

A Publication of the
American Institute for Contemporary German Studies
The Johns Hopkins University

**THE ROLE OF ECONOMIC SANCTIONS
IN COMBATING INTERNATIONAL
TERRORISM (AND ITS PLACE
IN THE TRANS-ATLANTIC ALLIANCE)**

Jonathan M. Winer, Alston & Bird LLP
Formerly U.S. Deputy Assistant Secretary of State for
International Law Enforcement

© 2001 by the American Institute for Contemporary German Studies

The views expressed in this publication are those of the authors alone. They do not necessarily reflect views of the American Institute for Contemporary German Studies.

American Institute for Contemporary German Studies, 1400 16th Street, NW, Suite 420, Washington, D.C. 20036-2217. Telephone 202/332-9312, Fax 202/265-9531, E-mail: info@aicgs.org, Web: <http://www.aicgs.org>

ABOUT THE AUTHOR

Jonathan Winer is the former U.S. Deputy Assistant Secretary of State for International Law Enforcement. He represents domestic and foreign clients on regulatory, enforcement and government issues, with a heavy emphasis on the emerging legal issues associated with transactional financial regulation and data management. He has written and lectured extensively on financial crime, enforcement and regulation, and on international data protection and privacy. He has frequently testified before the Congress on these issues. Mr. Winer's practice also extends to a range of matters pertaining to sanctions, money laundering, and national security law.

At the State Department, Mr. Winer was one of the architects of U.S. international policy and strategies in financial services regulation and enforcement. He led U.S. negotiations on these and related issues with the European Union and the Organization of American States, and bilaterally with China, Cyprus, Hungary, Israel, Lebanon, Russia, Syria, Thailand, and numerous countries in Latin America, Southeast Asia, Central Europe, and Africa. Prior to joining the State Department, Mr. Winer served for nearly ten years as Chief Counsel and principal legislative assistant to Senator John F. Kerry. In that capacity, he drafted numerous laws, including those aimed at money laundering and campaign finance reform, and conducted investigations of the Iran-Contra Affair, corruption and financial crime in Central and South America, and led the U.S. Senate's investigation of the Bank of Credit and Commerce International.

**THE ROLE OF ECONOMIC SANCTIONS IN COMBATING
INTERNATIONAL TERRORISM
(AND ITS PLACE IN THE TRANS-ATLANTIC ALLIANCE)**

Summary: After years of transatlantic divergence on economic sanctions, and following months of skepticism about such sanctions by the Bush Administration, the September 11 attacks united the U.S. and the EU to undertake immediate action to freeze terrorist funds, toughen financial transparency measures and bring aggressive threats of sanctions against anyone who failed to cooperate in shutting off terrorist financing. This striking change of approach reflected a consensus in both the United States and the EU that such sanctions were a necessary and unavoidable component of success in combating terrorism but could only be effective when supported and implemented multilaterally. In the months to come, sustaining sanctions will require extending them to all sectors and maintaining an unbroken front against would-be exceptions, especially in the Middle East. The more affluent members of the new alliance against terrorism will also be required to provide greater levels of assistance to countries whose governments can only help combat terrorism if they themselves are helped to become more generally competent, as well as specifically competent in areas such as financial regulation and enforcement.

PROLOGUE: A TIME OF PARALLEL TRANS-ATLANTIC DIVERGENCE

In the context of the fight against terrorism, it is not entirely unfair to suggest that at the time the terrorists struck on September 11, 2001, neither the European Union nor the United States had been paying much attention to it or anything else beyond their own respective, collective navels.

Within the United States, globalization had proven to have remarkably little impact in mitigating isolationist tendencies. For many Americans, the whole world either looked like America or did not matter to America. It was a tendency that the Bush Administration celebrated, rather than deplored, as the United States withdrew from a succession of international and multilateral initiatives over the first eight months of 2001. To outsiders, including many Eurocrats, the lack of knowledge, understanding, and appreciation by Americans of the world beyond the United States – including on the part of some senior U.S. policymakers – was staggering. Within the United States, the *zeitgeist* was clear: the business of America was once again business. We were not going to spend our time focused on the problems of others, if we could avoid it; this view was disdainfully described as “nation building,” something we would no longer do. First and foremost, the U.S. would be about **US**.

