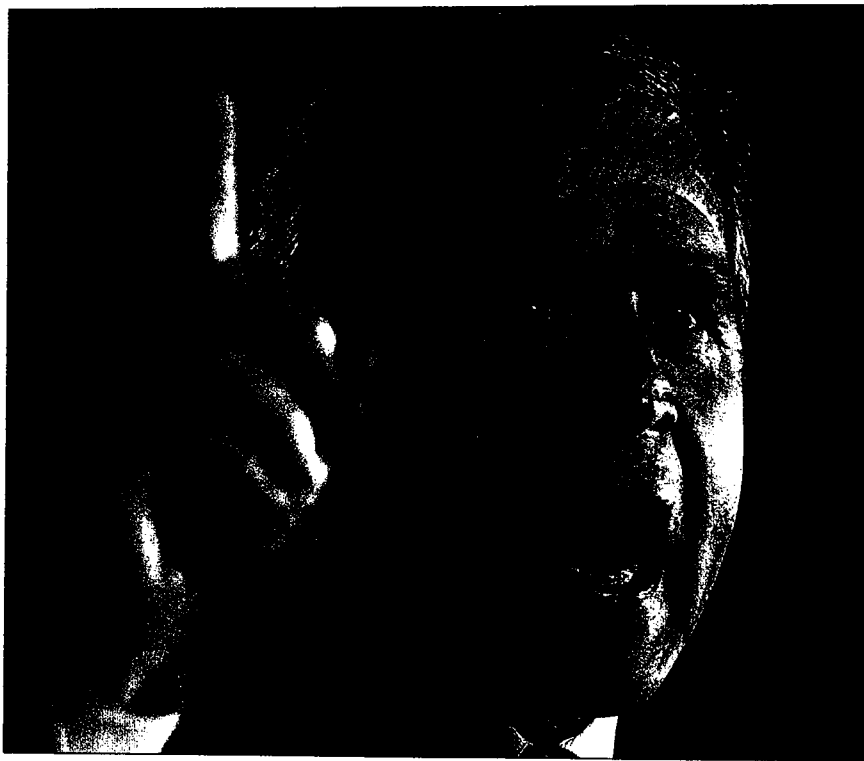


# Economic Warfare Can Win Terror War

By J. MICHAEL WALLER

Ronald Reagan personally crafted a security-minded economic strategy that toppled the Soviet Union — a blueprint George W. Bush could use to defeat terrorists.



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**A**l-Qaeda recently announced economic warfare against the United States and other Western countries. U.S. intelligence expects years of attacks on the economic infrastructure of the civilized world. For its part, the United States has an arsenal of economic weapons for this war, but critics fear it may have forgotten how to use them strategically — an important point, because proponents believe that strategic economic warfare thoughtfully applied by the United States could save innocent lives and avoid military conflict while achieving the same objec-

**History lesson:** *An integrated economic-warfare strategy from the Bush team could work against Saddam as well.*

tives as an all-out bombing or invasion. Lessons of successful economic-warfare operations that hastened the collapse of the Soviet Union, veteran practitioners tell *INSIGHT*, are valuable guideposts to help the Bush administration develop an integrated economic-warfare strategy.

Many weapons in the economic arsenal already are in play in the war on terrorism. The United States and other governments are going after bank accounts

and electronic money transfers of terrorists and their sponsors, seizing assets and running a spectrum of policy options from covert “black operations” against terrorist financiers to full-scale embargoes against terrorist regimes. U.S. dominance of information technology and space for orbital satellite communications gives Washington immense superiority over any other world power.

The Department of Defense (DoD) defines economic warfare as the “aggressive use of economic means to achieve national objectives.” Economic warfare can range from blockades and sanctions to physical attacks on an enemy’s agricultural or industrial production, workforce and distribution systems to disruption of financial transactions and information networks. The concept dates to antiquity, from the plagues that destroyed the Egyptian pharaoh’s crops, as reported in the Book of Exodus, to the enemy who sowed weeds on top of his neighbor’s wheat in the New Testament.

For the United States, economic warfare is a tool of statecraft almost as old as the republic itself. Legislated actions include bans on certain international transactions, begun as early as 1807 with the Embargo Act and the 1809 Non-intercourse Act. Though neither law was successful as a foreign-policy tool, successive U.S. governments resorted to sanctions and embargoes to attempt to impose their will abroad.

