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American Foreign Policy, the Dollar and Putin's Pivot

Chickens Coming Home to Roost

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It is more than ironic that with an economically unsustainable $17 trillion debt, the US continues to overreach itself with assorted political threats and untenable military adventures as it dares to challenge Russia, the world's leading energy producer and China, its largest creditor, in a dangerous duel for dominance. Like most bullies, just beneath the verbose intimidations, lies a vulnerable government on alarmingly thin ice with a fear of the future, even panic at the potential loss of influence and diminished power.

Not previously known as historic political allies with more of a remote association in the past, their new politico-economic alliance has motivated Russia and China, via mutual threats from the US, to identify the benefits of a mutual partnership – which has already begun to boomerang on the US unipolar vision of the world. As a result of the recent crisis in Ukraine, Vladimir Putin's response to the attempt to box-in Russia has shown some impeccable timing with the St. Petersburg International Economic Summit occurring immediately after his visit to China and a recognition that globalization, for better or worse, has proven there are economic opportunities beyond the EU and US.

While the Obama Administration will never admit it, the agreement between Russia-China for a strategically-located pipeline which will transport 38 billion cubic meters of natural gas to 'clean' energy-starved China worth $400 billion, represents a mega-significant shift in US plans for total global authority and that the President's risky military policies have provided a window of opportunity for a new geopolitical axis independent of US influence.

With a $25 billion advance payment, the signing of contracts in Shanghai last week by Gazprom (which has thus far avoided US sanctions) and the CNFC (China National Petroleum Corporation) representing the world's largest consumer base, signifies a strategic game-changer and a win-win for both countries.

Displaying a flexibility that gives new meaning to the adage that when one door closes another opens, Putin's move toward China begins an offset to any speculative reduction of gas supply to Europe especially since the most recent deal provides only 10% of China's energy needs; thereby providing Russia with an open market for future business.

Even as Gazprom supplies up to 30% of Europe's natural gas, former British diplomat William Mallinson predicted that the contract "will obviously make Gazprom less reliant on profits of European markets. This will put it [Russia] in a stronger position because Europe will still need cheaper Russian gas than American LNG which is extremely expensive. So it actually makes Russia even more independent …and less reliant on the European markets."

Of special interest is the agreement between the VTB, Russia's second largest bank and the Bank of China to pay all financial interactions in local currency while establishing a bilateral Committee on Investment Cooperation. The assortment of more than 40 contracts expected to increase trade between Russia and China at an estimated $200 billion includes a cross-border rail bridge with an estimated annual traffic of 21 million tons, is in addition to a proposed $30 billion Russia to India pipeline via China, 'gas swaps' for goods and electricity as well as a $10 billion Russia-Iran deal for new thermal and hydroelectric plants and the export of electricity to Iran – none of which will be paid for by the dollar.

If the US believed that its economic sanctions (a violation of international law) would bring Russia to its knees, especially its absurd efforts to target members of Putin's inner circle, and that Russia had no choice but to acquiesce to NATO and the US/EU, one cannot help but wonder what myopic thinkers in the Obama Administration concocted such an ill-thought out strategy that missed the obvious: that the 1990's style of geopolitical confrontation is no longer relevant in a global economy and that the 115 non-aligned countries and BRICS (Brazil, Russia, Indian, China, South Africa) will develop their own strategic partnerships without asking the US for permission as they are no longer willing to accept the notion of American Exceptionalism. In 2011, the BRICS agreed to use their own currencies instead of dollars in international trade representing an ultimately significant blow to an already struggling dollar.

It is the comingling of US military and economic dominance; one being dependent on the other and what is good for the dollar is good for US business and what is good for US business assures US dominance, that enables the government to finance its wars. Without the dollar as the basis for world reserve currency, the ability of the US as a global superpower to dictate world events inevitably diminishes. In fact, what purpose does the outdated concept of a world reserve currency serve?

With the US pivot to Asia and its role in ousting a democratically elected President in Ukraine, it seems safe to assume that the BRICS proposals for an alternative to OPEC, the IMF and WTO were revivified during Putin's visit to China. And with the 6th Annual BRICS conference scheduled for Brazil, the membership of oil-rich Iran may be on the agenda since BRICS has already signaled its concern about "threats of military action as well as unilateral sanctions" in recognition of "Iran's right to peaceful uses of nuclear energy consistent with its international obligations."

Upon reflection, the Visa and Master Card self-imposed ban on doing business in Russia has been amended with both companies willing to transfer processing centers inside Russia that would "not depend on decisions made by foreign governments' and to be integrated into an alternative card system not controlled by western banks – and who would not have predicted that would happen? The Chinese Union Pay system has already overtaken American Express in global volume.

If all this seems overly optimistic or too pessimistic, a review of the Major Holdings of US Treasury Securities Chart provides a fascinating glimpse into how stable some of the world's power players regard the US economy and how vulnerable the dollar is to international exigency.

For instance, in February, a sudden bulk sale of $104 billion worth of securities was enough to send the Fed Bank into a tailspin until a week later when Belgium (Belgium?) saved the day with a purchase of $141 billion, obviously enough to offset the loss. It is more than curious that Belgium, home to NATO and other important EU institutions and with a GDP of $480 billion increased its holding $200 billion from $180 billion in October, 2013 for a current grand total of $381 billion in March, 2014 – moving into third place ranking of US Treasuries largest holders.

Also noteworthy is how Belgium's neighbor teeny-tiny Luxembourg, host to the EU's Court of Justice, purchased $15 billion worth of Treasuries, up from $130 billion in November, 2013 to $145 billion in March, 2014.

Since neither country is regarded as a European financial powerhouse, where do they come up with that kind of cash unless, of course, they were acting as a proxy for some other interested entity. Who else besides the Fed Bank has enough at stake to magic-presto create the necessary funds for both purchases?

The second largest holder of US securities is Japan, as the Chart shows what appears to be an abrupt sale of $10 billion which seems curious given its status as a prospective partner in the Trans Pacific Partnership which failed to fulfill its destiny on President Obama's recent visit.

China, Treasury's largest customer with $1.272 trillion, shows no new purchases since March, 2013 and one can surmise that the Obama Administration's announcement of its "Pivot to Asia" announced in October, 2011 has had a deleterious effect on that country's commitment to the US economy.

And in case you are wondering, Russia owned $153 billion worth of US Treasuries in March, 2013 and with a $26 billion sale in February, 2014, is currently the owner of a mere $100 billion – right after Ireland, Luxembourg and Hong Kong.

It may be time to start counting the chickens coming home to roost.