



**GLOBAL REALIGNMENT AND THE DOLLAR, PART I:  
CHANGES IN ATTITUDE AND AFFINITIES  
AMONG THE COUNTRIES OF THE WORLD**

*World leaders have lately become more assertive and more public in their expressions of disappointment with U.S. foreign policy. The change of attitude that these expressions represent is starting to affect their actions as well. European and Asian countries are seeking to realign themselves in such a way as to shift the balance of power in a world they see as unbalanced and dangerous because of a de facto unipolar system in which the U.S. predominates. While public statements might seem benign and new political alliances may seem harmless, the changes in attitudes that these new alignments represent are starting to alter economic alignments as well, and that is the subject of Part II of this Briefing.*

**Listen Up**

“We are not a territory of the United States,” a distraught Japanese legislator told Citigroup’s chief executive, Charles Prince, and chief of Citibank Japan, Douglas Peterson. “It’s not acceptable to show the kind of arrogance whereby you do anything you please in Japan. We are an independent country and our rules are the rules.” (*New York Times*, 12/26/05)

The legislator was expressing extreme disapproval with the way the U.S.-based corporation had flouted Japanese rules governing private banking practices. The public rebuke in Tokyo, however, captures the tone of a spreading attitude about the way Americans are behaving in the world generally. More and more world leaders are expressing their dismay directly, devoid of the niceties of diplomatic language.

◆ Aleksander Kwasniewski, the president of Poland and one of America's staunchest allies, recently appealed to Washington to be "flexible, open and gracious," the last item intended implicitly to criticize the tone and style of American behavior. The Polish president went ahead to add that he would not like to see the U.S. "have full dominance in the world and to play a divide-and-rule policy," implying that his country would not tolerate such a tactic. (*International Herald Tribune*, 9/2/04)

◆ In November, the deputy governor of the People's Bank of China, Li Ruogu, said that the U.S. should get its economic house in order and stop blaming other countries for its economic troubles. "China's custom is that we never blame others for our own problem....The U.S. has the reverse attitude; whenever they have a problem, they blame others." The following week, the conservative English magazine, *The Economist*, while reporting Li's comments, interjected, "He was right." (*Financial Times*, 11/23/03; *Economist*, 12/4/04)

◆ Speaking at the Asia-Pacific Economic Cooperation (APEC) meeting in Santiago, Chile, Bank of China's Li noted that his country was growing concerned about the U.S. trade deficit with China. "Certainly we don't want to run into the U.S. situation of having a trade deficit of 6 percent of GDP. That is not sustainable." Changing the value of the renminbi or yuan, the Chinese currency, as the U.S. has asked, cannot change unemployment in the U.S., Li insisted, because China's labor costs are only 3 percent that of U.S. labor. In fact, the U.S. should become more "realistic" and "give up textiles, shoemaking and even agriculture probably." Essentially, Li, from communist China, was openly lecturing American leaders on markets and economics. (*Financial Times*, 11/23/04)

◆ South Korean President Roh Moo-hyun, stopping in Los Angeles on his way to the APEC meeting, stunned an audience of foreign-policy experts by asserting that North Korea's policy of developing nuclear weapons to defend itself is not illogical. Concern about America's escalating rhetoric challenging North Korea's nuclear development has started to change attitudes on the Korean peninsula. For instance, a recent poll found that 20 percent of South Koreans believed the South should join the North in the event of a U.S. attack on the North, and another 30 percent said

they were not sure which side they would take. (*Asia Times Online*, 11/24/04)

◆ In a November meeting, European finance ministers called on the U.S. to get control of its budget and trade deficits as a way to halt the slide of the U.S. dollar in currency markets. However, Jean-Claude Juncker, Luxembourg's prime minister and official spokesman for the euro zone, captured the Europeans' expectations for a response: "I think there's an underdeveloped sense of hearing in the United States." (*International Herald Tribune*, 11/17/04)

◆ South Africa's President Thabo Mbeki published a scathing attack on U.S. health officials. After news stories revealed that the National Institutes of Health (NIH) in the U.S. had withheld negative information about an AIDS drug just before President George W. Bush promised to make the drug available to Africa, Mbeki chided NIH officials. He charged that NIH's leader, Dr. Edmund Tramont, "was happy that the peoples of Africa should be used as guinea pigs, given a drug he knew very well should not be prescribed. In other words, they entered into a conspiracy with a pharmaceutical company to tell lies to promote the sales of Nevirapine in Africa, with absolutely no consideration of the health impact of those lies on the lives of millions of Africans." (*Philadelphia Inquirer*, 12/18/04)