Despite a veneer of internationalism, in practical terms the EU was no more outwardly focused than was the United States. The EU was focusing its major energies almost exclusively on two goals: completing the process of integrating the EU into a common legal and policy framework to permit the functioning of the EU as a single

market for all purposes; and enlarging the EU to incorporate as much of Europe as realistically possible in the shortest possible time. There was broad consensus within the EU on these goals, especially with the Franco-German alliance that had now survived the departures of its two most important architects, Mitterand and Kohl. If there was any country in the world paradoxically closest to and furthest away from this center, it was the United States – the EU’s partner, ally, competitor, and strategic *doppelgänger*.

As had been true for many years, the United States and EU consulted all the time in practice, seldom affecting one another’s plans in reality. Despite the ongoing Transatlantic Dialogue, with U.S.-EU summits taking place twice each year and constant efforts being made to communicate, neither system appeared to be seriously interested in shaping its evolution to take account of the needs of the other.

Meanwhile, globalization proceeded apace, with its dark side being the linking together of any number of people who did not accept the legal, economic, and social norms of the U.S. or the EU. The EU continued to move forward with the Schengen Agreement to ensure the free movement of people within its borders, unwilling to recognize that it was unable adequately to police its external borders so that Schengen would be safe. The United States cheerfully provided foreign students and workers their visas to contribute to the American economy, taking at face value the notion that anyone who came here would be happy to be here and no real fundamental threat.

On the international front, U.S. efforts to maintain sanctions against Saddam Hussein’s Iraq were viewed by many Europeans with a disdain approaching that of the U.S. in its efforts to maintain sanctions against Castro’s Cuba. The French, for example, took the position that there was valuable trade to be had with Iraq, and the starvation of Iraqi children was the major accomplishment of sanctions. Americans should learn to forgive and forget like other nations. At the same time, U.S. withdrawal from the World Criminal Court, the Landmine Convention, and the Biological Weapons protocol convinced many outsiders that the United States was only interested in international cooperation when such cooperation was directed and controlled entirely by the United States.

Greater competition, not cooperation, between the United States and the EU was how the EU Mission to the United States saw the relationship, especially since economics was being seen as almost completely trumping security issues. The issues that were front and center were not how to harmonize EU laws with those of the United States, let alone how to take on a common foe, but more along the lines of whether EU e-commerce or the Euro could soon compete with U.S. e-commerce and the dollar, and whether Microsoft should be tamed by the EU just as General Electric’s effort to purchase Honeywell had been shut down in Brussels.

Domestic attitudes on each side of the Atlantic on key issues pertaining to economic sanctions were no more hospitable to the concept of collective sanctions—of, indeed, sanctions at all.

In the months prior to September 11, the new Bush Administration signaled its political discomfort with the name and shame exercises, criticizing in particular the OECD activity against harmful tax competition, and urging, successfully, that sanctions for countries that failed to conform to international norms on financial regulation be deferred. The Bush Administration took a similar approach at home, deferring the issuance of regulations specifying the obligations of broker-dealers to combat money

laundering, as well as regulations requiring money services businesses (including underground alternative remittance systems) to register by the end of 2001 or face sanctions. The Bush Administration also had opposed money-laundering legislation introduced by then Chairman of the House Committee on Financial Services, Republican Jim Leach, and endorsed by the Clinton Administration. Meanwhile, existing U.S. sanctions regimes, which had begun weakening during the final year of the Clinton Administration, were reduced still further by the Bush Administration over the summer of 2001, as barriers against certain forms of business against Libya, Iran and Sudan were lifted.