Economic sanctions are a brand of economic warfare favored for their precise, though usually fleeting, political benefits to the politicians imposing them. They tend to have high and protracted human costs in the targeted countries and little if any appreciable impact in removing the targeted regime from power.

The 20th-century’s mechanized warfare saw extensive targeting of enemy economies. British Prime Minister Winston Churchill saw this as such a vital part of the effort against Adolf Hitler that he created a wartime Ministry of Economic Warfare, telling its first minister, Hugh Dalton, to run it as “a new instrument of war” whose purpose “was to coordinate all action by way of subversion against the enemy overseas.” The goal was to weaken “the enemy’s will to make war and the strengthening of the will and power of his opponents,” Dalton said. This also meant overt and clandestine radio broadcasts and other forms of propaganda to support allies and demoralize the enemy, running agents of influence in friendly countries to support the war effort and conducting other black operations to disrupt the enemy’s economic capabilities and supply lines.

Throughout the Cold War, however, the Western democracies did not develop a coherent, strategic, economic-warfare policy toward the Soviet Union until the early 1980s. Early in his first term, President Ronald Reagan approved a coordinated, strategic plan that integrated economic warfare into a well-defined U.S. national-security strategy with the goal of rolling back Soviet communism and forcing the Soviet system to reform within or collapse into itself. Reagan's national-security adviser, William P. Clark, presided over development of the plan that integrated economic warfare into U.S. diplomatic and defense goals, beginning with National Security Decision Directive (NSDD) No. 66 of November 1982.

To coordinate federal agencies, an

earlier directive, NSDD-48, created a Senior Interagency Group for International Economic Policy (SIGIEP) that reported to the president through his national-security adviser, with separate interagency groups tasked with working some particular economic-warfare issue. In January 1983, shortly after the issuance of NSDD-66, Reagan signed NSDD-75, which laid out a three-part strategy to take down the Soviet Communist Party without risking war. The strategic document combined diplomacy, military power, propaganda, subversion and economics in a multifront offensive against the Soviet Union. The strategy aimed at reversing Soviet expansionism, promoting internal change within the U.S.S.R. and conducting negotiations where there was

strict reciprocity and mutual interest. One of the keys was to starve the Soviet economy of desperately needed technology and loans.

"This kind of integrated policy/strategy set is extremely rare in American history," says Norman A. Bailey, a former senior Reagan National Security Council (NSC) official who played a major role in developing the economic-warfare strategy and who served as the first executive secretary of the SIGIEP. In a Potomac Foundation study, Bailey notes, "By and large Americans have lacked a sense of history and strategy, and have depended repeatedly on geographic isolation and the ability to deploy overwhelming economic and military resources for last-minute tactical responses to imminent threats."

But a senior independent economic-warfare strategist tells *INSIGHT*, "There's nothing like SIGIEP now for the war against terrorism."

Bailey recalls, "President Reagan's strategy to accelerate the demise of the Soviet Union consisted of five pillars: economic, political, military, ideological and moral." The NSC configured what he calls "a security-minded economic strategy that would constrict financial and other forms of Western life support" against the Soviet enemy.

NSDD-75 declared, "U.S. policy on economic relations with the U.S.S.R. must serve strategic and foreign-policy goals as well as economic interests." U.S. objectives were to shut off Western subsidies to the Soviet military buildup, keep squeezing the Soviet economy to force pressure for radical structural reforms and minimize the Soviets' ability to use "reverse leverage" on the West by manipulating trade, energy and financial levers.

**Public enemy no. 1:** Osama bin Laden and al-Qaeda already have attacked symbols of U.S. economic might.



AP/WIDEWORLD/COURTESY OF AL-JAZEERA VIA AP/WIDEWORLD

## Is the U.S. Vulnerable to Economic Warfare?

The Bush homeland-security team already has entire units devoted to defense against foreign economic warfare, and the potential threats can be surprising.

The \$800 billion U.S. agricultural sector, some military theoreticians argue, is a prime target for enemy attacks to cripple the economy. "Harmful bacteria, viruses, rickettsia or toxins that incapacitate or kill humans, animals or plants have an unsettling value in waging economic warfare," notes Air Force Lt. Col.

Robert P. Kadlee in a paper on future warfare published by Maxwell Air Force Base.