◆ During the APEC summit in Santiago, more than 20,000 protesters gathered outside the meeting halls to proclaim their disapproval of the war in Iraq and, based on the signs in the crowd, specifically to express dislike of President Bush. In what seemed like a staged event, President Bush became embroiled (physically!) in an argument over what his bodyguards could and could not do while in Chile. The U.S. insisted that the President be allowed to bring more Secret Service men into a dinner than other world leaders. At the banquet, when the Chilean authorities stopped the extra Secret Service agent from entering the dinner, the agent pushed himself forward exclaiming, "That's my President!" A frustrated Chilean security guard responded, "Yeah? Well, this is my country!" For the next night's formal dinner, the U.S. had insisted that all who entered the room pass through a metal detector, but Chilean President Ricardo Lagos refused to subject his honored guests to such "humiliation." So he cancelled the dinner altogether. (*Associated Press*, 11/20/04; *The Week*, 12/3/04)

◆ After the December tsunami devastated several Asian countries, India and Thailand told world leaders that they would handle domestic military needs on their own. Indonesia accepted foreign military personnel, especially a large contingent from the U.S. On January 12, however, Jakarta announced publicly that all foreign troops should leave the country by the end of March, adding that earlier would be better. The government was responding to a groundswell of protest against the presence of American soldiers. A widely distributed (anonymous) telephone message circulated around Jakarta, asking, “After Iraq, will Indonesia be the next U.S. target?” (*International Herald Tribune*, 1/13/05)

◆ In September, the World Trade Organization (WTO) ruled against the U.S. over the so-called Byrd amendment, which allows the government to collect anti-dumping duties from offending parties and disburse the money to corporations affected by the dumping. The WTO decision ruled that such disbursement represented an unfair trade practice and granted to the European Union, Brazil, Canada, Chile, India, Mexico, Korea and Japan the right to impose sanctions against U.S. products. When the U.S. tried to defy the ruling, the WTO’s dispute settlement body reiterated that the decision would stand. “This [decision] is very significant,” claimed Amina Mohamed, Kenya’s ambassador to the WTO and chairwoman of the dispute settlement body. “It sends a very important message to the United States. Its trading partners are getting tired of the way the United States behaves.” (*New York Times*, 9/1/04 and 11/27/04; *Women’s Wear Daily*, 11/30/04)

### An Attitude Shift

These expressions of dissatisfaction are unusual for two reasons: (1) Criticism of another country’s policies

is usually restricted to comments about specific actions or decisions taken and rarely includes a challenge to the country’s overall attitude; and (2) in diplomatic circles, harsh criticism is relegated to private meetings while public statements typically emphasize the positive. In these instances, countries seem to be using specific disagreements to voice in public a wider frustration with American attitudes.

The willingness of leaders to make public their expressions of anger or disappointment represents a change in attitude among the world’s leaders, and that new attitude is changing diplomatic behavior toward the U.S. For example, the Chinese government decided to move forward with an “anti-secession” law directed at Taiwan. In the past, standard diplomatic procedure called for decisions of that magnitude to be shared with interested world leaders before any public announcement was made. In this instance, the President of the United States would certainly be an interested world leader. Yet when President Bush met with Chinese leader Hu Jintao during the November APEC meetings, Hu did not even mention the issue, leaving the President to learn about the action when it was made public, a month later. (*Financial Times*, 12/23/04)

Attitude shifts, if limited to public expressions of dismay or occasional snubs, would hardly be worth mentioning. But these attitude shifts are prompting world leaders to find new relationships with leaders and countries that share their unease and to alter alliances to respond to what they see as a change of attitude in Washington. These new relationships not only represent substantive shifts in power alignment, they carry economic implications. They are changing the dynamics among countries, which is the subject of Part I



of this *Briefing*, and they are going to alter the value of the dollar and ultimately economic fortunes in the U.S. and elsewhere, which is the subject of Part II.

The world is growing accustomed to a changed diplomatic, military and economic perspective in Washington. As part of their efforts to “get used to”

that new reality, world leaders are cementing new relationships that can stabilize their domestic economies and arrange themselves into what they hope will be an effective multipolar world, something to shift the balance of power from the currently unipolar world in which the U.S. predominates.

