorious, with President-elect Obama's decision to retain Treasury Under Secretary Stuart Levey, the public face of the Bush Treasury's Iran sanctions program.

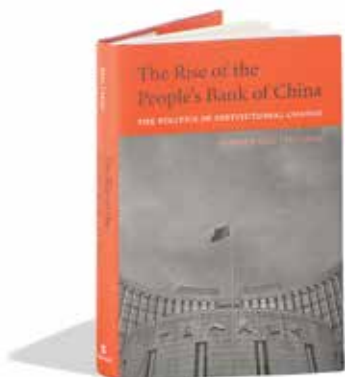
Treasury's War assumes that most people are unaware of the Treasury Department's role and its powers to implement sanctions, extract and analyze financial intelligence from banks, and negotiate global norms for financial regulation and information sharing, or how these activities have helped the United States achieve its objectives. Zarate usefully opens with a brief history of economic sanctions, from the Peloponnesian War in 432 B.C. to the Clinton administration's targeted sanctions against the Milosevic regime, Colombian drug traffickers, Hezbollah, and Al Qaeda in the 1990s.

By book's end, Zarate ponders some of the broader implications of the policies that he and his colleagues pursued during the post-9/11 decade. In particular, he suggests that *Treasury's War* has opened a Pandora's Box and that the U.S. economy and financial sector may themselves be vulnerable to similar steps taken by its financial and economic rivals. If *Treasury's War* has been as effective as Zarate says it has been, then his warnings may well be taken seriously.

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Evolving with the Times



Stephen Bell and Hui Feng

The Rise of the People's Bank of China

Harvard University Press, Cambridge, Massachusetts, 2013, 384 pp., \$55.00 (cloth).

The People's Bank of China, the central bank of the People's Republic of China, is by some measures the largest central bank in the world. At the end of 2012, its balance sheet was valued by the U.K. Standard Chartered Bank at \$4.5 trillion, higher than that of the European Central Bank (\$3.5 trillion) and the U.S. Federal Reserve (\$3 trillion). Compared with these and other major central banks, such as the Bank of England and the Bank of Japan, China's central bank stands out in many ways. Founded only in 1948, it is relatively young but has presided over the fastest structural transformation of a large economy in world history. And, most significantly from the point of view of the authors of this book, it has evolved in an economy that has implemented market-based economic reforms while retaining an authoritarian political system.

In *The Rise of the People's Bank of China*, Stephen Bell and Hui Feng tell two distinct stories: first, how the bank has evolved within the Chinese political system and, second, how its relationship with the Chinese and global economies has evolved over time. It's easy to forget how much China's financial system and economy have changed, and how different the chal-

lenges of the Asian financial crisis and the beginning of the post-1978 reform and opening period are from those of today. The second section's discussion of Chinese asset prices and exchange rate policy, to cite two currently significant issues that occupy the central bank, is presented in a clear historical time line. But the goal of this section is to show how the bank has addressed successive challenges, rather than to assess how good its performance was, or what might have been.

An institutional, descriptive focus dominates the first half of the book, which could be tough going for the general reader. But it raises useful insights: Chinese economic liberalization required not only a retreat of the state from central planning, but also a forward movement by the state into regulation. The need to assemble a proreform coalition in China was one reason for the devolution of economic decision making to the provinces, a process that has now become such a crucial component of China's economic strategy that its provenance is generally unquestioned. And the (to economists, settled) question of whether and why central banks should be independent is also presented in an interesting framework.

However, with this institutional rather than macroeconomic focus, the authors occasionally overstate how far China's central bank has evolved and cite as evidence of flexibility, or as consequences of China's political system, bank policies that are more likely to be tools of exigency. For example, the bank's monetary operations set quantitative targets for credit and money aggregates as well as interest rates, in contrast to advanced-economy central banks, which in normal circumstances focus on a single policy rate that affects the short-term money market.

But the Chinese central bank's approach is common in countries with heavily liquid financial systems, regardless of their political orientation. And in an economy such as China's, where bank interest rates

remain regulated, it would be almost impossible to achieve monetary policy goals using only a central bank lending rate. Here, the experiences of other emerging markets would have been useful for the purpose of comparison and, given that China's financial system remains more tightly controlled than that in almost other large emerging markets, would show how far China still has to go. Similarly, the authors' characterization of China as a transition economy rather than an emerging economy feels outdated or, perhaps more

China's central bank stands out in many ways.

accurately, suggests a pedantic focus on its political rather than economic circumstances. Twenty years ago, China's economic peer group may have been the similarly reforming countries of Europe and central Asia, but now that 11 of those countries have joined the European Union while China has become the hub of global industrial production and trade, this characterization seems less appropriate.

The rising global profile of the People's Bank of China naturally reflects growing interest in the world's second-largest economy. Those looking for a forward-looking assessment of where the Chinese economy is going, and how the bank will continue to define its role in an increasingly influential China, may be disappointed. However, given China's unusual history and the dynamic challenges facing it, those looking for a book that lays out the evolution of its central bank within the context of China's unique institutional structure will welcome *The Rise of the People's Bank of China*.

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