

COMPETITION OVER WORLD'S OIL RESOURCES AND THE
REPRODUCTION OF THE US HEGEMONY

A THESIS SUBMITTED TO
THE GRADUATE SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY

BY

MUZAFFER KÜÇÜK

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE
IN THE DEPARTMENT OF
INTERNATIONAL RELATIONS

SEPTEMBER 2011

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ABSTRACT

COMPETITION OVER WORLD’S ENERGY RESOURCES AND THE REPRODUCTION OF THE US HEGEMONY

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September, 2011, 186 pages

This thesis seeks to analyze the role and importance of establishing control over the world’s oil resources in reproduction of the global hegemonic position of the US. It is asserted that dominant position of US dollar in global financial system has an important place in reproduction of US world hegemony and ensuring that oil transactions are made through US dollar has played an important role in maintaining the dominant position of dollar. It is also argued that secure access to cheap energy resources is of utmost importance for advanced industrialized nations of the world in terms of maintaining their economic growth. In this respect, this thesis portrays US policies and strategies to take world’s energy resources under its control and thereby maintain the dollar hegemony and making the advanced industrialized nations of Western Europe and East Asia dependent on US goodwill for secure access to energy. Being an important actor in global energy market, competition and cooperation between Russia and US is also taken into consideration. In this thesis, it is assumed that the US world hegemony is achieved through both cooperation and competition among advanced industrialized states.

Keywords: US hegemony, energy, oil, US dollar

ÖZ

DÜNYA PETROL KAYNAKLARI ÜZERİNDE HAKİMİYET MÜCADELESİ VE ABD’NİN DÜNYA HEGEMONYASININ YENİDEN ÜRETİMİ

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Yüksek Lisans, Uluslararası İlişkiler Bölümü

Tez Yöneticisi: Prof. Dr. Mustafa Türkeş

Eylül 2011, 186 sayfa

Bu tez dünya petrol kaynakları üzerinde kurulmaya çalışılan hakimiyetin ABD’nin dünya hegemonyasının yeniden üretimindeki rolü ve önemini incelemeyi amaçlamaktadır. Amerikan dolarının dünya finansal sistemindeki üstün konumunun ABD’nin dünya hegemonyasının yeniden üretimindeki rolünü dikkate alarak uluslararası petrol ticaretinin Amerikan dolarıyla gerçekleştirilmesinin dolar hakimiyetinin devam ettirilmesindeki önemine odaklanır. Öte yandan, ucuz enerji kaynaklarına erişimin gelişmiş kapitalist ülkelerin ekonomik büyümelerinin devam ettilmesindeki rolünü göz önünde bulundurarak ABD’nin dünya enerji kaynakları üzerinde hakimiyet kurma ve söz konusu gelişmiş kapitalist ülkeleri enerji ihtiyaçları üzerinden kendisine bağımlı hale getirme stratejisini ele alır. Dünya enerji piyasasında önemli bir konuma sahip olması sebebiyle Rusya ve ABD arasındaki rekabet ve işbirliğini içeren ilişkileri de dikkate alır. Global hegemonyasını yeniden üretirken ABD’nin gelişmiş kapitalist ülkelerle bir yandan rekabet ederken bir yandan işbirliği girişimlerinde bulunduğu gözlenir.

Anahtar kelimeler: ABD hegemonyası, enerji, petrol, Amerikan doları

ACKNOWLEDGMENTS

I wish to express my deepest gratitude to my supervisor Prof. Dr. Mustafa Trkeř for his guidance, advice, criticism, encouragement, insight, kindness and self-sacrificing attitude throughout the research. He even sacrificed from his summer holiday for providing me with his irreplaceable academic assistance. Without him, writing this thesis would not have been possible.

I would also like to thank Prof. Dr. İlhan Uzgel and Assoc. Prof. Dr. Ebru Boyar for their suggestions, comments and corrections.

Special thanks go to my family, especially to my lovely sister Funda Kk, for their moral support, caring and patience.

Lastly, I would like to thank TUBİTAK for its financial support throughout my studies.

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LIST OF ABBREVIATIONS

IMF	- International Monetary Fund
GATT	- General Agreement on Tariffs and Trade
SOCAL	- Standard Oil Company of California
CASOC	- Californian-Arabian Standard Oil Company
ARAMCO	- Arabian-American Oil Company
AIOC	- Anglo Iranian Oil Company
CFP	- Compagnie Francaise des Petroles
OPEC	- Organization of Petroleum Exporting Countries
OAPEC	- Organization of Arab Petroleum Exporting Countries
EMU	- Economic and Monetary Union
SEA	- Single European Act
WMD	- Weapons of Mass Destruction
EMS	- European Monetary System
EROEI	- Energy Return on Energy Invested
OTEC	- Ocean Thermal Energy Conversion
NEP	- National Energy Policy
NEPDG	- National Energy Policy Development Group
PNAC	- Project for a New American Century
BTC	- Baku-Tbilisi-Ceyhan
SCO	- Shangai Cooperation Organization
CSTO	- Collective Security Treaty Organisation
CNPC	- China National Petroleum Corporation
SCO	- Shangai Cooperation Organization

CHAPTER I

INTRODUCTION AND THEORETICAL FRAMEWORK

Today, despite the ongoing search for the development of renewable energy, it is estimated by many experts that in the short and medium term, for the production of energy the world will continue to be dependent upon fossil fuels (coal, natural gas and oil) which are distributed unevenly throughout the world. Heinberg warns that “we should not allow a false belief in a miraculous replacement of fossil-fuels by alternative renewable energy resources”. He adds that self-limitation is the only realistic and sustainable alternative.¹ It was estimated by International Energy Administration that in 2008, petroleum, coal and gas had 33,1%, 27% and 21.1% share respectively in world’s primary energy consumption amounting to an 81,2 % share for fossil fuels in total. Non-fossil sources in 2009 included hydroelectric, nuclear², combustible renewable and waste, and other renewables (geothermal, solar, wind) amounting to 2,2 %, 5,8 %, 10 % and 0,7 % percent respectively.³ Energy produced from fossil-fuels is quite significant for industrial sector, transportation, residential sector and agriculture.⁴ A modern industrial economy will not be able to function without these fundamental energy resources. Uneven distribution of fossil fuels and the ambition of states to secure the supply have paved the way for hot

¹ Richard Heinberg, *The Party’s over: Oil, War and the Fate of Industrial Societies* (New Society Publishers: New York, 2003), p. 117.

² Nuclear energy and energy produced from wood are non-fossil sources and non-renewable at the same time.

³ International Energy Agency, “Share of total primary energy supply in 2008”, available at http://www.iea.org/stats/pdf_graphs/29TPESPI.pdf (accessed on 08.05.2011).

⁴ See International Energy Outlook 2010, US Energy Information Administration, for detailed data indicating global primary energy by End-Use Sector, July 2010, available at [http://www.eia.gov/oiaf/ieo/pdf/0484\(2010\).pdf](http://www.eia.gov/oiaf/ieo/pdf/0484(2010).pdf), pp. 5-7 (accessed on 08.05.2011).

confrontations throughout the history. Capturing these valuable resources was one of the significant factors in the outbreak of the two world wars. If we take into consideration the fact that few areas are left for exploration and consumption has been growing consistently, today it is even more critical to gain control over them.

At this point, it is plausible to discuss briefly the significance of fossil fuels for capital accumulation and industrialization in order to understand why capturing of these resources is so crucial. Huber states that fossil fuel energy had a significant transformative role over the productive forces since one of the most important aspects of the energy shift to fossil fuels is a “displacement of human muscle power as the core productive force of production.”⁵ This shift had crucial social implications for the workers with nothing to sell but their labor. The steam engine which required fossil fuels to boil water and produce energy was antagonist of human power; an antagonist that enabled the capitalists to neglect the growing demands of the workers.⁶ Actually, steam engine was the key driver for the Industrial Revolution. Having access to cheap and abundant fossil fuels can partially explain why Britain had been the first country ever to start Industrial Revolution.⁷

In the course of the process from input to output man and nature work together; they are both equally important. Capitalism is an expansionary system, and everything is interpreted as a raw material for the process of value and surplus value

⁵ Matthew T. Huber, “Energizing Historical Materialism: Fossil Fuels, Space and the Capitalist Mode of Production”, *Geoforum*, 40/1 (2008), p. 108.

⁶ Karl Marx, *Capital*, Vol.1 (Vintage Books: New York,1867), p. 499.

⁷ Kenneth Pomeranz, *The Great Divergence: China, Europe, and the Making of the Modern World Economy* (Princeton University Press: Princeton, 2000), p. 20. Pomeranz accepts that cheap fossil fuels played an important role in industrialization of Britain. However, he conceives the capital inflow from America to Britain as the main reason of the rapid industrialization of Britain.

production.⁸ In other words, every kind of natural resources and raw materials need to be integrated into the capitalist system of value production including fossil fuels.

Therefore, access to cheap inputs for production can be a factor in overcoming the crisis of capitalism. Harvey states that if the cost of inputs (land, raw materials and labor) decreases, capital accumulation is possible even there is not a huge demand in the market. For this reason, access to cheap inputs is as significant as access to expanding markets. This is why for the capitalist logic, non-capitalist territories should not only be open to free trade but also they should be forced to permit profitable investments of the capital to cheap labor, raw materials and cost-efficient lands.⁹ Being one of the most significant inputs in production, access to cheap fossil fuels decrease the cost of production and this explains imperialist expansion towards fossil-fuel rich countries and competition among imperialist powers to capture them.

This study attempts to analyze the role and importance of establishing control over the world's oil resources in reproduction of the global hegemonic position of the US. The US has consolidated its hegemonic position in the world after the end of World War II and then tried to maintain that position. This study aims to explore the relationship between competition over world's oil resources and the reproduction of US hegemony. It is assumed that the US world hegemony is achieved through both cooperation and competition among advanced industrialized states.

After introducing the theoretical framework which this study is based upon, in the second chapter, an account of competition over oil will be outlined as a

⁸ Elmar Altvater, "Is there an ecological Marxism?", Lecture at the Virtual University of CLACSO – Consejo Latinoamericano de las ciencias sociales, 2003, available at http://attachberlin.de/fileadmin/Sommerakademie/Altvater_EcologicalMarx.pdf (accessed on 15.05.2011), p. 18.

⁹ David Harvey, *New Imperialism* (Oxford University Press: New York, 2003), p. 139.

historical background. In order to better understand the historical competition over world's oil resources, first of all, the 19th century British hegemony will be investigated. The role and importance of controlling world oil resources in maintenance of British hegemony will be explored. In addition, the extent to which competition and cooperation over world oil resources played a role in outbreak of the World War I and World War II will be examined. Lastly, in this chapter, consolidation of US hegemony after the World War II will be outlined. The extent to which controlling world oil resources played a role in consolidation of domestic and global hegemony of the US will be portrayed.

In the third chapter; first of all, the challenges to US world hegemony particularly in the post Bretton Woods period and the policies and strategies of US to counter these challenges will be explored. Then, it will be investigated how the neo-liberal hegemonic project led to reproduction of the US hegemony in the post Bretton Woods period. Special emphasis will be given to financialization of the US economy and the role of petro-dollar recycling system in consolidation of neo-liberal hegemonic project and thus the US world hegemony. At this point, the impact of financialization and petro-dollar recycling system on the deindustrialization of US economy and growing foreign debts of the US will be elaborated. Moreover, in this chapter, the impact of First Gulf War on the consolidation of US world hegemony in the post Cold War period will be analyzed. Lastly, the US strategies to counter the possible challenges of Russia and East Asian countries to its world hegemony will be put forward.

The fourth chapter will dwell upon the impact of the emergence of Euro on the US world hegemony. In addition, Second Bush Administration's policy to maintain petro-dollar recycling system will be investigated. In this respect, Bush's

National Energy policy will be explored. Particular attention will be given to the importance of Gulf War for the creation of the new world order in the post Cold War period.

The fifth chapter attempts to examine the status of dollar and petro-dollar recycling system after the end of Second Gulf War. In this respect, Russian strategies and policies with regard to energy will also be taken into account. Furthermore, the cooperation and competition between US and China as the rising power of the world will be explored.

At this point, it should be underlined that this study will not discuss the competition among these powers merely in the context of territorial competition. Both the territorial and capitalist logics of competition will be taken into consideration in order to indicate the interdependent and dialectical relationship between state and capital. Harvey argues that there is not a functional or one-sided relationship but a dialectical and problematic relationship between territorial and capitalist logics of power.¹⁰ If this dialectical relationship is used, economic or political reductionism can be avoided while analyzing capitalist imperialism. Capitalism historically required some form of political organization and protection normally provided by the state.¹¹ Also, capitalism with its crisis-prone nature and emphasis on competition leads to economic competition among individual capitals at global level as well as national level. This increases the dependence of individual capitals on support of their nation-states.¹² On the other hand, state has an interest in providing the most appropriate conditions for the capital since capital accumulation

¹⁰ Harvey, *Ibid.*, p. 30.

¹¹ Stephen R. Gill and David Law, "Global Hegemony and Structural Power of Capital", *International Studies Quarterly*, 33/4 (1989), p. 479

¹² Alex Callinicos, "Does Capitalism Need State System", *Cambridge Review of International Affairs*, 20/ 4 (December 2007), p. 541.

is the only way for economic growth and without economic growth it is really difficult for any state to survive.¹³ In addition, development of capitalist relations of production provides an advantage in the process of inter-state geopolitical competition. This gives every state an interest in the promotion of capitalist development.

On the other hand, while investigating the issues raised above, this study will not stick to mainstream realist or liberal theories. On the contrary, these mainstream theories will be challenged and insights of the critical international theories particularly those of Neo-Gramscian approach with a historical materialist methodology will be utilized. Although, there are lots of commonalities among the critical theories of international relations, it must be stated that Neo-Gramscian approach and Marxism differ from other critical theories in international relations in the sense that both of them use an historical materialist methodology. Therefore, at this point, it is plausible to dwell upon the critical thinking in general and Neo-Gramscian approach in particular and compare and contrast it with the mainstream theories in international relations and put forward the advantages of approaching the issues from critical point of view.

Neo-Gramscian approach like other critical theories do not take the existing order for granted. It tries to question the existing order and tries to find out how the political, economic and social structures in that order came into being and whose interests are served in the existing order. This is why in the second chapter of this study the historical background of US hegemony will be explored. Mainstream theories are ahistorical in the sense that they do not take into consideration what

¹³ Gonzalo Pozo-Martin, "Autonomous or Materialist Geopolitics?", *Cambridge Review of International Affairs*, 20/ 4 (December 2007), p. 561.

happened in the past and how the existing order came into being. They point to the flaws in the existing system and find the ways of fixing them. This is why Cox classifies theories as problem solving and critical theories.¹⁴ Problem solving theories consider the world as the best of all possible worlds. It is status-quo oriented and it offers the maintenance of the existing structures through reforms. For instance, in traditional theories, modern state is taken as the natural form of political community. In contrast, critical scholars consider the world imperfect and try to explain the roots of the system. Benefiting from the historical materialist methodology, neo-Gramscian approach critically analyzes and tries to transform the existing system and consider alternative forms of political community since they believe that there are various inequalities and injustices in that system. It aims to bring about a fair and a just system through emancipating the people subjected to exploitation rather than legitimizing and consolidating the existing social forms. Therefore; in this study the current world order, US hegemony and the competition among the advanced capitalist countries will be problematized and critically reviewed rather than looking for solutions to fix the anomalies of the existing order.

In addition, Neo-Gramscian approach as well as Marxism emphasize class struggle for understanding structural change. In this study, the domestic and global class struggle will be taken as one of the most important factors shaping strategies of US for the reproduction of its hegemony and the reproduction of global capitalism itself.

Furthermore, in contrast the statist and power based approach of realism; Neo-Gramscian approach takes the internal as well as international social forces and the global economic actors into consideration in explaining international relations.

¹⁴ Robert Cox, "Social Forces, States, and World Orders: Beyond International Relations Theory", *Millennium: Journal of International Studies*, 10/2 (1981), p. 128.

The modern structural realist theory of International Relations is based on fundamental distinction between international and domestic politics. In domestic realm, thanks to social contract created among self-interested individuals and the monopoly power given to state with respect to use of force, problem of anarchy is resolved. However, in international realm, theoretically all states are sovereign and principle of non-intervention prevents states from intervening in each others' internal affairs. In the absence of higher authority and in the context of anarchic environment, sovereign states encounter one another with suspicion and hostility. Neoliberalism added to this state-centric world the liberal concern with contractual relations of cooperation claiming that international interdependence can create more cooperative forms of interaction which could be facilitated by regimes and international organizations.¹⁵ In contrast, Neo-Gramscian approach tries to explain the connections among internal social forces, states and world politics and better integrate the domestic and international levels of analysis. As Cox suggests comprehensive understanding of world order must account for interactions between social forces, states and the world orders. World orders are grounded in social relations and observable changes in military and geopolitical boundaries can be traced to fundamental changes between capital and labor.¹⁶ Therefore, in this study, both the domestic and international social and economic forces that form the US hegemony will be taken into account.

On the other hand, in traditional theories, state is considered as rational actor acting for the general interest of the society. In this sense, state acts autonomously from the social forces both at internal and external level. Economics and politics are

¹⁵ Mark Rupert, "Producing Hegemony: State/Society Relations and the Politics of Productivity in the United States", *International Studies Quarterly*, 34/4 (1990), p. 428.

¹⁶ Robert Cox, *Production, Power and World Order: Social Forces in the Making of History* (Columbia University Press: New York, 1987), p. 129.

distinguished from each other although some degree of influence is accepted. Social relations in which economics is embedded are treated as something external. Economy is evacuated of social content and depoliticized.¹⁷ However, without understanding the process how the policies and strategies of a particular state are formulated at the societal level, it is not appropriate to analyze their reflections at international level. Since state-centric realist view disassociates state from social relations of production and perceives states' policies as a natural outcome of rational behavior, realism misses the process in which a particular policy is formulated at the internal level. In other words, realism neglects the interrelationship and interaction between domestic and international levels. Government is the implementing actor of a particular policy at the international level. Government needs to convince the people that this policy is in favor of general interest and for the good of the society. Only after receiving the acceptance of society through various mechanisms of consent and coercion a state can begin implementation of that particular policy at the international level. Thus, in this study, the formation of US hegemony at domestic level will also be taken into account.

Lastly, in Neo-Gramscian approach, concept of hegemony differs from the orthodox realist usage. In Orthodox realist usage, hegemony refers to the dominance of one state over other states and is largely a case of direct exertion of power. There are different perspectives in realist paradigm. One of them is the idea of hegemonic stability which emphasizes that under conditions of anarchy international order and stability depends on the existence of hegemony.¹⁸ On the other hand, according to the

¹⁷ Ellen Meiksins Wood, *Democracy Against Capitalism: Renewing Historical Materialism* (Cambridge University Press: Cambridge, 1985), p. 21.

¹⁸ Charles Kindleberger, *World in Depression, 1929-1939* (University of California Press: Berkeley, 1973), p. 305.

“after hegemony” thesis developed by Keohane the stability of the system is not associated with the continuation of the hegemony. Keohane argues that even if the hegemonic power is undermined, cooperation among the actors of the system based on their mutual interests is enough for the stability of the system.¹⁹

This study will dwell upon the neo-Gramscian concept of hegemony which implies a specific mixture of consent and coercion and will elaborate the US strategies to receive the consent of other advanced capitalist states and to coerce them in accordance with its own interests. Unlike the realist view which reduces hegemony to a single dimension of dominance based on economic and military capacities of state, neo-Gramscian approach to hegemony developed by Cox broadens the domain of hegemony.²⁰ According to Cox,

Hegemony is an expression of broadly-based consent manifested in the acceptance of ideas and is supported by dominant social forces within states. These forces then project themselves outwards on a world scale.²¹

For Gramsci, hegemony is a concept used to analyze the relation of forces in a given society. A hegemonic order is one where consent rather than coercion primarily characterized the relations between classes and between the state and the civil society. Therefore, hegemony does not equal domination without moral or intellectual leadership. Intellectual and moral leadership is one of the necessary components of hegemony. It is not simply a case of dominance through sanctions, punishments or inducements. Hegemony is understood as an opinion-shaping activity

¹⁹ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton University Press: Princeton, 1984), p. 100.

²⁰ Andreas Bieler and Adam David Morton, “A Critical Theory Route to Hegemony, World Order and Historical Change”, *Capital and Class*, 28/1 (2004), p. 87.

²¹ Cox, op.cit, 1987, p. 139.

rather than brute force and dominance. Receiving the consent of the dominated and exploited class has a critical role in reproduction of hegemony. Gramsci's state is an extended and an integral one which reflects the fact that under certain conditions there is often an organic fusion between state and the civil society. The power of the ruling class or class friction over others is partly exercised through the state. While consent is created through the various mechanism of civil society, coercion makes itself visible in state apparatus.²²

Hegemony within a historical structure is constituted within three spheres of activity which are social relations of production, forms of state and the world order. There is a dialectical relationship between these forces. Within each of three main spheres, three elements are necessary to constitute a historical structure which are ideas, material capabilities and institutions.²³

Pattern of production is starting point for analyzing hegemony. Different modes of social relations of production give rise to particular social forces within and across the states. Changes in social relations of production give rise to new configuration of social forces. Hegemony is exercised by dominant social and political forces or historical bloc. This term refers to a historical harmony between material forces, institutions and ideologies or broadly to an alliance of different class forces. Thus a historical bloc is the organic link between political and civil society. A successful bloc is politically organized around a set of hegemonic ideas, called the dominant ideology. For a new historic bloc to emerge its key elements must engage in conscious planned struggle.²⁴ This is not simply an issue of capturing state. Any

²² Antonio Gramsci, *Prison Notebooks* (Columbia University Press: New York, 1992), p. 20.

²³ Cox, op.cit., 1987, pp.135-138.

²⁴ Ibid., pp.139-140.

new historic bloc must have not only power within the civil society and economy but also persuasive ideas and arguments. Therefore, historical bloc requires alliance between different classes and within a historical bloc, interests and desires of social groups other than dominant capitalist class must also be satisfied. In other words, it indicates the integration of a variety of different class interests that are propagated throughout society.

Applying Gramsci's ideas internationally Cox has demonstrated that it is possible to conceive of hegemony and the formation of historical bloc on a world scale. Once hegemony is consolidated domestically, it may expand beyond a particular social order to move outward on a world scale and insert itself through the world order.²⁵ According to Gill and Law, this provides us with the opportunity to theorize what role such blocs might play in promoting broad changes in the process of capitalist development including shifts from one social structure of accumulation to another within the broader confines of a particular mode of production.²⁶ Furthermore, they argue that Cox's concept of social structure of accumulation is paralleled by that of a 'regime of accumulation' used by Jessop.²⁷ Such a regime involves class and intra-class relations including the mode of life and composition of labor force, its political organization, the labor process and legal regulation of work. It also involves forms of regulation concerning the scope of markets and the freedom of enterprise at both national and global level. Therefore, a regime includes the forms of socio-economic production which together constitutes the conditions of existence of economic development in a particular historical period. Such a conceptualization

²⁵ Ibid.

²⁶ Gill and Law, op. cit., p. 477.

²⁷ For detailed analysis of regulation theory see Bob Jessop, "Regulation Theory, Post-Fordism and the State: More Than a Reply to Werner Bonefield", *Capital and Class*, 12/1(1988), pp. 147-168.

could help us better understand the shifts from Keynesian welfare states to neo-liberalism under the leadership of US and how US steered the economic direction of the world in a way to maintain its hegemony.

On the other hand, in order to receive the consent of other nations, the world hegemony develops a universal ideology and tries to impose its own way of life and culture on other nations. This gives the world hegemony a chance to manipulate other nations of the world in accordance with its own interests. When these mechanisms appear as insufficient for the reproduction of hegemony, military mechanisms step in. In this study, the historical blocs formed to create and maintain US world hegemony will be given particular emphasis. The various mechanisms of consent and coercion used by the US to control world's energy resources and the reproduce its own hegemony will be investigated. Here, it will be benefited from the concept of passive revolution which is derived from the conservative tradition going back to Edmund Burke, who argued, that in order to preserve its most essential features, society had to adjust to changes.²⁸ This concept was further developed by Gramsci, who used it to refer to a style of state politics that preserves control by a leading group on the one hand while instituting economic, social, political and ideological changes on the other. Gramsci considered passive revolution as “in the context of war of position by other means, as a revolution from above that sidesteps the need for fundamental restructuring from below.”²⁹

²⁸ Anne Showstack Sassoon, “Passive Revolution and The Politics of Reform” in A. S. Sassoon (ed.) *Approaches to Gramsci* (London: Writers and Readers Publishing Cooperative Society Ltd, 1982), p.15.

²⁹ Antonio Gramsci, *Selections From Prison Notebooks* (International Publishers: New York, 1971), pp. 106-120, cited in James H. Mittelman, *The Globalization Syndrome: Transformation and Resistance* (Princeton University Press: Princeton, N.J, 2000), p. 167.

Using this concept, in the fifth chapter of this study, it will be argued that the US makes every effort and tries every strategy to realize passive revolutions in China and Russia.

Lastly, it has to be indicated that Neo-Gramscian perspectives mostly focus on a succession of hegemonic regimes from the liberal international economy (1789-1873) under British leadership, to an era of rival imperialisms (1873-1945), and then to the post-Second World War era of pax-Americana under US leadership. In this study, this periodization will be taken into consideration.

CHAPTER II

HISTORICAL BACKGROUND OF COMPETITION OVER OIL AND THE US WORLD HEGEMONY

2.1. Introduction:

In this chapter, an account of competition over energy will be outlined as a historical background. In order to better understand the competition over energy resources, first of all, the 19th century British hegemony will be investigated. The role and importance of controlling world oil resources in maintenance of British hegemony will be explored.

