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Analysis and Collation of Some Combat Means and Skills in Financial War

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Abstract

With the development the world economy and the continuous evolution and change in the world economic pattern, various types of financial wars have become more frequent and common and closer to ordinary people. The failure of a financial war can cost billions to trillions of dollars in economic damage and can seriously subvert a state's power. Therefore, the research and interpretation of financial war is still necessary and important. To systematically understand or fully study financial wars, we can start with the key combat means and techniques often used in financial wars. This paper will discuss the main operational means and skills of financial war, mainly by means of comparative demonstration, to obtain the main joint operational mechanism of operational means and skills in financial war.

Keywords

financial warfare, financial security, capital flow shock, psychological warfare

1. Introduction

In the 1960s, George Soros, the founder of the Wall Street quantum fund, proposed the theory of reflexivity. The core point of reflexivity theory is that the cognition of market participants will interact with the actual situation of the market. The theory was first described in Soros's 1987 book, “financial alchemy”. Then, his practical arguments for the theory emerged. For example, his judgment and decisive move focused on the early 1990s, the Asian financial crisis and the famous Hong Kong Financial Defense war. In these financial wars, Soros caused the market confidence of the target countries to gradually collapse, exacerbated the selling and depreciation of the target currency by shorting the target currency in large quantities, and finally achieved the goal of profit. According to the data, Soros made approximately $2 billion in snipes at the pound (Soros, 1999). In the Asian financial crisis and the battle to defend Hong Kong, his profits, while difficult to accurately count, are still estimated to be billions of dollars. Compared with previous small-scale financial events, it is not difficult to see that the competition in today's modern financial field has considerable scale and purpose, and the occurrence of financial crisis also has certain premeditation and manipulation (Yuan & Li, 2019).

To date, although no one such as Soros has launched a financial war on the above scale again, with the development of the world economy and the continuous evolution and change in the world economic pattern, various types of financial activities have become more frequent and common and closer to those of ordinary people. Moreover, as mentioned earlier, the failure of a financial war is an economic loss of billions to trillions of yuan, which can seriously subvert state power (Yuan & Li, 2019). Therefore, the research and interpretation of financial war still has unique value, and the avoidance and defense of financial war still has necessity and importance.

2. Common Combat Methods in Financial Warfare

2.1 Principle of Capital Flow Shock

With the implementation of QFIIs and QDIIs, the Chinese securities market has entered an era of gradual opening to the outside world. Under open conditions, foreign capital can create a foam in the securities market through the influx of funds and can achieve its political purpose through planned mergers and acquisitions of enterprises with strategic resources in China (Dominguez, 2020). This also introduces the concept of capital flow shocks.

International speculators or investors first observe the economic vulnerabilities of the target country, such as high trade deficits, excessive dependence on foreign capital, asset foam, etc. Then, they exploit these vulnerabilities and launch shocks through large-scale capital flows. For example, selling a large amount of the target country's currency in the foreign exchange market, or shorting related assets in the stock and futures markets, can trigger market panic, causing other investors to follow suit and sell, further exacerbating capital outflows and asset price declines (Eichengreen, 2013). For example, Soros, the founder of the Quantum Fund mentioned in the preface, took a large number of selling liquidity shocks when sniping at currencies such as the British pound and the Thai baht and successfully affected the confidence of market investors, triggering herd effects, causing investors to follow suit and sell their money, and finally achieving the goal of making billions of dollars by taking advantage of the capital outflow caused by market panic.

The principle of capital flow shock is to utilize the unstable factors of the target country's economy and the herd effect of the market. When a large amount of capital suddenly flows out, it can lead to currency depreciation in the target country, increase import costs, trigger inflation, and cause domestic financial institutions to face liquidity crises, leading to difficulties in corporate financing and ultimately affecting the economic growth and financial stability of the entire country. If the massive inflow of capital suddenly reverses, it will also have a serious impact on the economy, such as a sharp drop in asset prices, causing the wealth of enterprises and residents to shrink, affecting economic confidence and investment consumption.

2.2 Principles of Capital Flow Control

To cope with possible capital flow shocks, capital flow controls have emerged. The government or central bank will first formulate capital flow control policies on the basis of the domestic economic and financial situation. For example, when faced with a large influx of capital, restrictions may be imposed on the proportion of foreign investors purchasing domestic assets, or registration and filing of capital inflows may be needed. These policies are subsequently implemented through financial regulatory agencies to regulate the cross-border capital transactions of banks and other financial institutions and to restrict or punish capital flows that do not comply with regulations (Szpiro, 1994).

The principle of capital flow control is to maintain domestic economic stability by restricting the free flow of capital. For example, restricting short-term capital inflows can prevent excessive inflows of “hot money”, prevent the formation of asset price foam and excessive currency appreciation, and thus protect the domestic export industry. Restricting capital outflows can prevent a large amount of domestic capital from escaping, maintain the supply and stability of funds in the domestic financial market, and avoid excessive exchange rate depreciation and economic recession.

3. Common Combat Techniques in Financial Warfare

3.1 Multiple Fields to Exert Pressure

The introduction mentioned that modern financial warfare often involves the use of multiple combat methods and techniques for joint strikes. Therefore, as one of the commonly used techniques in financial warfare, it is necessary to conduct detailed research on “coordinated multidomain pressure”.

