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The Coming Financial Wars

Juan C. Zarate

Abstract: Since 9/11, the United States has waged a new brand of financial war against rogue regimes, terrorist groups, and criminal syndicates. By leveraging American global economic predominance, the US has isolated such actors from the financial system. The domain of financial warfare, however, is now no longer the sole province of the US and presents challenges from enemies and competitors.[1]

On 8 October 2012, Iranian President Mahmoud Ahmadinejad publicly bemoaned that the Iranian economy was under direct economic assault, with oil sales cut, bank transfers banned, and the value of the Iranian rial and foreign currency reserves plummeting. He admitted plainly, "The enemy has mobilized all its forces to enforce its decision, and so a hidden war is underway, on a very far-reaching global scale. . . . [W]e should realize that this is a kind of war through which the enemy assumes it can defeat the Iranian nation."[2] He was right. Over the past decade, the United States waged a new brand of financial warfare, unprecedented in its reach and effectiveness. This "hidden war" has often been underestimated or misunderstood, but it is no longer secret and has since become central to America's national security doctrine.

In a series of economic pressure campaigns, the United States financially squeezed and isolated America's principal enemies of this period—al Qaeda, North Korea, Iran, Iraq, and Syria. Far from relying solely on the classic sanctions or trade embargoes of old, these campaigns have consisted of a novel set of financial strategies that harness the international financial and commercial systems to ostracize rogue actors and constrict their funding flows, inflicting real pain.

America's enemies have realized they have been hit with a new breed of financial power. And they have felt the painful effects. Al Qaeda has found it harder, costlier, and riskier to raise and move money around the world and has had to adapt to find new ways to raise capital for its movement. The documents found in Osama bin Laden's compound in Abbottabad, Pakistan, reflect a terrorist leader and movement in search of new sources of money. This development was not new—from 9/11 on, the movement struggled to maintain its core financing. In statement after statement—intended for donors and sometimes only for internal consumption—al Qaeda admitted that it has been choked financially. In a 9 July 2005 letter to Abu Mus'ab al-Zarqawi, leader of al Qaeda in Iraq, Ayman al-Zawahiri, then al Qaeda's number two, asked for money, noting that "many of the lines [of financial assistance] have been cut off."[3]

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1 This article is adapted from Juan C. Zarate's *Treasury's War: The Unleashing of a New Era of Financial Warfare* (New York: PublicAffairs Books, 2013).

2 "Ahmadinejad: Hidden War on Global Scale Waged Against Iran's Oil Sector," *Iran Daily Brief*, October 8, 2012.

3 Ayman al-Zawahiri to Abu Mus'ab al-Zarqawi, July 9, 2005, Federation of American Scientists, Intelligence Resource Program, http://www.fas.org/irp/news/2005/10/letter_in_english.pdf.

The campaign against North Korea had a direct and immediate impact. In the wake of financial pressure unlike any the regime had seen while under international sanctions, North Korea found its bank accounts and illicit financial activity in jeopardy. A North Korean deputy negotiator at the time quietly admitted to a senior White House official, "You finally found a way to hurt us."[4]

The Iranians, too, have suffered the economic effects of a targeted financial assault. On 14 September 2010, former Iranian president Akbar Hashemi Rafsanjani urged the Iranian Assembly of Experts to take seriously the painful sanctions and financial pressures imposed by the United States and the international community. "Throughout the revolution," he said, "we never had so many sanctions [imposed on Iran] and I am calling on you and all officials to take the sanctions seriously."[5] The journalist Moisés Naím opined that the financial pressures on Iran "are biting, the sanctions are very, very powerful. They are the most sophisticated economic and financial sanctions imposed on a country ever."[6]

All of these assaults derive from a blueprint for financial warfare developed years ago by the United States. It is defined by the use of financial tools, pressure, and market forces to leverage the banking sector, private-sector interests, and foreign partners to isolate rogue actors from the international financial and commercial systems and eliminate their funding sources. We successfully formulated and used these strategies during the administration of President George W. Bush, and since the changing of administrations, President Barack Obama and his team continued to rely heavily on this brand of financial warfare. The world faces challenges from rogue states, networks, and actors, but there now exists a well-developed international system to use financial information, power, and suasion to isolate rogues financially. This type of warfare cannot solve all national security issues. However, this private sector-based paradigm gives the United States and its allies the tools and leverage to affect rogue actors and their interests in ways that historically would have been out of reach.