In addition, the extent to which the competition and cooperation over world oil resources played a role in outbreak of the World War I will be portrayed. Then, the process which led to Red Line Agreement of 1928 between British and US oil companies will be examined. Furthermore, the role played by the cooperation and competition among the world's leading powers over the world oil resources in outbreak of World War II will be explored. In the next part of the chapter, consolidation of US hegemony after the World War II will be outlined. In addition, the extent to which controlling world oil resources played a role in consolidation of domestic and global hegemony of the US will be detailed.

2.2. 19th Century British Hegemony and Challenges It Faced

According to Engdahl, the British hegemony during 19th century was based on three pillars. The first pillar of British hegemony was its control of the seas and world shipping trade. Britain's domination of international banking and finance was the second pillar of British hegemony as credits of London banks were required for financing the shipping trade. The third pillar was Britain's geopolitical domination of world's major raw materials- cotton, metals, coffee, and coal and by the end of the century, the petroleum.³⁰ For the maintenance and the reproduction of this hegemony, a historical bloc was established around British government, financial elite and the traders. Interests of the traders and financial elite were strongly supported by the British government through using various mechanisms of consent and the coercion. In line with the interests of financial and trade bourgeoisie, idea of free trade was promoted by the British government. Actually, free trade has been at the center of British economic strategy to maintain its hegemony. It was calculated that free trade would strengthen the domination of international trade by the British capital at the expense of less-developed nations since they had relative disadvantage vis-à-vis Britain. As Luxemburg indicates, in order to resolve the crisis of capitalism emanated from the underconsumption phenomena and to stabilize the gap between demand and supply, it is crucial to open non-industrialized developing territories to free trade.³¹ Geographical expansion of capitalism creates demand for both investment and consumption goods and thereby stabilizes the system. It is in this context that the Great Britain furthered the banking and merchants' interests by

³⁰ William Engdahl, *A Century of War-Anglo-American Oil Politics and the New World Order* (Pluto Press: London, 2004), p. 2.

³¹ Rosa Luxemburg, *The Accumulation of Capital* (Monthly Review Press: New York, 1968), pp. 416-17.

publicly demanding China to open its ports to free trade during the British Opium Wars.³² This particular incident shows us that if any country is reluctant to allow free trade, applying force against this country is inevitable. For further promotion of the idea of absolute free trade, a new weekly journal of the London merchant and finance interest, the *Economist*, was founded in 1843.³³ This journal can be regarded as one of the most important instruments for ideological manipulation towards free trade and thereby receiving the domestic consent.

Legal actions were also taken to reinforce the idea of free trade. Corn Laws designed to impose trade barriers to protect cereal producers in the Britain against competition from less expensive foreign imports between 1815 and 1846 was abolished in the name of free trade in May 1846. It can be argued that abolition of this law symbolized the domestic consolidation of the historical bloc centered around British financial elite and the traders and created convenient atmosphere for further expansion of this historical bloc internationally. While the domestic agriculture and interests of British farmers were ruined by the repeal of Corn Laws, the only ones to benefit were the giant international trading houses and the merchant banks who financed them. By removing duties on grain, Britain provided a new market for other countries' agricultural products and created incentives for them to adopt the idea of free trade.³⁴

In this context, increasingly during the last decades of 19th century, while maintaining core imperial possessions in India and the Far East British capital flowed

³² The First Opium War took place in between 1839-1842 while the Second Opium War broke out in between 1856-1860.

³³ See Cheryl Schonhardt-Bailey, *From the Corn Laws to Free Trade: Interests, Ideas and Institutions in Historical Perspective* (MIT Press: Cambridge, 2006) for further discussions regarding the commitment of the *Economist* to idea of free trade and domestic debate in Britain with respect to abolition of Corn Laws.

³⁴ Scott C. James and David A. Lake, "The Second Face of Hegemony: Britain's repeal fo the Corn Laws and the American Walker Tariff of 1846", *International Organization* ,43/1(Winter 1989), p. 2.

into particular under-developed countries such as Argentine to invest on their national rail and transportation infrastructure.³⁵ This means that non-capitalist territories should not only be open to free trade but also they should be forced to allow profitable investment by allowing capital making use of cheap labor and raw materials. As Magdoff puts it, “imperialism is not a matter of choice for a capitalist society; it is the way of life of such a society.”³⁶ For this very reason, as Harvey indicates, the capitalist logic of power does not aim to prevent capitalist development of the territories in the periphery. Harvey states that self-destructive colonial pressures as in the case of British-Indian relations which seem to be in contradiction with this argument should be regarded as domination of the territorial logic of power over capitalist logic.³⁷

Despite the cooperation among top bankers and financiers of London, government, and heads of key industrial companies for maintaining British world hegemony, in 1870s, a deep economic depression began in Britain. The signals of economic crisis came already in 1857. In that year, to prevent future outflows of gold from London banks caused by a foreign run on the international gold reserves held by the Bank of England, interest rates were increased to make sure that gold eventually flow back into the banks of London.³⁸ This interest rate policy gave further harms to British manufacture and agriculture. There was already the lack of capital investment since the promotion of free trade and the repeal of Corn Laws destroyed British industry and agriculture. According to Arendth, the excessive savings which could not find productive investment opportunities within the national

³⁵ Engdahl, op.cit., p.7.

³⁶ Harry Magdoff, *The Age of Imperialism: The Economics of U.S. Foreign Policy* (Monthly Review Press: New York, 1969), p. 26.

³⁷ Harvey, op.cit., p. 140.

³⁸ Engdahl, op.cit., p. 8-9

borders results in imperialist expansionism. However, uncontrolled investments overseas transform capitalist economic system to financial speculation system.³⁹ This comment of Arendth clearly explains the economic crisis that the British economy faced in early 1870s. With the promotion of idea of free trade and increasing overseas expansionism, the dominant societal force in British economic was not industry or agriculture anymore but finance and international trade.

On the other hand, capitalist states of the world felt very much threatened by the Paris Commune of 1871 since the established order in France was overthrown violently. Bismarck's Germany's policy was to give some concessions to the workers so as to ensure their loyalties into the system. In Britain, due to economic depression, in last couple decades of 19th century, Joseph Chamberlain, a British businessman and also a statesman, emerged as the leading figure that represented welfare-national state ideology.⁴⁰ His strategy was a combination of imperialism, protectionism and social reform in order to ensure the working class loyalty to the system and to sustain reproduction of capitalism.⁴¹ Welfare and warfare were the primary concerns of both Britain and Germany. Receiving the loyalty of the workers was the most significant factor for the satisfaction of these concerns. The social measures taken by the governments of the both countries served to the purpose of neutralizing working class and consolidate their hegemonic projects. Internal consolidation of hegemony was crucial for success internationally.

Through the end of 19th century, while the financial speculations came to dominate the British economy, Continental Europe led by Germany recorded

³⁹ Hannah Arendth, *Imperialism* (Harcourt Brace Janovich: New York, 1968), p. 118.

⁴⁰ Cox, op.cit., pp.173-174.

⁴¹ Ibid.

dramatic rates of industrial growth thanks to national economic protectionist measures. Britain's lead with respect to industry had been overtaken by Germany and the US. Industry was the basis of military and naval power and economic growth. Competition for power required states to promote their own industrial bases. This led to revival of protectionism and expansionary strategies for markets and colonies. Domestic markets were not seen sufficient to absorb the products of national industries. Raw materials had to be found outside. Outlets for surplus capital were sought. Industrial growth was necessary to sustain the fighting capabilities of states and overcome the cyclical crisis of capitalism and naval power was required to give those capabilities global reach. As Cox puts it "from 1871 to 1914 there was peace between major European powers but rivalry shifted to Africa, Far East and the Pacific."⁴² Competition for new markets and resources led to inter-imperialist competition and rivalry. Division of world into colonies, scramble for Africa, plundering of world's natural resources by the imperialist power and racial doctrines to legitimize and rationalize all the violence were all reflections of inter-imperialist competition. This competition ultimately led to outbreak of two world wars.

In the context of this inter-imperialist rivalry, the US was becoming a power more dominant than other imperialist powers economically and technologically. This could be attributed to distinctive societal relations of US. In the absence of remnants of aristocratic and feudal relations, the ruling class purely reflected the interests of bourgeoisie.⁴³ The domestic ruling structure was based on principles like individualism, private property and maximization of profit. These principles are protected through the constitution of the US. On the other hand, US internalized a

⁴² Ibid., p.155.

⁴³ Eric Hobsbawn, *Globalization, Democracy and Terrorism* (Clays Ltd: Great Britain, 2007), p. 61.

distinctive type of racism. Despite being a multi-ethnic society, the black people and native inhabitants were externalized and isolated. This racism was combined with idealism to cover imperialist ambitions of the US. Imperialist expansionism was legitimized in the name of spreading its values and ideals to the world. Against European expansionism, with Monroe doctrine put forward by US President James Monroe in 1823, it was already declared that America is independent from Europe and thus under de-facto US sphere of influence. Isolationist views feared that intervening into international problems could harm internal structure of the US and restricted the imperialist moves of US except when some particular US companies forced the government for protecting their particular interests.⁴⁴ On the other hand, while in principle US respected the sovereignty of Southern American countries as in the case of Argentine, through establishing preferential trade relations, clientalism, patronage and hidden force US was willing to establish its hegemony over these countries.⁴⁵

Engdahl indicates that in the face of rising German and US powers, a new debate has started among the British elite over how to maintain empire and power. Maintaining the British naval supremacy and geopolitics of oil have become the most important parts of this debate.⁴⁶ Being one of the most important factors of production, controlling oil resources of the world has become crucial for Britain for both mitigating the economic crisis and for preventing other industrialized states to challenge its hegemony since these industrialized states needed oil to sustain their rapid economic growth. In other words, if Britain's stagnating industry could not compete with Germany and the US, then she would control the raw materials on

⁴⁴ Harvey, op.cit., p.48.

⁴⁵ Ibid.

⁴⁶ Engdahl, op. cit., p.10.

which German and US industry is dependent on. Divergence after 1873 between the depressed economy of British Empire and the emerging industrial economies of Continental Europe and the US created the background of World War I. Particularly, industrial emergence of Germany was seen as a threat to Britain's global hegemony. British elite was alarmed due to two specific aspects of Germany's industrial development which were emergence of modern German naval fleet and the ambitious German project to construct a railway linking Berlin with Baghdad.⁴⁷

2.3. Rising Importance of Oil

First of all, it should be noted that starting from late 19th century, oil has become crucial for both US and Britain. It became crucial for Britain to modernize its navy and thus to sustain its military dominance and to prevent possible challenges directed against its world hegemony coming from advanced industrialized nations of the world. For the US, oil was becoming increasingly important for becoming one of the leading powers in the world.

In early 1900s, the US was self sufficient in terms of its oil needs while Great Britain was dependent on foreign oil. The US had its own fields in Pennsylvania, Texas, California and Oklahoma and it was the world's largest exporter in the world. Britain depended heavily on oil from the US, Russia, Dutch East Indies and Romania.⁴⁸ Therefore, Britain witnessed several governmental interventions into oil industry.

⁴⁷ Ibid., p.11.

⁴⁸ Bruce Andre Beaubouef, "The Strategic Petroleum Reserve: US Energy Security, Oil Politics and Petroleum Reserves Policies in the Twentieth Century", A Doctoral Dissertation, University of Houston, 1997, p. 25.

Actually, as early as 1880s, Britain began to realize the military-strategic implication of petroleum for future control of the world seas. Britain's Admiral Lord Fisher argued in 1882 that Britain must convert its naval fleet from coal-fired propulsion to new oil fuel due to qualitative superiority of petroleum over coal as a fuel.⁴⁹ As soon as Fischer was appointed as the commander of British Navy in 1890, he established a committee to search for oil around the world since neither in British soils nor in the colonies, it was not discovered sufficient amount of oil.⁵⁰

The US government was also aware of the importance of oil for the modernization of its navy. However, unlike Britain, in the US, industry opposition and resistance in congress blocked direct government intervention. On the other hand, rising oil prices and growing anti-trust sentiments led to dissolution of Oil Trust (Standard Oil Company) in 1911. Instead of direct intervention, the US government backed the US oil companies in their attempts to secure overseas concessions. This should be evaluated as a part of US open door policy implying equality of access and treatment for US nationals overseas. After the First World War as the US domestic demand for all oil products during the 1920s reflected a dramatic increase from 429 million barrels in 1920 to 888 million on the eve of 1929.⁵¹ Throughout these years, the US was a net exporter of oil. In 1929, the US imported only 145 million dollars in oil products and exported 962 million dollars.⁵² The US was concerned about the British control of oil supplies around the world which are of great significance for US navy and industry. In 1920, a report prepared

⁴⁹ Ibid. , p. 27.

⁵⁰ Volkan Ş. Ediger, *Osmanlı'da Neft ve Petrol* (ODTÜ Yayıncılık: Ankara, 2005), p. 247.

⁵¹ Stephen J. Randall, *United States Foreign Oil Policy since World War I* (McGill-Queen's University Press: London, 2005) , p.3.

⁵² Ibid, p.2.

by the Subcommittee on Mineral Raw Materials indicated that the trend was towards increased reliance on oil products for naval and commercial shipping. It concluded that the US would find itself dependent on imported petroleum to meet its domestic and industrial needs. Therefore, it suggested that government should adopt a policy of encouraging, assisting and protecting US citizens in securing and developing petroleum properties in other countries.⁵³ In this context, at domestic level, Mineral Leasing Act of 1920 prohibited foreign ownership of leases except through stock ownership in a corporation.⁵⁴ At international level, overseas investments of the US companies intensified and by 1927, one-tenth of US overseas direct investments was in petroleum operations.⁵⁵

In this context, early decades of 1900s witnessed a competition among the oil interests of the US and Britain together with other great powers of the world. In 1908, Britain secured significant exclusive rights over Persian oil resources by convincing British national William Knox D’Arcy, an amateur geologist and engineer to sign over his exclusive rights to Persian oil resources in an agreement with Anglo-Persian Oil Company.⁵⁶ In May 28th 1901, in exchange for a significant sum of cash, the Shah awarded D’Arcy a royal concession giving him “full powers and unlimited liberty for a period of sixty years to probe, pierce and drill at their will the depths of Persian soil, in consequence of which all sub-soil products sought by him without exception will remain his alienable property.”⁵⁷ Five northern provinces

⁵³ Ibid, pp. 15-16.

⁵⁴ Brian Gray, “Mineral Leasing Act (1920)”, available at <http://www.enotes.com/major-acts-congress/mineral-leasing-act> (accessed on 04.05.2011).

⁵⁵ Randall, op.cit., p. 3.

⁵⁶ Engdahl, op.cit., p.21; Daniel Yergin, *The Prize: The Epic Quest For Oil, Money and Power* (Free Press: New York, 1991), p.148.

of Iran were not included in the agreement as they fell within Russian's unofficial sphere of influence.⁵⁸ D'Arcy paid some cash and agreed to pay the Shah a 16 per cent royalty from sales of whatever petroleum was discovered.⁵⁹ However, Sidney Reilly, a British spy, managed to persuade D'Arcy to renounce his rights in favor of Anglo-Persian Oil Company. In 1914, the British Government took a controlling position in the Company by buying 52.5 percent of the Anglo-Persian's voting power of the stock. The result was a 40-year supply contract for the sale of fuel oil to the British navy at special discount prices.⁶⁰

D'Arcy and the British government were not interested only in Iranian oil. In cooperation with British government, D'Arcy was pushing for concessions over Ottoman territories. In 1904, D'Arcy proposed 3 million francs to Ottoman Empire in exchange for oil concession for 60 years. Also, 15 percent of the revenues from oil would be given to Ottoman government. However, Britain was not the only imperialist power having interest over Ottoman oil. The US and Germany were also after Ottoman oil. A proposal was made by Colonel Colby Chester to Ottoman government for a concession over Ottoman oil in 1908.⁶¹ However as early as 1889, a group of German industrialists and bankers led by Deutsche Bank secured a concession from the Ottoman Empire to build a railway through Anatolia which later on became known as Berlin-Baghdad railway project. In 1912, Germany was given rights to all oil and minerals on a parallel 20 kilometers of the rail line by the

⁵⁷ Engdahl, *Ibid*.

⁵⁸ Roger Howard, *The Oil Hunters: Exploration and Espionage in the Middle East* (Continuum Books: New York, 2008), p. 34.

⁵⁹ Ediger, *op.cit.*, p.245.

⁶⁰ Donald N. Wilber, *Iran Past and Present* (Princeton University Press: Princeton, 1976), p. 267.

⁶¹ John A. DeNovo, "A Railroad for Turkey: The Chester Project, 1908-1913", *The Business History Review*, 33/ 3. (Autumn, 1959), pp. 300-329; Ediger, *op.cit.*, p. 265.

Ottoman Sultan Mehmet Reşat. Britain decided to sabotage the Berlin-Baghdad link at any cost since it was believed to create a huge block of territory producing every kind of economic wealth under German authority. This increased the strategic importance of the transit countries on the way of the railway dramatically. Engdahl notes that “one little strip of territory alone blocked the way and prevented the two ends of the chain from being linked together which is Serbia”.⁶² Conflicts and wars in Balkans in 1912 and 1913 helped weaken the completion of Berlin- Baghdad rail link.

At this point, it has to be indicated that Germany realized that it is not possible to achieve this huge project on its own and searched ways of reaching compromise with Britain, France and Russia. Ediger notes that with Anglo-German agreement on Baghdad Railway and Mesopotamia in June 15th 1914, some of the problems were resolved.⁶³ The size of the final leg of the railway was beyond the resources of German banks to finance alone. Germany made couple of concessions and agreed not to include Basra in the railway project. Anyway, the projected line of the last part of the railway would go right through the area believed to hold large oil reserves, the area between Mosul and Baghdad.

Despite the efforts shown by Germany to convince Britain for the construction of Berlin- Baghdad railway, Britain was well aware that construction of such a railway could distort its world hegemony. Therefore, while entering into negotiations with Germany to gain time, in order to deal with rising German power, a shift has already occurred in British balance of power strategy from the traditional pro-Ottoman and anti-Russian stance to pro-Russian and anti-German alliance

⁶² Engdahl, op.cit., p. 34.

⁶³ Ediger, op.cit., p. 278.

strategy in the last quarter of 19th century. Britain, France and Russia formed a secret military alliance (Triple Entente) against the German and Austria-Hungarian powers.⁶⁴ It can be argued that Germany's efforts to receive the consent of other Great powers proved unsuccessful since vital interests were at stake.

When Britain declared war against Germany in 1914, British economic system was in crisis due to increasing competitive power of Germany and the financialization of the British economy. With the war, one of the main objectives of Britain was to crush its greatest industrial rival Germany as well as securing the unchallenged control over petroleum which proved itself as strategic raw material of future economic development. Also, in the context of rising importance of oil for modernization of armies, abundant and secure supplies of oil were becoming increasingly essential to be successful in the battlefield.

2.4. Competition over Oil During and After World War I

Securing petroleum supplies was already at the center of military planning in the World War I. After the failure of the Gallipoli campaign which was conducted to help Russia in 1915, a secret force was formed in 1917 by the allied powers for operations in the Caucasus known as Dunsterforce. It was given the task of protecting oil fields of Russian Baku from Ottoman army.⁶⁵ The capitulation of their Russian ally and the collapse of the Eastern Front was a big blow for the interest of Allied powers. Even with the signing of the Treaty of Brest Litovsk in 1917, the

⁶⁴ The Triple Entente was the name given to the alliance among Great Britain, France and Russia after the signing of the Anglo-Russian Entente in 1907.

⁶⁵ Lieutenant Timothy C. Winegard, "Dunsterforce: "A Case Study of Coalition Warfare in The Middle East", 1918-1919, *Canadian Army Journal*, 8/3 (2005), p. 93.

Allies feared that Germany would continue its advance in the East. The German goal was to capture the important natural, industrial and military resources of an internally disordered Russia.⁶⁶ In this context Lloyd George, Prime Minister of the United Kingdom, stated that:

Although the Bolshevik Government of Russia had deserted the Entente and signed a separate peace with Germany, it was obvious in these circumstances that the Entente could not afford to abandon Russia to the domination of Germany...which stood to gain from its treaty spoils...of foodstuffs and fodder, of oil and minerals...⁶⁷

Having these troubles in Caucasus, Middle East oil became even more important for Allied powers in the context of oil shortages of 1917 and 1918.⁶⁸ During the war, with the Sykes-Picot agreement signed between UK and France in 1916, oil-rich soils of Middle East were already partitioned between France and Britain. After 1918, Britain continued to maintain its soldiers throughout the Middle East in order to control the region and thus the oil resources there. Britain granted France the oil concessions of Mosul due to her relative weakness following the failure in Gallipoli. However, Britain's loss of the Mosul oil riches was only a tactical retreat to dominate the world petroleum supplies in the long-term. Making these secret arrangements were not enough. It was also necessary to force the people living on those valuable territories to accept British domination. They had to be included in the historical bloc being formed by Britain. In order to do so, Britain made a commitment for post war Arab independence in order to secure Arab revolt against Ottoman rule during the war with a series of letters from Sir Henry McMahon, British High Commissioner in Egypt to Sheriff Hussein of Mecca, the

⁶⁶ Ibid., p.94.

⁶⁷ Lloyd-George, *War Memoirs Vol. VI*, pp. 3157-3158, cited in Winegard, *ibid.*, p. 95.

⁶⁸ Yergin, *op.cit.*, p.188.

leader of the Arab revolt.⁶⁹ After the war, Britain with its approximately 1 million strong military force in the region established its military supremacy over also French area of the Middle East including Northern Iraq and Syria.⁷⁰ Due to French inability to deploy sufficient troops into the designated French areas after the exhaustion of war in Europe Britain offered to act as the overall supreme military and administrative guardian.

On the other hand, in place of costly occupation of the colonies, with the idea of British Commonwealth of Nations, members of the Commonwealth of were given the illusion of independence enabling Britain to reduce the high costs of armies of occupation from India to Egypt. Britain's grand objective was to link "England's vast colonial possessions from gold and diamond mines of Cecil Rhodes and Rothschild's Consolidated Gold Fields in South Africa to oil resources of Middle East."⁷¹ By 1920, Britain had succeeded in establishing control over South Africa thanks to Boer Wars. In addition, by means of its military presence, the establishment of mandates over Iraq and Palestine with San Remo Resolution, Britain established its hegemony over the petroleum wealth of the former Ottoman Empire.

All in all, Britain emerged from the world war as the dominant super power of the world geopolitically. However, Britain owed the US 4.7 billion in war debts and its domestic economy was in deep post-war crisis. Britain's economic dominance was in question.⁷² With massive unemployment, high debts and a

⁶⁹For full text of the letter see Modern History Sourcebook, Sir Henry McMahon: Letter to Ali ibn Husain, 1915, available at <http://www.fordham.edu/halsall/mod/1915mcmahon.html> (accessed on 05.08 2010).

⁷⁰ Engdahl, op.cit., p. 44.

⁷¹ Ibid., p.48.

⁷² Frank C. Costigliola, "Anglo-American Financial Rivalry in the 1920s" *The Journal of Economic History*, 37/4 (1977), p.914.

relatively meager gold reserve, British hegemony was seriously threatened by rising financial power of the US.⁷³ During the First World War, Britain incurred debts equivalent to 136% of its gross national product, and its major creditor, the US, began to emerge as the world's strongest economy.⁷⁴ By the beginning of 1920s, despite the positive impacts of the post-war settlements on the British imperial power, it was under threat from the US economic power.

At this point, it is plausible to examine the economic and financial relations between the US and Britain. Since 1870s, Britain's most important market for foreign investment had been the US. Britain named private New York banking house J.P Morgan to be its sole purchasing agent for all war supplies from US. Morgan has become Britain's exclusive financial agent for all British lending from private US banks. From 1915 to 1917, the export department of J.P. Morgan and Co. negotiated more than \$3 billion of contracts to Britain and France.⁷⁵ Britain in turn became the guarantor of all war purchases and loans of French, Italians and Russians. A giant credit pyramid was formed. The threat of British and French collapse in 1917 after revolution took place in Russia led to a propaganda campaign initiated by Morgan and New York bankers for US to enter the war against Germany.⁷⁶

Already in 1913, Wilson signed the Federal Reserve Act which promoted the interests of elite circles of the house of Morgan and benefited the New York's

⁷³ Ibid., p. 911.

⁷⁴ "Britain After War", available at http://www.nationalarchives.gov.uk/pathways/firstworldwar/aftermath/brit_after_war.htm (accessed on 12.05.2011).

⁷⁵ Murray N. Rothbard, "Wall Street, Banks, and American Foreign Policy", available at <http://www.lewrockwell.com/rothbard/rothbard66.html> (accessed on 08.05.2011); Harry N. Scheiber, "World War I as Entrepreneurial Opportunity: Willard Straight and the American International Corporation", *Political Science Quarterly*, 84/3 (1969), p. 494.

⁷⁶ Engdahl, op. cit., p. 51.

emerging role as international capital center. Once Morgan and allied New York bankers tasted the role of the world's leading financial power, they seemed willing to do anything to keep their control on that power.⁷⁷ In 1917, the Federal Reserve mobilized sales of Liberty Loans and bonds to finance US government war costs. Bonds of US Treasury were sold through Morgan and the other leading New York investment houses. Morgan's commission on this business was huge.⁷⁸ Morgan shifted its private British government loans over to the general debt of the US Treasury as soon as US officially entered the war making the British debts the burden of the American taxpayers. The US government made itself simply a useful instrument for the extension of the new power of New York's international bankers.

Profits from the new European lending were far greater than gains from investment in post-war US economic expansion. American loans flooded to Europe and rest of the world. This would open the door for US to gain dominant power over the world gold supply and thereby power over world credit. Britain had to either defeat this threat or contain it through cooperation.

As part of its efforts to institutionalize the Anglo-American partnership and thereby take its guard against possible US challenge to its world hegemony, Royal Institute of International Affairs was formed during the Versailles talks in 1920. The first mission of the new institute was to write the official history of Versailles peace conference. In addition, New York Council on Foreign Relations was established to further the ties between US and the Britain. This council was composed of men from Morgan and financed by the Morgan. Foreign Affairs magazine became the official

⁷⁷ Ibid, p.54.

