

## Bush Security Advisor Warns Against Blockchain Cold War

By Nalattaporn Pichaisawad, LL.M. Candidate 2018 | February 16, 2018

Juan Zarate, who served former U.S. President George W. Bush as a former deputy assistant has been widely recognized as an important man who helped develop financial embargos that cut off terrorist funding after 9/11. He was also an early advocate of blockchain technology having been a counsel at Coinbase. Zarate's financial instruments have been a widely-accepted tool in putting pressure on enemies of the state.

Zarate emphasized that not only can blockchain and cryptocurrencies give greater autonomy to individuals, but they potentially can encourage commercial activities as well. He also told Coindesk his concern that blockchain technology is a double-edged sword that might also be weaponized to illicit ends.

He [claimed](#), "there are nefarious actors out there, including state actors like North Korea and Iran that are looking to the use of digital currencies and related technologies, at a minimum as a way of circumventing the current global order which limits their access to capital. But these capabilities and technologies could also be a way for them to try to undermine global financial commercial systems at some point."

On one hand, due to blockchain's [secured structure](#), it has been widely used in the financial industry to [reduce fraud](#), which is one of the most common issues confronted by financial institutions. Most banking systems are based on a centralized database that is more vulnerable to cyberattack and may easily allow hackers to breach the system.

In "[Treasury's War: The Unlashing of a New Era of Financial Warfare](#)," Zarate gave a detailed account of these financial tools as well as thoughtfully noted at the end of his book a sharp warning regarding the "coming financial wars." In particular, he pointed out that the tools he helped create might be used against the United States itself.

One of the potential risks blockchain technology has is its ability to function as a weapon used to avoid international sanctions, called "sanction evasion." This issue is happening more now than ever. Recent reports indicated that [many countries](#) have been used blockchain as a tool to evade sanctions.

All transactions in blockchain are recorded on a ledger. The system was designed that way so the intermediaries might no longer be necessary. The computer network maintaining transaction records allows money to move around without passing any central authority.

In the past, a [report](#) published by a cybersecurity firm indicated that at least three South Korean cryptocurrency exchanges have been targeted by North Korea hackers. Many [analysts](#) suggested

that the country could be attempting to obtain hard cash in exchange for stolen virtual coins in order to fund the regime. It is now clear that North Korean actors did steal cryptocurrency from [South Korea](#) worth billions of won.

Already, [Russian officials](#) are developing a cryptocurrency called “[cryptorouble](#),” which will be an online version of Russia’s currency. The project allowed the country to move money abroad in defiance of international financial sanctions, under the radar.

Another potential risk Zarate pointed out is that blockchain technology can be detrimental to state-backed fiat currency. The value of state-backed fiat currency might be siphoned off into cryptocurrencies that know no borders. This could result in limitation of the ability of fiat money issuers to influence policy. Even though the president of the Federal Reserve Bank of Philadelphia doubts that cryptocurrency will unlikely affect such ability, central banks and [legislators](#) are still considering this view. A New York regulator called for further studying on “the impact of a state-issued cryptocurrency on the state of New York” to verify this fact.

According to Zarate, blockchain is the technology that can enhance our lives but strengthen enemies of the country as well.