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Economy

Downturn Raises Risk Of Global Financial Warfare

by Tom Gjelten

Audio for this story will be available at approx. 9:00 a.m. ET

*Second in a two-part report.***Part 1 Of This Report**

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[Economic Crisis Poses Threat To Global Stability](#)

[Morning Edition](#), February 19, 2009 · America's intelligence community has said the global economic crisis is now the top threat to the nation's security. The downturn could produce political instability and damage the ties that hold countries together. Countries might even be tempted to engage in financial warfare, officials say.

But while the CIA and other U.S. spy agencies are now convinced that they need to pay close attention to the international financial crisis, intelligence officers aren't necessarily prepared to analyze the new threat. So they are bringing in outside help.

James Rickards, an expert in the emerging field of "threat finance," is advising the director of national intelligence.

"Obviously, they had economists," Rickards said. "And they looked at what is the GDP of Russia, what is the GDP of China — that kind of macroeconomic work always went on. But this is different."

'A Pearl Harbor On The Dollar'

The concern now is not the gross size of countries' economies, but how money moves between countries, and the way those movements can turn into a kind of financial warfare. Take China and the United States. The Chinese now hold about \$1 trillion worth of U.S. debt, including Treasury notes and other securities. That gives them enormous power over the U.S. economy. Were they to suddenly sell those securities, the U.S. dollar would tank.

Rickards said China could set out to conquer the United States this way. Or it could simply decide that such a move made good economic sense.

"You can envision scenarios where they launch a financial attack, you know — a Pearl Harbor on the dollar, if you will," he said. "And those are the things that I think national security professionals rightly think about it. But it doesn't even have to be that. It could just be China acting in its own best interests, in a way that causes interest rates to go up, the dollar to go down."

If the Chinese were to dump their U.S. dollar notes all at once, they would hurt themselves almost as much as they hurt the Americans, because the value of those assets would drop so sharply. But Rickards said China could take a halfway step — exchange long-term U.S. debt for short-term notes.

"Don't think the Chinese aren't sophisticated about this," he said. "There are plenty of economists in China who went to MIT and Harvard and the University of Chicago who know more about this than anyone. Those are the kinds of little plays within the bigger picture that I think people are not paying attention to, and they're potentially threatening."

Worries About Eastern Europe

Another critical area is Eastern Europe. Governments from Poland to Romania are seeing their currencies plummet compared with the dollar and the euro; this means a decline in the standard of living. After the collapse of the Soviet bloc, these countries turned away from socialism and toward free markets and Western democracy.

"For these countries, this is the first time anything like this has happened," said David Gordon, the former national intelligence officer for economic issues. "They did have a lot of economic change at the end of communism. But this is really the first time you've had this very, very deep crisis that really could challenge the westward orientation, the orientation toward markets."

Another danger is that Russia could take advantage of the economic vulnerability of these countries and try to reassert control over them, perhaps by offering new loans — or withholding energy supplies.

Russia has been hurt far more than the United States by the economic crisis. But Gordon — who now leads research for the Eurasia Group — said the downturn has strengthened the position of aggressive, hard-line elements in Russia, making them more determined to challenge U.S. economic and political power.

"Their perception was, they were doing things right, and now the United States has brought on this financial crisis that's undermining them, so I think it's reinforced a reflexive anti-American view," Gordon said.

Threat From Al-Qaida

The other big financial warfare threat involves al-Qaida. Osama bin Laden has made clear how much he would like to bring down the U.S. financial system. But he does not have the tools, expertise or capital to manipulate the U.S. financial markets the way China or other players could.

Gordon is less concerned about this scenario.

"I think they have a very symbolic view of this," he said. "I think their view of bringing down the U.S. financial system is, you fly a plane into Fort Knox. I don't think they have a practical orientation to this."

Rickards, the "threat finance" expert, agreed. But he said al-Qaida could wreck the U.S. economy simply with a well-timed attack.

"If you launch a terrorist attack in a prosperous economy, we kind of bounce back," he said. "If you launch the same attack in a weak and getting weaker economy, there could be a multiplier there that could drive markets down very quickly, very extensively."

Add it all up, and the financial crisis means the United States finds itself today in an especially precarious situation.

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