⁷⁸ Rothbard, op.cit.

magazine of this council.⁷⁹ On the other hand, in order to balance the growing US influence in the world's financial system, no concessions were allowed to the US companies in British Middle East. American oil and banking community feared that Britain was on the way towards securing a global monopoly on oil at US expense.⁸⁰ After the war, the newly drawn Middle East boundaries were dominated by British government interests through British covert ownership of Royal Dutch Shell and the Anglo-Persian oil company. San Remo agreement of 1920 gave France a 25 per cent share of oil exploited by the British Mesopotamia (Iraq) while it was agreed that Mesopotamia would become a British mandate under the aegis of League of Nations.⁸¹ The remaining 75 per cent control of the huge Mesopotamian oil concessions was directly in the hands of British government through Anglo-American Oil Company and Royal Dutch Shell. Sir Henry Deterding, a British citizen who headed Royal Dutch Shell and served as an agent of British secret intelligence secured dominant control over oil reserves of Mosul and Mesopotamia by promising French a share in French Syria.⁸² Engdahl notes that the San Remo Agreement of 1920 to make post-war settlements was the work of Sir John Cadman then head of the Petroleum Imperial Policy Committee later head of British government's Anglo-Persian Oil Company.⁸³ It ensured French support for a global oil domination of Britain centered around the oil riches of the Arab Middle East of old Ottoman Empire. In 1921, the British Colonial Office Middle East Department

⁷⁹ Engdahl, op. cit., p.55.

⁸⁰ Costigliola, op.cit., p. 912.

⁸¹“Anglo-French Oil Agreement is Out”, *New York Times*, July 24,1920, available at <http://query.nytimes.com/mem/archive-free/pdf?res=FA0716FA3B5910738DDDAD0A94DF405B808EF1D3> (accessed on 11.02.2011).

⁸² Ediger, op.cit., p.332.

⁸³ Engdahl, op. cit.,p.59.

was established. It decided to rename Mesopotamia as Iraq and gave it to the son of Hashemite Husain ibn Ali of Mecca, Feisal bin Husain. British Royal Air Force aircraft was permanently based in Iraq and its administration was placed under the effective control of Anglo-Persian Oil Company.⁸⁴ In line with its open door policy, US was demanding equal treatment for American oil companies considering the fact that American oil resources were depleting in the context of rising consumption. However, British Foreign Secretary Lord Curzon was determined not to open the doors for US oil companies.

In between 1921 and 1924, Anglo-American rivalry also took place in Iran. In 1921, the Iranian government agreed to grant Standard Oil of New Jersey a concession in the five northern provinces of Iran. The Iranian government thus made it clear that under no condition would it allow the Anglo-Persian Oil Company to establish itself in northern Iran. Frustrated by this action of Iranian government, British government ordered to stop all payments to the Iran including the royalties of the Anglo-Persian Oil Company. In January of 1922, the president of Standard Oil of US, Alfred Cotton Bedford, decided to withdraw from negotiations not to drag Standard Oil Company into an international political crisis relating to Iran.⁸⁵

Actually, British government and the private companies acted with great harmony to establish British control over the petroleum reserves of the world. Four companies played a crucial role in this process. Royal Dutch Shell under Deterding a Dutch native was under control of British government. In 1897, realizing the importance of controlling the vast overseas terms of trade, Deterding formed a

⁸⁴ Ediger, op.cit., p.364-365.

⁸⁵ Mamed Abbasov, The Anglo-American Oil Controversy in Iran 1919-1924, available at <http://www.khazar.org/jas/text/politics.html>, (accessed on 05.04.2011).

strategic alliance with a ship transport company. He merged his Royal Dutch Oil Company with London-based Shell Transport and Trading.⁸⁶

In addition, Anglo Persian Oil Company was there to exploit oil reserves of Persia and the Middle East. The British authorities created another related company closely tied to the British Foreign Office which was called The D'Arcy Exploitation Company. The agents of D'Arcy Exploitation Company seemed the agents of British government. The last one was a Canadian company namely British Controlled Oilfields. It was secretly owned by Britain and its mission was to secure key oil provinces for Britain in Central and South America countering American Rockefeller Companies.⁸⁷ According to Randall, Latin American oil fields in late 1920s and early 1930s were more significant than those in Middle East for the interests of the US. The Federal Oil Conservation Board recognized Latin American oil resources as a primary target for US interests in 1926.⁸⁸ In the final analysis, there was a competition between British and US oil companies to capture the oil resources of Latin America. In this context, when British Controlled Oilfields secured concessions from Tinoco government in Costa Rica, the US did not recognize Tinoco government and intervened in 1921 using a border dispute between Costa Rica and Panama as a pretext. New Costa Rica regime declared all previous concessions as null and void and gave US oil companies new concessions.⁸⁹ As it can be seen from this case, military intervention remained always as a useful instrument in competition over world's energy resources. Venezuela also became a battleground when new

⁸⁶ Ediger, op. cit., p. 233.

⁸⁷ Engdahl, op.cit., p. 63

⁸⁸ Randall, op.cit., p. 69

⁸⁹ Engdahl, op.cit., p. 75

wells were discovered in Orinoco. Both British Controlled Oilfields and Standard Oil obtained important concessions from Venezuelan government.⁹⁰

By 1925, despite the challenges of US, British companies controlled the major parts of the world's future supplies of petroleum. In an article in a British *Sperling's Journal* dated September 1919, Sir Edward Mackay Edgar examines the overall situation with respect to competition over world's major oil reserves:

Shell group owns exclusively or control interests in every important oil field in the world, including the US, Russia, Mexico, the Dutch East Indies, Romania, Egypt, Venezuela, Trinidad, India, Ceylon, the Malay States, North and South China, Siam, the Straits Settlements, and the Philippines. America before long will have to purchase from British companies and to pay for, in dollar currency in progressively increasing proportion, the oil she cannot do without, and is no longer able to furnish from her own store.⁹¹

This comment clearly indicates that Britain was aware of the future importance of controlling world oil reserves for sustaining British hegemony against possible challenges of the US.

However, Germany's unexpected move complicated British strategy and resulted in a closer collaboration with US during the inter-war period.⁹² With the Rapallo Treaty of 1922 Soviet Union agreed to forgive its war reparations claims on Germany and in return Germany agreed to sell industrial technology to Soviet Union. Germany had the world's second industrial economy after the US and Soviet Union had vast amount of unexplored natural resources.⁹³ With this treaty, German machinery and equipment, steel and other technology was to be sold to Soviet Union

⁹⁰ Ibid.

⁹¹ Anton Mohr, *The Oil War*, (New York: Harcourt Brace, 1926), p. 223.

⁹² Engdahl, op.cit., p. 64

⁹³ James C. Corum, "Devil's Bargain: How Germany Conspired With Russia 1919-1933", *World War II*, 23/6 (2009), p. 52

for the building and expansion of her Baku oilfields at a time when both Britain and the US have been attempting to get concessions over Russian oil. In return, German would establish a network of jointly owned German-Soviet oil and gasoline distribution centers in Germany to sell the Soviet oil under the firm DEROP, the Deutsch-Russische Petroleumgesellschaft.⁹⁴ This was a big blow for the oil interests of Britain and the US. Actually, as the efforts at overthrowing the Bolshevik regime in Soviet Union did not yield any result, Britain intended to use the Genoa Conference held in 1922 to reopen diplomatic relations with Soviet Union and thereby receive profitable trade deals which would allow Royal Dutch Shell and other British petroleum interests to control Russia's Baku fields.

On the other hand, alarmed by the Rapallo Treaty, Britain remained silent when Germany's industrial region of Ruhr was occupied by France which resulted in Germany's default of her reparations payments. A new reparations scheme was proposed by Charles Dawes to the allied reparations committee to continue the reparations pyramid of debt collection. Dawes Plan can be regarded as the Anglo-American "banking community's reassertion of full fiscal and financial control over Germany".⁹⁵ Germany paid reparations for five years and at the end she owed more than at the beginning. Costigliola indicates that despite their differences, the US and British shared a common goal which was rebuilding the fragmented international economy.⁹⁶ Thanks to Dawes Plan, London and New York bankers began a profitable lending to Germany, which was recycled back to the banks of New York

⁹⁴ Engdahl, op.cit, p. 80

⁹⁵ Ibid, p. 86.

⁹⁶ Costiglia, op. cit., p.913.

and London in the form of reparations with commission and interest.⁹⁷ Germany was fully under control of Britain and the US until the Great Depression which led the pyramid to collapse as a result of sudden stop of credit flowing from the New York Banks to Germany to maintain the debt cycle.

All in all, the possible cooperation between Soviet Union and Germany and shared interests with respect to proper functioning of global economic system put an end to Anglo-American power struggle. This had a big impact on foreign oil policies of these states. A powerful Anglo-American oil cartel was established which was later called as “Seven Sisters”. With the secret pact formalized as “Red Line Agreement” of 1928, British and American oil majors agreed on market divisions and shares. A red line was drawn from Dardanelles to Persian Gulf including Turkey, Syria, Lebanon, Saudi Arabia, Jordan, Iraq and Kuwait. Britain agreed to let the Americans into the Middle East and revised the secret wartime accords to reflect this. Inside the Red Line the oil interests of the three countries were represented. Under the terms of Red Line agreement, an American consortium including Standard New Jersey, SoCony –Vacuum, Atlantic , Gulf and Doheny interests joined Anglo-Persian Oil Company, Royal Dutch Shell and the French National Company, the Compaigne Francaise des Petroles (CFP) in the development of oil fields in Middle East. Parties to said agreement formed the Iraq Petroluem Company out of old Turkish Petroleum Company. With this agreement, parties agreed to equally divide all the oil fields of Middle East except for Kuwait and Iran which lay outside of Red Line.⁹⁸ Standard Oil of California was not member of Red Line Agreement and in 1932 it broke the Red Line by acquiring a concession in Bahrain from Gulf Oil. Furhermore, SoCal

⁹⁷ Endahl, op.cit, p.74.

⁹⁸ Full text of 1928 Red Line Agreement is available at <http://history.state.gov/milestones/1921-1936/RedLine> (accessed on 22.05.2010).

together with Texaco formed California-Arabian Standard Oil Company and acquired concessions from Saudi Arabia.⁹⁹ Britain's acceptance of increasing American power paved the way for American entry to Bahrein, Kuwait and Saudi Arabian fields.¹⁰⁰

By 1929, US oil companies were also effective in Latin America. US oil investments in South America increased from 17 per cent of total foreign investment in 1919 to 34 per cent in 1929 and South American oil production by 1930 was 13 per cent of world production.¹⁰¹ US strategy in Latin America was to counter nationalism and ensure convenient atmosphere for American firms to get concessions in line with its open door policy. Whenever, the oil companies faced important problems, government was there to play a more direct role in shaping oil relations with Latin America. For instance, the State Department participated with Venezuelan and oil companies officials in drafting oil legislation, resolving tax and concessions disputes and countering the efforts to establish state oil industries.¹⁰²

In the final analysis, Britain shifted its strategy from keeping US away from the oil concessions to establishing partnership for joint control of oil resources in the world due to potential threat of Germany together with Soviet Union.

2.5. The Great Depression, Second World War and Oil

Over-accumulated capital and weakness of the demand side of the economy to absorb the surplus capital led to Great Depression in the US in 1929. Since the US

⁹⁹ Beaubouef, op.cit, p. 63; Yergin, op.cit., p. 291.

¹⁰⁰ Randall, op. cit., p. 62.

¹⁰¹ Ibid., p. 70.

¹⁰² Ibid.

had a central position in the world economy, any development on Wall Street had an impact on global economy. Throughout the world, mass unemployment, combined with stagnation undermined the credibility of market in satisfying the needs of the people. In this context, new Deal Programme was initiated by the US between 1933 and 1936 with its redistributive social and economic policies to strengthen the demand side of the economy but it was opposed by the liberal segments of the society. These redistributive economic policies could have helped US economy to absorb surplus capital, but the opportunity was missed.¹⁰³

After the depression, in market-led economies there were many interventions but no overall planning. States wanted to increase the competitiveness of their particular capitalist class through those interventions in the form of tariff, devaluations, import restrictions and other forms of protectionism. In all industrial countries, mass unemployment during 1930s revived political demands that state extends its responsibility for welfare to a commitment to achieve full employment. However, practice of planning revived only after the Second World War except Soviet Union where planning has been in place since 1929 onwards.

On the other hand, after the Depression sustaining international credit chain was crucial for both New York and England banks. America's J.P Morgan, Britain's Montagu Norman (governor of Bank of England) and New York Federal Reserve organized effective economic control over the most countries of Continental Europe under the pretext of the establishment of creditworthy national policies to ensure repayment of bank loans. Even Hitler was supported by Britain when he declared his commitment to the German debts keeping a blind eye to populist pressures.¹⁰⁴ Hitler was also seen as the man that would stop Soviet Russia. International backing of the

¹⁰³ Harvey, op.cit., p. 42.

¹⁰⁴ Engdahl, op.cit., pp. 81-84

Montagu Norman was decisive for Hitler to win the elections. As soon as Hitler has consolidated his power, Montagu Norman rewarded Hitler government with Bank of England credit. Norman also paid a visit to Berlin in 1934 to arrange further secret financial stabilization for the new regime.¹⁰⁵ However, efforts of Britain for “passive revolution” in Gramsci’s words in Germany through cooperation, manipulation and coercion did not yield the result Britain expected. Hitler emerged as the most important threat for the world hegemony of Britain with its state-capitalist economic system and fascist ideology. International institutions such as League of Nations and idealist discourse could not prevent the emergence of Second World War. The imperialist ambitions of Germany to exploit new markets and new resources and thereby to contain the over-accumulation phenomenon and the efforts of Britain to prevent Germany from challenging its world hegemony ultimately led to Second World War. As indicated above, oil is one of the most important resources for the imperial ambitions of the advanced capitalist countries since it lowers the cost of production and helps absorption of surplus capital. Oil had a critical role for the mobilization of allied military forces. Tanks, airplanes, submarines, aircrafts and armored troops carries in addition to the need for transporting millions of American troops in Europe required gallons of oil.¹⁰⁶ A team of historians noted after the war that “if the internal combustions engine was the heart of the modern military machine, its lifeblood was oil.”¹⁰⁷ This explains why capturing oil resources of Baku was one of the factors that led Hitler to invade Russia during Second World War.¹⁰⁸

¹⁰⁵ Ibid.

¹⁰⁶ Micheal T. Klare, *Blood and Oil: The Dangers and Consequences of America’s Growing Petroleum Dependency* (Metropolitan Books: New York, 2004), p. 28.

¹⁰⁷ Harold F. Williamson, *The American Petroleum Industry: The Age of Energy, 1899-1950* (Northwestern University Press: Evanston), 1963, p. 748.

Hitler reportedly told Field Marshall von Mannstein “Unless we get the Baku oil, the war is lost.”¹⁰⁹ Albert Speer, the German Minister for Armaments and War Production stated during his interrogation after the war that “the need for oil certainly was the prime motive to invade Russia.”¹¹⁰ Failure of Germany to secure access to oil resources in Baku was one of the most important factors in its ultimate defeat.¹¹¹ On the other hand, during the war, the allied powers targeted the facilities supplying Germany with oil. After the US entered the war, it carried out attacks against refineries in Romania in 1943. The last major strategic raid of the war was on a refinery in Norway in April 1945.¹¹² This shows the importance attached to oil during the war.

2.6. Cold War and Rise of the US Hegemony

The US emerged as the dominant power of the world after the end of Second World War. It gained superiority in the production level and technologically. The US dollar has become the most powerful currency while financed by US dollar; the US military has become the most powerful of the world. In 1945, the US controlled 70 per cent of the world’s financial assets as well as being dominant in terms of

¹⁰⁸ “Operation Blue - the Race for Oil Timeline”, available at <http://www.secondworldwarhistory.com/operation-blue-the-race-for-oil.asp> (accessed on 04.07.2011).

¹⁰⁹ Yergin, op. cit, p. 337.

¹¹⁰ Ibid, p. 334.

¹¹¹ Gawdat Bahgat, *American Oil Diplomacy in the Persian Gulf and Caspian Sea*, (University Press of Florida: Gainesville, 2003) , p.142.

¹¹² William J. Fili. "The Truth About the Alleged Wrong Turn During Tidal Wave *The Awesome Low Level Attack on Ploiesti*", available at <http://www.ploiesti.net/page12.html> (accessed on 15.02.2011).

productive assets.¹¹³ The one serious rival of the US was Soviet Union with a different economic and political system and it was weakened a lot during the war and was not powerful enough. Except the areas under Soviet sphere of influence, US dominance was uncontested. This is why the era after Second World War is widely called as Pax-Americana. On the other hand, British economy collapsed after the World War II. Its national debt increased dramatically and industry was decayed. Britain was dependent on the post-war support of US. British strategy after 1945 became to exert global influence indirectly through developing and deepening a special relationship with US. The special relationship has already been in place with the establishment of Royal Institute of International Affairs and the New York Council on Foreign relations working for improving the relations between the US and Britain.¹¹⁴ Already, during World War II, as Lindley noted, “Great Britain and the United States integrated their military efforts to a degree unprecedented among major allies in the history of warfare.”¹¹⁵

Since Monroe Doctrine, one of the basic principles of the US foreign policy was to refrain from intervening into problems beyond American territories. It thus created a loophole for US dominance of the world after the end of World War II. These problems are resolved through imagining American hegemony beyond territorial limits. As Harvey draws our attention Henry Luce, an influential American publisher, was talking about an American century in his article published in Life

¹¹³ Ray Kiely, *The Clash of Civilizations: Neoliberalism, the Third Way and Anti-globalization* (Brill Publishers: Boston, 2005), p. 50.

¹¹⁴ Engdahl, *op.cit.*, pp.86-87.

¹¹⁵ Ernest K. Lindley, “Churchill's Proposal”, *Washington Post* (9 March 1946), p. 7.

Magazine in 1941. Harvey claims that this imagery gave the US a global and universal power and the opportunity to overcome territorial defects of an empire.¹¹⁶

At domestic level, anti-communism was used as an instrument to counter challenges directed against US hegemonic project. Anti-systemic social forces were marginalized through brute force and this was legitimized in the name of national security and Soviet threat. For any power to maintain its hegemony in the world, first of all, it has to receive domestic consent for its external actions. Best possible way of doing so is to find a genuine, legitimate enemy that threatens the ways of life of the society. In face of existential threats, society remains silent to authoritarian policies of the government internally for the sake of containing this threat. In addition, society becomes more willing to support expansionist foreign policies of the government in the name of suppressing this threat. During Cold War, this threat was communism. Beginning of the Cold War was accompanied by a hate-inspired anti-communist propaganda. In McCarty period, propaganda reached to a peak level and sympathy for enemy was equated to sympathy for devil.¹¹⁷

On the other hand, thanks to post-war economic boom and Keynesian demand side policies, working class came to compromise with capital and convinced to be a part of the US hegemonic project. To ensure internal consolidation of the US hegemony, state-society relations was based upon Keynesian consensus. Actually, Keynesianism was put forward after the Great Depression as a reaction to weakness of the demand side of the economy. After the end of Second World War, the norm in Western Europe and the US became Keynesian Welfare Nation State. New Deal of

¹¹⁶ Harvey, op. cit., p. 51.

¹¹⁷ Philip M. Taylor, *Munitions of Mind: A history of Propaganda* (Manchester University Press: Manchester, 2003), p. 260.

Inter-war period was internationalized.¹¹⁸ Until Keynesian economics lost its value in the eyes of economic policy makers at the beginning of 1970s, there was no trade-off between social security and economic growth. Therefore, welfare was not regarded as a burden for the competitiveness of the state. In this period, state intervention to market was regarded as necessary for the proper functioning of the market economy. Emphasizing the demand side, Keynesian welfare state was based on mass consumption- mass production together with the objective of full employment. Welfare and redistributive functions of states aimed to strengthen the demand side of the economy. In addition to this, welfare provisions were used as an instrument to neutralize working class, keep them within the system and put an end to antagonistic nature of relationship between capitalist and working class. In this context, most trade unions have become part of the US hegemonic project. A consumerist culture was born out of post war Keynesian economic policies. As long as this consumerist culture is preserved, it was clear that domestic hegemony of the US would prevail.

At international economic level, Bretton Woods system was established to institutionalize American hegemony and stabilize the world financial system. In order to counter the Soviet threat, economic growth that would promote the mass consumption like in the American case was encouraged in the Western world.¹¹⁹ The system was built around 3 pillars which were International Monetary Fund (IMF), World Bank and General Agreement on Tariffs and Trade (GATT). IMF was used as a reserve available during balance of payments crises while World Bank was there to grant loans to member governments for large public projects. Finally, the objective

¹¹⁸ Stephen . Gill, “Neo-liberalism and the Shift Towards a US-centred Transnational Hegemony”, in H. Overbeek (ed.), *Restructuring Hegemony in the Global Political Economy: the Rise of Transnational Neo-liberalism in the 1980s*, (Routledge: London and New York, 1993), p. 248.

¹¹⁹ Harvey, op. cit, p. 55.

of GATT was to create a managed agenda of free trade. While at national level, state had the right of intervening into economy, at global level, liberal norms and principles prevailed. Barriers and obstacles before free trade have been minimized through GATT. Opposition from less competitive production-oriented industries was moderated thanks to post-war economic boom.¹²⁰ With free movement of goods, capital and technology promoted by the US, capital accumulation was able to transcend the national borders and led to hegemonic expansion of the US corporations. The important thing is that these institutions were created in a way to ensure Anglo-American hegemony over world monetary and trade affairs. Voting mechanism in IMF and World Bank was arranged in a way to ensure US and British supremacy in these organizations.

Last but not least, Bretton Woods system created a gold exchange system under which each country's national currency was fixed to the US dollar. On the other hand, the US dollar was set at an official rate of 35 dollars per ounce of gold. The crucial thing for the maintenance of the system was powerful economy of the US being able to convert dollars to gold whenever requested. In other words, so long US has the largest gold reserves and a productive economy, the entire Bretton Woods currency structure was stable.

In addition to institutions of the Bretton Woods System, Marshall Plan was used as an instrument to integrate Western Europeans to liberal world economy under the US leadership. Marshall Plan provided the incentive to join the new economic order. With Marshall Plan, the US dollar flooded into Western Europe. Seigniorage of world's money gave the US unlimited credit abroad to pay for its foreign expenditures without having to compensate by liquidating the US assets. The

¹²⁰ Cox, *op.cit.*, p. 215.

US public debt became a world debt. The more dollars the foreigners held the more they became hostage of the US hegemonic policy. West Germany agreed to accept more and more dollars to maintain US military presence in Europe. Similarly, Arab countries accumulated big dollar reserves by increasing the price of oil which was traded exclusively in dollars after the end of Second World War.¹²¹

On the other hand, public opinion in the Western world had to be shaped in line with US interests since in one way or another; public opinion has an influence over the political, economic and foreign policies of those states. In this context, communication with citizens of other societies which is called ‘cultural diplomacy’ by Americans have become really important in terms of imposing US values, beliefs and ways of life to them. Aim was to create cultural hegemony of America. Cultural hegemony implies as Gramsci puts it:

the consent given by masses of population to general direction imposed on social life by the dominant group; this consent is historically caused by the prestige which the dominant group enjoys because of its privileged position and function in the world of production.”¹²²

When the Cold War started, general impression in Europe about America was that although America had the latest technology, it was devoid of culture and this was exploited by the Soviet Union and Cominform in their communist propaganda campaign in Europe. Therefore, for US, it became an urgent issue to give a better impression of American culture. Consumerism functioned as an instrument to defeat communism. Pumping consumption culture to world through making use of attractiveness of American products such as Coca-Cola, McDonalds or Hollywood films and technology is another method used by American propagandists and the fact that people are receptive to this made it easier for US to impose their life-style and

¹²¹ Ibid, p. 217.

¹²² Gramsci, op.cit., p.21.

thus their own values on the rest of the world. Marxist scholars rightly argued that media products like films and TV programmes carry ideological messages that attack indigenous cultures. This is a cultural imperialism designed to homogenize the world into a global village where American values are prevailed.¹²³ Private mass consumption is integral to American way of life and it is completely against self-disciplined socialist consumption. In order to show off US style consumer culture and thus impose same culture on the world, US set up household exhibitions in allied as well as enemy countries. These exhibitions modeled patterns of domestic consumption that helped promotion of an American material culture. Castillo indicates that at the end of tour of the house a 20 year-old communist coming from Eastern Europe changed his views.¹²⁴ This is demonstration of how American ideas can be imposed through American consumer culture. It was clear propaganda of Fordist industrial relations which is based on mass production and mass consumption.

Furthermore, the US presented itself as the ultimate protector of democracy, free market and basic liberties against Soviet threat. Through assisting militarily and economically the countries which felt themselves under Soviet threat, dependence of these countries on the US was ensured. The US used its military power to protect its loyal regional partners. 'Soviet threat' provided the best possible ground for US to establish its dominance over Europe. It was true that there was a potential threat directed against Europeans. However, it was over-exaggerated by the US to further the fears among the countries in Western Bloc. It was exactly thanks to the threat perceptions among the Europeans nurtured by American foreign policy makers that

¹²³ Taylor, op.cit., pp. 256-257.

¹²⁴ Greg Castillo, "Domesticating the Cold War: Household Consumption as Propaganda in Marshall Plan Germany", *Journal of Contemporary History*, 40/2 (2005), p. 278.

establishment of NATO, which was the primary instrument of US to maintain its hegemonic position, was legitimized in the eyes of European foreign policy makers. In Europe, Moscow was being viewed through American filters and such filters were incapable of permitting an alternative perception of Soviet intentions.¹²⁵ The US became to be conceived as the single power that can protect European allies from Soviet Union and communism. Therefore, it can be argued that containing communism was an end in itself but Americans used it also as a means to create fear among Europeans. Creation of fear is important for the US, since in order to feel secure, Europeans have become willing to obey whatever the guardian of their security wants from them. The interest of US has become the interest of those European countries.