Money creates vulnerabilities. The need for money to survive and operate in the twenty-first century—whether in local economies or globally—creates financial trails that do not lie and dependencies that are hard to hide. In a globalized economy, money flows across borders at a lightning pace and in staggering volumes. With the ease of a phone call or the touch of an app, billions of dollars move every day in myriad ways—via antiseptic wire transfers, the traditional practice of *hawala*, and satchels full of cash. Money is the common denominator that connects disparate groups and interests—often generating new networks of convenience aligned against the United States. Cutting off funding flows to rogue groups or states restricts their ability to operate and forces them to make choices—not only budget decisions, but also strategic choices. One suicide bombing may cost a terrorist organization less than $1,000,

4 Juan Carlos Zarate, "Prologue," in *Treasury's War: The Unleashing of a New Era of Financial Warfare* (New York: PublicAffairs, 2013).

5 Thomas Erdbrink, "Cleric Calls on Iran to Take U.S.-Led Sanctions Seriously," *The Washington Post*, September 14, 2010, http://www.washingtonpost.com/wp-dyn/content/article/2010/09/14/AR2010091403790.html.

6 "Friday News Roundup," *The Diane Rehm Show*, National Public Radio, October 5, 2012, http://thedianerehmshow.org/audio-player?nid=16725.

but if that organization cannot pay for all the sophisticated training it would like, cannot adequately maintain its international alliances, and cannot develop all the programs and operations it imagines, then its ultimate impact will be limited.

After September 11, 2001, the United States unleashed a counter-terrorist financing campaign that reshaped the very nature of financial warfare. There were three primary themes defining this campaign that shaped the environment and evolution of financial power after 9/11: the expansion of the international anti-money laundering regime; the development of financial tools and intelligence geared specifically to dealing with issues of broad national security; and the growth of strategies based on a new understanding of the centrality of both the international financial system and the private sector to transnational threats and issues pertaining to national security. This environment reshaped the ways in which key actors—namely, the banks—operated in the post-9/11 world.

In this context, governments implemented and expanded global anti-money-laundering regulations and practices based on principles of financial transparency, information sharing, and due diligence. They applied new reporting and information-sharing principles to new sectors of the domestic and international financial community, such as insurance companies, brokers and dealers in precious metals and stones, money-service businesses, and *hawaladars* (*hawala* is a trust-based money transfer mechanism).

This approach worked by focusing squarely on the behavior of financial institutions rather than on the classic sanctions framework of the past. In this new approach, the policy decisions of governments are not nearly as persuasive as the risk-based compliance calculus of financial institutions. For banks, wire services, and insurance companies, there are no benefits to facilitating illicit transactions that could bring high regulatory and reputational costs if uncovered. The risk is simply too high. It is the illicit or suspicious behavior of the actors themselves as they try to access the international financial system that triggers their isolation. Such an approach was possible because of the unique international environment after 9/11. Interestingly, under the right conditions, this model created a "virtuous" cycle of self-isolation by suspect financial actors. The more isolated the rogue actors became, the more likely they were to engage in even more evasive and suspicious financial activities to avoid scrutiny, and the more they found themselves excluded from financial networks. The actions of legitimate international financial community participants are based on their own business interests, and when governments appear to be isolating rogue financial actors, the banks will fall into line. Reputation and perceived institutional integrity became prized commodities in the private sector's calculus after 9/11.