**Europe** – No clearer signal of diverging interests between the U.S. and Europe is available than last June’s U.S.-EU summit, held in Ireland. The entire summit lasted



### Reshuffling Alliances

“Four more years of Bush,” intoned *Der Standard*, Austria’s leading newspaper months before the U.S. election even took place. “For almost all Europeans, this is a very unpleasant idea.” Indeed, a recent poll by GlobeScan (on right), a non-partisan London-based firm, discovered that citizens in 18 of 21 countries consider the world “less secure” because of the reelection of George W. Bush. (*New York Times*, 9/4/04; *Christian Science Monitor*, 1/21/05)

After the Austrian editorialist made his original point about Europeans’ attitude about President Bush’s reelection, he added a very critical line: “But we should all get used to it.”

### How the world views Bush's second term

21,953 people in 21 countries were asked: "Do you think [President Bush's reelection] is positive or negative for peace and security in the world?" India was one of only three countries where respondents said the world was more secure.



White space represents "depends/neither" or "don't know/not applicable"

less than three hours. In another signal of declining trust, just three months before the half-day summit, the EU ruled against U.S.-based-Microsoft for anti-competitive practices, a decision recently confirmed by Europe's Court of First Instance. The decision called for Microsoft to pay \$613 million in fines and unbundle its software into component products. The decision prompted U.S. Senate Majority Leader Bill Frist (R-TN) to warn ominously that "the U.S. and the EU are heading toward a new trade war." (*Current History*, 11/04; *New York Times*, 12/23/04)

Robert Kagan, in *Of Paradise and Power: America and Europe in the New World Order* (2003), said that the two world powers parted ways after the Cold War because they live in separate realities. "Americans are from Mars," he noted, "and Europeans are from Venus," where Mars is war-like and aggressive and Venus is recessive and focused on conflict resolution. Such a pop-psychological characterization may be simplistic, but it does capture the ways in which the Cold War's Atlantic alliance has foundered in the post-Cold War environment. (*Current History*, 11/04)

If Europe is, indeed, acting as if from Venus, evidently the world is filling with more and more Venusians. Europe has had good luck exploiting its cultural link to Latin America in order to advance economic ties, but the most surprising developments have been between Europe and Asia.

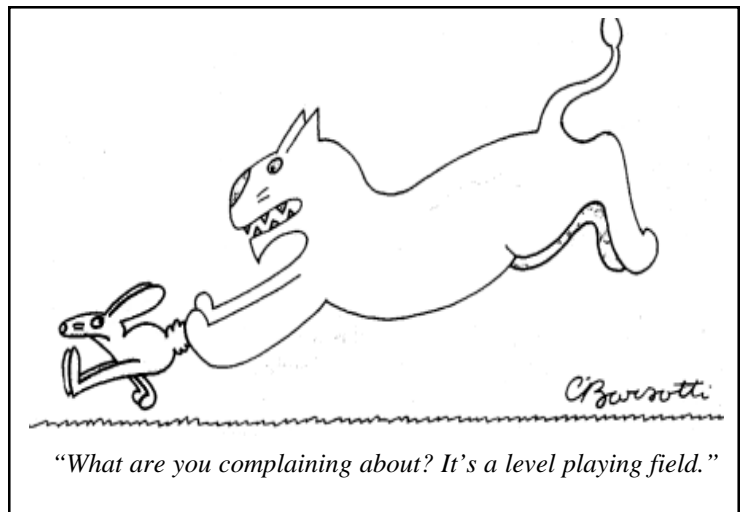
◆ In October 2004, members of an Asia-Europe Meeting (ASEM) task force proposed the creation of a bond market based on a currency basket of yen, euros and dollars (YE\$ bonds), with the dollars coming not from the U.S. but from the reserves of ASEM members. When Japan did not respond favorably, the Thai member suggested that the "Y" could just as easily stand for yuan, the Chinese currency. (*Nikkei Weekly*, 12/6/04)

◆ The EU has announced that it might lift its 15-year arms embargo against China. The announcement, made at a December China-EU summit in the Hague, followed by a week Beijing's decision to buy 23 Airbus jetliners. (*International Herald Tribune*, 12/9/04)

◆ As 2004 came to a close, China and the EU became each other's largest trade partners, with a

stunning 44 percent growth in trade during the first half of 2004, surpassing the substantive 25 percent growth rate of the prior year. (*Current History*, 9/04)

The EU-China link has become quite pronounced. In fact, Europe has designated China a "strategic partner," a stark contrast to Washington's one-time characterization of China as a "strategic competitor" (downplayed since September 11, 2001). "Having no conflict of fundamental interest," a Chinese foreign ministry publication recently explained, "China and the EU have identical or similar views on a larger number of international issues of consequence." China's oblique reference to the U.S. became more overt through a European Commission representative in the Hague. "The U.S. is the silent party at the table in all EU-China meetings, not in terms of pressure but in terms of our mutual interest in developing multilateralism and constraining American [hegemonic] behavior." (*Current History*, 9/04)



**China** – The key country in the global effort to circumvent U.S. influence and to create an economic buffer to the influence of the U.S. economy (and dollar) has been China. Beijing has taken on this role not only because of China's pace of economic growth and its need for more growth, but because Beijing has been willing to exploit the need for alternative alliances among the world's nations.