Although money-laundering legislation in the EU was moving forward at a normal pace, an important component of protecting the Euro, other laws were simultaneously weakening EU law enforcement's ability to make use of economic sanctions. In particular, the EU's data protection laws were rapidly creating private rights to keep personal information private. For example, the EU's Telecommunications Directive required all telecommunications traffic data – the information that law enforcement would need to trace a telephone call from a criminal back to a confederate – to be destroyed as soon as it was no longer needed for billing the consumer. Privacy advocates viewed such data as belonging to the individual only and opposed its retention for law enforcement purposes by governments. Similarly, longstanding transatlantic signals intelligence operations, known as "Echelon" in public accounts, were subject to sustained and relentless attacks in Brussels as Europeans questioned both the necessity and the right of the government of the United States to spy on anyone in Europe, regardless of the nature of the threat.

So at a political level, the transatlantic alliance was not entirely at full strength as of September 11, 2001; it was fragmented, struggling, surely not united. And yet, at a technocratic level, a complex, almost invisible network of cooperation had been built behind the politics, one that would soon be the foundation for post-September 11 cooperation on economic security issues, applying both economic sanctions and new financial regulations multilaterally and, most amazingly, substantially at the direction of the United States.

THE HIDDEN COOPERATIVE INFRASTRUCTURE

Despite the parallel self-absorption at the political level, a growing substructure of cooperative efforts to combat financial threats had already developed among the U.S. and the EU, the G-7, the OECD countries, and related interests through the 1990s. Not much attention had been paid to these efforts by the international press or the public, but in fact, they had begun to offer a substantial, practical framework that could quickly be taken advantage of after September 11, particularly in the area of economic sanctions. In terms of what it tells us about the workings of our globalized world, these efforts were led almost entirely by institutions that were neither nation-states, regional unions, multilateral organizations, or international organizations. Instead, they were informal groupings, particularly the Financial Stability Forum of the G-7, but they also included the Lyon Group of the G-8 and the Financial Action Task Force based at the OECD, another creation of the G-7. These structures had developed in response to specific crises in the global financial system. For example, the sudden collapse of Mexico's banking system in

1994, involving a massive devaluation of the peso and a return of per capita income to the levels of twenty-five years earlier, was an early indicator of trouble to come. Other indicators of increasing note to the economic technocrats were the Asian Flu, the Latin American malaise, the collapse of Long Term Capital Management in the Caymans, and the defrauding of the International Monetary Fund by Russia's Central Bank in connection with the collapse of the ruble.

Each of these financial crises was related to trans-border money flows and inadequate regulatory transparency regarding what was actually happening to money as it moved across borders. Increasing attention was focused on the off-shore sector as a place where losses, risks, and impaired portfolios could hide and defer recognition of risk. A sudden understanding was gleaned: if money and computer bytes moved across international borders without limitation, yet governments stopped at borders, how were governments to enforce any of their economic regulations?

It was at this point that the macro-economists looked around and saw tools within their own governments that up to then had been quite invisible but could certainly help them deal with these threats: their own law enforcement agencies and regulators. These entities had begun to learn from painful experience that trans-border financial crime – including money laundering, terrorist finance, the theft and sequestration of national patrimonies by corrupt officials, stock market and investment fraud – contributed to serious domestic problems such as drug trafficking, immigrant smuggling, insurance crime, and yes, terrorism.

Three name-and-shame exercises resulted from this cross-fertilization as Finance Ministers and, by 1998, U.S. Secretary of the Treasury Larry Summers, began to take on law enforcement and regulation as core mandates, necessary companions to their macro-economic work. The first exercise arose through the anti-money laundering Financial Action Task Force, which had a series of forty near-mandatory recommendations it began to apply to non-member states as well as to its members. Jurisdictions that did not meet these recommendations were named, shamed, and threatened with sanctions. Similarly, parallel but separate exercises were simultaneously undertaken by the OECD to put pressure on jurisdictions seen as engaged in "harmful tax competition" and by the Financial Stability Forum, which focused on "non-cooperative" states. These processes were initiated in 1998, took hold in 1999, and resulted in lists being produced in the year 2000.