These tools and this approach are no longer new. Economic sanctions and financial influence are now the national security tools of choice when neither diplomacy nor military force proves effective or possible. This tool of statecraft has become extremely important in coercing and constraining the behavior of nonstate networks and recalcitrant, rogue regimes, which often appear beyond the reach of classic government power or influence. But rogue actors are already adapting to this kind of financial pressure. It is only a matter of time until US competitors use the lessons of the past decade to wage financial battles of their own—especially against the United States. More worrisome, America's ability to use these powers could diminish as the economic landscape changes. Financial warfare ultimately stems from the ability of the United States to use its financial powers with global effect. This ability, in turn, derives from the centrality and stability of New York as a global financial center, the importance of the dollar as a reserve currency, and the demonstration effects of any steps, regulatory or otherwise, taken by the United States in the broader international system. If the US economy loses its predominance, or the dollar sufficiently weakens, our ability to wage financial warfare could wane. It is vital that policymakers and ordinary Americans understand what is at stake and how this new brand of financial warfare evolved.

Challenges to US Financial Power

The current economic environment involves three significant trends that undercut America's use of its financial power. The use of new currencies and technologies outside the formal financial system, through the Internet, and with less and less accountability and transparency, undercut the ability to track money flows with traditional means. At the same time, rogue actors are coalescing around a common goal of circumventing and undermining US financial pressure and using financial weapons themselves. Finally, the US dollar—and its predominance—is a target for competitors and those who bemoan the world's reliance on the dollar as the accepted reserve and trading currency as the central element of US financial power.

All of this is happening as the complexity of the global financial system increases, with more financial products and ways of investing and moving money that make tracking and controlling legitimate financial activity increasingly difficult. The current environment—aided by the cloak of anonymity provided by the Internet and the complexity of a global financial system—allows nefarious actors to collude in their activities—quietly and surreptitiously. Iran, for example, is known to use terrorist and militia proxies, such as Hezbollah and Shia militias in Iraq, to extend its influence. Russian intelligence is understood to have close ties to Russian and Eurasian organized crime. China is alleged to use legions of college-aged students as hackers to help drive the cyberespionage attacking Western, Asian, and Indian systems.[7] The increasing convergence of financial interests between criminal networks and certain nation-states represents an alliance of financial rogues that threatens the international system. States are able to leverage the resources and reach of networked organizations while claiming an arm's-length distance from their nefarious activities. If coordinated, those alliances could target the economic vulnerabilities of the United States.

These actors have new digital tools at their disposal to elude the reach of anti-money-laundering and counterterrorist financing efforts. For example, bitcoin (BTC) is a digital currency transferred through peer-to-peer networks on the Internet. The software, an early implementation of the idea of "crypto-currency," uses cryptography rather

7 Max Fisher, "Someone Found a College Recruitment Notice to Join China's Alleged Military Hacker Team," *The Washington Post*, February 20, 2013.

than central authorities to issue and transfer money. The result is that transactions are cheap, accounts cannot be frozen (unless users keep bitcoins in a separate third-party online wallet service), and there are no prerequisites or arbitrary limits for use. Payments are anonymous, identified only by users' various chosen bitmap addresses. Transactions are irreversible and can be received at any time, even if the user's computer is off. Bitcoin uses opensource software, so anybody can examine the codes of transactions and use the crypto-keys to ensure that no one pays for multiple transactions with the same money. An April 2012 Federal Bureau of Investigation (FBI) report evaluating bitcoin use and exchange rates (currently about $15 for one bitcoin) identified bitcoins as an increasingly attractive option for cybercriminals and other illicit groups. The report concluded that criminals will increasingly exploit bitcoins, using malware to steal the digital currency, as well as botnets to generate new currency without preexisting value. The potential for illicit use of bitcoins will only increase as the currency grows in popularity and the exchange rate stabilizes.[8]

Other nontraditional currencies offer criminals and terrorist groups similar opportunities for theft and anonymous movement of money. "Linden" dollars are the virtual currency for the world of Second Life, a digital alternate reality, the first virtual currency to float. They are traded on the LindeX exchange, which is run by the Linden Lab, the creators of Second Life, and can be exchanged for real-world currency. By 2010, user transactions on the LindeX exchange topped $567 million in Linden dollars and users cashed Linden dollars into $55 million in US dollars.[9]

"Ven" is the digital currency of the social networking community Hub Culture, which operates by invite and includes physical "pavilions" where members meet and collaborate. Members from different countries can exchange a wide array of goods and services in ven at a single global price within the pavilion communities as well as online. Although in 2007 the ven was originally given a fixed exchange rate (10 ven to the dollar), it is now a floating currency and was recently tied to carbon futures, making it one of the world's first "green" currencies.[10]