The US calculation was to establish a world order based on free trade, economic growth and rapid capital accumulation. This required disintegration of old empires and decolonization since it is much easier to force the new born states to liberal principles of free trade. Privileged trade relations, clientalism, hidden force, patronage were the basic instruments of establishing control over these states.¹²⁶

All in all, US economic success had the greatest impact on the success of US hegemony both domestically and internationally. Domestically, almost all segments of the society benefited from the post-war economic growth. The US society became addicted to a consumerist culture. Consumerist culture was one of the most important instruments together with anti-communism in keeping society together. Internationally, other states were willing to imitate the US way of life and culture calculating that this would bring them the same wealth as in the US.

¹²⁵ Taylor, op.cit., p. 259.

¹²⁶ Harvey, op.cit., p. 54.

Domestic investments were sufficient to absorb surplus capital during this period and as Harvey indicates the US economic imperialism was silent on these years with the exception of strategic minerals and oil.¹²⁷ From the end of 2nd World War until early 1970s, American leadership was based less on direct coercion and more on arriving at consensus.

At this period, there were still some restrictions on free movement of finance as opposed to movement of goods. Thus, the role of finance was relatively limited. Free movement of goods especially opening of their markets to each other by the US and Western Europeans contributed to absorption of surplus capital. In the final analysis, domestic investments and increasing international trade kept the over-accumulation phenomenon under control.

In conclusion, domestically and globally, a historical bloc was formed under the leadership of the US. Western Europeans were ready to be part of this bloc due to economic and military dominance of the US. On the other hand, domestically working class and the trade unions gave their consent to post-war economic and social system since they got better off thanks to redistributive interventions of state into the economy.

2.7. The Oil Factor in Consolidation of the US Hegemony

The US control over rich oil resources of Middle East and other parts of the world was an important component of Bretton Woods system. The system was based upon consumerism and economic growth. Oil appeared as the most important source

¹²⁷ Ibid., p. 56.

of maintaining economic growth and consumerist culture. In this context, secure access to oil resources became crucial for US to sustain its hegemony.

In order to better understand the role of oil in domestic consolidation of US hegemony, it would be plausible to analyze the transportation sector of the US. Actually, the automobile industry had become the largest component of the US economy after the World War II. Eisenhower initiated National Defense Highway Act using the pretext that fast motorways were required to flee cities in the event of a Soviet nuclear war. The railroad infrastructure was neglected and far less energy-efficient motor transport was preferred. Despite expansion of the rail lines after World War II was favored by the public, National City Lines systematically closed its streetcar systems down and by 1955, only a few remained. General Motors' executive Charles Wilson made the famous statement "What's good for General Motors is good for America" in this period.¹²⁸ As the automobile industry became the biggest component of industry, oil had become the most important commodity to fuel the economy and to support the consumerist culture.

With such a large proportion of Americans living in the suburbs, the ability to commute to work and shopping centers became essential, so a family car went from being a luxury to being a necessity in the 1950s... This was the birth of American car culture...Car ownership led to more travel more shopping opportunities. Convenience stores were established along the new highways encouraging drivers to stop and shop while they were on the road.¹²⁹

Between 1920 and 1970, the population for the United States more than doubled from roughly 106 million to 203 million. During this same period, however,

¹²⁸ Jim Motavalli, "The Oil Industry and Destruction of Public Transport: What's Good for General Motors...", available at <http://www.bilderberg.org/social.htm> (accessed on 10.04.2011).

¹²⁹ "The American Consumer - The Rise Of The Consumer Culture", available at <http://www.libraryindex.com/pages/1305/American-Consumer-RISE-CONSUMER-CULTURE.html>, (accessed on 17.04.2011).

the number of railroad passenger train cars declined by 80 percent, while the number of cars registered in the United States increased by over 3,500 percent. In 1950 widened car ownership was taken as an important symbol of greater equality in the ownership of tangible goods—a symbol of a narrowing gap between the working classes and the rich. In America, everyone could have a car, and in 1950 that idea was a source of national pride. By 1950, 60% of American households had a car, and transportation-related expenses accounted for one out of every seven dollars spent by the typical American household.¹³⁰

In addition to being an important factor in maintaining domestic consumerist culture, the US control over world's oil reserves played key role in successful implementation of Marshall Plan which was used as an important instrument for the consolidation of the US hegemony after Second World War. Western European countries were to use Marshall Plan dollars to purchase oil which is supplied primarily by American oil companies. More than 10 per cent of all US Marshall Aid was spent to buy American oil while the remaining part was used in reconstruction of Western European economies in the post Second World War period.¹³¹ Following the end of Second World War, in the first two decades, Western European economies have experienced unprecedented growth. Continental European manufacturing was expanding at a 5 per cent annual rate by the early 1960s.¹³² In parallel to this, huge growth in international trade was recorded. In this context, the price of oil that European customers faced doubled in between 1945 and 1948. Big Oil companies of

¹³⁰ Jerome Segal, Cynthia Pansing, and Brian Parkinson, "What We Work for Now: Changing Household Consumption Patterns in the 20th Century" Common Assets Program, December 2001, available at <http://www.rprogress.org/publications/whatwework> (accessed on 04.03.2011), pp. 10-11.

¹³¹ For more detailed analysis of the connection between oil and the Marshall Plan, see David S. Painter, "The Marshall Plan and Oil", *Cold War History*, 9/2, 2009, pp. 159-175.

¹³² Engdahl, op. cit., p.105.

the US (Standard Oil of New Jersey (Exxon), Socony-Vacuum Oil (Mobil), Standard Oil of California (Chevron), Texaco and Gulf Oil took considerable control of Europe's post-war petroleum markets. These companies made considerable profits from their oil sales to the new world market.¹³³

Some New York banking groups which constituted an important part of US hegemony also had vested interest in international trade of oil. Since the period of Dawes reparations loans, New York banks had increasingly been interested in international arena rather than domestic one.¹³⁴ As the US petroleum companies became increasingly dominant after Second World War, the New York banks benefited from the capital inflows of the world oil trade. In the meantime, American banking system was cartelized with mergers. Cartelization of American banking and financial power having vested interest in petroleum reserves of the world had a great impact on the US foreign policy.

In this context, the strategy of the US government together with oil companies became to control the oil supplies in Middle East, Latin America and North America. Middle Eastern oil was the most attractive oil because the cost of production was low, productivity per well was high and it had the largest reserves in the world.¹³⁵ In this respect, Saudi Arabian oil became a priority for the US companies and it was not under British control anymore after the Second World War. Rockefeller companies of Standard Oil Group and Gulf Oil made use of it and secured major concessions for oil in Middle East particularly in Saudi Arabia. Harold Ickes from State Department noted in 1942 that “it is our strong belief that the

¹³³ Ibid.

¹³⁴ Ibid., p. 91.

¹³⁵ Cenk Pala, “Enerji Perspektifinden Türkiye-ABD İlişkilerinin Yeni Boyutu: Irak'ın Geleceğine İlişkin Bir Senaryo Denemesi”, 2005, available at <http://www.cenkpala.net/?p=17> (accessed on 12.07.2010).

development of Saudi Arabian petroleum reserves should be viewed in the light of broad national interest”.¹³⁶ This was the first time the US national security was tied to Middle East oil. Therefore, controlling Saudi oil became the priority of Roosevelt government. In return for providing the US with its critical oil reserves, the Saudi royal family has relied on US military and political assistance against its domestic and international rivals in the post Second World War period.¹³⁷ Thanks to this assistance, Saudi Arabia has become a loyal supporter the US world hegemony.

Actually, the rapprochement between the US and the Saudi Arabia began during the Second World War when the US oil reserves were in decline. Oil had a critical role for the mobilization of allied military forces. Tanks, airplanes, submarines, aircrafts and armored troops carries in addition to the need for transporting millions of American troops in Europe required gallons of oil. ¹³⁸ To satisfy the need for oil, the US pushed domestic oil production to a record level. In 1942, the US was the world’s leading oil producer. Between 1941 and 1945, the US supplied 6 billion out of 7 billion barrels of oil that the allied forces consumed.¹³⁹ This had the risk of exposing the US to future oil scarcity. All projections indicated that rising consumption would outstrip the acquisition of new supplies leading to rapid exhaustion of the US reserves.¹⁴⁰ New sources of supply in Middle East were regarded as solution to this problem. US policy was to seek new supplies in those

¹³⁶ Dr. Abdullah Mohammad Sind ,”The Direct Instruments of Western Control over the Arabs: The Shining Example of the House of Saud”, available at http://www.social-sciences-and-humanities.com/PDF/house_of_saud.pdf , p. 11 (accessed on 12.04.2011),

¹³⁷ Yergin, op.cit., p. 404

¹³⁸ Klare, op.cit., p. 28.

¹³⁹ Michael B. Stoff., *Oil, War and American Security: The Search for a National Policy on Foreign Oil, 1941-1947*, (New Haven: Yale University Press, 1980), p. 209.

¹⁴⁰ Ibid., pp.70- 72.

parts of the Gulf where American companies were already active. Kingdom of Saudi Arabia was the first target. Already in 1933, the Standard Oil Company of California (SOCAL) obtained a sixty-year concession over a large area in Al-Hasa (the Eastern Province of Saudi Arabia).¹⁴¹ SOCAL became the first US firm to gain control over a major Middle Eastern oil zone. At that period, although oil was already discovered in Kuwait, Iraq and Persia, there was not an efficient data with respect to oil reserves of Saudi Arabia. Between 1941 and 1945, Al-Hasa wells produced 42.5 million barrels of oil and this convinced the US geologists about the promising oil reserves of Saudi Arabia.¹⁴² To receive the consent of Saudi Arabia for its ambitions, Roosevelt approved the delivery of Lend-Lease Act to Saudi Arabia which enabled him the authority “to sell, lend and lease or transfer military equipment to any country whose defense the president deems vital to the defense of the US”.¹⁴³ More significantly, the US government made efforts to buy out Californian-Arabian Standard Oil Company (CASOC) which was a subsidiary of SOCAL. However, these efforts turned out to be unsuccessful and CASOC protected its rights over Saudi oil and it was later renamed as the Arabian-American Oil Company (Aramco). In 1948, the Standard Oil Company of New Jersey (Exxon) and Standard Oil Company of New York became part owners of Aramco.¹⁴⁴ According to Klare, from that point on, the US preferred to collaborate rather than directly involved in drilling of oil and support the giant oil companies to gain concessions in the region and

¹⁴¹ Klare, op.cit., p. 31.

¹⁴² David S. Painter, *Oil and the American Century: The Political Economy of U.S. Foreign Oil Policy, 1941-1954*, (Baltimore: Johns Hopkins University Press, 1986.), p. 172.

¹⁴³ Klare, op.cit., p. 33.

¹⁴⁴ Stoff, op.cit., p. 80.

providing them with diplomatic and military support when necessary.¹⁴⁵ Government's primary role in the partnership was to be the maintenance of security and stability in the major oil producing countries. During the meeting in 1945 in Egypt's Great Bitter Lake between the US President Roosevelt and King Ibn Saud, the US received the right to construct an American air base at Dhahran. The US was to protect the Saudi sovereignty and independence against domestic and international rivals of the King in return for US dominance over the oil reserves of Saudi Arabia. Furthermore, in 1951 the Mutual Defence Assistance Agreement authorized delivery of American arms and the deployment of US Military Training Mission to Saudi Arabia.¹⁴⁶

Iran was also of great significance for the oil interests of the US. The situation in Iran was a little bit complicated. During the Second World War, Iran was invaded by Soviet Union and Britain due to its strategic importance and rich natural resources. Although Great Britain and Soviet Union agreed to withdraw their forces within six months after the end of the Second World War, Soviet Union was reluctant to withdraw its military forces from Iran. At this point, the US was involved in the crisis and forced Soviet Union to withdraw its forces.¹⁴⁷ Both US and British interests, independence of Iran was crucial. Anglo Iranian Oil Company (AIOC) had already concessions in Iran and to reinforce its position in 1947, Anglo Iranian Oil Company of Britain and two American companies namely Jersey and Socony signed a twenty year contract sharing Iranian oil among each other.¹⁴⁸ On the other hand, in 1947, the Truman Doctrine promised assistance to any country faced with Soviet

¹⁴⁵ Klare, op. cit, p. 35

¹⁴⁶ "United States Military Training Mission (USMTM)", *Global Security*, available at <http://www.globalsecurity.org/military/agency/dod/usmtm.htm> (accessed on 25.03.2011).

¹⁴⁷ Yergin, op. cit, p. 421

¹⁴⁸ Ibid., p. 422

threat. Greece, Turkey and Iran were the first countries to benefit from Truman Doctrine. The US foreign policy makers calculated that these countries would create an anti-communist castle that would prevent Soviet involvement in the south where the valuable energy resources are located.¹⁴⁹

Regarding the working method of oil industry, until 1950s basic principle was making agreements giving concessions to multinational petroleum companies. There were three basic principles of these concessions. First of all, they last about 60-90 years. Host countries are given a limited amount of share of oil revenues and political restrictions on the concession were negligible. The host country did not have any say on processing of oil and management of industry. The quantity of production and price was determined by the oil companies themselves.¹⁵⁰ Iran demanded renegotiation of the concession due to abuses and arrogance of British controlled company. In the context of British reluctance to renegotiate the concession, Iranian parliament had to nationalize the Anglo-Iranian Company in 1951. 53 per cent of Anglo-Iranian Company was held by British government. By 1951, Britain had declared full economic sanctions against Iran including an embargo against Iranian oil shipments as well as freezing of all Iranian assets in British banks claiming that nationalization was illegal. The British embargo was joined by all major Anglo-American oil companies. Iranian economy was hurt dramatically by the embargo and with the help of royalist elements in the Iranian armed forces, accusations directed against the Iranian Prime Minister Mohammad Mosaddeq of being communist British and the US intelligence staged a coup and this led to fall of Musaddeq. Iranian Shah Reza Pehlevi was backed by the Anglo-American circles. The Shah

¹⁴⁹ Randall, op.cit., p. 237.

¹⁵⁰ Pala, op.cit.

returned from exile to Iran, economic sanctions were lifted and Anglo-American petroleum interests prevailed. After Shah, the National Iranian Oil Company remained as a state entity. However, the Anglo-American companies joined by the France's state-owned Compagnie Francaise des Petroles (CFP) entered into negotiations with Iran to secure 25 year participation agreement for exploitation of oil and 100 000 square miles of Iranian territory in 1954. Anglo-Iranian Oil changed its name to British Petroleum and was given 40 per cent share. Royal Dutch Shell while the American majors divided 40 per cent of oil between themselves.¹⁵¹ As it is clear from this case, any kind of instrument should be used to ensure the control over the valuable energy resources of the world.

In 1957, Eisenhower Doctrine was initiated authorizing the president to use American combat forces to defend friendly Middle Eastern regimes against Soviet Union and providing additional assistance to pro-American regimes. The timing of this doctrine was closely related to anti-Western policies of Nasser's Egypt. Actually, in 1956 when the Suez Canal was nationalized by Nasser, the US did not support the invasion of the country by Great Britain, France and Israel calculating that this could result in spread of Arab nationalism all over Middle East and create a threat to the survival of the Saudi regime.¹⁵² This period also witnessed first signs of direct US military involvement in the region. In 1958, Eisenhower ordered US troops into Lebanon to protect pro-Western government of President Camille Chamoun. In addition, when Saudi Arabia was attacked by the rebel forces in Yemen during the

¹⁵¹ The full text of The Consortium Agreement of 1954 is available at http://www.petroleumiran.com/index.php?option=com_content&view=article&id=61:-the-consortium-agreement-of-1954&catid=29:past&Itemid=57 (accessed on 07.04.2011).

¹⁵² Klare, op.cit, p.41

Yemen Civil War of 1962-1970, Kennedy did not hesitate to send American combat planes.¹⁵³

In 1968, when Britain decided to withdraw from east of Suez by the end of 1971, the US lost a loyal ally in the Gulf and felt the need of delegating the role of Britain to local powers namely Saudi Arabia and Iran. Further direct involvement was not on the agenda due to fresh memories of Vietnam War. Nixon decided that military strength of Iran and Saudi Arabia should be improved so that they could take greater responsibility for the region's security.¹⁵⁴ Important amount of weaponry was transferred to the two chosen agents of the US. Most of the military equipment was sent to regular armed forces. However, police and internal security forces also made use of these arms. For training the local security forces in using the new arms, American military advisers and technicians were deployed to these countries. This clearly indicates the mutual interests of the all parties and explains the domestic ruling strata's willingness to take their part in US hegemonic project.

American and British intelligence also achieved to overcome the Italian problem in the 1960s by involving in Enrio Mattei's -founder of Italian state enterprise ENI- suspicious death. ENI secured concessions from oil producing countries such as Iran, Egypt and Russia. In Iran he dominated private companies by offering the government 75% of the profits instead of the usual fifty-fifty on oil discovered.¹⁵⁵ If he was not stopped, he would have upset the entire global world oil order which serve to Anglo-American interests and the Seven Sisters. In 1958, Mattei signed an agreement with Soviet Union in exchange of delivery of 2.4 million

¹⁵³ David E. Long, *the United States and Saudi Arabia: Ambivalent Allies*, (Westview Press:1985) pp.44-45.

¹⁵⁴ Klare, *op.cit.*, p. 43.

¹⁵⁵ "Oil: State Within a State", *Time Magazine*, July 1961, available at <http://www.time.com/time/magazine/article/0,9171,897847,00.html> (accessed on 07.08.2011).

tons of Soviet oil annually; ENI would supply Soviets with large-diameter oil pipe.¹⁵⁶ This would enable construction of huge pipeline network bringing Soviet oil from Volga-Urals to Czechoslovakia, Poland and Hungary. That pipeline network would bring Soviet oil to Eastern Europe where it was to be exchanged for industrial goods and food products for the USSR.¹⁵⁷ If realized, this could challenge the Anglo-American control of world oil market. To neutralize Mattei, the US and Britain resorted to classical propaganda instrument of anti-communism by accusing Mattei of being communist. He was then suspiciously assassinated before realizing his plans.¹⁵⁸

In conclusion, with the rising importance of oil for the US hegemony, this period witnessed increased efforts of US government and oil companies together with the backing of British government and British oil companies to take control of the oil resources of the world.

2.8. Conclusion

As the British industry began to decay in the context of rising competitive powers of the US and Germany, establishing control over the world oil resources have become the priority of British imperial ambitions to sustain its world hegemony. Rising importance of oil for the industrial growth as well as modernization of armies and navies attracted also the attention of other industrialized

¹⁵⁶ Engdahl, *op.cit.*, p. 100.

¹⁵⁷ *Ibid.*, p. 101.

¹⁵⁸ *Ibid.*, p. 104.

nations. However, with the secret agreements of World War I, Britain achieved to establish control over major oil regions of the world.

The turning point that put an end to status of Britain as the sole power controlling the major oil resources of the world was the Red Line Agreement of 1928 signed between oil majors of Britain, US and France. In order to balance the rising power of Germany, Britain decided to share its oil concessions with the US. In the final analysis, the competition among the world's industrialized nations to acquire new markets and new resources to keep over-accumulation phenomenon under control led to outbreak of two world wars.

After the end Second World War, the US emerged as the hegemonic power of the Western World. The Keynesian consensus and Bretton Woods System targeted continuous economic growth in every individual country in the Western World. Therefore, the system resulted in a consumerist culture since the weakness of the demand side of the economy was regarded as the basic factor that led to economic crisis during the inter war period. In this context, having secure access to oil and controlling oil resources in the world became an important factor in consolidation of the US hegemony both domestically and globally. Actually, having secure access to oil was one of the important pillars of Bretton Woods System. In this respect, with the rising importance of oil for the US hegemony, this period witnessed increased efforts of US government and oil companies to take control of the oil resources of the world.

CHAPTER III

THE POST-BRETTON WOODS PERIOD, COMPETITION OVER OIL AND REPRODUCTION OF US THE HEGEMONY

3.1. Introduction

In this chapter, first of all, the challenges that the US world hegemony faced together with the factors that led to the collapse of Bretton Woods System will be analyzed. Then, it will be investigated how the neo-liberal hegemonic project led to reproduction of the US hegemony in the post Bretton Woods period. Special emphasis will be given to financialization of the US economy and the role of petro-dollar recycling system in consolidation of neo-liberal hegemonic project and thus the US world hegemony. At this point, the impact of financialization and petro-dollar recycling system on the deindustrialization of US economy and growing foreign debts of the US will be elaborated.

In the next part of the chapter, the impact of First Gulf War on the consolidation of US world hegemony in the post Cold War era will be analyzed. Lastly, the US strategies to counter the possible challenges of Russia and East Asian countries to its world hegemony will be put forward.

3.2. Challenges to the US World Hegemony and fall of Bretton Woods System

Despite support of the US allies to consolidate US hegemonic project in the world, the system was not without contradictions. In late 1957, US underwent the

first phase of a post-war economic recession due to increasing international competition and growing demands of the working class with respect to working conditions and wages.¹⁵⁹ Internationally oriented banks of the US began to cut down on industrial investment. Instead, US dollar flowed out of US to make use of cheap, more productive and already operating industrial companies of Western Europe.¹⁶⁰ Europe at that period was suffering a huge shortage of capital because of the war. As a result, Europe was forced to pay excessively high interest rates to attract the only international currency available- the US dollar. Chase Manhattan (the bank of big oil), Citibank and the others made dramatic profits in Europe. Between 1962 and 1965, US corporations in Western Europe earned between 12 and 14 per cent return according to a presidential report to Congress while the same dollar investment in US industry earned half of that.¹⁶¹ Funds began to flow out the US in amounts greater than those coming in. This led to a continuous decline in US gold reserves. This was also the beginning of Eurodollar market which ultimately led to collapse of the world monetary system.¹⁶²

Moreover, Cold War and the Soviet Union led to creation and strengthening of military industrial complex which began to influence the political authority in US. This complex began to push for a permanent war economy through over-exaggerating the existing threats for the sake of their narrow interests. Arm industry began to play an important role in capital accumulation in the US. In the context of stagnant US economy, President Johnson was made to believe that war in Vietnam in late 1960s could solve the economic problems. American defense industry and New

¹⁵⁹ “The Economy: The World Crisis”, Time Magazine, October 1957, available at <http://www.time.com/time/magazine/article/0,9171,809947-1,00.html> (accessed on 17.08.2011)

¹⁶⁰ Kiely, op.cit., p. 57.

¹⁶¹ Engdahl, op.cit., p. 113.

¹⁶² Ibid.

York finance had encouraged the decision to go war to revive a massive diversion of US industry into production of defense goods. By inflating the dollar through huge spending deficits at home, US could force Europe to pay for the US war cost in the form of cheapened dollars. As long as US refused to devalue the dollar against gold, Europe had to pay the cost by accepting dollars at the same ratio as it had some 20 years before. European Central banks began to accumulate large dollar accounts during this period which they used as official reserves. They earned interests on these dollars by investing in US government treasury bonds. The result was that European central banks thereby financed the huge US deficits of Vietnam.¹⁶³ Military expenditures were far away from countering overaccumulation phenomenon in the long term. Increasing cost of military conflict in Vietnam proved unsustainable in the context of consumerist culture.¹⁶⁴ This resulted in financial crisis for the so-called developmentalist state of Bretton Woods system. In response to this, the US started to print much more dollar. This led to worldwide inflationist pressures.

As the US balance of payments deficits grew, confidence on dollar collapsed and holders of began to convert them for gold melting the gold stock of the US. On the other hand, under Bretton Woods, Britain through her sterling bloc ties with former colonies had been able to make the sterling a strong and stable reserve currency. Member countries in British Commonwealth were required to deposit their national gold and foreign exchange reserves in London. Therefore, pound was extremely important to the stability of the Bretton Woods system. Despite its stagnating economy, Britain was a net exporter of financial funds to rest of the world. Financial interests of London focused on drawing the world's financial flows into London banks by maintaining the highest interest rates. As a result, industry

¹⁶³ Engdahl, op.cit., pp.114-115.

¹⁶⁴ Harvey, op.cit., p. 61.

went into slump. British foreign debts continued to grow and Bank of England reserves were falling.

In the final analysis, international monetary system was functioning poorly because it was giving advantages to countries with a reserve currency. These countries can afford inflation without paying for it. US and Britain simply printed dollars and sterling and sent them abroad in return for imported goods and services. However, the system was sustainable as long as other countries continue to accumulate sterling and dollars as reserve currencies.

Being disturbed by the advantages that dollar's reserve currency status provided to the US, France was determined to exchange its dollar and sterling reserves for gold. Financial speculators started to sell dollars or other currencies which they used to buy commercial gold in all possible markets. De Gaulle called for return back to Gold Standard and this created serious resentment on the side of US.¹⁶⁵ Eventually, Britain was forced to devalue sterling. Once sterling was devalued, speculative pressures turned to US dollar. International holders of dollars demanded their rightful gold in exchange. In 1967, the withdrawal of France from the "gold pool" created by "Group of Ten" (established in 1961 by US) and in which the central banks of 10 leading industrial countries agreed to pool reserves in a special fund to be administered in London by Bank of England had intensified the problem.¹⁶⁶

In 1971, the Britain wanted to convert three billion dollars (all of its Dollar

¹⁶⁵ Money: De Gaulle v. the Dollar, *Time Magazine*, February 1965, available at <http://www.time.com/time/magazine/article/0,9171,840572-2,00.html> (accessed on 05.07.2011).

¹⁶⁶ Engdahl, op.cit., p.123.

reserves) into gold.¹⁶⁷ Eventually, Nixon had to abandon the dollar-gold link thereby opting a system of floating currencies in 1971. Otherwise, Nixon would have risked the collapse of the gold reserves of the US. After this unilateral action, as a result of international talks Smithsonian agreement was made whereby US had formally devalued dollar 8 per cent against gold. Within weeks, confidence in Smithsonian agreement had begun to collapse. At the expense of US industrial production, with the pressures of financial circles dollar could not be devalued anymore. Massive capital flow again left the dollar for Japan and Europe until when Nixon finally announced a second devaluation of dollar of 10 per cent against gold.