The linkage of pressure in multiple fields will first clarify the target countries or regions to be pressured, as well as the goals to be achieved, such as forcing exchange rate adjustments, financial market turbulence, or economic policy changes (Su, 2002). Then, through (1) pressure in the trade field, by imposing tariffs, initiating anti-dumping and anti-subsidy measures, and other trade protectionism measures, the target country's export industry will be hit. (2) Financial market manipulation: Creating currency depreciation expectations in the foreign exchange market by selling target currencies or establishing many short positions. (3) Political intervention: using political influence to exert pressure on the target country through international organizations, diplomatic channels, or domestic policy adjustments. (4) Public opinion guidance and psychological warfare: Media platforms can be used to release selective data and negative reports, creating market panic and affecting investor confidence. (5) Observation and evaluation of effectiveness: During the pressure process, the target country's economy, financial markets, and policy responses should be closely monitored, and the effectiveness of the pressure strategy should be evaluated (He, 2023). Through the integration of nonfinancial resources such as the economy, politics, science and technology, and diplomacy, the foundation of combination boxing to attack an opponent's financial system is formed. It is often used against large countries or economies with similar strengths on both sides. The same is true when the goal is to destroy an adversary's financial sovereignty or economic lifeline. The key to the effectiveness of linkage multifield pressure lies in the decline of adversary economic resilience, multifield synergy efficiency and controllability of its own costs.

3.2 Operation Process and Principles of Psychological Warfare

Soros, mentioned in the introduction, relied on the advantage of psychological warfare to successfully profit when launching financial wars. Therefore, psychological warfare is also an essential direction for studying financial warfare. Launching psychological warfare first requires gathering intelligence and understanding the psychological characteristics, cultural background, and public opinion tendencies of enemy financial market participants. On the basis of the collected information, psychological warfare strategies are developed, and means such as propaganda, deterrence, deception, etc., are chosen (Lei, 2022). Then, psychological warfare is carried out through media, the internet, and other channels to spread specific information to the enemy. Finally, the strategy is adjusted in a timely manner on the basis of the enemy's response.

The principle of psychological warfare is to use psychological principles to manipulate, guide, or influence an opponent's psychology to achieve one's own strategic goals. For example, promoting one's own economic advantages and policy stability can influence the confidence of enemy investors. Displaying strong financial strength and decisive decision-making ability can have a deterrent effect on the enemy, making them hesitant to take action easily. Similarly, promoting the economic disadvantage and policy instability of the enemy can also affect the confidence of enemy investors. Psychological warfare aims to increase market anxiety and trigger irrational selling or capital flight through information manipulation and public opinion guidance. This approach is often applied to situations in which the counterparty's financial system is fragile but has not yet erupted in a crisis or a raid on key nodes and the need to weaken the credibility of the counterparty's government. Notably, evaluations of the effectiveness of psychological warfare often focus on the spread of market panic, the ability of adversaries to respond to emergencies and the sustainability of information manipulation.

4. Joint Mechanism Review

4.1 Exchange Rate Manipulation and Capital Flow Control

The initiation of financial wars often does not rely on individual combat methods and techniques, so this article will summarize three common joint mechanisms of financial wars.

First, exchange rate manipulation and capital flow control are combined. Taking the example of the United States launching financial wars against other countries, first, through the pressure of international organizations, the threat of trade sanctions, the deterrence of financial sanctions and the allegations of exchange rate manipulation, the target country is forced to fully open its financial markets, which is the basis of a series of follow-up operations. The United States subsequently implemented the dollar easing policy, and many dollars flowed into the target country, increasing the asset prices of the target country. This is to use capital flows to create asset foam. At that time, when the opportunity was ripe, the United States suddenly raised interest rates and reduced liquidity, causing a large-scale withdrawal of the U.S. dollar, resulting in a significant depreciation of the target country's currency, which in turn involved exchange rate manipulation. Through this joint operation of exchange rates and capital flows, the United States can penetrate the target country's financial system and create conditions for subsequent cheap bottom fishing of high-quality assets.

4.2 Stereoscopic Attack and Psychological Warfare

The combination of three-dimensional attacks and psychological warfare is also a major direction worth sorting out in financial wars. This mechanism is often used in financial wars that require public opinion to pave the way for short-term currency attacks. When international speculators launch currency attacks, they use a combination of three-dimensional attacks and psychological warfare (Luo et al., 2024). In terms of three-dimensional attacks, speculators will short stocks and accumulate short positions in stock index futures while shorting local currencies in the spot foreign exchange market of the target country. After that, to enhance the effect of the attack, speculators also use psychological warfare techniques, such as selling forward contracts of the attacked currency in the forward foreign exchange market and suppressing the forward exchange rate of the local currency, thus affecting the spot exchange rate. At the same time, it spreads negative news or rumours about the economy and finances of the target country, triggers market panic and pessimism in investors, has a “herd effect”, and urges more investors to follow suit and sell their currencies and financial assets (Sihombing & Prameswary, 2023).

These three steps form a joint strike mechanism to achieve the purpose of creating short-term panic and profits.

5. Conclusion

5.1 Presentations

With the development of global finance and the economy, various financial scenarios are constantly being updated, and the relationships between people and finances are becoming increasingly close. Therefore, financial wars or new-style financial wars often occur around people.

The initiation of financial wars often requires careful observation and evaluation in the early stages, rigorous selection of combat methods in the middle stages, and, finally, the use of appropriate combat techniques to unleash greater destructive power. At present, ideas and theories related to financial warfare in the context of the financial crisis can be proposed, which has positive implications for resisting the current financial crisis. Through the collation and research of common combat means and skills in financial war and their joint action mechanism, this paper aims to further present the details of modern financial war so that some core theories and contents of financial war and financial warfare can be more intuitively reflected and provide a theoretical basis for resisting foreign financial war.

5.2 Shortcomings

The focus of this paper is on the research and further presentation of some main combat means and techniques, so there is less ink on how to resist financial wars provoked by others. Because of the limited space, a major deficiency of this paper is that all or other mainstream combat means and techniques are not fully combed. These unclear parts can still be presented as new research directions.

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