The results were electric and almost immediate. It turned out that access to the U.S. and EU financial sectors were so important that no country could afford to be at risk of the threat that access to them might be limited or cut off. Countries who for years had ignored efforts at suasion from the United States and the EU found themselves unable to ignore the force of collective threats of sanctions. Thus, in the fifteen months prior to September 11, 2001, such disparate countries as Austria, the Bahamas, the Caymans, Israel, the Isles of Jersey and Guernsey, Liechtenstein, and Russia, among others, transformed historically lax financial regulations featuring bank secrecy into substantially more transparent and accountable regimes. Quietly, at a time when multilateralism was not a publicly popular concept, a mostly multilateral approach to economic security – name, shame, and threats of sanctions – had begun producing practical results.

SEPTEMBER 11 – THE U.S. RESPONSE

Within days of the September 11 attacks, the United States undertook an about-face regarding its skepticism of the value of economic sanctions – and in the days soon after, an equally significant about-face in relation to its skepticism about the value of multilateralism. On September 26, 2001, President Bush announced the broadest assertion of U.S. economic war powers authorities in our national history. In essence, he stated that any business, anywhere in the world, that facilitated any terrorist transaction, including any financial institution that acted as a conduit for such a transaction, would be subject to having its own assets in the United States seized and its operations shut down. The President announced this power under the authority of the International Emergency Economic Powers Act (IEEPA), previously used by the United States to freeze the assets of Iran after the hostage crisis, of Iraq after its invasion of Kuwait, and of sundry other enemies of the United States with mixed results. The price of doing business in the United States, President Bush said, would also be to agree to produce any documents the United States requested, no matter where in the world they were located, if the U.S. government so demanded.

Simultaneously, using his IEEPA power, President Bush announced the freezing of assets of a large list of terrorists associated with Osama bin Laden and Al-Qaeda. He promised that additional lists would soon follow, as they did soon thereafter, designating terrorist organizations around the world as barred from doing business not just in the United States but everywhere where U.S. power could reach them. This latter position was implicit in the assertion by the United States that it would freeze the assets of foreign banks that merely had bank accounts in the United States if they were found to be handling terrorist funds elsewhere.

POST-SEPTEMBER 11 – THE WORLD SIGNS UP

Before September 11, such an assertion of U.S. extra-territorial power would have faced a withering EU response. Indeed, the EU's response to the first such assertion of U.S. power in 1979, to freeze Iranian assets held by U.S. financial institutions in the EU, had been extremely caustic. However, the gravity and evil of the September 11 attack and the sudden recognition throughout the world that the attack could happen anywhere, to anyone, led to a remarkably different response. Instead of rejecting the U.S. initiatives, the EU, as well as the non-EU members of the G-7, Canada and Japan, embraced it. A UN resolution swiftly gave global sanction to the U.S. economic sanctions, creating a legal basis for countries around the world to follow the U.S. lead in freezing terrorist funds. Remarkably, Middle Eastern countries that had for a decade resisted the efforts of multilateral organizations, including the FATF, that sought an end to banking secrecy and greater financial transparency agreed at the political level to freeze terrorist accounts. Although initially most funds actually frozen were located in such EU countries as the UK, Italy, Spain, Belgium, Germany, and the Netherlands, at least one Middle Eastern country – Yemen – announced that it had actually seized terrorist accounts. All others stated that they were diligently looking for them. One Middle Eastern country, Kuwait, said it actually would begin policing its Islamic charities. Even Islamic countries initially seeking to distance themselves from the economic sanctions effort, such as Indonesia and

Saudi Arabia, found themselves more or less compelled to move to a more helpful posture to endorse and impose economic sanctions on terrorists themselves.

It was perhaps the first immediate global response in a multilateral world to a global threat. In taking down the World Trade Center towers and engaging simultaneously in attacks on the global securities markets through simultaneous market manipulation, the terrorists had demonstrated their understanding of how interconnected, and vulnerable, the world's collective infrastructures were to attack. When the World Trade Center towers were destroyed, air transport was effectively shut down throughout much of the world. Similar attacks on the mail (through, for example, putting anthrax in letters), communications systems, populations through biological assaults, and power grids through attacks on generating plants would also threaten everyone across borders. Accordingly, a response would have to cross borders, be collective, and reach everywhere, leaving no area as a sanctuary. While military support from all countries was not needed to attack Osama bin Laden and his terrorist cabinet in their Afghanistan sanctuary, law enforcement support from all countries was necessary to take down the terrorist network that had developed across the world. Given the widespread distribution of terrorist funds throughout the world's financial services sectors, above ground and below ground, a consensus on the view that economic sanctions were indispensable to secure protection from the finances of terrorism had developed in an amazingly brief time.