The fall of Bretton Woods System and end of fixed exchange rate system led to uncertainties for industrial activity and precipitated the process of financialization.¹⁶⁸ US share of total manufacturing goods in the world market declined from 28 per cent in 1957 to 16 per cent in 1970.¹⁶⁹ In 1971, the US ran a trade as well as payments deficit for the first time.¹⁷⁰

On the other hand, due to increase in the wages in the context of Keynesian full employment policies, the cost of productions increased for the industrial bourgeoisie and their profits have been eroded. Expansion of welfare state undermined the Fordist production system which led to falls in productivity and profitability. This ultimately led to stagflation.¹⁷¹

¹⁶⁷ William R. Clark, *Petrodollar Warfare: Oil, Iraq and the Future of the Dollar* (New Society Publishers: Canada, 2005), p. 19; Mahmoud A. El-Gamal & Amy Myers Jaffe, *Oil, Dollars, Debts and Crises* (Cambridge University Press: New York, 2010), p. 4.

¹⁶⁸ Giovanni Arrighi, *Adam Smith in Beijing: Lienages of the Twenty-First Century* (Verso: London, 2007), p. 157.

¹⁶⁹ Makoto Itoh, 1990, *The World Economic Crisis and Japanese Capitalism* (Macmillan: London, 1990), p. 48.

¹⁷⁰ Kiely, op.cit., p. 58.

Competitive challenges of Japan and Western European industries exacerbated the situation for the US. The principle of free trade made US open to international competition. The economic power of Western Germany and Japan had the potential to challenge the US hegemony at production level. By the mid-1960s, the US had a constant trade deficit with its two main competitors, Japan and Germany.¹⁷² This was the sign of a division of advanced capitalism between three competing centers of power which are Western Europe, North America and East Asia.¹⁷³ As the domestic capacity to absorb capital surplus weakened at the end of 1960s, economic competition became harsher.¹⁷⁴ One way of overcoming the economic crisis of capitalism is spatial displacement through geographical expansion, opening up new markets, new production capacities and new resources. This paves the way for geopolitical struggles among the advanced capitalist countries.¹⁷⁵

As another factor undermining the world hegemony of the US, whenever there appeared contradiction between the principles of democracy and the interests of dominant capitalist class, the US had to support capitalist class for the reproduction of the system. While the US supported self-determination rights of the nations during the beginning of decolonization period, it played key role in oppressive suppression

¹⁷¹ Harvey, op.cit., p. 61.

¹⁷² Herman Schwartz, *States against Market* (Macmillan: London, 2000), p. 204.

¹⁷³ Peter Gowan, Economics and Politics within the Capitalist Core and the Debate on the New Imperialism, available at: http://www.ie.ufrj.br/eventos/seminarios/pesquisa/economics_and_politics_within_the_capitalist_core_and_the_debate_on_the_new_imperialism.pdf (accessed on 03.05.2010).

¹⁷⁴ Harvey, op.cit., p.59.

¹⁷⁵ David Harvey, "The New Imperialism: Accumulation by Dispossession", *Socialist Register*, London, Merlin Pres, 2009, p. 66.

of progressive socialist or communist movements as in the case of overthrow of Allende in Chile in 1973.

In the final analysis, decaying US industry, huge expenses of Vietnam War and growing economic strength of Europe and Japan brought the end of Bretton Woods System under US hegemony. Given the huge debt created by the military operations in Vietnam and rising power of Japanese and European economies vis-à-vis the US economy, several European countries became concerned about the dollar's value and began redeeming their dollars for gold.¹⁷⁶ This led to collapse of Bretton Woods system.

3.3. Neo-Liberalism, the US World Hegemony and Oil Factor

As a result of problems created by Keynesian full employment policies, globalization of production and finance, the increasing acceptance of free trade and foreign direct investment as important instruments of development in line with the neo-liberal rationality were regarded as solutions. Increasing geographical mobility of production and finance gave capital a very strong hand against the working class and provided large corporations with a solution to crisis of profitability and productivity. Investment to peripheral countries has become so much important for the capital because capital wanted to take advantage of cost differences in different locations to escape from crisis. Capitalists wanted to develop global production networks through investing in locations that promised higher profits.¹⁷⁷ The improvement in communication and transportation technologies made it possible for

¹⁷⁶ Clark, op. cit., p. 19.

¹⁷⁷ Bastiaan Van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration* (London and New York: Routledge, 2002), p. 57.

productive capital to invest wherever it is willing to invest. Mostly, countries with lower labor wages were preferred. As a consequence, creating the necessary conditions in developing countries for the investment of the capital in the advanced capitalist nations became extremely significant. Developing countries had to open up their economies, abolish trade barriers, liberalize financial markets and create the necessary conditions for capital accumulation.

US strategy of increasing the oil prices had an important role in forcing the developing countries to open up their economies and adopt the neo-liberal agenda. In 1973, at the Bilderberg group meeting organized with the participation of world's leading politicians and businessmen, in line with the Anglo-American financial interests, Bilderberg policy aimed to trigger a global oil embargo in order to force a dramatic increase in world oil prices.¹⁷⁸ As early as 1973, Bilderberg meeting included projections of OPEC (Organization of Petroleum Exporting Countries) oil prices increasing by 400 percent. Since 1945, world oil had been priced in dollars as American oil companies dominated the post-war market. Therefore, a sudden sharp increase in the world price of oil meant an equally dramatic rise in world demand for US dollars to pay for oil.¹⁷⁹ If oil can be purchased on the international markets only with US dollars, the demand and liquidity will be reinforced, given that oil is the essential commodity for every developed and developing nation. Oil is the basic enabler of a manufacturing infrastructure, the basis for global transportation and the primary energy for the most of the industrial economy.¹⁸⁰ However, after the collapse of Bretton Woods system, OPEC began discussing the viability of pricing oil trades

¹⁷⁸ Engdahl, op.cit., p. 130.

¹⁷⁹ Ibid., p. 135.

¹⁸⁰ Clark, op.cit., p. 30.

in several currencies. This unpublished proposal by OPEC involved a basket of currencies from the Group of Ten nations or G-10.¹⁸¹ To prevent this, Nixon began talks with Saudi Arabia to price oil sales in dollars only. In 1974 US made a deal with the Saudis to ensure that Saudi Arabia would continue to price oil in dollars only. Rather than making productive investments with oil money, Saudis invested their oil revenues in British and the US securities. This ultimately resulted in 70 percent of all Saudi assets in the US being held in a New York Fed account.¹⁸² By 1979, Saudis were the largest holders of dollars and US Government securities.¹⁸³ In parallel to this development, Nixon Administration abolished all the barriers before the international flow of financial capital.

Other OPEC members also agreed to price oil transactions in dollar only in 1975. No longer backed by gold, “the dollar became backed by black gold.”¹⁸⁴ This strategy benefited not only US/UK banking interests but also the Seven Sisters of US/UK petroleum companies (Exxon, Texaco, Mobil, Chevron, Gulf, BP, Royal Dutch/Shell). In this respect, it can be argued that outbreak of Yom-Kippur War and the following rise in the oil prices was secretly manipulated by US and Britain.¹⁸⁵ Engdahl claims that Kissinger’s method was to misrepresent to each party the critical elements of other ensuring the war and subsequent OPEC response.¹⁸⁶ US knew that Europe was more dependent on oil and thus would be hurt more from an oil

¹⁸¹ David E. Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Cornell University Press: Ithaca, New York, 1999), pp. 121-123.

¹⁸² Ibid, p. 125.

¹⁸³ El-Gamal and Jaffe, op.cit., p. 122.

¹⁸⁴ Clark, op.cit., p. 30.

¹⁸⁵ Peter Gowan, *The Global Gamble: Washington’s Faustian Bid for World Dominance*, (Verso: London, 1999), p. 21.

¹⁸⁶ Engdahl, op.cit., pp. 135-138.

embargo. In addition, one consequence of 400 per cent rise in OPEC oil prices was that investments of BP, Royal Dutch Shell and other Anglo American petroleum concerns in risky North Sea could produce oil at a profit.¹⁸⁷

At this point, it is plausible to elaborate on the historical evolution of OPEC to better understand the nationalistic aspect of oil shocks. Actually, OPEC was established in 1960 in order to enable its members to take greater control of their resources. The five leading members were Venezuela, Saudi Arabia, Kuwait, Iraq and Iran. In 1960s, OPEC had 67 per cent of known reserves, 38 per cent of the world's oil production and 90 per cent of international oil trade.¹⁸⁸ The oil weapon was used during Six Days War in 1967 for the first time. OPEC members including Saudi Arabia, Kuwait, Libya, Iraq and Algeria banned oil shipments to US, West Germany and Britain. However, non-Arab Oil production stepped in and non-Arab nations of OPEC preferred not to join the embargo. By the fall 1967, it was clear that world oil supplies would be sufficient to meet the demand. In the final analysis, the first attempt to use oil as a political weapon turned out to be unsuccessful. As a consequence of this failure, OAPEC (Organization of Arab Petroleum Exporting Countries) was formed by Saudi Arabia, Kuwait and Libya in 1968 to promote Arab unity. As a response to US aids to Israel, OPEC ministers decided to raise prices in 1973. By 1973, OPEC producers counted almost 54 per cent of world's crude oil production. Unlike the world market of 1967, the US and Western dependency on Middle East gave OPEC an opportunity to raise prices from 2.90 per barrel to 5.11 dollars per barrel.¹⁸⁹ Not satisfied with OPEC's decision to raise the prices, OAPEC

¹⁸⁷ Gowan, op.cit., p. 21.

¹⁸⁸ Beaubouef, op. cit., p. 129.

¹⁸⁹ Tayyar Arı, *Irak, İran, ABD ve Petrol* (Alfa Yayınları: İstanbul, 2007), p. 187.

cut the production. Saudi Arabian ruling elite was forced to participate in the Arab oil embargo imposed against the US in retaliation for the US support of Israel during 1973 Arab-Israeli War since not participating in the oil embargo could have jeopardized the legitimacy of the kingdom which is based on religion. Moreover, the royal family started nationalization of Aramco's Saudi concession putting an end to direct ownership of Saudi petroleum by American companies. In 1973, the Saudi government took a 25 per cent share in Aramco and a year later this share rose to 60 percent.¹⁹⁰ However, these companies retained a significant role in the overseas marketing of Saudi oil.¹⁹¹ Meanwhile, Saudi Arabia was secretly selling oil to US although it announced its oil sale boycott of US in solidarity with OPEC.¹⁹²

The OPEC production declined from 20.8 million barrels per day to 15.8 million barrels per day in November 1973.¹⁹³ Although oil production in other parts of the world stepped up, world's oil production had fallen by 5 per cent.¹⁹⁴ By January 1974 the price of OPEC's oil became 11,65 dollar per barrel while it was 3.01 dollar in early 1973.¹⁹⁵ Oil crisis had an impact on the stagflation of the US economy in 1974-75. It also resulted in panic buying of gasoline among the US public, and gas lines. However, Europeans and other developing nations were much more hurt by the oil embargos.

All in all, while the first oil shock ended up with failure in line with the interests of the US, second oil shock brought about worldwide crisis in line with the

¹⁹⁰ Bahgat, op. cit., p.45.

¹⁹¹ Ibid; Yergin, op.cit, pp. 651-652.

¹⁹² El-Gamal and Jaffe, op.cit., p.7.

¹⁹³ Beaubouef, op.cit., p. 132.

¹⁹⁴ Ibid.

¹⁹⁵ Ari, op.cit., p. 187.

interests of financial bourgeoisie and with the manipulation of US government. This tells us that nationalistic aspect of oil shocks should not be exaggerated. As US Secretary of State Kissinger put it “the use of petroleum as a weapon to influence the outcome of the Arab-Israeli conflict had little impact in reality.”¹⁹⁶

While oil shocks had a devastating impact on world industrial growth, major New York bankers and the Seven Sisters were the ones who benefited from the crisis. By 1974, Exxon had overtaken General Motors as the largest American corporation. OPEC dollar revenues were deposited with the leading banks of London and New York, the banks which dealt in dollars as well as international oil trade. This set the stage for great debt crisis of 1980s.¹⁹⁷ In Western Europe also, embargo had deep impact. Bankruptcies and unemployment across Europe rose to alarming levels. The effects of oil had contributed to dramatic collapse of Germany’s Herstatt-Bank and a crisis in Deutschemark. As Germany’s importer oil costs increased by 17 billion Deutschemarks in 1974, key industries went into deep crisis.¹⁹⁸

Oil crisis inhibited the industrial and agricultural development of developing countries. The growth in per-capita output of industrial countries between 1973-82 was 1.7 per cen per annum while it was 3.7 per cent in the former period. The non oil developing countries per capita growth rates fell from 3.6 to 2.7 per cent at the same period.¹⁹⁹ Their foreign deficits increased dramatically. US and European banks did not miss the opportunity of lending these countries to drag them into neo-liberal system. These petrodollar loans came from London-based US and British Eurodollar

¹⁹⁶ The US Department of State, Bulletin 70, no 1806, 14 February 1974, p. 109, cited in Spiro, op.cit., p. 26.

¹⁹⁷ Engdahl, op.cit., p.141.

¹⁹⁸ Ibid., p. 140.

¹⁹⁹ Gill, op.cit., p. 251.

banks. OPEC oil revenues paid to Saudi Arabia were paid in dollars and those dollars were channeled into London Eurodollar banks for relending the victims of oil crisis.²⁰⁰ In 1974, 70 per cent of OPEC oil revenues were invested abroad in financial instruments of US and British banks. Europeans would have had less difficulty in securing domestic funds for the payment of their oil imports in Marks or Francs than in buying dollars for the same oil. However, OPEC ministers meeting in 1975 agreed to accept no other currency than US dollar for deliveries of oil as a result of the pressure of US. This arrangement was crucial for US dollar itself and thus for the interests of financial institutions of New York and London Eurodollar markets.²⁰¹ The world was forced to buy huge amounts of dollars to purchase essential energy supplies. In 1971, gold represented approximately 50 per cent of International reserve assets, but after 1971, gold was suddenly replaced by foreign exchange currencies.²⁰² Dollars became the major reserve currency for most nations replacing the gold. Petrodollar recycling provided the Federal Reserve with ability to create and expand money supply freely. Dollar became the major reserve currency for most nations.²⁰³

Engdahl articulates that in 1970s to maintain dependence on oil, a propaganda campaign in the form of anti-nuclear green assault has been initiated against using nuclear energy as an alternative source by US and Britain realizing that the principal competitor of the hegemony of petroleum in the future was nuclear energy.²⁰⁴ Especially France and Germany emerged as rivals to American domination of the

²⁰⁰ El-Gamal and Jaffe, op.cit., p. 48.

²⁰¹ Engdahl, op.cit., p.154.

²⁰² Clark, op.cit., p.22.

²⁰³ Ibid.

²⁰⁴ Engdahl, op.cit., p.145.

nuclear export market by the time of 1974 crisis. The Anglo-American energy control based on dominance over the world's petroleum resources was threatened if nuclear programs of these countries went too far. Stockholm conference of 1972 created the necessary international organizational infrastructure for creating anti-nuclear agenda, keeping the oil needs of the both developed and developing nations as much as possible and thus maintaining the reserve currency status of dollar.

Dollar's being major reserve currency together with rising debts of developing countries created various opportunities for financial capital. Financial capital became center of the reproduced US hegemony. It can be argued that while challenged at production level, the US responded with claiming its uncontested dominance at financial level. For effective functioning of this system, the financial markets all over the world had to be open internationally. A new international financial system was established which is not based on gold anymore. Control of state over financial movements came to an end. The uncertainties of floating exchange rates led to a further movement away from production and into finance since companies faced the risks associated with sudden shifts in the value of currencies.²⁰⁵ This precipitated the shift of US bourgeoisie's interest from productive activities to financial speculations. Whenever, a state faced with debt crisis, the US financial power was used to exert influence over that state.²⁰⁶

In 1979, when Thatcher came to power in Britain she faced with extreme inflation rates especially due to dramatic rise in the oil prices. The neo-liberal Thatcher government claimed that inflated prices could be lowered by decreasing money supply. In this respect, government expenditures must be cut. Reagan

²⁰⁵ Kiely, op. cit., p.64.

²⁰⁶ Harvey, op.cit., p.64.

Administration in the US followed suit. Beginning in Britain, moving to the US, monetarism spread around the Anglo-American world. Demands to cut government spending, lower taxes, deregulation became the basic principles of the new economic order. In the US, as a result of monetary shock, the interest rates rose higher than Britain. With Depository Institutions Deregulation and Monetary Control Act of 1980, all state laws which had set interest rate limits were repealed. As the money supply decreased, interest rates increased making US and Britain a heaven for the financial circles while making industrial investment even more difficult as the cost of taking credits increased in parallel to increase in the interest rates. Both trade and budget deficits were financed by attracting capital from overseas, and this capital was attracted by high interest rates. As Arrighi puts it;

not only did the US government stop feeding the system with liquidity; more importantly, it started to compete aggressively for capital worldwide – through record high interest rates, tax breaks, increasing freedom of action for capitalist producers and speculators and, as the benefits of the new policies materialized, an appreciating dollar – provoking the massive rerouting of capital flows towards the United States . . .²⁰⁷

On the other hand, high interest rates aggravated the position of developing countries who barely managed the borrowings to finance the oil deficits. They faced an entirely new element which is floating interest rates on their borrowings. Interest rates burdens of them compounded with the Thatcher's government interest-rate monetary shock in 1979. Anglo-American financial establishment used the major private commercial banks of New York and London, in the London centered Eurodollar market to recycle the new OPEC petrodollar surpluses. Between 1973 and 1982, the total debt of Latin America and the Caribbean grew at an annual rate of 25 per cent, which was almost twice the rate of growth of export earnings and about

²⁰⁷Giovanni Arrighi, "The Social and Political Economy of Global Turbulence", *New Left Review*, II/20 (2003), p. 66.

four times the rate of growth of GNP.²⁰⁸ The London Interbank Offered Rate , which was used to set the basic rate of interest for loans to developing countries, increased from 9.2 per cent in 1978 to 16.63 per cent in 1981.²⁰⁹ The effect of this increase on developing country debtors was devastating, adding perhaps a further \$41 billion to their debt.²¹⁰ In the end, third world economies eventually collapsed which led to the so-called Third World debt crisis. To ensure repayment of loans, Britain and the US did not hesitate to blackmail the developing countries. Engdahl indicates that the Falkland War of 1982 between Argentina and Britain was a test case to deter debtor countries from considering non-payment of their debts to the major US and UK banks. Argentina was the third largest debtor nation at the time with 32 billion dollars foreign debts.²¹¹

The debtor governments of third world were forced to implement austerity measures and their currencies were devalued. At the beginning of 1980s, IMF began to enforce debt repayment to the London and New York banks by acting as debt policeman in implementing austerity programs.²¹² Public spending for health, education and welfare decreased to pay their debts on time causing popular revolts.²¹³ Using the power of the media, the global public opinion was warned about the consequences of debt moratorium. In doing so, the banks secured international support for debt collection. During 1980s, International Monetary Fund and World

²⁰⁸Stuart Corbridge, *Debt and Development* (Blackwell: Oxford, 1993), p. 30.

²⁰⁹ Ibid., p.38.

²¹⁰ Kiely, op.cit., p.69.

²¹¹ Engdahl, p.186.

²¹²John Walton and Charles Ragin, “Global and National Sources of Political Protest: Third World Responses to the Debt Crisis”, *American Sociological Review*, 55/6 (Dec., 1990), p. 876.

²¹³ Ibid., p. 877.

Bank have become the principle agents to force the developing states to implement neo-liberal reforms that would provide fiscal and monetary stability so that the Western capital could easily exploit them. The basic instrument to force the countries in the region was the ‘conditionality’ which means offering certain incentives, credits and loans in return for implementing neo-liberal reforms. They opened up their economies to world and this led to huge unemployment crisis since they were not strong enough to compete with the Western capital. Therefore, they needed loans and credits. This made it easier for IMF and World Bank to direct the developing countries to the radical neo-liberal path. The whole economies of these countries were overtaken by the financial capital. Debt crisis led adjustments of social relations of production in way to allow foreign capital to invest more. Domestic productions facilities were overtaken by Western European and US companies thanks to principle of privatization. In addition to IMF structural adjustment programs, they faced agreements restructuring the repayment of their debts. Debt restructuring led to an important increase in the amount of debt owed to creditor banks. According to data of a Swiss insurance firm, after 1982, total foreign debt of all developing countries rose to almost 1.300 billion dollars from 839 billion.²¹⁴ The debtor countries had been caught in a debt trap. The only way out was to surrender national sovereign control over their economy. Also, some national governments took over the responsibility of the private sector debts under the pressures of the US and British banks. All in all, there occurred a wealth transfer from the capital-starved Third World, primarily into the financing of deficits in US and Britain to a lesser degree. According to calculations by the New York’s Morgan Guaranty Trust Company, in addition to 50 billion dollars annual interest payments, capital flight from Third

²¹⁴ Engdahl, op.cit., p. 194.

World into the US and other creditor countries amounted to 123 billion dollars in the decade up to 1985.²¹⁵ In 1982, just less than US \$40 billion left the Latin American region.²¹⁶ Annual return for the New York and London banks on their Latin American flight capital business was about 70 per cent.²¹⁷

In the meeting of UN at Colombo in 1976, less developed countries called for a reorganization of international trade system and radical restructuring of international monetary system. Latin American nations attending the Colombo summit, which Mexico attends as an observer, was threatened with losing economic aid and financial credits.²¹⁸ Colombo Resolution of the 85 non-aligned states was presented to UN calling for debt moratorium and transfer of technology to developing world for investments.²¹⁹ UN was the only suitable institution for promoting Third World interests since there was no great power domination at least in the General Assembly thanks to majority voting system. This was a great challenge to Anglo-American hegemonic order. Nevertheless, one by one, advocates of Third World development were removed from the seats of domestic power as in the case of Prime Minister Zulfikar Ali Bhutto of Pakistan who was overthrown in a military coup led by General Zia ul-Haq.²²⁰ In addition, the possibilities of cooperation between developed countries of Europe such as Germany and developing world was attempted to be blocked by US and Britain. US President

²¹⁵ Ibid., p. 197.

²¹⁶ Kiely, op.cit., p. 108.

²¹⁷ Engdahl., op.cit, p. 198.

²¹⁸ International Markets Newsletter, “Non-Aligned Nations Hit Kissinger At Colombo; Ready for New International Economic Order”, *Executive Intelligence Review*, 3/33 (1976), p. 1.

²¹⁹ International Markets Newsletter, “Third World Nations Pledge Debt Moratorium Fight At Colombo Summit”, *Executive Intelligence Review*, 3/32 (1976), p. 32.

²²⁰ Engdahl, op.cit., p. 163.

Ronald Regan unilaterally declared the death calls for New International Economic Order at the Cancun Summit on International Development Issues in 1981.²²¹ IMF insisted on austerity programs cutting back on state investments and preventing economic growth. In 1982, OPEC introduced the quota system under which all OPEC members agreed to limit production to a certain level further increasing the prices and further deteriorating the conditions of developing world.²²² Moreover, Carter's human rights discourse became a tool to justify unprecedented US intervention into internal affairs of Third World nations.²²³

On the other hand, Japanese and European trade surpluses began to be used to buy oil in dollars. The remaining surplus is invested in US treasury bonds to earn interest.²²⁴ The power of global finance spread all over the world through creation of finance centers in Tokyo, London and Frankfurt. International bankers, brokers and financiers played an important role in this process. At the end of this process, global capitalist system came to be based on primacy of transnational corporations under the US leadership. Three regional economic zone was defined to be managed ultimately by the US with the principle of centralized multilateralism.²²⁵ Trilateral commission was already established in 1973 by Rockefeller with the participation of 275 leaders from the world's three major "non-communist industrialized regions" namely Japan, Western Europe and North America.²²⁶ It can be argued that this

²²¹ Adam Sneyd, "New International Economic Order", available at http://www.globalautonomy.ca/global1/glossary_entry.jsp?id=EV.0027 (accessed on 20.06.2011).

²²² Bahgat, op.cit., p. 50.

²²³ Engdahl, op.cit., p. 166.

²²⁴ Clark, op.cit., p. 22.

²²⁵ Harvey, op.cit., p. 68.

²²⁶ David Rockefeller, "The Trilateral Commission Explained", *Saturday Evening Post*, 252/7 (1980), p. 36.

commission was established to further institutionalize the US relations with Western Europe and Japan in order to prevent them from challenging US hegemony. Open financial markets and relatively free trade were thought to prevent inter-capitalist competition and thus possible world wars. In this system, with its markets, financial power and military superiority, the US was the hegemonic actor. The process of establishing neo-liberal domination under the US leadership was later on called as Washington Consensus by John Williamson in 1989.²²⁷ Some thought that the cooperation and interdependence among the leading capitalist states would lead to an ultra-imperialist system as Kautsky predicted decades ago. The formation of G7- (later on G-8 with the participation of Russia) was accepted as a proof of emergence of an ultra-imperialist system.²²⁸ However, rather than an ultra-imperialistic system, it is more plausible to argue that despite cooperation among advanced-capitalist states to maintain the system, conflicts of interests still exist among them and this has a potential to trigger geopolitical struggles among them.

In the final analysis, control over world oil resources became one of the fundamental parts of neo-liberal world order under US leadership. In this context, the fall of Iranian Shah in 1979 together with hostage crisis and invasion of Afghanistan by Soviet Union were regarded as a big blow for the interests of the US in the Gulf. Furthermore, with the Shah out of Iran, Iran was no longer a reliable partner against Soviet incursion into the Gulf. As a response, in 1980 Carter Doctrine declared that to protect its national interest, US was prepared to use any means necessary including military force. Carter also ordered the establishment of the Rapid

²²⁷ John Williamson, "A Short History of Washington Consensus", Paper commissioned by Fundación CIDOB for a conference "From the Washington Consensus towards a new Global Governance," Barcelona, September 24–25, 2004, available at: <http://www.iie.com/publications/papers/williamson0904-2.pdf> (accessed on 21.06.2010).