He offers a scenario where China, as the world's second-largest corn exporter, attacks the U.S. corn industry by spreading a corn-seed blight over the Midwest, decimating the corn crop. The damage would force the United States to import corn for the first time ever, sharply increasing demand and prices while also damaging the corn-fed hog and cattle industries. According to this scenario,

"Food prices rise sharply and cause higher-than-expected food prices and inflation. China gains [a] significant corn-market share and tens of billions of dollars of additional profits from their crop."

Another scenario envisions European winemakers seeking to capture the California wine market by spreading grape lice across the Napa and Sonoma vineyards of Northern California.

"In the post-Cold War era and as we enter the 21st century, the economy determines superpower status," says Kadlee. "The threat posed by biological weapons deserves prudent attention."

— JMW

It's this kind of Reaganesque strategy that the Bush administration must develop, proponents say. Bailey and other Reagan defense and security-policy veterans tell *INSIGHT* that the economic-warfare plan came under intense opposition from the departments of Agriculture, Commerce, State and Treasury, as well as from such administration officials as James A. Baker, whose persona and acolytes later dominated the Reagan successor administration in ways that former president George H.W. Bush now is said to regret.

Reagan, with the help of his loyal vice president, forced the strategy through "with astonishing rapidity [and] against powerful opposition, not only from the Soviets but also from the administration itself and from U.S. allies," according to Bailey. A Cabinet-level group, SIGIEP, operated between 1982 and April 1985, working itself out of existence as the Soviet economic collapse propelled Mikhail Gorbachev to power.

What made SIGIEP successful in pushing through the president's strategy? At the White House the NSC, the CIA and the DoD were statutory members of a senior, Cabinet-level, interdepartmental group, ensuring proper integration of security considerations and policy deliberations. National Security Adviser Clark, CIA Director William Casey and Defense Secretary Caspar Weinberger were united with a common mission and vision. So too, SIGIEP veterans tell *INSIGHT*, was Treasury Secretary Donald Regan, who chaired the group.

"The chairman reported through the national-security adviser to the president, and the National Security Decision Directive that created SIGIEP made clear that this body reported to the National Security Council and was a function of the NSC," according to a former member of the group who asked not to be identified. "That way, the group could never go off the reservation."

Says a former Reagan NSC official, "It's important today to seek to replicate this group in the war on terrorism."

The key to a successful economic-warfare strategy, as evidenced in the case of the Soviet takedown, is concentrating on a potential adversary's hard-currency cash flow and sources of financing. The George W. Bush administration is waging a financial war on terrorism, understanding that drying up traditional avenues of financing is fundamental to reducing and eliminating the terrorist threat. Similarly, various "follow-the-money" techniques have proved effective to identify terrorist groups and those who aid and abet them.

"President Reagan was persuaded even then that it was impractical to

## Economic Warfare Versus Saddam Hussein

Critics point to more than a decade of international sanctions against Iraq and the massive suffering of much of the Iraqi population as proof of the ineffectiveness and inhumanity of economic warfare. Even though the sanctions now allow Iraq to sell oil to purchase food and medicine, the regime has manipulated the distribution system to support its own power and punish its enemies while allowing Saddam to blame the United States for his people's hardship.

But those sanctions are only a half-measure, and a harmful one at that, others argue. "Sanctions are almost never seriously applied and thus end up leaking massively and actually enriching the target country's elite while impoverishing and embittering the general populace," notes Norman A. Bailey, former special assistant to the president for national-security affairs.

Skillful deployment of strategic economic warfare, proponents say, actually can avoid all-out war and save both the national infrastructure and innocent lives. Bailey argues that if the United States decides to remove Saddam Hussein it

can wage economic warfare successfully and in a way that will spare the Iraqi population from prolonged suffering. In an unpublished memorandum, he and George Mason University School of Law professor Barbara P. Billauer state:

"Genuine and leakproof sanctions are feasible and would work in a very short time. They would involve: (1) a total blockade, enforced by sea and by air, with no exceptions or exemptions; (2) a total cutoff of all transportation in and out of the country, ruthlessly enforced; (3) a total cutoff of all communications links to and from the country, also ruthlessly enforced; and (4) a complete financial isolation of the country. Enforcement of such measures would bring the regime to its knees within days. To cause a complete power shutdown the oil refineries might also be put out of action and concurrent psychological measures might also be considered. ...