THE CASE FOR ECONOMIC SANCTIONS

Samuel Johnson, as quoted by James Boswell, once stated that the prospect of a hanging concentrates the mind. The particular features of these terrorist attacks, and what the world learned of the terrorist networks that sponsored and created them, made once unthinkable economic measures inevitable. The reasons were inherent in the nature of the threat the logic of sanctions had to dispute, and they ran as follows:

The terrorists are seeking to create a non-territorial Islamic state

Al-Qaeda, the base, wants to establish a militant Islamic base everywhere there are Muslims. In creating their non-territorial state, terrorist inhabitants inhibit the physical space of territorial states. They use the currency of territorial states to oppose the sovereignty and the authority of territorial states. To commit terrorist acts, they abuse currencies, using them to buy services designed to destroy those whose societies have harbored them. The obvious implication: to fight back, the territorial states must limit access to their financial services institutions to terrorists living within their territories. Thus, tighter domestic rules for placing funds and distributing them become an obvious and necessary prophylaxis.

Terrorist bases require financial access to other bases

To operate, the Al-Qaeda network needs to move funds from jurisdictions where they are placed to jurisdictions where the funds can be spent to support terrorist activities. Over the past three years, the existing name-and-shame exercises achieved substantial consensus as to which jurisdictions were especially non-transparent and available for the placement of terrorist funds. Not coincidentally, many of those most susceptible to abuse

were located in the Middle East. As terrorist funds, once entered into the global financial system, were relatively hard to detect, the concept that sanctions should be undertaken against places that are obviously facilitating terrorist finance has proven to be reasonably intuitive as a mechanism to impede the easy access of terrorist funds from those jurisdictions to those otherwise more protected and less accommodating.

The terrorists have targeted a common financial infrastructure

The terrorist attacks of September 11 were not only funded by financial networks that abused our international ones, but also included an attack on our integrated, global financial system. The substantial apparent market manipulations that took place in connection with September 11 involving futures exchanges in Europe, North America and Asia, showed a sophisticated understanding of how to turn the world's financial systems into tools for terrorists. The necessity of a cross-border, rather than merely national, response has been undeniable.

Terrorists operate across-borders

Terrorists, terrorist messages, terrorist weapons, and terrorist money each cross borders due to domestic enforcement failing in a cross-border context. When terrorists and their money can cross borders with impunity while governments cannot, then governments are unable to protect their people domestically. The implication is that barriers need to be developed to stop the flow of money across borders. Given the globally integrated system that is our financial services infrastructure, such barriers can only be constructed trans-nationally, across borders, through the develop of sanctions that limit the free-flow of those funds that is otherwise inherent in the system.

The Supra-Territorial Terrorists Require a Supra-National (Collective) Response

Sanctions seldom work when substantial parts of the collective infrastructure do not support them. Financial networks designed to move money resemble electrical grids that move power or systems of pipes that move water: if barriers are imposed in one area and not another, the money, electricity, or water merely flows around the barriers to arrive at its destination. In a globalized world, economic sanctions tend to be ineffective unless they are collectively enforced; their effectiveness depends most fundamentally on how solid and united the enforcement efforts are.

Powerful countries can enforce a collective response

In a globalized world, access is king. If you do not have access, you cannot participate in the benefits of globalization – or abuse them. Thus, even the threat of cutting off access to markets has an impact. Sanctions can be tailored to prohibit, reduce or slow access, depending on the nature of the threat, the nature of the vulnerability to the threat, and the degree to which the sanctioned target is susceptible to persuasion. After September 11, the President of the world's strongest economy and strongest financial services sector warned that access to that market would be at risk proportionately to the threat posed by a jurisdiction or an institution failing to take adequate steps against terrorism. His position was then endorsed by leaders of the other most important financial jurisdictions, creating a force that in the near term has been nearly irresistible: thus, more

than two-thirds of the nations of the world, including essentially all those with substantial access to the U.S. financial system, swiftly agreed to freeze terrorist funds.