Bartering has also become a more active way of circumventing the classic financial systems used in local or international trade. Barter exchanges facilitate trades between parties by assigning members "trading credits" equal to the values of goods and services. These credits function similarly to money. Members can exchange goods for credits and use the credits in future transactions. ITEX, the country's largest barter network, which is based in Seattle and boasts more than 24,000 members, charges both a subscription fee ($20 per month) and a transaction fee (6 percent for online trades, 7.5 percent for in-person transactions). Its trading credits are called "ITEX dollars."[11] The country's five hundred bartering exchanges have become enormously popular in the wake of

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8 US Federal Bureau of Investigation, *Bitcoin Virtual Currency: Unique Features Present Distinct Challenges for Deterring Illicit Activity,* April 24, 2012, http://cryptome.org/2012/05/fbi-bitcoin.pdf.

9 T. Linden, *2009 End of Year Second Life Economy Wrap Up (including Q4 Economy in Detail)*, January 19, 2010.

10 Eric Savitz, "Currency: Dollars Aren't Enough; Here Comes The Ven (Video)," *Forbes*, November 11, 2011.

11 "ITEX - Glossary of Terms," accessed December 11, 2013, http://www.itex.com/help/glossary.asp

the financial crisis, which both limited access to cash and eroded trust in banks for many people. The International Reciprocal Trade Association estimates the annual US bartering market at around $12 billion.[12] Many participants prefer bartering because it encourages local purchases, links businesses with customers they would not otherwise have found, and increases their ability to sell surplus goods or services.

Many communities now use local currencies and Local Exchange Trading Systems (LETS), community-specific systems based on mutual credit. A Community Exchange System (CES) offers a global alternative to LETS, setting up a much larger currency and trading marketplace that operates in a similar fashion.

Directed Threats and Alliances of Financial Rogues

Nonstate actors have been quick to recognize the coming age of economic and financial warfare. The documents found in Osama bin Laden's Abbottabad compound spoke of a strategic strike at the economy of the United States by hitting oil tankers and critical energy infrastructure. Indeed, al Qaeda and its associated movements have increasingly focused their rhetoric and strategy on bleeding and bankrupting America.[13] Part of this strategy involves killing the United States with a thousand cuts by baiting US overreaction and overspending. Al Qaeda in the Arabian Peninsula (AQAP) has labeled this "Operation Hemorrhage."

Another part of this strategy involves hitting key targets and vulnerabilities at a time when the US and global economy is weakened, so as to prolong and exacerbate economic malaise. Energy nodes, transportation chokepoints, and ports around the world provide terrorists and nefarious actors with ample opportunity to shock the interconnected international commercial system. Al Qaeda attempted to do just this in 2006, with the failed attack on the enormous Saudi oil facility at Abqaiq, as well as in 2002, with an attack on the French oil tanker MV Limburg off the coast of Yemen.[14]

International organized crime syndicates have expanded the money-laundering operations that helped fuel their growth and global financial reach, making them more layered and more varied in their use of investment vehicles.[15] Such groups not only understand how to profit from the international system but also recognize that certain types of investments and influence can shield their activities and leadership from law enforcement and political pressure. Translated into a more aggressive posture, such groups and potential terrorist allies could see opportunities in controlling certain businesses or wielding influence over particular markets

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12 Eric Spitznagel, "Rise of the Barter Economy," *BloombergBusinessWeek: Lifestyle*, April 26, 2012, http://www.businessweek.com/articles/2012-04-26/rise-of-the-barter-economy

13 "Bin Laden: Goal Is to Bankrupt U.S.," *CNN.com*, November 1, 2004, http://www.cnn.com/2004/WORLD/meast/11/01/binladen.tape/

14 2006 attack: Joel Roberts, "Al Qaeda Threatens More Oil Attacks," News, *CBS News*, February 27, 2006, http://www.cbsnews.com/news/al-qaeda-threatens-more-oil-attacks/; 2002 attack: "Yemen Says Tanker Blast Was Terrorism," *BBC*, October 16, 2002, sec. Middle East, http://news.bbc.co.uk/2/hi/middle_east/2334865.stm.