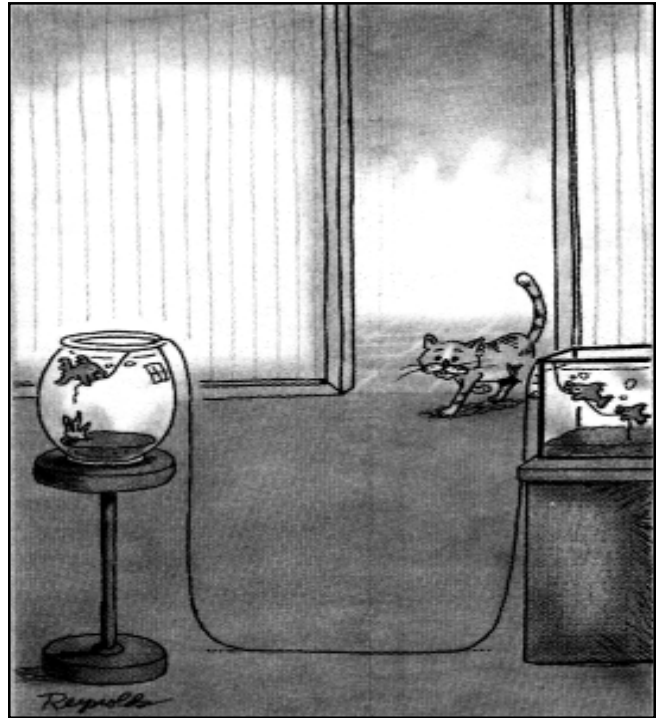
The increasingly critical role that China plays in more and more national economies is exemplified by its rising trade figures: (1) The volume of trade between

China and ASEAN countries doubled in the three years ending 2003. (2) Bilateral trade with South Korea jumped 80 percent in those same three years. (3) Between 2000 and 2003, China's bilateral trade with Brazil jumped 500 percent, with Argentina, 360 percent and with Chile, 240 percent. (4) For those same years, trade with 40 African countries increased by 50 percent. (5) During that time, trade with Japan jumped 70 percent, helping Japan surpass the U.S. in trade volume with China. (6) Last year, Chinese trade with the Philippines, Thailand and Indonesia jumped 30 percent. (*Nikkei Weekly*, 8/30/04 and 11/20/04; *Christian Science Monitor*, 11/19/04; *Financial Times*, 12/16/04; *Foreign Policy*, 1/05)

China has focused on expanding these relations because Beijing needs economic vibrancy to stabilize the country's weakening economy and to lessen domestic dissidence, a topic we will visit in an upcoming *Briefing*. The importance of international relations has kept Hu on the road. He visited Africa in January and February of last year, signing several trade accords along the way, and he made a similar trip to Europe earlier in his tenure. During a trip to Latin America prior to the APEC meeting in Santiago, local journalists noted that Hu would be spending more time in South America in that one two-week trip than President Bush did in his entire first term. While in the Southern Hemisphere, Hu offered assistance to many different countries, and for his largesse, he garnered a decision among regional leaders to recognize China as a "market economy," which will make it more difficult for World Trade Organization (WTO) members to bring anti-dumping charges against Beijing. (*New York Times*, 8/8/04; *Christian Science Monitor*, 11/19/04; *Economist*, 1/1/05)

Hu and his new government have found a way to make China important to more and more countries, as evidenced by the fact that his country recently surpassed the U.S. as the world's largest recipient of foreign investment. For instance, Malaysia's new Prime Minister, Abdullah Badawi, made Beijing his first official visit after taking office, and he took 800 business executives with him. According to Muhammad Noordin Sopiee, chairman of Malaysia's Institute of Strategic and International Studies, the relationship developed out of a "mutual concern about the unilateralism" of American policy: "[The Chinese] need regional friendships; we need regional friendships," he noted.