The next question thus became: so the world now has accepted sanctions, but will they work?

CAN TERRORIST ASSETS BE TRACED?

It has been shown that terrorist finances have been distributed throughout the many nooks and crannies of the global financial services system. To begin with, terrorists placed funds in essentially unregulated jurisdictions in the Persian Gulf and in Pakistan, countries where financial secrecy, rather than transparency, had always been the dominant value. They also used Islamic charities, a variety of Middle Eastern businesses, and front-companies established in northern Africa as well as the Middle East. Additionally, they used alternative remittance houses such as Hawalas, Swiss banks, banks in the City of London, and off-shore institutions on small islands such as Jersey and the Bahamas. The terrorists used cash, wire transfers, ATM machines, brokerage firms, futures trading, and their own global wire remittance service through an Islamic bank established in Somalia. Given the breadth of terrorist finance, and the jurisdictions and sectors that had never been susceptible to regulation, was tracing terrorist assets a realistic possibility?

In a Globalized World, Regulatory Arbitrage Becomes Less Attractive, Producing Harmonization, Which Helps Makes Tracing Possible

With globalization, domestic regulation is only as good as its ability to prevent funds from leaving the country in order to take advantage of fewer regulations elsewhere. Recognition of this principle was among the animating forces of the OECD initiative on harmful tax competition. In a cross-border financial services world, with harmonization and regulatory arbitrage, the payment of taxes becomes voluntary. Thus, OECD countries began their push to eliminate “unfair” tax competition even as the EU moved to harmonize its financial services regulations across the entire EU, and beyond, to such potential EU members as the Czech Republic, Poland, Hungary, Romania and Bulgaria. Most relevantly, as the EU pressed ahead with its Second Money Laundering Directive, these accessor states, too, modernized their anti-money laundering regimes, mimicking the requirements of the EU precisely in order to avoid regulatory (and enforcement) arbitrage. With support from the U.S. and the EU, Japan and Canada moved in the same direction: more money laundering laws, greater transparency, and better ability to trace funds. Last year, the UN went in the same direction, passing an International Convention to Combat Transnational Organized Crime, which included requirements for countries to share financial information with one another in cases of serious crime. Significantly, the move towards harmonization was not even being resisted by the banks, many of whom were by now multinational in any case. For an HSBC or a Deutsche Bank or a CSFB, there was potentially far greater stress in having different rules in different jurisdictions than there were benefits in being able to exploit the differences. Accordingly, harmonization was already proceeding rapidly, including in the area of financial transparency. September 11 merely had the ability to accelerate a process that was already well underway.

With Compatible Regimes, Tracing is not impossible, it is just time consuming

Prior to September 11, many of the world's finance ministries had authorized their anti-money laundering analytic units, termed "Financial Intelligence Units" or "FIUs," to share information with one another through secure networks such as that established by the Egmont Group of the world's FIUs. After the collapse of the Long Term Capital Management and the simultaneous collapse of the Russian ruble in 1998, the G-8 and the Financial Stability Forum of the G-7 each had worked on strengthening "gateways" for regulatory and enforcement data sharing. Immediately after September 11, those "gateways" received their first massive tests and began almost immediately to work. Thus, the new technologies of globalization were turned to allow law enforcement to share data bases with security – and speed. Each terrorist transaction traced would provide possibilities for tracking down terrorists, shutting down their infrastructure, and seizing their assets. Each tracing would begin to retake the world's financial infrastructure back from the terrorists, creating an area that becomes a "denied area" to the terrorists and a restored area of security for the rest of us.