²²⁸ Perry Anderson, "Internationalism: A Breviary", *New Left Review*, 5-25, March 2002, p. 20.

Deployment Joint Task Force, the Tampa-based military command that would take responsibility for managing US combat operations in the region.²²⁹ When Reagan came to power, Tampa office became a full-scale regional headquarters, the Central Command obtaining a status similar to European Command in Stuttgart. Reagan administration also approved the largest US arms sale to Saudi Arabia with a package worth 8.5 billion dollars including 5 AWACS.²³⁰ In return, Reagan demanded Saudi support in repelling Soviet backed elements around the region particularly in Afghanistan. Saudis gave economic assistance to militant groups in Afghanistan and created the convenient atmosphere for the rise of Al Qaeda and Taliban later on.²³¹ The US also committed itself to protect Saudi Arabia from spillover effect of Islamic Revolution in Iran. In this respect, the priority of US at this period was to ensure rapprochement between Egypt and Saudi Arabia. On the other hand, during the war between Iraq and Iran, US sent its marine forces to Gulf in order to ensure the security of Kuwaiti oil tankers.

In conclusion, financialization of the US economy and internationalization of production had a very negative impact on the US industry. It led to a deindustrialization process in the US. The power of the US at production level was weakened and US dependency on foreign trade was growing.²³² In order to maintain domestic consumerist culture, US had to receive cheap consumer goods from outside and thanks to petrodollar recycling system established after the end of Bretton Woods System, US did not have any difficulty in this respect.

²²⁹ Klare, op.cit., p.46.

²³⁰ Chrissie Hirst, "The Arabian Connection: The UK Arms Trade to Saudi Arabia", available at <http://www.caat.org.uk/resources/publications/countries/saudi-arabia.php> (accessed on 15.05.2010).

²³¹ Ahmed Rashid, *Taliban* (Yale University Press: New Haven, 2001), pp. 128-133.

²³² Harvey, op.cit., p. 56.

3.4. Downfall of US Economy, Growing US debts and Oil factor

While the interest rates increased in line with neo-liberal principles and interest of financial bourgeoisie, it became more difficult for industrial sector to make investments and this had a very negative impact on economic growth of US and Britain. Unemployment doubled in Britain by the end of Thatcher's first 18 months.²³³ In the US, real wages fell and trade deficits had increased from \$25 billion in 1980 to \$122 billion by 1985.²³⁴

Rather than industrial investment, money went in speculation in real estate, in stocks, profitable loans in developing countries and oil wells. Short-term speculative gains became main objective of all investments. Living standards of the majority of Americans decreased. As a result, by 1982, to mitigate the economic downfall, interest rates were lowered in the US. However, it did not bring the expected acceleration for industrial investment. Trade unions became the chief targets. The US government attacked to organized labor as if they were the only obstacles before industrial investment. Wages were cut and trade unions were accused of being communists. By 1982; International Brotherhood of Teamsters (a powerful trade union) accepted a three-year contract which resulted in a "virtual wage freeze".²³⁵ By the mid 1980s US had passed from being the world's largest creditor to becoming a debtor nation. Government went into debt to finance the huge loss of tax revenue and the expanded Reagan defense spending in the context of renewed Cold War.²³⁶ In late 1980, total private and public debt of the US was 3873 billion dollars while by

²³³ Engdahl, op.cit., p. 181.

²³⁴ Robert Schaeffer, *Understanding Globalization*, (Rowman and Littlefield: New York, 1997), p. 47.

²³⁵ Ibid., p. 201.

²³⁶ Kiely, op.cit., p. 65.

the end of decade, it became almost 10 trillion dollars.²³⁷ Despite such warnings, money flowed from Germany, Britain and Japan to take advantage of high dollar and the speculative gains in real estate and stocks. Over the decades of the Reagan years, almost 1 trillion dollars flowed into speculative real estate investment rather than traditional corporate lending. Saving and loan banks which were established to provide a secure source of long-term mortgage credit to family home buyers were deregulated.²³⁸ The Garn-St. Germain Act allowed saving and loans banks to invest in any scheme they desired with full US government insurance of 100000 dollars per account guaranteeing the risk in case of failure. This new law opened the door for financial abuses and wild speculative risks.²³⁹ Due to attractiveness of financial sector, industrial investment lost its importance and this led to collapse of public infrastructure of the US. In 1985, a controlled devaluation was agreed through the Plaza Accord. This move led to only a short-lived recovery.²⁴⁰ The US industry continued to decay. In addition to decaying of industry, the gap between the rich and poor increased dramatically. By 1988, the US citizens living under poverty level expanded by 30 per cent when compared to 1979 when the first monetary shock was initiated in the midst of the second oil crisis.²⁴¹

At this point, oil weapon was used again to mitigate the consequences of neo-liberal policies. Saudi Arabia increased its production and oil prices went down with in line with interests of US. Saudi Arabia was persuaded to run a reverse oil shock. This shows that the US has the power to determine the oil prices at a level that fits to

²³⁷ Endgdahl, op.cit., p. 205.

²³⁸ Ibid.

²³⁹ Ibid, p. 204.

²⁴⁰ Kiely, op.cit., p. 66

²⁴¹ Engdahl, op.cit., p. 206

its own interests. The price of oil dropped below 10 dollars per barrel by 1986 from an average 26 dollars some months earlier. Increasing production at British North Sea also played a role in the decline of oil prices.²⁴² The fall in oil prices had a very positive impact on inflation. When a further fall in oil prices threatened to destabilize interests of big British and US oil companies, George Bush made a trip to Riyadh to stop the downturn in prices. Oil prices stabilized at 14-16 dollars per barrel.²⁴³

The downturn in oil prices was also one of the factors in economic recession of Soviet Union at late 1980s and its ultimate disintegration giving the US the status of sole super power of the world. Soviet oil reached a peak in 1983. According to Yergin, the decline of domestic Soviet oil production played a much larger role than generally acknowledged in its disintegration.²⁴⁴ Heinberg argues that as the market faced cheap Saudi oil, Soviets became to earn less even if they pumped more oil. Soviet export earnings from its oil sales to the West which was the major source of its hard currency earnings since 1970s, collapsed after 1986. Two years after the oil production peaked, the economy of USSR crumbled.²⁴⁵ The economic chaos was the major factor motivating the Soviet Union to cut its ties with its East European satellites. Clarke draws attention to a CIA intelligence memorandum “Impending Soviet Oil Crisis” which stated that “When oil production stops growing and perhaps even before, profound repercussions will be felt on the domestic economy of the USSR and on its international economic relations”.²⁴⁶

²⁴² Yergin, op.cit., p. 720

²⁴³ Engdahl, op.cit., p. 206

²⁴⁴ Yergin, op.cit., p. 761.

²⁴⁵ Richard Heinberg, “Smoking Gun: The CIA’S Interest in Peak Oil”, available at www.museletter.com/archive/cia-oil.html (accessed on 04.05.2011).

While the oil prices began to decrease at the beginning of 1980s, the memories of the oil shocks in their minds, the natural gas demands of Europeans increased dramatically. In this context, in January 1980, Soviet Union proposed a pipeline to deliver natural gas to Western European market²⁴⁷. Soviet policy makers calculated that establishment of this pipeline would give them a political leverage on Western Europeans as well as bringing them the Western technology to have more efficient extraction of natural gas and thus to increase their foreign currency earnings to mitigate the ongoing economic crisis. The so-called East-West pipeline created a very negative reaction on the side of US since it had the potential to weaken Euro Atlantic relations. In 1982, Reagan Administration attempted to block the delivery of the compressors needed for the completion of the pipeline.²⁴⁸ US tried to force the Europeans not to make such an agreement and embargoed the export of key components of the pipeline to delay its construction.²⁴⁹

Despite all the measures taken by US foreign policy makers to maintain US world hegemony, the petro-dollar recycling system and financialization had inherent contradictions. In 1987, the financial bubble was burst and Prices on the Dow Jones Index collapsed. In terms of creating value, financialization has always been behind industrial and agricultural activity. Furthermore, the regionalization in global economy brought old geopolitical competition into agenda. This could trigger imperial ambitions of the states, protectionism and trade wars.

²⁴⁶ Clark, *op.cit.*, p. 48. Actual oil production in Russia showed a preliminary peak in 1983 with 12.5 mb/d followed by the actual peak in 1987 at 12.6 mb/d. Russian oil production in 2004 is approximately 9 mb/d, approximately 25 per cent less than its peak output.

²⁴⁷ Thane Gustavson, "Soviet Negotiating Strategy: The East-West Gas Pipeline Deal 1980-1984, Rand Corporation, February 1985, p.1, available at <http://www.rand.org/pubs/reports/2007/R3220.pdf> (accessed on 09.09.2010).

²⁴⁸ *Ibid.*, p.41.

²⁴⁹ Randall, *op.cit.*, p. 304.

3.5. The First Gulf War and Consolidation of the US Hegemony

After the end of Cold War, a multipolar world order was expected with distribution of power among three regions namely East Asia, Western Europe and North America. US hegemony was expected to collapse due to lower shares of US economy in world economic production, the huge federal deficits, rising trade deficits and thus rising foreign debts.²⁵⁰ Although US was able to finance its deficits thanks to dollar-Wall Street regime, this situation continued to harm the competitive power of the US economy. Furthermore, with the decline of Soviet Union, US was not able to use communist threat against its European allies and Japan to maintain its world leadership. US hegemony was to be based more on consent rather than coercion.²⁵¹

In order to create new markets for US capital, in June 1990, Bush Administration came up with two new projects namely NAFTA and Enterprise for American Initiative. The objective of the US was to create a trade bloc under its leadership. In addition, US made efforts for completion of Uruguay Round Negotiations within the context of GATT. Uruguay Round of GATT was crucial for the US in terms of extension of free trade to new fields like agricultural products, intellectual property, investment and services sector.²⁵² The priority of the US was to

²⁵⁰ The thesis of declinism was articulated by several scholars. See; Robert Kennedy, *The Rise and Fall of Great Powers: Economic Change and Military Conflict from 1500-2000*, (Vintage Books: New York, 1989); David Calleo, *Beyond American Hegemony*, (Basic Books: New York, 1987). On the other hand, some scholars believed that US hegemony would be maintained after the end of Cold War. See, Susan Strange, "The Future of American Empire", *Journal of International Affairs*, Vol. 42 (Fall 1988), Samuel Huntington, "The US Decline or Renewal", *Foreign Affairs*, 67/2 (Winter 1988/1989).

²⁵¹ Micheal C. Aho and Marc Levinson, "The Economy After Reagan", *Foreign Affairs*, 67/2, 1988/89, p. 21.

²⁵² Robert Kuttner, "Postwar Economics", in Charles W. Kegley, Jr. and Eugene R. Wittkopf (eds.), *The Future of American Foreign Policy* (St. Martin's Press: New York, 1992), pp. 320-321.

ensure secure access to EU's agricultural markets and Third World's services sector and thus inhibit the consolidation of regional trade blocs. EU's opposition with respect to abolition of subsidies to agricultural products demonstrated that it was really difficult to find common ground between different economic blocs.

In the context of increasing US debts, the strategy of Bush administration was to apply direct pressure on US allies for increased burden sharing to manage huge US debt burden. Showing off its military might became an important part of this strategy. In his first year, George Bush ordered to invade Panama with the pretext of arresting de-facto ruler General Manuel Noriega on charges of being a drug cartel.²⁵³ The Thornburgh doctrine gave the US the authority "to act on foreign territory if deemed necessary in the course of extraterritorial law enforcement".²⁵⁴ The Federal Bureau of Investigation was given the "right" to search premises outside of US territory and to arrest and kidnap foreign citizens outside of US jurisdiction, and US armed forces were endowed with the "right" to take police measures against civilians.²⁵⁵ This doctrine gave the US unilateral right to violate the sovereignty of any third country. It can be regarded as a proof of US universal police power in line with its imperialistic ambitions.

The US policy makers were well aware that in the context of disintegrated Soviet Union, the political and military allies of the US have become its economic competitors. The new mission of US intelligence worldwide was to counter the serious threat of an economically expanding Continental Europe and East Asia.

²⁵³ "1989: US forces oust General Noriega", *BBC News*, available at http://news.bbc.co.uk/onthisday/hi/dates/stories/december/20/newsid_4054000/4054951.stm, accessed on 20.08.2010).

²⁵⁴ Engdahl, op.cit., p.208.

²⁵⁵ Freiherr von der Heydte, "Power Politics and the Supreme Court", *Executive Intelligence Review*, 27/50 (2000), p. 64.

In this context, invasion of Kuwait by Iraq provided the US with great opportunity to reproduce its hegemonic position in the world and in the Middle East region where the rich oil resources are located. By that time, Iraq had just emerged from eight years of a war with Iran. The war brought huge foreign debt burden for Iraq. Saddam planned an economic recovery through US investments in building up its petrochemicals industry, agriculture fertilizer plants and iron and steel plants. However, the US business demanded Saddam to privatize Iraq's national oil resources before making these investments. Saddam rejected the US offer to surrender sovereignty over its oil resources in exchange for loans. The Western credits given to Saddam were cut off in return. For economic recovery, Saddam also demanded Kuwait to forgive the debt Iraq had built up during the war to pay for arms.²⁵⁶ Saddam thought that the war Iraq waged against Iran aimed to prevent spread of Islamic revolution and thus served also to the interests of Kuwait. However, Kuwait rejected Saddam's offer to forgive Iraq's war debts. To make the situation even worse for Saddam, Kuwait flooded OPEC markets with her oil in violation of OPEC price ceilings which was agreed to stabilize the market after 1986 crisis. By summer of 1990, Kuwait was able to lower oil prices from 19 dollars to 13 dollars per barrel. Iraq made repeated diplomatic efforts to persuade Kuwait to quit the policy of lowering the prices. In this context, Saddam realized the dangers of collapse of Soviet Union and emergence of the US as the sole superpower. In his speech in Arab Cooperation Council, Saddam demanded the oil-rich Arab states to improve their relations with Soviet Union, Western Europeans and Japan to make use of their oil wealth.²⁵⁷ This speech precipitated the plans of the US to invade Iraq. It

²⁵⁶ Klare, *op.cit.*, p. 49.

²⁵⁷ Engdahl, *op.cit.*, p. 216.

can be argued that the US manipulated Iraq to invade Kuwait and thereby created a pretext for intervening into region and showing of its military muscle. In July 1990, the US Ambassador to Baghdad April Glaspie asked for a meeting with Saddam and in the meeting on July 25, 1990 he told Saddam that the US would not take a position on the dispute between Iraq and Kuwait.²⁵⁸ Considering the fact that if Saddam was able to seize Kuwait, Iraq would have owned 20 per cent of OPEC production and 25 per cent of the world oil production²⁵⁹, it was obvious that the US would intervene against possible annexation of Kuwait by Saddam. Saddam accepted the assurances of Glaspie as a signal and invaded Kuwait on August 2, 1990. During the invasion, George Bush proclaimed the new world order. On September 11, 1990 Bush declared: “Out of these troubled times, a New World Order can emerge under a United Nations that performs as envisioned by its founders. Today a new world order is struggling to be born. A world quite different from the one we have known.”²⁶⁰ After the declaration of the new world order, the US intervened into Gulf crisis.

US intervention was much more about reproduction of US hegemony at global and regional level than neutralizing an aggressive dictator. In this process, US refrained from negotiations with Saddam since this could be regarded as an indication of weakness of US power.²⁶¹ The US was able to press and manipulate the UN Security Council and Arab states to authorize use of force to liberate Kuwait.

²⁵⁸ Jason Ditz, “Glaspie Memo Leaked: US Dealings With Iraq Ahead of 1990 Invasion of Kuwait Detailed”, available at <http://news.antiwar.com/2011/01/02/glaspie-memo-leaked-us-dealings-with-iraq-ahead-of-1990-invasion-of-kuwait-detailed/> (accessed on 05.06.2011).

²⁵⁹ Yergin, op.cit., p. 772.

²⁶⁰ Bart R. Kessler, “Bush’s New World Order-The Meaning Behind Words”, 1997, available at http://www.bibliotecapleyades.net/sociopolitica/esp_sociopol_nwo72.htm (accessed on 05.06.2011).

²⁶¹ Gowan, op.cit., p. 159.

The role of US military in the Gulf War revealed that German and Japanese power is just based on their economic strength and thus not multidimensional.²⁶² The war also revealed that Western Europeans and Asians depend on US military power for their economic well-being and for the international peace and security. It was also an indication that for secure access to energy resources, Japan and Western Europe were dependent on US military. The hesitation of Japan and European Community in terms of intervening into war was an indication that new world order was a unipolar one rather than multipolar. In this war, for the first time in history, the US had to resort to lending in order to finance the cost of the war.²⁶³ The US also managed to extract funds from Germany, Japan, Kuwait and Saudi Arabia to guarantee a total of 54.5 billion dollars to pay the costs of Operation Desert Storm. The US army turned out to be an international public good and a world police force.²⁶⁴

The coalition that the US established during the war also indicated that US power is not only based on brute force but also consent. Even Soviet Union was involved in the coalition created under the aegis of United Nations. The US convinced the world public that intervention would promote the interests of whole humanity. During the operation, Bush behaved as if he was the leader of the world not only the US.²⁶⁵ US believed that it had to intervene in the incident as the leader and only super power of the world. The intervention of the US was also a message to

²⁶² Joseph S. Nye, *Bound to Lead*, (Basic Books: New York,1990), pp. 9-10.

²⁶³ Micheal Klare, "US Military Policy in the Post-Cold War Era", *Socialist Register*, Vol. 28 (1992), p. 141.

²⁶⁴ David Hale, *Financial Times*, 21 November 1990, cited in Noam Chomsky, "The Gulf Crisis ", 1991, available at <http://www.chomsky.info/articles/199102--02.htm> (accessed on 07.05.2011).

²⁶⁵ Strobe Talbott, "The Low Point of the Bush Presidency", *Time*, 139/2, January 1992, p. 29.

Third World Countries that they cannot take unilateral steps ruining the regional balance of power.²⁶⁶

On the other hand, the war gave the US the opportunity to reinforce its military presence in the Middle Eastern region. After the war, US made new military base deals with the countries in the region. This strengthened the regional hegemony of the US. During the war, Saudi King Fahd was misled on the probability of Iraqi invasion in order to create suitable atmosphere for stationing the US troops on Saudi territory. Peterson states that:

Citing top-secret satellite images, Pentagon officials estimated in mid-September that up to 250,000 Iraqi troops and 1,500 tanks stood on the border, threatening the key US oil supplier. But when the St. Petersburg Times in Florida acquired two commercial Soviet satellite images of the same area, taken at the same time, no Iraqi troops were visible near the Saudi border just empty desert.²⁶⁷

Just four days after the Iraqi invasion, Bush authorized to begin deploying American troops in Saudi Arabia.²⁶⁸ Actually, the royal family was against foreign military presence in their country since they fear that this could provoke some religious groups in the society. For this reason, the Saudi King Fahd accepted deployment of US ground forces with the condition that the troops must be withdrawn from the country when the danger from Iraq had passed.

Contrary to the expectations, Bush Administration refrained from invading Iraq since invading Iraq could lead to upheavals in other monarchies in the region who were allies of US. Also, it could result in heavy casualties on the side of the US army. The memories of Vietnam War were on the minds of US foreign policy

²⁶⁶ Thomas Mc Cormick, *America's Half-Century: United States Foreign Policy in the Cold War and After*, (John Hopkins University: London, 1995), p. 250.

²⁶⁷ Scott Peterson, "In Wars Some Fact Less Factual", *The Christian Science Monitor*, available at <http://www.csmonitor.com/2002/0906/p01s02-wosc.html> (accessed on 02.07.2011).

²⁶⁸ Klare, *Blood and Oil*, p. 50.

makers. Rather than a prolonged war US strategy was to dominate the enemy and retreat back immediately after.²⁶⁹ In addition, Bush expected that internal upheaval would bring the end of Saddam regime. US expectations were let down when Saddam succeeded in maintaining his power in Iraq.

However, to prevent Saddam from rebuilding its forces and becoming a threat against US allies Saudi Arabia and Kuwait once again, Bush and Clinton Administrations adopted a strategy of containment to isolate Iraq from the rest of the world community. Air and sea blockades were imposed against Iraq. US also established permanent military presence in Kuwait and declared a no-fly zone over southern Iraq. This containment strategy was the main factor in Saudi-US military relations. Five thousand US personnel were stationed as Saudi bases for execution of Operation Southern Watch, the enforcement of the no-fly zone in southern Iraq between 1991 and 2000. Conducting Operation Southern Watch gave US troops the opportunity to stay in Saudi lands occupying air base established during Operation Desert Shield thus violating the US promise to leave whenever threat of Saddam was eliminated.²⁷⁰

Reinforcing its hegemony with the Gulf War, in the post Cold War era, ultimate objective of the US was to remain as the sole super-power of the world without challenge of any country. In the draft of the Defense Planning Guidance prepared in 1992 for fiscal years 1994-1999, the first objective of the US was indicated as prevention of emergence of a new rival challenging the US

²⁶⁹ M.R.Gordon, "A Sequel, Not a Re-run", *New York Times*, March 13,2003,available at <http://www.nytimes.com/2003/03/18/international/middleeast/18GORDON.html> (accessed on 02.07.2011).

²⁷⁰ Klare, op.cit., p. 50.

hegemony.”²⁷¹ In order to realize this objective, first, the US must show the leadership necessary to establish and protect a new world order convincing potential competitors that they do not need aspire to a greater role in the new world order. Second, the US has to take into account of the interests of the industrialized nations to discourage them challenging the US leadership. Lastly, the US must maintain mechanisms to deter potential competitors from aspiring to a global role.²⁷² Secure access to Middle Eastern oil was also emphasized by the document in order to sustain the US leadership.²⁷³ The strategy of the US was to bring every major oil region of the world under more or less direct US control from Caspian Sea to Iraq and West Africa.

3.6. Countering the Asian Challenge

One of the most important challenges for US in the post Cold War era was economic power of Japan over world trade and banking. Actually Japan was the leading country in purchasing US treasury bonds, real estate and other estates thus financing the deficits of US. On the other hand, one third of Japanese exports went to the US.²⁷⁴ At the end of the 1980s, Japan was regarded as the leading economic and banking power in the world and thus a challenge to US hegemony. Its model was so

²⁷¹ Patrick E. Tyler, “U.S. Strategy Plan Calls For Insuring No Rivals Develop”, *New York Times*, available at <http://www.nytimes.com/1992/03/08/world/us-strategy-plan-calls-for-insuring-no-rivals-develop.html?pagewanted=all&src=pm> (accessed on 03.07.2011).

²⁷² Ibid.

²⁷³ “U.S. Intervention In The Middle East”, *Information Clearing House*, available at <http://www.informationclearinghouse.info/article6308.htm> (accessed on 03.07.2011).

²⁷⁴ Schwartz, op.cit., p. 112.

successful that Asian "Tiger" economies copied it.²⁷⁵ The US was determined to deal with this challenge.

Japan was pressured by US to increase the yen's value against dollar with Baker-Miyazawa agreement in 1987.²⁷⁶ As Japan's most important market was US, US was able to put Japan under intense pressure. As a result of tight monetary policies to increase the value of yen, interest rates were cut. It was thought that cheap interest rates would spark Japanese purchases of US goods. Instead, the cheap money went to Tokyo stock market and real estate. Tokyo stock prices rose 40 percent or more annually Japan became the largest banking center. When the bubble grew enough, Wall Street bankers created and manipulated a panic sell off and thereby helped the collapse of Tokyo stocks. Japan's huge capital might have been used to finance for reconstruction of former Soviet Union or developing countries but US blocked such a move.²⁷⁷

Second target of US was Asian tigers. US began to demand that East Asian economies open up their controlled financial markets to free capital flows. Once capital controls were eased, Tiger economies faced a sudden flood of foreign dollars and eventually creation of speculative bubbles in luxury real estate, local stock values and other assets. As a result of huge speculative attacks, they finally turned to IMF for help. Asia was to become another province of the dollar realm through the IMF. The US was able to implement liberalization of trade, finance in Asia through IMF. While the East Asian countries had combined current account deficit of 33

²⁷⁵ Stephen Lendman, "The Rise and Fall of the International Gold Standard", Global Research, 2009, available at <http://www.globalresearch.ca/index.php?context=va&aid=13559> (accessed on 07.05.2011)

²⁷⁶ Engdahl, op.cit., p. 226.

²⁷⁷ Ibid.

billion dollars in 1996, after the speculative attacks hot money flowed in and current account deficit has become 200 billion dollars in 2002.²⁷⁸

In the final analysis, through deregulation and liberalization of finance particularly during Clinton Presidency, Wall Street deepened the crisis both in developing countries and its economic rivals through lowering the value of national currencies with hot money inflows and outflows.²⁷⁹ Developing countries applied to IMF and face with conditionalities like financial liberalization and tight budget policies. This inhibited the developmentalist notion of these states.

3.7. Passive Revolution in Russia?

It can be argued that Russia was brought into US economic orbit through imposition of market reforms. The instrument in the hands of the US was IMF again. IMF shock therapy was intended to create a weak economy in Russia dependent on Western capital and on dollar inflows for survival. US clearly wanted a deindustrialized Russia to bring it under its control. A modern Russian industrial economy could be an obstacle before US energy corporations to exploit oil and gas riches of the Russia and former Soviet republics. As a result of IMF conditionalities, a tiny elite were allowed to become extremely rich and manipulable by Wall Street bankers.²⁸⁰ By receiving the consent of Russian elite, the US calculated to extend its hegemony over the former Soviet Union territories.²⁸¹ In 1992, IMF demanded a free

²⁷⁸ Ibid., pp.230-31.

²⁷⁹ Kiely, op.cit., pp.110-111.