"They need time to develop their economy; so do we. They need protection from the United States, and so do we." (*New York Times*, 8/28/04; *International Herald Tribune*, 8/29/04)



Using that kind of cooperative logic, China has developed new, favorable relationships with countries as diverse as Australia – a staunch U.S. ally – and Myanmar. China's approach has brought it valuable rewards.

◆ In December 2004, Venezuela announced an oil agreement with China. Caracas will export 120,000 barrels of oil per month to China, just 0.2 percent of the oil China will need to import this year. More important, Venezuela granted Beijing oil and gas development rights to 15 fields in eastern Venezuela, and will allow China to build refineries there. In addition, the two countries promised to double trade during 2005. In January, Caracas suspended exploration and development for two U.S. firms, ConocoPhillips and Harvest Natural Resources of Houston (TX), the latter intended to partner with ChevronTexaco in development. (*New Orleans Times-Picayune*, 12/25/04; *New York Times*, 1/20/05)

◆ China is negotiating its first-ever free-trade accord with Chile, a mutually beneficial arrangement

between the world's largest copper producer and the world's number-one copper importer. (*Christian Science Monitor*, 11/18/04)

◆ In November 2004, China and the 10 members of ASEAN signed an accord that will create an open market of 2 billion people by 2010. The pact calls for a five-year liberalization of tariff and non-tariff barriers, leading to a free-trade zone. Future plans call for an expansion of the massive zone to include India, Japan, South Korea, Australia and New Zealand, all of whom attended the November ASEAN summit. Moreover, ASEAN and Japan agreed to proceed with discussions to form an economic partnership agreement (EPA). "Efforts to build an East Asia community," Japan's government revealed in a diplomatically encoded statement, "will contribute to the formation of a more beneficial international environment." (*Asia Times Online*, 12/1/04; *Nikkei Weekly*, 12/6/04 and 1/3/05)

◆ Last summer, China entered into negotiations with the 6 countries of the Gulf Cooperation Council to create a free-trade zone among them. Most of the planned trade would be between state-owned enterprises of the Middle East countries and China. China Petroleum & Chemical Company (Sinopec) signed a \$300 million deal last year with Saudi Arabia to develop natural gas fields. (*International Herald Tribune*, 1/13/05)

At the meeting of ASEAN and its neighbors, the attending members, including China, Japan and South Korea, decided to convert the group into a summit and to meet as such in Malaysia next year. The topic for that meeting will be the creation of an Asian bond market. (*Nikkei Weekly*, 12/13/04)

China signed a gas agreement with Iran valued at \$100 billion. Locally called the "deal of the century," the arrangement could grow to more than \$200 million in value. Iran will export to China 10 million tons of liquefied natural gas (LNG) per year for a 25-year period, and Chinese companies will

explore and drill various fields, develop pipelines and build petrochemical plants in Iran. (*Asia Times Online*, 11/6/04)

The Iranian situation brings the last major player into the ongoing global realignment: Russia. Iran wants to join the Shanghai Cooperation Organization (SCO), which was originally created to rebuff Islamic radicals in the Caucasus and elsewhere. However, it has become an alliance to address the members' misgivings about U.S. actions in the region. Both China and Russia are already members of the alliance, and their joint involvement in Iran—mostly related to energy, including nuclear power—suggests that Iran may fit into the organization's purpose.



**Russia** – In 2005, Russia and China will hold a massive joint military exercise on Chinese territory. China has become Russia's biggest customer for military arms, and the Russians will bring state-of-the-art weapons to the exercise. After decades of contention between Moscow and Beijing, the two have formed a "strategic partnership" to advance the global cause of a "multipolar world." (*Newark Star-Ledger*, 12/28/04)

Moscow has moved ahead with nuclear missile development, seeking to create weapons that can outmaneuver the emerging U.S. anti-missile system. Russian President Vladimir Putin explained to a press gathering that Russia would soon have "new nuclear-missile-systems technologies that other nuclear powers do not

and will not possess. I want all to have an understanding of this.” (*Asia Times Online*, 11/25/04)

While Russia’s military is working with China on balance-of-power issues, the Russian oil company Gazprom announced plans to expand its relationship with the China National Petroleum Corporation (CNPC). Specifically, the two will develop the fields and systems associated with the oil production segment of Yukos, Yuganskneftegas, which the Russian government recently acquired (indirectly) by public auction. Before the Kremlin’s “assault” on Yukos and its leader Mikhail Khodorkovsky, U.S. companies had been negotiating with Yukos for the rights that now belong to the CNPC. (*Financial Times*, 12/22/04)