Underground Money Transfer Systems Can Be Regulated

In early November, the grand-daddy of current financial transparency efforts, the FATF, added underground remittance systems and combating terrorist finance as new remits of authority and competence, essentially ensuring that the FATF would carry out a process of identifying weaknesses and harmonizing solutions to ensure both easier tracing of terrorist funds in the future and more effective protections against their movement through the global financial system. The FATF action provided a potential model for every other organization working the territory to emulate. In future years, there would be no conceptual barrier to the development of anti-terrorist finance programs at: the US-EU (Europol); G-7; OECD; UN; Council of Europe; IMF; World Bank; Interpol; IOSCO; or Basel Committee of Bank Supervisors. Would tracing be possible? Retrospectively, to some extent; in the future, as gaps in regulation and oversight are closed, substantially.

IMPACT ON ECONOMIES

As the world's economies seemed to crater and pancake in the weeks that followed September 11, some wondered whether the additional burden created by economic sanctions, including both the compliance cost and the potential drag on economic activity, would exacerbate existing economic problems. Others argued, however, that economic sanctions would over time actually strengthen the global economy, rather than weaken it. This view arose out of the logic that improved oversight to protect against terrorist funds would also have the impact of improving oversight over other threats to the integrity of financial institutions and sectors.

Certainly, anti-money laundering regulations would have near-term costs in terms of regulatory and compliance burden. Longer-term, however, they would reduce financial instabilities due to exposing risks that today are hidden. The regulatory burden of complying with the sanctions regimes is real, although it is less significant than the other burdens imposed on the economies by the response to the terrorist attacks. But the adoption of financial sanctions also raised the question of whether strengthened security

requirements required strengthened national regulatory and enforcement institutions overall. In Germany, for example, limitations and idiosyncracies at the *Länder* level potentially limited a national response to terrorism, and every other form of criminal and security threat to Germany. With Europol only a partial solution, the September 11 attacks once again emphasized the need for strong national and regional law enforcement and regulatory institutions and recognized them as essential components of national, regional, and global security.

The September 11 attacks also demonstrated anew, if anyone needed a reminder, that the global economy truly is interdependent and interlinked, and a recession in any major market threatened recession in every other. As a result, the terrorists unwittingly demonstrated to policymakers in the U.S. and the EU that they must collaborate on transatlantic economic policy. Post-September 11, U.S.-EU collaboration on lower interest rates and stimulus packages is essential, for if one government primes the pump and others do not, currency swings, distortions in consumer demand, and competitive damage to otherwise competitive businesses is unavoidable.

SANCTIONS ARE NOT ENOUGH

Dependence on any single tool inevitably results in over-reliance, likely to breed ultimate disappointment. While economic sanctions are needed to push terrorist finance out of the global financial services system, they can only do so only to the extent that political support for them remains comprehensive. Such support is not likely in poorer countries, if such countries have no positive incentives to stay within the system. Leaving the future of the developing world to such institutions as the World Bank and the IMF has proven unwise. Wealthy nations such as the U.S., every other member of the G-7, and at least the larger members of the EU, such as France, Germany, and the UK, need to revivify their own direct assistance programs to poorer countries, especially in Asia and Africa. Such direct assistance is an important component of maintaining influence, of being seen to be engaged and not merely selfishly demanding protection of the self. Notably, enhanced assistance programs at this time would have a stimulative effect for developed economies, too, at a time when deflation, rather than inflation, would seem to be the greater evil.

Despite the need to tighten immigration policies so as to at least be in the position to monitor terrorists, if not entirely to exclude them, the U.S. and the EU also need to find ways to be more inclusive in relation to poorer nations, especially those with large Islamic populations. For example, the EU has been viewed by many Islamic countries as hostile to countries with substantial Islamic populations, as reflected in its attitude towards Turkey's efforts to join the EU. A more welcoming attitude towards Turkey by the EU, and a more sustained effort to assist other Islamic outliers such as Albania, could be helpful in demonstrating to the Islamic world that the Al-Qaeda notion of Islamic jihad against a hostile Christian-Jewish world is nonsensical. At the same time, the U.S. should refocus its own energies to strengthen ties to countries with Islamic populations in the Asia Pacific region, such as Indonesia and the Philippines, which have been largely ignored by the U.S. in recent years.. Targeted investment programs in these countries might not only strengthen those governments capability to help the U.S. in the future, but will win some hearts and minds from the terrorists in the process.