"Overthrow Saddam? If we really want to do it, let's do it, and let's do it with minimum damage and loss of life, and let's have the Iraqi people do it."

— JMW

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## U.S. Intelligence Warns of Attacks on Economic Interests

A Department of Transportation Office of Intelligence and Security advisory to operators of U.S.-flagged and controlled vessels has been obtained by *INSIGHT*. It warns of al-Qaeda threats "against U.S. economic interests" and cites al-Jazeera broadcasts in October referring to "al-Qaeda targeting key sectors of the U.S. economy" and other provocations.

Independent interpretations by al-Qaeda detainees at the U.S. Naval Base at Guantanamo Bay, Cuba, agree that the release of the taped statements may signal an upcoming attack. "This information strengthens previous assessments that al-Qaeda continues to plan major attacks against U.S. interests. The focus upon economic targets is consistent with al-Qaeda's stated ideological goals and long-standing strategy to undermine what they see as the backbone of U.S. power: the economy. Striking a prominent U.S. target for economic and symbolic reasons would have immediate worldwide impact.

"The focus on economic targets is consistent with al-Qaeda's stated ideological goals and long-standing strategy. The Sept. 11 attacks and commentary on these attacks by [Osama] bin Laden and others indicate how central economic targets are to this strategy. The group's leaders have said that they aim to undermine what they see as the backbone of U.S. power: the economy. Our adversary is trying to portray American influence as based on economic might and therefore seeks to strike an economic target prominent enough for economic and symbolic reasons that would have immediate resonance around the world."

On Oct. 21, a concerted electronic attack was made on all 13 root servers of the Internet. U.S. forces defeated the attack. — JMW

weapons of mass destruction. Firefighters and police officers should be particularly sensitive to the likelihood that their retirement dollars are, unbeknownst to them, being invested in companies with terrorist ties. It's likely that 21st-century economic warfare and prudent security policy will play out on these types of rarified battlefields."

J. MICHAEL WALLER IS A SENIOR WRITER FOR *INSIGHT*.

**Word to the wise:** *Economic warfare can have high and protracted human costs to civilian populations.*

lays in the listing efforts of foreign companies and no interference in the market process.

*INSIGHT's* interviews with national-security veterans of economic warfare indicate that the agencies most appropriate to serve on such a quietly configured interagency group would be the NSC, the CIA and the departments of Defense, Treasury and Homeland Security. "This kind of selective approach to protecting U.S. investors from unwittingly underwriting the wrong sorts of foreign enterprises would not only advance U.S. security interests, but represent an important new safeguard for the markets themselves," says one proponent who, because of his sensitive government position, asked not to be named. "It also represents sound corporate governance via the occasional use of American intelligence sources and methods to vet companies that otherwise would be unwilling to disclose their security-related transgressions and thereby expose investors to onerous material risks down the road."

This high-level insider continues, "In select cases like those of known proliferators, they should properly be denied access to the U.S. stock and bond markets. And there should be no apologies for such a step." He then suggests something that individual citizens can do to help defund terrorism: "Every citizen should be asking their financial advisers and fund managers whether they have invested money in companies doing significant business in terrorist-sponsoring states that likewise possess

divorce international economic and financial policy-making from traditional national-security concerns. This is even more evident today in the war on terrorism and the urgent need to get a handle on proliferation of weapons of mass destruction and ballistic-missile delivery systems," says a retired senior official. "Even our domestic capital markets are now being penetrated successfully by global 'bad actors' that are able to raise billions of dollars annually from unwitting U.S. institutional and individual investors."

Among these bad actors are publicly traded companies that partner closely with terrorist-sponsoring regimes and provide them with "dual-use" technology and equipment with both civilian and military applications, and which facilitate large-scale revenue flows that terrorist governments can use in any manner they choose. Few, if any, public-pension systems or mutual funds screen for such global security risks.

Any attempt to revive a senior interagency body such as the Reagan-era SIGIEP would have to take private business and investments into account. Structurally, as far as denying American investment funds to "bad actors," the Securities and Exchange Commission (SEC) represents the first line of defense. As the first to know which foreign entities are seeking to raise funds and list equities in the huge U.S. market, the SEC could screen foreign companies with an index of firms with histories of proliferation-related concerns or material business in terrorist-sponsoring states. The SEC could refer those names to an interagency group that could work parallel to the normal SEC registration process, meaning no bureaucratic de-

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