Earlier this month, Russian Energy Minister Viktor Krishtenko made a secretive trip to Beijing, an official visit that neither Moscow nor Beijing would admit. He may have been expanding on the oil deal, an expansion that some observers thought might include selling 20 percent of Yuganskneftegas to CNPS as a palliative for the Kremlin’s nixing the oil pipeline to China that Yukos, under Khodorkovsky, had promised. Also, he may have offered to let the Chinese build a spur off the planned Siberian pipeline to the Russian coast, a line that will pass within 60 kilometers of the Chinese border. If nothing else, the quiet trip suggests that both parties are looking to expand their joint energy plans. (*International Herald Tribune*, 1/12/05)

Russia has used its recent oil wealth to strengthen ties to Central Asian countries. In October 2004, in rapid succession, Putin promised aid and development resources to Tajikistan, Uzbekistan and Kyrgyzstan. Also, Gazprom announced plans to spend \$1 billion to develop gas condensate fields in western Uzbekistan. In addition to these types of economic linkages, Moscow also received a political prize when the presidents of Kazakhstan, Kyrgyzstan and Uzbekistan signed documents admitting Russia into the Central Asian Cooperation Organization (CACO).

During a visit to Germany in December, Putin, speaking in German, noted that Moscow was willing to work with Europe to find a solution to the Chechnya uprising, an opening to outside input he has rejected in the past. He made these statements after suffering a setback in the Ukraine, where the European-leaning candidate, Viktor Yushchenko, defeated the Russian-

leaning candidate, Viktor Yanukovich. Now he is using the Chechnyan uprising as a means to solidify relations with Europe, a major customer of Russian gas. (*Financial Times*, 12/22/04)

Putin’s decision to sign the Kyoto Protocol – a global treaty to reduce carbon emissions worldwide – advanced his position among world leaders already committed to the treaty, especially since the U.S. had rejected the accord out of hand. Russia will benefit financially as well as politically because the country’s level of pollution has fallen precipitously since 1990, the treaty’s starting date for determining allotted pollution levels for each member. As a result, in the new pollution “market,” Russia will have considerable excess carbon rights to sell. But Russia’s slowness in approving the protocol proved even more valuable because that allowed the Kremlin to cast the deciding vote that put the agreement into action. Because of Putin’s Kyoto move, Europe has promised to help Russia enter the WTO, a further expansion of European-Russian relations. (*Financial Times*, 12/29/04)



## A New Look

The angry outburst that the Japanese legislator leveled at executives from Citigroup reflects a growing sense among the world’s leaders that the U.S. as a whole is moving in its own direction, for its own good, with little regard for others’ needs or wants. That attitude is starting to break through the diplomatic calm and is finding expression in public statements of reproach for the U.S. and its representatives.



Indeed, those representatives are starting to include American corporations. Twenty percent of Europeans say they will avoid buying products closely associated with the U.S. Already, sales have declined in Germany and France for McDonald's, Coca-Cola and Marlboro. That attitude could well have motivated European regulators and the EU court to insist recently that Microsoft change its practice of bundling software products to increase market share. Negative attitudes are spreading among citizens of the Group of Eight (G-8) countries against companies and products like American Express, America OnLine (AOL), American Airlines, Budweiser, ChevronTexaco and Barbie Dolls. Mitchell Eggers, chief pollster for Global Market Insite, which took the surveys, explained the connection between American policy and foreign consumer attitudes. "When allies view American foreign policy as arrogant and self-interested, we damage our reputation for being powerful, innovative and, most important, fair." (*Financial Times*, 11/23/04; *New York Times*, 12/23/04)

The sense of the United States as arrogant and self-interested is driving foreign leaders to reassess existing relationships and to move toward new political and economic arrangements that better serve their own needs. They are finding new "friends" who share this perspective in order to stabilize their situation *vis à vis* the superpower status of the U.S. These emerging alliances seek openly to advance the possibility of a multipolar world, and they seek to establish alliances that might be helpful in future crises.

While this motivation may seem narrowly geopolitical, the effects of the new attitudes and emerging alliances are broadly economic. Many of the new connections call for expanded economic ties – whether through direct investment or enhanced trade. But the attitudes and actions get more specifically economic as these countries, individually and in alliances, try to insulate themselves from the influence of the dollar and American policies, especially as related to deficits and debts. These countries are looking to develop viable alternatives to the American dollar and to the American market. Their economic actions, driven by the geopolitical realignments discussed in this part of the *Briefing*, are the subject of Part II.