²⁸⁰ Engdahl, op.cit., p. 232.

²⁸¹ Atilla Eralp, "Hegemonya" in *Devlet ve Ötesi: Uluslararası İlişkilerde Temel Kavramlar*, in Atilla Eralp (ed.) (İletişim Yayınları: İstanbul, 2005), p. 179.

floating of the Russian ruble as part of its market-oriented reform. The effects of IMF reform were catastrophic. Between 1989 and mid-1990s Russia's GDP fell by more than 40 percent.²⁸² Industrial production fell to half of its earlier level as inflation rose to almost 200 per cent. Instead of domestic investment, billions of dollars flowed into Western markets.²⁸³

IMF shock treatment also opened up the potential for US and allied oil companies to control one of the world's largest oil and gas producer. In 1998, 17 Russian oil and gas companies with a fair market value of 17 billion dollars were sold for a total of 1.4 billion dollars. 60 per cent of state gas monopoly Gasprom was sold to private Russian groups for 20 million dollars. The market value was 119 billion dollars.²⁸⁴ The Russian privatization of key industrial assets was controlled by Russian oligarchy. Most of their wealth came from export of gas and oil. Companies such as Lukoil, Yukos, Sibneft and Sidanko were created. Oligarchs like Mikhail Khodorkovsky, Boris Berezovsky and Viktor Chernomyrdin became the leading actors of Russian economy.²⁸⁵

On 17 August 1998, Russia defaulted on its domestic ruble denominated bonds and devalued its currency. The government appealed to Central Bank as the lender of last resort. This nearly depleted the foreign exchange reserves of Central Bank and rendered its international reserves negative. Accumulation of foreign exchange reserves became the top priority of the Central Bank. On September 1998, Russian enterprises were obligated to sell 50 percent of their export revenues in

²⁸² Peter Oppenheimer and Sergiy Maslichenko, "Energy and the Economy: An Introduction", in Micheal Ellman (ed.), *Russia's Oil and Natural Gas: Bonanza or Curse?* (Anthem Press: New York, 2006), p. 19.

²⁸³ Engdahl, op.cit., p. 234.

²⁸⁴ Ibid., p. 237.

²⁸⁵ "The Russian Oligarchs of the 1990s", available at <http://www.sjsu.edu/faculty/watkins/oligarchs.htm> (accessed on 09.05.2011).

foreign exchange for rubles inside Russia. Before 16 September 1998, foreign exchange revenues of Russian enterprises could be sold outside of Russia through accounts of various Russian banks abroad.²⁸⁶ In this process, Russians accumulated billions of dollars as reserve through export revenues and this strengthened the hands of US even more vis-à-vis Russia.

While dragging the Russian economy into crisis, with NATO's eastward expansion thanks to Kosovo War, US calculated to prevent any future strategic alliance between Russia and Continental Europe.

All in all, the market economy and the prospect of wealth attracted the Russian elite while distorting the national economy. To put it differently, it can be argued that a passive revolution took place in Russia with the manipulation of IMF and Wall Street to prevent possible challenges of Russia to US world hegemony.

3.8. Conclusion

Eroding profits of bourgeoisie in the face of rising power of working class, huge expenses of Vietnam War and growing economic strength of Europe and Japan brought the end of Bretton Woods System under US hegemony. Due to deteriorating conditions of US economy, several European countries became concerned about the dollar's value and began redeeming their dollars for gold. This brought the end of Bretton Woods system.

Controlling world oil resources became important part of neo-liberal world order emerging after the collapse of Bretton Woods System. Petrodollar recycling

²⁸⁶ Micheal S. Bernstam and Alvin Rabushka, "Russia's Economic Contraction and Recovery 1992-2004: Compulsory Repatriation of Export Revenues and the Ambivalence of Liberalization, in Micheal Ellman (ed), *Russia's Oil and Natural Gas: Bonanza or Curse* (Anthem Press: New York, 2006), p. 93.

system created during this period played an important role in reinforcing the world reserve currency role of US dollar. As a result of oil shocks the needs of developing countries for dollar increased dramatically. The dollar earnings of oil rich countries were invested in US financial instruments. On the other hand, the oil shocks dragged developing countries to debt crisis and they opened up their economies to global financial capital.

Rising financialization of US economy led to a deindustrialization process in US. US foreign debts and budget deficits began to grow rapidly. With the financial crisis of 1987 and rising competitive power of European and Asian economies, it was expected that post Cold War would bring about a multi polar system with equal distribution of power among Europeans, Asians and American. All these expectations were let down by US thanks to first Gulf War. The First Gulf War helped reproduction of US hegemony in the Post Cold War Period. On the other hand, Japan, Eastern Tigers and Russian threats were contained to some extent thanks to financial attacks of Wall Street.

CHAPTER IV

ERA OF PETRO-DOLLAR WARFARE AND THE SECOND GULF WAR

4.1. Introduction

In 1999, Economic and Monetary Union (EMU) was formed by EU creating a financial market integration and common currency namely euro for the member states except Britain, Sweden and Denmark. Euro had the potential to challenge dollar's world reserve currency role in the world. On the other hand, in US when George W. Bush came to power, US economy was in crisis. This chapter will dwell upon the impact of the creation of Euro by EU on the US world hegemony. In addition, Bush Administration's policy to maintain petro-dollar recycling system will be investigated. In this respect, Bush's National Energy policy will be explored and the process which led to Second Gulf War will be elaborated.

4.2. From Clinton to Bush Administration: An Overall Assessment

Beginning with 1995-1996, information and technology intensive production began to replace industrial production and created an economic growth through increasing productivity. It became an important instrument of absorbing surplus capital and keep over-accumulation phenomenon under control. While its rivals were under economic crisis at this period, the US economy was flourished with low inflation and rising employment. Between 1995 and 2000, GDP grew by 4.1 per cent in average.²⁸⁷ With its huge military power, technological superiority and global

²⁸⁷ David Kotz, "Neo-Liberalism and the US Economic Expansion of the 90s", *Monthly Review*, 54/11 (April 2003), p. 21.

cultural expansion, the US was able to consolidate its hegemony. Clinton put American economy as a model to world and concentrated on economics rather than political and military issues. It tried to consolidate Pax-Americana through both consent and coercion. However, majority of the investments during Clinton presidency was financed with financial speculations. Although, real profits did not increase, value of the companies increased dramatically.²⁸⁸ In the context of financial speculations, confidence on the economy increased and this led to an important rise in the expenditures of an average household. Actually, the real factor led to the economic boom was not the investments; it was the rising consumption which led to enormous foreign deficits. However, excessive investments and speculations in internet companies led to a dot-com bubble. The burst of the bubble did not take long and many dot-com companies went into bankruptcy.

When George W. Bush came to power in 2001, the US economy was in deep crisis and on the eve of a new recession. With the US stock exchange collapsed in 2001, investors lost about 4.6 trillion dollars.²⁸⁹ The Enron scandal and corruption in the companies such as Merrill Lynch eliminated the confidence on the Wall Street. With the collapse of these companies, it was revealed that the bubble which has been getting bigger and bigger thanks to speculative profits would not last long.²⁹⁰ With the crisis in the US economy together with Asian crisis and corruption of financial companies further eliminated the attractiveness of neo-liberal policies.

²⁸⁸ Robert Brenner, "The World Economy at the Turn of the Millennium Toward Boom or Crisis", *Review of International Political Economy*, 8/1 (Spring 2001), pp. 34-35.

²⁸⁹ Walden Bello, "The Capitalist Conjecture: Over-accumulation, Financial Crises, and the Retreat from Globalisation" *Third World Quarterly*, 27/8 (2006), p. 1351.

²⁹⁰ Walden Bello, *Dilemmas of Domination: The Unmaking of the American Empire* (Zed Books: London, 2005, p. 99.

In 2001 and 2002, employment decreased 2 and 2,5 percent respectively and unemployment became 6 per cent.²⁹¹ In the context of rising unemployment and deficits, US dependence to Chinese and Japanese financial capital increased dramatically. Kiely states that in 2001, 97 per cent of US foreign deficits is financed by Asian investors.²⁹² Chinese and Japanese Central Banks reinforced their positions in US financial markets by obtaining one third of Wall Street shares and almost half of US treasury bonds. Dependence of these countries to American consumers ensured the flow of capital to the US but it was not guaranteed that the system would prevail in this way.²⁹³ Despite the deteriorating situation of its economy, US refrained from cutting government spending and thus continued to give budget deficits. Military expenditures of the US continued to rise. The foreign deficits of the US became 3 trillion dollars at the end of 2004. In 2004, economic growth was 3.7 per cent but it was basically triggered by the military expenditures of Iraq War and can be regarded as an artificial growth.²⁹⁴ One important factor that precipitated the unemployment in the US was American companies preference to invest in the places where the wages and thus cost of production were lower to be able to compete with Japanese and Western Europeans.²⁹⁵

Crises in Russia, Brazil and Argentine at the end of 1990s, the protests in Seattle against WTO and rising anti-Americanism with the bashing of IMF by the world public opinion forced the US to revise Washington consensus. Post-

²⁹¹ Robert Brenner, "New Boom or New Bubble?", *New Left Review*, No.25 (January-February 2004), p. 63.

²⁹² Kiely, op.cit., p. 159.

²⁹³ Gerald Baker, "The Deficit Debacle", *Foreign Policy*, 147 (March-April 2007), p. 46.

²⁹⁴ Bello, *Dilemmas of Domination*, p. 78.

²⁹⁵ Paul C. Roberts, "The Vicious Downward Cycle of the American Economy", 10 September 2005, available at <http://www.globalresearch.ca/PrintArticle.php?articleId=921> (accessed on 15.02.2011).

Washington consensus was proposed with its emphasis on sustainable development and equity. However, it was put forward just to eliminate the challenges directed against global capitalism and did not have a positive impact neither on US economy nor on the economies of the developing countries.

Despite all these contradictions, the US hegemony continued to rest upon its military dominance and the role played by dollar as the international World Reserve currency thanks to petrodollar recycling. Actually, it can be argued that dollar hegemony became almost as important as US military superiority. Dollar's unique role as a petrodollar has been the foundation of US supremacy since the mid 1970s. The process of petrodollar recycling has underpinned the US economic domination. In addition, dollar/petrodollar supremacy has allowed the US a unique ability to sustain huge budget deficit, tax cuts and has given the US the opportunity to build a very strong army having bases all over the world.

4.3. Franco-German Challenge and Emergence of Euro

In the context of economic crisis of 1970s, European elites became more receptive to neo-liberal ideas like deregulation, privatization and liberalization. Single European Act (SEA) was initiated in 1980 which included completion of Single Market by 1992. The content of SEA reflected the primacy of neo-liberal ideas. SEA brought about intensified market competition and higher capital mobility with the principle of mutual recognition. Single European Market and Treaty of European Union strengthened EU's competitiveness especially in international production structure and challenged US superiority with respect to technology. In 2000, the main objective of Lisbon Strategy was for the the EU "to become the most

competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”²⁹⁶

End of the Cold War, as Gowan indicates, led to an attempt by both the French and German governments, with support from other smaller West European states, to seek to renegotiate the political terms of the Euro-Atlantic relationship in order to ensure that their political and economic influence over Atlantic policy would be enhanced and thus their interests would be served.²⁹⁷ The fundamental novelty was that the collapse of the Soviet Union had removed the mutually shared external threat perceived by the transatlantic partners. International terrorism and spread of WMDs (Weapons of Mass Destruction) have not provided as strong a common threat as anticommunism did. As Du Boff argues, inter-capitalist rivalries are no longer contained by their subordination to Cold War security issues.²⁹⁸ In this context, EU became an important instrument for France and Germany. By expanding the political definition of EU and promoting its presence in international politics, they wanted to strengthen their hands against the US. This new condition and the readiness of some European states to seek a renegotiation of the terms of the Atlantic alliance were seen by American policy-makers as one of the major challenges that US global hegemony faced in the post Cold War period.

One of the most important challenge directed against the US hegemony from Franco-German core has been the emergence of Euro as the single currency used all

²⁹⁶ For the full text of Lisbon Strategy see, European Council Presidency Conclusions- Lisbon European Council 23 and 24 March 2000, available at http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm, (accessed on 06.04.2011)

²⁹⁷ Peter Gowan, “Cooperation and Conflict in Transatlantic Relations After the Cold War”, *Interventions International Journal of Postcolonial Studies*, 5/2 (2003), p. 225.

²⁹⁸ Richard.B. Du Boff, “US Hegemony: Continuing Decline, Enduring Danger”, *Monthly Review*, 2003, available at <http://www.globalpolicy.org/empire/analysis / 2003/12decline.htm> (accessed on 06.04.2011).

over EU except Britain, Denmark and Sweden since this created the possibility of making Euro a reserve currency challenging the US dollar. Actually, well before the establishment of European Monetary Union and emergence of Euro, European Community took some steps in order to insulate Europe from the shocks of the dollar regime. EMS (European Monetary System) provided a basis for defending intra-European trade and monetary relations. Even during Cold War years, De Gaulle was criticizing the unfairness of international financial system for giving the US the privilege of printing cash at will to pay for goods and services.²⁹⁹ In this regard, in 1977 France and Germany offered an agreement to OPEC whereby Europe would supply high-technology exports to OPEC in return for long-term oil supply agreements at a stable price and this proposal was blocked by the US.³⁰⁰

Euro is regarded by many experts in the field as the first viable challenger to US dollar's supremacy since the end of Second World War.³⁰¹ Chinn and Frankel articulate that if the United Kingdom and other non-euro area EU members join EMU by 2020, or the recent depreciation trend of the dollar persists into the future, the euro may surpass the dollar as the leading international reserve currency by 2022.³⁰² In this respect, Clark argues that establishment of EMU and emergence of

²⁹⁹ El-Gamal and Jaffe, op.cit., p. 120.

³⁰⁰ Engdahl, op.cit., p. 170.

³⁰¹ These experts include C. Fred Bergsten "The Dollar and the Euro", *Foreign Affairs*, 76/4, July/August, 1997, pp 83–95; Perter Kenen, "The Euro and the Dollar: Competitors or Complements?", in M. Dumoulin and D Duchenne (eds.), *The European Union and the United States* (. P.I.E.-Peter Lang: Brussels, 2003), pp. 251–74. On the other hand, some experts argued that euro would not be able to challenge dollar hegemony in the future. See Richard N. Cooper, "Key Currencies After the Euro", in Robert Mundell and Armand Clesse (eds.), *The Euro As a Stabilizer In the International Economic System*, (Kluwer: Boston, 2000), pp. 177-202; Benjamin J. Cohen "Life at the Top: International Currencies in the Twenty-First Century," (Princeton, NJ: International Economics Section, 2000).

³⁰² Menzie Chinn and Jeffrey Frankel, "Will the Euro Eventually Surpass the Dollar as Leading International Reserve Currency", *NBER Working Paper No. 11510*, available at <http://www.nber.org/papers/w11510> (accessed on 23.07.2011), p. 31.

Euro in 1999 represents the beginning of the “petrodollar warfare” phase of the US hegemony. He adds that there is actually an oil-currency war between US and Europe. The petrodollar warfare stage requires violence by the US intelligence agencies and military enforcing the dollar standard as the monopoly currency for international oil transactions.³⁰³

If oil is to be priced by Euro, it could create a panic sell-off of dollars by foreign central banks and OPEC producers. Petrodollar system demands the build-up of huge trade surpluses to accumulate dollar surpluses to be able to buy oil. This explains why almost 70 per cent of world trade is conducted in dollars, even though US share is about one third of that total.³⁰⁴ For US, accumulating trade surplus is not necessary as it is able to control and print dollar at will. Actually, for US number one export product is the dollar itself. This is due to dollar’s World Reserve Currency role, which is underpinned by its petrodollar role. Every nation needs to obtain dollars to purchase oil. This means that US consumer is the main target for export products of the nations seeking to build dollar reserves. The Central banks of Japan, China, South Korea all buy US Treasury securities with their dollars. In this respect, dollar’s role has allowed the Federal Reserve and US to inject unprecedented amount of liquidity into US economy. With a trade deficit of 665 billion dollars, the US must import at least 1.8 billion dollars every day to avoid a dollar collapse and keep its interest rates low enough to support the debt-burdened corporate economy.³⁰⁵ Dollar’s being world reserve currency gives the US privilege to borrow cheaply and spend much more than it earns.

³⁰³ Clark, op.cit., p. 26.

³⁰⁴ Ibid., p. 32.

³⁰⁵ Ibid., p. 37.

On the other hand, dollar's status as the sole currency for oil transactions exposes European countries to "currency risk" unlike US.³⁰⁶ Higher taxes are imposed in Europe to mitigate the consequences of currency risk. Otherwise, they could experience huge ups and downs in daily gas prices due to fluctuations in their domestic currency's valuation relative to the dollar on the international currency market. On the other hand, US consumers have very steady oil prices regardless of whether the oil is highly valued or devalued against other major currencies. The lack of currency risk explains lower taxes on oil and gas in US. The average world price for a gallon of gasoline in 2004 was about 5 dollars, nearly 60 percent higher than typical US prices. US is immune to oil price risk and has enjoyed stable gasoline prices.³⁰⁷ Actually, a stable oil bill is one of the reasons why the EU would prefer a euro-based oil transaction option since EU's currency risk for their imported oil was dramatic. In 2000, the sudden rise in oil prices affected Europe very negatively. The fuel costs had doubled and transportation came to a near standstill. Europe witnessed fuel price protests from Spain to Ireland under the leadership of farmers, truckers and fishermen.³⁰⁸ Euro's relatively lower valuation vis-à-vis dollar exacerbated the impact of rise in the oil prices. That is why European countries were very much willing to lift the UN sanctions being applied to Iraq since they were awarded with oil- lease contracts by Saddam.³⁰⁹

All in all, end of the Cold War led to a renegotiation process in Euro Atlantic relations. In this context, emergence of Euro led to a clash between Wall Street and

³⁰⁶ "When Will We buy Oil in Euros?", *Guardian*, February 23, 2003, available at <http://www.guardian.co.uk/business/2003/feb/23/oilandpetrol.theeuro> (accessed on 04.11.2010).

³⁰⁷ Ibid. p.34.

³⁰⁸ Greg McCartan, "Fuel Price Protests Spread in Europe", *The Militant*, 64/37, 2000

³⁰⁹ Clark, op.cit., p. 65

competing Franco-German financial interests. Chossudovsky states that two rival financial and monetary systems are competing worldwide for the control over money creation and credit.³¹⁰ Britain's decision not to adopt Euro can be regarded as a logical consequence of integration of British financial and banking interests with Wall Street and Anglo-American alliance in the oil industry.

US resorted to its military dominance to counter this challenge to its hegemony. In this respect, the US made continuous efforts to block the development of autonomous defense capabilities of EU. Van der Pijl argues that the inability of EU to intervene into Kosovo War was used by US to "discipline EU, especially Euro-zone towards becoming a freely accessible part of the open world economy desired by global capital in line with straight neo-liberalism rather than an industrial export bloc". He adds that Kosova war was a success in the larger American strategy of sustaining its global hegemony as the formal inclusion of Poland, Hungary and Czech Republic in NATO in 12 March 1999 was complemented by military cooperation with other countries in the area (Croatia, Hungary, Albania and Macedonia opened their air space to US war planes) during the war.³¹¹ At this point, Gowan draws attention to the geopolitical importance of Eastern Europe for US global hegemony. US domination over Eastern Europe is crucial in the sense that

....it would create a very good opportunity for US to split Russia from Europe, to exclude Russia also from Balkans and to secure its link with Black Sea and thus to acquire an important base for the Great Game for the energy and mineral resources of the Caspian and the Central Asia.³¹²

³¹⁰ Micheal Chossudovsky, *War and Globalization: The Truth Behind September 11* (Global Outlook and the Centre for Research on Globalization: Shanty Bay, 2002), pp. 109-112.

³¹¹ Kees Van der Pijl, "From Gorbachev to Kosovo: Atlantic rivalries and the Re-incorporation of Eastern Europe", *Review of International Political Economy*, 8/2 (2001), p. 304.

³¹² Gowan, op.cit., p. 301.

For this reason, the US plans to reposition some of its military bases to Eastern European countries. New allies of US in Eastern Europe located closer to these regions can act as military hubs for American forces. Romania and Bulgaria offer more direct routes to the Middle East across Black Sea to the Caucasus or through Turkey. Poland can also provide a central transit point, for reaching Caspian Sea. Strategic and economic significance of these regions are increasing especially with the development of oil and gas lines from Russia and Central Asia.

4.4. Theory of Peak Oil and Bush's National Energy Policy:

At this point, it is plausible to dwell upon the concept of “peak oil” and Bush's national energy policy to better understand the competition over energy resources of the world.

The concept of peak oil is developed by geophysicist M. King Hubbert.³¹³ He developed a methodology to predict the decline in the production of oil fields. His methodology for predicting future oil recovery was regarded as correct when US reached peak oil in 1970. According to this view, the world has been searched thoroughly benefiting from the last technology and few areas are left for exploration. Over the last decades, smaller amounts of oil have been discovered. The Peak Oil School claims that “oil is a fossil fuel, a biological residue or detritus of either fossilized dinosaur remains or perhaps algae, hence a product in finite supply.”³¹⁴

³¹³M.K. Hubbert, “Nuclear Energy and the Fossil Fuels”, Presented before the Spring Meeting of the Southern District, American Petroleum Institute, Plaza Hotel, San Antonio, Texas, March 7–8-9, 1956, available at <http://www.hubbertpeak.com/hubbert/1956/1956.pdf> (accessed on 02.08.2011).

Predictions of the timing of peak oil include the possibilities that it has recently occurred or it will occur shortly. For instance, Peak Oil advocates, led by former BP geologist Colin Campbell, and Texas banker Matt Simmons, argued that the world faced a new crisis, an end to cheap oil, or Absolute Peak Oil, perhaps by 2012, perhaps by 2007.³¹⁵

Clarke argues that the concept of “energy return on energy invested” (EROEI) is crucial to understand the importance of peak oil. EROEI refers to the amount of energy spent compared to the amount of energy extracted. If the amount of energy spent to extract oil is greater than amount of energy extracted then it will no longer be logical to expend the energy to extract the oil. Clarke indicates that this is the case for oil which is geographically hard to access.³¹⁶

As regards the current oil reserves, Clarke argues that the reporting of the reserves is politically motivated. For instance, OPEC countries tend to manipulate their reserves as oil production quotas were to be proportional to one’s proven reserves.³¹⁷ On the other hand, Canada broadened its definition of reserves to include all of its oil sand causing Canada’s oil reserves to increase 4.9 billion barrels in one year as a result of discovery of oil sands in Alberta. Canada is now listed as having more proven oil reserves than Iraq according to US Geological Survey. However, considering the fresh-water requirements, environmental damage and a low EROEI, oil extraction from Canada’s tar sand will never satisfy the energy needs of Canada

³¹⁴ William Engdahl, “Confessions of an “Ex” Peak Oil Believer”, 2007, available at <http://www.financialsensearchive.com/editorials/engdahl/2007/0925.html> (accessed on 05.06.2011).

³¹⁵ Ibid.

³¹⁶ Clark, op.cit., p. 79.

³¹⁷ Ibid.

or the US. Production of oil in Alaska National Wildlife refuge would also be too little to satisfy the needs of the US.³¹⁸

On the other hand, as Engdahl indicates that theory of peak oil began to be criticized by Soviet geologists during 1950s. In 1956, Prof. Vladimir Porfiriev announced the conclusions of their studies:

Crude oil and natural petroleum gas have no intrinsic connection with biological matter originating near the surface of the earth. They are primordial materials which have been erupted from great depths... Oil supply on earth would be limited only by the amount of organic hydrocarbon constituents present deep in the earth at the time of the earth's formation. Availability of oil would depend only on technology to drill ultra-deep wells and explore into the earth's inner regions. They also realized old fields could be revived to continue producing, so called self-replenishing fields. They argued that oil is formed deep in the earth, formed in conditions of very high temperature and very high pressure, like that required for diamonds to form. They dismissed the idea that oil was biological residue of plant and animal fossil remains as a hoax designed to perpetuate the myth of limited supply.³¹⁹

Today, some energy experts like Lynch³²⁰ and Engdahl still criticize the theory of peak oil arguing that increased oil exploration and drilling will result in sufficient new discoveries. This is a nonfinite viewpoint of oil. Engdahl also claims that theory of peak oil is made up to keep the prices as high as possible and thus to serve the interests of big oil companies.³²¹ In addition, it can be claimed that having control over world oil resources, US would like industrialized nations that have the potential to challenge its hegemony to pay more for their oil needs and thereby contain their challenges.

Whether the peak oil thesis is right or wrong, oil with other fossil fuels (natural gas and coal) supply the major part of world's as well as US energy demand.

³¹⁸ Ibid., pp. 80-83.

³¹⁹ Engdahl, "Confessions of an "Ex" Peak Oil Believer".

³²⁰ See: "Peak Oil' Is a Waste of Energy", *New York Times*, August 24, 2009, available at <http://www.nytimes.com/2009/08/25/opinion/25lynch.html?pagewanted=all> (accessed on 19.05.2011).

³²¹ Engdahl, "Confessions of an "Ex" Peak Oil Believer".

According to statistics of Energy Information Administration, petroleum has 37 per cent share in US energy use while natural gas has 25 per cent and coal has 21 per cent in 2009.³²² The remarkable thing is that 72 per cent of oil goes to supply the needs of transportation sector.³²³ All four major economic sectors of the economy (industrial, transportation, commercial and residential) recorded huge growth in their use of energy in the last decades.³²⁴ Actually, after oil, the most important fossil fuel for energy use is natural gas. Natural gas share in world's total energy consumption has been growing steadily in last couple of decades. It is projected to be the fastest growing fossil fuel globally to 2030. Asia accounts for the world's largest production and consumption figures. China drives 56% of the region's consumption growth. On the other hand, Middle East has the world's second largest production of natural gas.³²⁵

Other energy resources are not expected to replace coal, oil and natural gas in the short and medium term. As regards the shale oil, EROEI is too low to be useful.³²⁶ Extracting shale oil from oil shale is more costly than the production of conventional crude oil financially and in terms of its damage on environment is considerable.³²⁷ Similarly, nuclear power is the most expensive conventional energy

³²² Annual Energy Outlook 2011 Reference Case, *US Energy Information Administration*, , available at http://www.eia.gov/neic/speeches/newell_12162010.pdf (accessed on 23.05.2011).

