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## THE TEXAS HEDGE REPORT

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### OUR CONVERSATION WITH ZBIGNIEW BRZEZINSKI



Zbigniew Brzezinski served as United States National Security Advisor to President Jimmy Carter from 1977 to 1981. Dr. Brzezinski is a co-founder of the Trilateral Commission, a group of prominent political and business leaders and academics from the United States, Western Europe and Japan. He is currently a professor of American foreign policy at Johns Hopkins SAIS, a scholar at the Center for Strategic and International Studies, and a member of various boards and councils. In 1981, he was awarded the Presidential Medal of Freedom for his role in the normalization of U.S.-Chinese relations and for his contributions to the human rights and national security policies of the United States. He was also a member of the President's Chemical Warfare Commission (1985); member of the NSC-Defense Department Commission on Integrated Long-Term Strategy (1987-1988); and member of the President's Foreign Intelligence Advisory Board (1987-1989). In 1988, he was co-chairman of the Bush National Security Advisory Task Force. His most recent book, *The Choice: Global Domination or Global Leadership*, was published by Basic Books in March 2004.

**It is our opinion that the liberation of Central/Eastern Europe is one of the most underappreciated events in recent history. When visiting Warsaw, Riga or Prague, one cannot help but think about the contributions that statesmen, such as yourself and President George H.W. Bush, have made to the lives of the people there. Given that NATO & the EU have expanded to Russia's doorstep, what do you think is next for the region including Belarus, Moldova and Serbia? Are there any potential dangers/threats lurking beneath the surface that keep you awake at night?**

I think the potential threat that one should not ignore is the rigid attitude of Russia on such issues as Moldova and Belarus. That could create some complications. Moreover, the Russians are likely to be



very critical of current Western plans to give some form of independence to Kosovo, and they may exploit that to stir up the Serbs against the West. They may also exploit that to grant official recognition or sovereignty to the secessionist regions of Transdniestria, Ossetia and Abkhazia. That would certainly complicate things in the short run.



Do you think that this is pipeline politics as well on the Russians' part?

I don't think these issues specifically refer to pipelines. They have much more significance in terms of Russia's view of itself as essentially still the dominant power in the space of the former Soviet Union. And having a strong position in these places like Transdnier, in their base in Sevastopol, in their residual bases in Georgia, not to mention Ossetia and Abkhazia, in effect draws the outer boundaries of the former Soviet Union.



Let's turn to China. In your most recent book, you suggested that it is in China's interest to "subtly promote a distinctive Asian political identity through the cultivation of an Asian economic community that eventually entices Japan." Given that America needs \$1 million of Asian capital every minute in order to maintain its current standard of living, there could be painful consequences in the form of a Dollar devaluation should China, Korea or Japan reassess their appetite for US Treasuries. If an independent and powerful Asian community emerges, should policymakers be concerned about one or all of these countries using the "Dollar weapon" against America? After all, they hold over \$2 trillion of our greenbacks.

In the long run, one certainly cannot exclude that risk. But in the short run, apart from some prematurely loud speculation on the part of some South Koreans, the policymakers in these countries recognize the fact that they have a very major stake in American financial stability. They know that they

would derive no real economic benefit from upsetting the applecart. At some point in the future, political pressures or ambitions or even conflicts could precipitate some temptation to exploit that potential American vulnerability. But I think in the short run, there is still too much dependence on their part in global stability, derived in large measure from American stability, for them to do something that could turn so much against their own interests.



Do you think the first potential catalyst might be the Taiwan issue?

That is an example of something that could be extremely inflammatory. But one can never exclude some other unexpected developments - for example a Chinese-Japanese naval collision over the undersea oil assets in the Senkaku Islands with America naturally and necessarily siding with Japan. Things of that sort could of course precipitate the surfacing of political passions to obscure economic reality.



Another historical pillar of support for the Dollar has been the recycling of so-called “petrodollars” from OPEC nations into our securities markets. Since oil is priced and traded in Dollars, many producing nations will take their proceeds from petroleum sales and invest them in US Treasuries. In 2000, Iraq switched to pricing their oil in Euros and came out ahead as the Dollar depreciated significantly in 2001 & 2002. Next year, Iran is slated to open its Iranian Oil Bourse and will price transactions in Euros – a move that seems logical for Iran as almost half of its trade is with countries in the Euro zone. If other OPEC nations were to follow suit and price their oil in currencies other than Dollars, should America use carrots, sticks or neither to prevent such a scenario?

Well, first of all, I think one has to bear in mind the very important difference between Iran and other OPEC nations. Iran is both ostracized by the United States and essentially self-sustaining insofar as its security is concerned. The majority of the OPEC nations in the Persian Gulf region are highly dependant on American political and military support. And the growing uncertainty regarding Iraq’s longer range prospects combined with the increased role of Iran in the area as supporter of Shiite aspirations, if anything, reinforces the security and political dependence of these countries on the United States. If we do not pursue in an irrational fashion our sloganeering about democracy, which for many of them is a formula for destabilization, then I think for some time to come they will still be very sensitive to our interests. On the other hand, if we begin to be totally unresponsive to their concerns, then they’ll have to try to secure their own interests in a manner that is more effective in advancing their well-being. But I think that really does depend a great deal on how we conduct ourselves in the region and my expectation is that we will be sensitive to the degree to which their dependence on us involves actually the reality of interdependence. And it is not in our interest to jeopardize that.

Five years ago, the Council on Foreign Relations conducted a policy simulation in which a small number of experienced policymakers worked through the options and constraints facing the U.S. government in the aftermath of a sudden and significant stock market decline. The objective of this project was to help prepare for an unexpected financial mishap, and perhaps take steps to mitigate its adverse consequences, both at the domestic and international level. Do you think the health of the U.S. securities markets is a national security issue in the same league as terrorism and nuclear proliferation?

I would differentiate not just between those two, but between all three. That is to say nuclear proliferation is a long-range danger because it will take time for nuclear proliferation to go beyond states and to make nuclear weapons available to terrorist groups. So that is a very long-range risk. Terrorism would be a very serious national security risk if [the terrorists] had access to weapons of mass destruction. For the time being at least, terrorist activities around the world still rely largely on the same tools that they did some fifty or even one hundred years ago, that is to say explosives and fire weapons. The [health of] securities markets is a national security issue in the sense that if there was a really significant unexpected financial mishap, the consequences of that for America’s position in the world and for Americans’ self-confidence would be dynamic and highly inimical to our overall national security. So of those three, this is the one that potentially has the greatest shorter-term impact, but that depends on factors that I am not in the position to judge as to their likelihood. I suspect that a sudden and significant stock market decline is unlikely to be precipitated by factors originating from America’s internal conditions. It would be more likely to originate from some totally unexpected massive



catastrophic event that jolts the entire international community and precipitates widespread panic and irrationality.

**How effective a “regime change” tool would you deem the ability to prop up or push down other countries’ securities markets?**

That depends entirely on how disruptive the process of regime change is. As we have discovered in the case of Iraq, it can be far more disruptive than we anticipated. If it could be done, so to speak, from the top-down with relatively little social/political dislocation, then sure.

**Would a successful example of this include the Saudis in the early 1980s getting together with President Reagan and suggesting that lower oil prices might cause regime change in the former Soviet Union?**

Well I don’t think that was really very much ever the case. But I think what we did for example in Iraq was definitely a regime change. We could perceive something like this happening elsewhere without that excessive a set of dislocations. For example, the overthrow of the Mosaddeq regime in Iran in 1953 was a regime change but with relatively little aftershocks.

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