15 Kristin M. Finklea, "Organized Crime in the United States: Trends and Issues for Congress," *Congressional Research Service*, January 27, 2010.

and states, distorting the political frameworks in which they operate through corruption, intimidation, and deepening influence.

As these criminal groups grow more interconnected in ways that transcend national boundaries, such networks are gaining influence in strategically vital markets that could impact the accessibility to and stability of these markets. In addition, the ability of such groups to provide their infrastructure and expertise to others (including terrorists)—whether through access to fraudulent travel documents or access to nuclear material—raises the specter of alliances of convenience and profit aligned dangerously against the United States.[16]

These unholy alliances already exist in some cases. For example, drug trade and human trafficking provided most of the finances for the Mumbai attack.[17] The US Treasury continues to identify and designate entities in certain jurisdictions—such as Belarus—that are providing weapons and financial facilitation to sanctioned countries—such as Syria.

Attack on the Dollar?

Attendant to this crisis of fiscal legitimacy are increasing challenges to the primacy of the US dollar. The standing of the dollar allows the United States to shape the global economic and political system and offers it greater influence abroad, greater flexibility at home, and greater insulation from international crises.[18] For those who would downplay the benefits of dollar dominance, the British experience is instructive. Prior to World War II, the British pound sterling was the primary international currency, thereby allowing Britain to finance military expenditures and manage its wartime debt. Once the sterling was eclipsed by the dollar in the postwar years, Britain was no longer able to finance its war debt, a problem that contributed to its economic decline and exacerbated persistent financial crises during the 1960s.[19]

The sustainability of the dollar as the leading global reserve currency has been a near constant concern since the 1960s. During this time, foreign dollar reserves began to outgrow US gold reserves, and many international actors began to question the United States' ability to convert dollars to gold at the fixed official rate specified by Bretton Woods. As this confidence declined, speculative attacks against the dollar abounded. The United States eventually abandoned the gold standard, but the dollar has retained its dominance ever since. Thus, anyone decrying the dollar's current strength risks crying wolf.

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16 Richard Shultz et al., "The Sources of Instability in the Twenty-First Century," *Strategic Studies Quarterly*, Summer 2011; Douglas Farah, "Terrorist-Criminal Pipelines and Criminalized States: Emerging Alliances," *Prism* 2, no. 3 (2011), www.ndu.edu/press/emerging-alliances.html.

17 US Senate Permanent Subcommittee on Investigations, "U.S. Vulnerabilities to Money Laundering, Drugs, and Terrorist Financing: HSBC Case History," July 17, 2012, http://www.gpo.gov/fdsys/pkg/CHRG-112shrg76061/html/CHRG-112shrg76061.htm.

18 Benjamin J. Cohen, *The Geography of Money* (Ithaca, NY: Cornell University Press, 1998), 128.

19 Hyoung-Kyu Chey, "Theories of International Currencies and the Future of the World Monetary Order," *International Studies Review* 14, no. 1 (2012): 51–77; Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 2nd ed. (Princeton, NJ: Princeton University Press, 1996), 103; Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (Oxford: Oxford University Press, 2011), 40–42; Jonathan Kirshner, "Dollar Primacy and American World Power: What's at Stake?" *Review of International Political Economy* 15, no. 3 (2008): 418–438.

Nevertheless, in the wake of the Great Recession, there are convincing signs that we are headed for a restructuring of the international monetary system as faith in the dollar faltered. The reality is that countries are now questioning the wisdom of carrying debt obligations solely in dollars, and they are moving toward baskets of currencies and alternate trading conventions and currencies to reduce their reliance on the dollar. The portion of global reserves in dollars declined from approximately 72 percent in 2000 to 62 percent in 2012 as the rest of the world attempted to decouple from the US economy.

The Chinese have begun to use their own currency, the renminbi, and reserves in certain trading situations and with some partners with more frequency. China recently completed a $1.08 billion currency swap deal with Kazakhstan and has similar arrangements with Argentina, Belarus, Hong Kong, Indonesia, Malaysia, South Korea, Ireland, Argentina, and Iceland. China has also reached agreements with Russia and Brazil to gradually eliminate the dollar from bilateral trade.[20] All five of the BRICS (Brazil, Russia, India, China, and South Africa, all of which have large, rapidly growing economies) have taken significant steps toward trading in their own currencies, diversifying their foreign exchange reserves, and hedging their bets against the growing instability of the dollar and the euro.

Prior to the G8 summit of 2009, China, Russia, and India explicitly called for an end to dollar dominance. On January 7, 2011, the International Monetary Fund (IMF) produced a paper outlining a plan for replacing the dollar with Special Drawing Rights (SDRs)—IMF-issued currency defined in terms of the weighted average of the dollar, euro, yen, and pound. The plan would create a liquid bond market for SDRs and thereby elevate the IMF to the de facto role of the world central bank.[21]

This portends a world of multiple reserve currencies, one in which the dollar serves as the primary rudder, steering a steady course to prevent erratic devaluations, but in which the currents are more volatile than they have been for decades. In this scenario, the euro, the British pound, the Swiss franc, and the renminbi would play enhanced roles as regional currencies for Europe and Asia, thereby limiting US influence in these areas.

A more dangerous scenario is an intensification of what James Rickards has termed "Currency War III." According to Rickards, this war began in 2010 and involved competitive devaluations of the yuan, dollar, and euro. These concerns were echoed publicly in 2013 by finance ministries and central banks. It is important to note that the biggest threat is not that yuan devaluation directly damages the US economy. The true threat is systemic. The current China-US monetary relationship is unsustainable and brings the fragility of the entire international monetary system into sharp relief. As Rickards contended, by 2011 both

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20 "Brazil-China Bilateral Trade in Real and Yuan Instead of US Dollar," *MercoPress*, June 30, 2009, http://en.mercopress.com/2009/06/29/brazil-china-bilateral-trade-in-real-and-yuan-instead-of-us-dollar; Toni Vorobyova, "Russia, China to Boost Rouble, Yuan Use in Trade," *Reuters*, June 17, 2009, www.reuters.com/article/2009/06/17/russia-china-currency-idUSLH72167820090617.

21 Strategy, Policy, and Review Department, *Enhancing International Monetary Stability—A Role for the SDR?* (International Monetary Fund, January 7, 2011), http://www.imf.org/external/np/pp/eng/2011/010711.pdf.

countries were "locked in a trillion-dollar financial embrace, essentially a monetary powder keg that could be detonated by either side if the currency wars spiraled out of control."[22] Economic historian Niall Ferguson has dubbed this presently symbiotic yet ultimately dysfunctional relationship "Chimerica." In order to maintain employment for its massive population, China must keep its exports attractive to American consumers and keep the yuan tied to the dollar. As such, China must continue to buy dollar assets and increase its account surpluses. It is caught in a "dollar trap." China's current exchange-rate policy thus ironically helps to preserve dollar dominance.[23] Chimerica is, for Ferguson, highly unstable. A sudden deterioration in political relations, perhaps stemming from a clash over natural resources or Taiwan, could trigger a major war and a corresponding collapse of the international financial system.[24]

Currently, China is the most competitive player in the so-called currency wars. Yet all major powers are attempting to influence the relative value of their currencies, a ruthless competition that places the entire global monetary system at risk. The currency war need not devolve into actual war for it to prove disastrous. A small but systemically critical event—such as the collapse of the Spanish bond market—could ignite a widespread loss of confidence in paper currencies and a massive transition to hard assets (gold) led by a shrewd and forward-leaning competitor state such as Russia or China.[25]

Even if one doubts the likelihood of such a crisis, China is nonetheless taking steps to internationalize the renminbi and thereby enhance its power relative to the dollar. This is happening in two ways. First, by purchasing sovereign debt of other Asian countries, China pushes up the value of these regional currencies and incentivizes its neighbors to reciprocate by buying Chinese debt in order to devalue their currencies against the yuan. The net result is a greater international role for the renminbi. Second, the Chinese government is finalizing programs that would allow select foreign financial institutions to invest their renminbi deposits in Chinese equity and bond markets. With increased stakes in renminbi-based businesses, these foreign firms will have more

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22 James Rickards, *Currency Wars: The Making of the Next Global Crisis* (New York: Penguin, 2011), 107.

23 Niall Ferguson, *The Ascent of Money: A Financial History of the World* (New York: Penguin, 2008), 336–337. In Ferguson's view, "Chimerica" was "the underlying cause of the surge in bank lending, bond issuance and new derivative contracts . . . the underlying cause of the hedge fund population explosion . . . the underlying reason why private equity partnerships were able to borrow money left, right, and center to finance leveraged buyouts . . . the underlying reasons why the US mortgage market was so awash with cash in 2006 that you could get a 100 per cent mortgage with no income, no job or assets." Ferguson has further argued that the United States' loose monetary policy is its own form of currency manipulation, causing the dollar to depreciate approximately 25 percent against the currencies of its major trading partners in recent years (9 percent against the renminbi).

24 Ferguson wrote: "One important lesson of history is that major wars can arise even when economic globalization is very far advanced and the hegemonic position of an English-speaking empire seems fairly secure." Ferguson, *The Ascent of Money*, 339–340.

25 Rickards concluded: "The path of the dollar is unsustainable and therefore the dollar will not be sustained. In time, the dollar will join a crowd of multiple reserve currencies, be subordinated to SDRs, be rejuvenated by gold or descend into chaos with both redemptive and terminal possibilities." Rickards, *Currency Wars*, 255.

reasons to promote the renminbi so that they can reap the benefits of renminbi internationalization.[26]

Though the dollar remains superior for now and appears to be the currency of choice amid economic turmoil in Europe, it—along with American financial preeminence—is coming under direct assault.

Conclusion

In many ways, the United States has taught the world how to use financial power in the twenty-first century. The United States has deliberately leveraged US capital markets, the centrality of the dollar, and American ability to set global standards and mores to drive national security goals. The power of this paradigm is derived from the centrality and stability of New York as a global financial center, the importance of dollar-clearing transactions, and the demonstration effects of any regulatory or other steps taken by the United States or major US financial institutions in the broader international system. Our competitors have learned from our use of power, and our enemies have witnessed our vulnerabilities.

Countries such as Russia and China will continue to challenge the dominance of the US-led international system and the dollar itself. If such attacks succeed, they could weaken the ability of the United States to affect or move private sector decisionmaking in line with national security interests, regardless of what other governments do. The advent of nuclear weapons forced scholars and policymakers to rethink their models and methods for advancing US national security. In a similar way, the coming financial wars will force the United States to adapt amid a new geo-economic order defined by globalization and the speed and ease of communication and transnational commerce. In the age of nuclear competition, the United States drew strength from its scientific and technological advantage; however, it is becoming increasingly clear that America is losing its competitive edge in the era of economic security. This development is particularly troubling in light of the unique advantages it possesses as the vanguard of the international trading and financial system and hub of innovation and collaboration.

The domain of financial warfare will no longer remain the sole province of American power. A wide array of state and nonstate actors may step up to wield economic power and influence in the twenty-first century. Confronting challenges, seizing opportunities, and minimizing systemic vulnerabilities must, therefore, proceed as part of a coordinated effort. The United States must play a new and distinctly financial game of geopolitical competition to ensure its security and to seize emerging opportunities. Just as the mistakes leading to 9/11 were deemed a failure of imagination, the inability of the US government to recognize the changed landscape could be considered a collective failure of comprehension.

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26 Chey wrote: "And in fact, a group of prominent international banks, among them HSBC, Standard Chartered, Citigroup, and JPMorgan[,] have recently been holding international roadshows to promote use of the renminbi by their corporate customers for trade deals with China, instead of the dollar. Some of them have moreover offered financial incentives, such as discounted transaction fees, to firms opting to settle their trades in renminbi." Chey, "Theories of International Currencies," 71. See also Robert Cookson, "Banks Back Switch to Renminbi for Trade," *Financial Times,* August 26, 2010.

The financial wars are coming. It is time to redesign a national economic security model to prepare for them. If we fail to do so, the United States risks becoming vulnerable and being left behind as other competitors race toward the future.