³²³ Ibid.

³²⁴ Annual Energy Review 2009, figure 7, *US Energy Information Administration*, available at <http://www.eia.gov/totalenergy/data/annual/pdf/aer.pdf> (accessed on 20.05.2011).

³²⁵ *BP Energy Outlook 2030*, London, January 2011, available at http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/2030_energy_outlook_booklet.pdf (accessed on 06.07.2010).

³²⁶ Jeff Wright, "Energy and Free Market", *Colorado Free Report*, July 12, 2003, available at www.freecolorado.com/2003/07/energy.html (accessed on 03.02.2011).

source.³²⁸ In addition, safety is the biggest concern about nuclear energy. The earthquake and tsunami which led to an explosion in Daiichi Nuclear Plant in Japan on March 2011 demonstrated that nuclear energy is not reliable. After the incident in Japan, Germany declared to close all its nuclear plants by 2022.³²⁹ Similarly, Swiss cabinet announced its will to close down all nuclear power plants by 2034.³³⁰ With respect to biofuels (ethanol, biodiesel), potential for transportation is quite finite considering the negative impacts of extracting biofuels on the global agricultural production.³³¹ Regarding hydrogen fuel cells, Butler argues that hydrogen-based transportation systems could not provide the answer to the global transportation challenges following peak oil.³³² Similarly, Farrel argues that hydrogen cars are poor short term strategy and it is not clear they are good idea in the long-term.³³³ According to Clarke, the only renewable energy that could theoretically be implemented to replace the depletion of oil and natural gas is the solar energy captured by the world's tropical oceans. Ocean Thermal Energy Conversion (OTEC) is a renewable system that produces electricity. But more research is necessary in

³²⁷ 2007 Survey of Energy Resources, *World Energy Council*, p.99, available at http://www.worldenergy.org/documents/ser2007_final_online_version_1.pdf (accessed on 20.06.2011).

³²⁸ Heinberg, op.cit., p. 150.

³²⁹ "Germany: Nuclear power plants to close by 2020", *BBC News*, available at <http://www.bbc.co.uk/news/world-europe-13592208> (accessed on 07.08.2011).

³³⁰ "Swiss phase out nuclear power by 2034", available at http://www.swissinfo.ch/eng/politics/internal_affairs/Swiss_to_phase_out_nuclear_power_by_2034.html?cid=30315730 (accessed on 08.07.2011).

³³¹ 2007 Survey of Energy Resources, *World Energy Council*, pp. 337-38

³³² Bill Butler, "The Great Rollover Juggernaut: World Oil Depletion and Inevitable Crisis", available at www.durangobill.com/Rollover.html (accessed on 05.02.2011).

³³³ Robert Sanders, "Hydrogen - Fueled Cars Not Best Way to Cut Pollution, Greenhouses Gases and Oil Dependency", *UC Berkeley News*, 2003, available at <http://www.sciencedaily.com/releases/2003/07/030718084311.htm> (accessed on 23.02.2011).

order to increase the EROEI rates of OTEC.³³⁴ In the final analysis, there is no foreseeable alternative energy source to oil, natural gas and coal. Therefore, a demand-side balancing in use of oil, natural gas and coal is necessary.

US had reached domestic peak oil production in 1970-71. Until that time, the US was world's foremost oil producer. Considering the peak oil, and the fact that oil would remain as the main source of energy at least in the next couple decades, acquiring control over oil becomes even more important. In 2000, with gasoline prices in many areas of the US rising to two dollars, farmers and truckers started to demand federal action. One of the most important fields of petroleum consumption is transportation sector. The share of transportation sector in total energy consumption is about 20 per cent. Petroleum has about 90 per cent share in this ratio.³³⁵ Considering the importance of motor-vehicles for the daily lives of ordinary American consumers, secure access to petroleum is quite important for the maintenance of domestic hegemony of the US ruling class. Therefore, price of oil should be kept at an acceptable level. Otherwise, other individual expenditures of American consumers could decrease.³³⁶ This would be a big blow for the consumerist culture of the US and could damage internal cohesion of the society.

The US has an estimated 2 percent of the world's oil reserves but uses 25 percent of the world's oil. Middle East holds an estimated 65 percent of global oil reserves with Saudi Arabia is reported to hold the world's largest reserves (25 per cent of total).³³⁷ Securing imported oil has driven an integrated US oil-military

³³⁴ Clark, op.cit., p. 86.

³³⁵ Annual Energy Outlook 2011 Reference Case, *US Energy Information Administration*, available at http://www.eia.gov/neic/speeches/newell_12162010.pdf (accessed on 23.07.2011).

³³⁶ Pala, op.cit.

³³⁷ Clark, op.cit., p.46.

strategy ever since. The Energy Task Force, officially the National Energy Policy Development Group (NEPDG), was created by U.S. President George W. Bush in 2001 during his second week in office. Vice President Dick Cheney was named chairman of the group. NEPDG warned in 2001 that “America 20 years from now will import nearly two of every three barrels of oil which is a condition of increased dependency on foreign powers that do now always have America’s interests at heart”.³³⁸ On May 16, 2001, the NEPDG released its final report called as NEP (National Energy Policy).³³⁹

Although Bush has declared that the strategy is based on reducing demand by promoting innovation and technology for efficiency and conservation, in essence NEP is a commitment to expansion of US oil economy. The only proposal to reduce the dependence on foreign oil was intensified exploitation of US own reserves including untapped fields in Alaska and other protected wilderness areas.³⁴⁰ However, even if Arctic National Wildlife Refuge rally contains 10 billion barrels reserves as estimated, extracting it would not bring a considerable reduction in US foreign imports.

NEP also envisioned a close collaboration between federal government and US oil giants.³⁴¹ The government will work with foreign governments to overcome obstacles to American investment and maintain stability in key producing areas, the energy companies will burden the investment costs and provide technical and

³³⁸ The National Energy Policy Development Group completed its report at the beginning of 2001. The 169- page report, released on May 17, 2001, was titled as the *National Energy Policy (NEP)*.

³³⁹ Full text of the document is available at <http://www.ne.doe.gov/ACC700D7-FFC1-4B2A-91A5-35A0A5F6484C/FinalDownload/DownloadId-32551FA131CFF60B45526C0B5B0F88C2/ACC700D7-FFC1-4B2A-91A5-35A0A5F6484C/pdfFiles/nationalEnergyPolicy.pdf>, (accessed on 05.03.2011).

³⁴⁰ National Energy Policy, *ibid.*, Chapter 5, p. 8.

³⁴¹ *Ibid.*, p. 64.

logistical capabilities to extract the oil. This partnership would operate in all the regions having potential sources of additional petroleum.

In this context, controlling the Middle Eastern mineral resources which are predicted to be largest unexplored region in the world has become the priority for the US. In terms of proven petroleum reserves, Persian Gulf has no rivals. Majority of the world's proven reserves are located in just five countries which are Iran, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates. They possess 658 billion barrels of untapped petroleum which amount of 63 per cent of known reserves.³⁴² As the petroleum infrastructures of these countries develop, their daily extraction will increase dramatically.

Having secure access to oil and gas is crucial for the US to satisfy domestic demand and thus to maintain its domestic hegemony. However, control of these resources are equally significant for perpetuating the dependence of Europe, China and Japan to the US and thereby perpetuating the US world hegemony.

4.5. The Bush Doctrine

According to Du Boff, to become global hegemonic power, one nation state has to play a predominant role in organizing and regulating world political economy, and military strength is inseparable part of hegemony.³⁴³ US military supremacy is no longer matched in economic and political sphere starting from 1970s. Although it is doubtful that its military supremacy could preserve the global economic interests of US capital in the post Cold War period, neo-conservative Bush Administration did

³⁴² Klare, *Blood and Oil*, p.75.

³⁴³ DuBoff, *op.cit.*

not hesitate to use whenever necessary. Doctrine of preventive warfare, military control over the world's primary energy supply along with the military enforcement of the dollar as the international currency for oil trade became the basic pillars of neo-conservative strategy to maintain the US hegemony.

In 2000, the neo-conservative think-tank the Project for a New American Century (PNAC) published a study namely "Rebuilding America's Defense: Strategy, Forces and Resources for the New Century". In this document, it is noted that "the need for a substantial American force presence in the Gulf transcends the issue of the regime of Saddam Hussein".³⁴⁴ Access to vital raw materials primarily to Persian Gulf oil is defined as a key objective of US foreign policy and military intervention was necessary to realize this objective. PNAC group envisaged a worldwide command and control system. It also identified three regimes which are North Korea, Iran and Iraq (later to be called as axis of evil by Bush) as posing special problem for the New American Century. PNAC also pointed to the need for a substantial American force in the Gulf. In 1997, some members of PNAC wrote a letter to President Clinton and demanded toppling of Saddam regime while criticizing harshly Clinton's strategy of containment.³⁴⁵

Following the election of Bush, PNAC obtained the possibility to realize its objectives. When they came to power with the election of George W. Bush as president, some of the aggressive and unilateral policy proposals of PNAC were openly pursued such as insistence on National Missile Defense system and cancellation of Anti-Ballistic Missile treaty. PNAC members were aware that desired

³⁴⁴ Neil Mackay, "Lets Not Forget: Bush Planned Iraq 'Regime Change' Before Becoming President", available at <http://www.informationclearinghouse.info/article1221.htm> (accessed on 05.03.2011).

³⁴⁵ Merdan Yanardağ, *Yeni Muhafazakarlar, Amerika'nın Kara Kitabı* (Chiviyazıları Yayınevi: İstanbul, 20 04), p. 55.

transformation of US military would be difficult without a massive external threat to provide a justification for their greater goals.³⁴⁶ 9/11 incident gave them the opportunity to transform US to a country that openly articulates willingness for global dominance and endless warfare. As Mann points out Osama bin Laden, the leader of Al-Qaeda provided the US with targets to be shot and ensured the mobilization of power domestically.³⁴⁷ The Patriot Act adopted by the US Congress after 9/11 gave the US government the authority to restrict individual liberties in the name of “War on terror”. Even the world public opinion and the rivals of US such as Russia and France gave their support to US against terrorism. French daily newspaper Le Monde used the headline “We are all Americans” giving full support to US against terrorism. For the first time, NATO invoked defense clause in Article V of its charter for invasion of Afghanistan.³⁴⁸ Resolution 1368 and 1373 of the UN set forth some anti-terrorism matters that every individual state must apply. However, it did not give the US the authorization to invade Afghanistan. On the other hand, US resorted to Article 51 of UN Charter giving the states the right of self-defence. However, according to international law, self-defence may not be invoked to justify physical retaliation to an attack a few weeks after it occurs. The threat must be immediate to invoke the right of self-defence. Therefore, invasion of Afghanistan was not in accordance with the principles of international law. However, the US had the sympathy of world public opinion to legitimize its actions in Afghanistan. The US operation in Afghanistan was supported by Europeans and Russia while China retained its silence since the operation was regarded as use of the

³⁴⁶ Clarke, op.cit, p. 56.

³⁴⁷ Micheal Mann, *Incoherent Empire* (Verso: London, 2003), p. 9.

³⁴⁸ Anand Menon “From Crisis to Catharsis: ESDP after Iraq”, *International Affairs*, 80/4 (2004), p. 633.

right of self defense. With the operation in Afghanistan, the US was able to topple Taliban. More importantly, it obtained a strategic position to control the energy rich Euroasian lands by locating its forces in Afghanistan. Therefore, invasion of Afghanistan strengthened the hands of US against its rivals having the potential to challenge its hegemony. In this context, US established military bases in Kyrgyzstan and Uzbekistan.³⁴⁹ US retained these military bases even after the end of war. US strategy has been to establish pliant regimes in the region to establish its control over energy resources of Caspian Sea and Central Asia.

All in all, the war in Afghanistan received the support of world public opinion and leading countries and created sympathy for US. However, this sympathy was eroded with the national security strategy declared by George W. Bush and later on the invasion of Iraq. The rhetoric of Islamist fundamentalists together with the concept of “war on terror” gave the US the long-desired external threat to realize its imperialist ambitions. In his speech on January 29, 2002, Bush declared North Korea, Iran and Iraq as axis of evil.³⁵⁰ These countries’ potential to challenge US control over world energy resources was one of the major factors of defining them as evil.³⁵¹ On the other hand, the US defense document which was released in 2002 namely “The National Security Strategy of the US” known as Bush doctrine asserted “the right to use military force anywhere in the world at any time against any country.”³⁵² Violating the basic principles of the international law, this document

³⁴⁹ Karshi-Khanabad Air Base is located in southern Uzbekistan; Manas Air Base is situated just north of Bishkek, Kyrgyzstan. See; Lionel Beehner, “US Military Bases in Central Asia”, *Council On Foreign Relations*, available at <http://www.cfr.org/kyrgyzstan/asia-us-military-bases-central-asia/p8440> (accessed on 07.03.2011).

³⁵⁰ Clarke, op.cit., p. 139.

³⁵¹ Yanardağ, op.cit., p. 52.

³⁵² The full text of The National Security Strategy of the United States of America is available at <http://www.informationclearinghouse.info/article2320.htm> (accessed on 09.03.2011).

gave the US the right to take unilateral action against any country without having a justified cause. After 9/11, from its right of self-defense US deduced that the war on terrorism gave it an authority for unilateral action and for forming coalitions of willing according to its own needs instead of seeking assistance from multilateral institutions. Under the Bush Doctrine, the United States acquired also the right to undertake preventive war. While international law and norms give the state the right to launch a preemptive strike against another when an attack by the latter is imminent, it has rejected any right of preventive war. President Bush argued that in an age of globalization, catastrophic terrorism, and weapons of mass destruction, this distinction had become meaningless. If an attack is imminent, it is now too late to preempt it.³⁵³ This would give the neo-conservative Bush Administration with the best excuse to realize one of its long-desired goals which was invasion of Iraq and thus obtaining full control over the oil resources of Iraq and the whole Middle East region.

4.6. More Coercion Than Consent: The Second Gulf War

The Second Gulf War was the test case of the new Bush doctrine of preventive warfare. Through various techniques of propaganda, the domestic audience was easily convinced that it was a just war to promote the basic values of humanity such as democracy and human rights. As Clarke points out, the real objectives were disguised from the global community through promoting “the war on terrorism” and allegation with regard to nuclear program and WMDs of Saddam, while domestic resistance was neutralized thanks to creation of external enemy

³⁵³ Mackubin Thomas Owens, “The Bush Doctrine: The Foreign Policy of Republican Empire”, *Orbis*, 53/1 (Winter 2009), p. 26.

posing threat to existing way of lives of the US citizens.³⁵⁴ The majority of the US public opinion began to believe that Iraq constitutes really a big threat for US security. 69 per cent of American people believed that Iraq played a role in 9/11 attacks.³⁵⁵ Pacifists were criticized for lack of patriotism. The intelligence unit within Pentagon, known as Office of Special Plans played an important role in scaring people with creating scenarios regarding Iraq's WMD program. Similarly, the Bush administration made considerable effort to convince the domestic public opinion about the dangers of Saddam's WMD program through giving provocative statements to media. Secretary of Defense Donald Rumsfeld stated that in 2002 that "within a week or month, Saddam could give WMDs to Al Qaeda."³⁵⁶ Despite several UN inspections before the invasion in 2003, there has been no reported evidence about revival of the WMD program of Iraq. As the Director General of the International Atomic Energy Agency informed the UN Security Council before the war that "after three months of inspections, we have to date found no evidence or plausible indication of the revival of a nuclear weapons programme in Iraq."³⁵⁷

Actually, the war was nothing to do with WMD Program of Saddam or bringing democracy to Iraq. It was about reproduction and consolidation of US hegemony in the region and in the world. It is widely reported that Iraq holds 11 per cent of the world's total oil reserves which amounts to 112 billion barrels. Some

³⁵⁴ Clarke, op.cit., p. 98.

³⁵⁵ Jim Wallis, *God's Politics: Why the American Right Gets It Wrong and and Left Doesn't Get It* (Lion Books: Oxford, 2005), p. 111.

³⁵⁶ Andrew Buncombe, "Official Verdict: White House Misled World Over Saddam", *Independent*, June 17, 2004, available at <http://newsindependent.co.uk/world/americas/story.jsp?story=532341> (accessed on 06.03.2011).

³⁵⁷ IAEA Director General Mohammed El Baradei, statement to Security Council, March 7, 2003 available at www.iaea.org/worldatom/press/statements/2003/ebsp2003n006.shtml (accessed on 04.05.2011).

claims that it may contain up to 200 billion barrels.³⁵⁸ Therefore, Iraq had potential to influence world oil prices together with Saudi Arabia. Cost of oil productions is lowest in the world. It amounts to 1 dollar per barrel.³⁵⁹

However, Iraqi operation did not receive the sympathy of world public opinion unlike the operation in Afghanistan. The coalition formed during Afghanistan war was dissolved in a very short period of time and the US failed to receive the consent of even some of its allies. Saudi Arabia did not allow the US to use its military bases located in Saudi Arabia during the operation. As a result, the US had to establish a new air base in Qatar. Even Turkey did not allow American troops to use its territory to attack Saddam from Northern Iraq. On the other hand, UN Security Council did not authorize the US to use force against Iraq due to oppositions coming from Germany, France, China and Russia. Europeans who had manifested their solidarity with the US after 9/11 attacks responded with irritation to America's unilateralism. France, Germany, China and Russia challenged the American claim to set the global agenda unilaterally. The division of Europe into old and new by US Defense Secretary Donald Rumsfeld and the plans for development of new military basing scheme for Europe which will shift US forces from Germany to Poland, Bulgaria and Romania can be regarded as part of divide and rule policies of US.

Before the invasion, an international consensus was beginning to emerge that Iraq's WMD program was dismantled and UN sanctions would soon be lifted. When the sanctions are lifted, countries who were awarded with oil-lease agreements like Russia, China and France would gain control over Iraqi oil which is reported to be 11

³⁵⁸ Pala, op.cit.

³⁵⁹ Ibid.

percent of world's total oil reserves.³⁶⁰ On the other hand, US and UK would be excluded due to Saddam's antagonism related to their bombing campaigns. This was unacceptable for the interests of the US. The US gave them the message before the Iraq War to join the coalition of the willing if they do not want their contracts to be nullified. In an interview with the Washington Post before the war CIA director R. James Woolsey stated that "if France and Russia throw in their lot with Saddam Hussein, it will be difficult to the point of impossible to persuade the new Iraqi government to work with them".³⁶¹ Although Russia, France and China had existing deals with Iraq, Iraq National Congress founder Ahmed Çelebi made it clear that he would "reward the US for removing Saddam with lucrative oil contracts".³⁶² The strategy of the US was to block any attempts to lift the UN sanctions until Saddam was replaced with a pliant regime since lifting the UN sanctions on Iraq would give the oil lease contracts granted to French, Russians and Chinese to be legally initiated and US would be deprived of Iraqi oil.³⁶³ After the war, the Bush Administration presented UN Security Council Resolution 1483 that proposed lifting of sanctions against Iraq and granted US/UK the sole control of Iraq's oil production revenue.³⁶⁴

³⁶⁰ According to the document "Foreign Suitors for Iraqi Oilfield Contracts", Russia's Lukoil and France's TotalFinaElf had signed production sharing contracts going back to 1997. In total, over 30 nations were listed as foreign suitors of Iraqi oil. This document is available at www.judicialwatch.org/oldsite/Iraqoilfrgnsuitors.pdf (accessed on 15.03.2011).

³⁶¹ Dan Morgan and David B. Ottoway, "In Iraqi War Scenerio, Oil is the Key Issue;US Drillers Eye Huge Petroleum Pool", *Washington Post*, September 15, 2002, available at <http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&contentId=A18841-2002Sep14> (accessed on 05.04.2011).

³⁶² Peter Beaumont and Faisal Islam,"Carve-up of Oil Riches Begins", *Observer*, November 3, 2002, available at <http://observer.guardian.co.uk/iraq/story/0,12239,825105,00.html> (accessed on 22.05.2011).

³⁶³ Clark, op.cit., p. 65.

³⁶⁴ Ibid, p. 114.

Most of the former oil-lease contracts including Russia Lukoil's contract for West Qurna which has estimated reserves of 11 billion barrels were invalidated.³⁶⁵

The oil background of Bush Administration also played an important role in US invasion of Iraq. Vice President Dick Cheney had been chief executive of Haliburton which is world's leading geophysics and oil services company and Rice had served on the board of Chevron oil. Enron Corporation which is a giant energy company had close ties with Bush and members of Bush administration. Secretary of the Army, Thomas E. White, had been vice chairman of Enron Energy Services. Many of the firms including Chevron Texaco, Exxon Mobile and Enron had been contributors to Republicans during 2000 election campaign.³⁶⁶ Oil and geopolitics were at the center stage during Bush's presidency. These connections played an important role in Bush's push for invasion. In 2009, Exxon was awarded a contract worth 50 billion dollars to extract oil from the West Qurna.³⁶⁷ Oilfield services company Halliburton received a contract "to refurbish wells in southern Iraq by Exxon Mobil".³⁶⁸

Immediately after the war, the US faced with the attacks of insurgent groups targeting oil fields and pipelines. Protection and rehabilitation of the oil facilities of Iraq cost a lot to Bush Administration. Team RIO (Restore Iraqi Oil) was established

³⁶⁵ Andrew E. Kramer, "Iraq, With US Support, Voids a Russian Oil Contract", *New York Times*, November 4, 2007, available at <http://www.nytimes.com/2007/11/04/world/middleeast/04oil.html> (accessed on 23.05.2011). Later on, Russian Lukoil together with Norway's Statoilhydro made an agreement with Iraq for developing West Qurna-2 oil field. The contract was signed on January, 2011. This could be evaluated in the context of the US attempt to develop cooperative relations with Russia.

³⁶⁶ Vandehei, Jim, "Democrats Take Aim at Bush Weak Spot: Administration's Ties to Energy Industry", *Wall Street Journal*, May 16, 2001.

³⁶⁷ Martin Chulov, "ExxonMobil wins \$50bn Contract to Develop West Qurna oilfield", *The Guardian*, available at <http://www.guardian.co.uk/world/2009/nov/05/exxonmobil-iraq-oil-contract-qurna> (accessed on 24.05.2011).

³⁶⁸ "UPDATE 1-Halliburton Wins Exxon Contract in Iraq", *Reuters Africa*, available at <http://af.reuters.com/article/energyOilNews/idAFN141107720101014> (accessed on 05.04.2011).

to rehabilitate the country's oil production under the leadership Philip Carrol who had once run the American office of Royal Dutch/Shell.³⁶⁹ The Iraqi oil fields were kept under state ownership and not privatized not to trigger nationalist reactions. However, foreign firms were invited to invest for rehabilitation and development of the infrastructure of the oil fields in collaboration with state-owned oil company.³⁷⁰

Before the Second Gulf War, the US was very dissatisfied with its military position in the region due to deteriorating relations with Saudi Arabia. The US was concerned about the emergence of radical anti-American feelings similar to Islamic regime in Iran. US military presence in Saudi Arabia before the invasion of Iraq in 2003 was very much criticized by the radical Islamists in the country. It was one of the reasons why the US forces decided to leave the country after the invasion of Iraq. The regime change in Iraq eliminated the threat of Saddam for the Saudi monarchy and gave the US opportunity to locate its forces in Iraq to control the whole region. The withdrawal of US combat troops had eased some of the pressure on the monarchy. Also, the US still has a military training mission in Saudi Arabia providing advisory and technical support to Saudi National Guard. Furthermore, many of the combat troops that were withdrawn from Saudi Arabia in 2003 have been relocated in Qatar where the Central Command had established a new center and operations facility at Al Udeid Air Base.³⁷¹ After the invasion, the US intends to keep a large and permanent army in Iraq to protect the newly established regime and to keep control of Middle East oil. In this respect, the US has established 14 new military bases in Iraq to reinforce its geopolitical position. Camp Victory North is one

³⁶⁹ Klare, Blood and Oil, p. 102.

³⁷⁰ Antoni Dipaola and Daniel Williams, "Iraq Opens Up to Foreign Oil Majors, 2010", available at http://www.businessweek.com/globalbiz/content/mar2010/gb2010034_232444.htm (accessed on 06.04.2011).

³⁷¹ Klare, Blood and Oil, p. 91.

of those bases which is located in Baghdad International Airport. It is one of the largest overseas bases of the US.³⁷² For all the above mentioned reasons, the US is determined to keep its troops in Iraq in the long-term.

On the other hand, maintaining dollar as the World Reserve currency was one of the major reasons for the Bush Administration's willingness for the invasion of Iraq. In 2000, Saddam announced that Iraq would transition its oil-export transactions to euro. Saddam referred to the dollar as the currency of the enemy state.³⁷³ Iraq opened up a euro-based bank account with the leading French bank, BNP Paribas. Actually, information about Iraq's oil currency switch appeared in the US corporate media for a single 24 hour news cycle on October 30, 2000. It never showed up in US media in the following years leading to Iraqi War and Bush Administration has never talked about it.³⁷⁴ Although the switch was censored in the US media, the result was severe dollar devaluation and euro revaluation. It is revealed in an article in Britain that euro had gained 25 per cent against the dollar following Iraq's decision.³⁷⁵ Under the Oil for food program, the US purchased around 65 per cent of Iraq's total oil exports from 2001 to 2003 and US oil companies were paying for Iraq's oil in euros.³⁷⁶ In addition, Clarke indicates that before the Second Gulf War, some French bankers have made attempts to convince major holders of dollar reserves- China, Japan and Russia- to shift some of their

³⁷² Clark, op.cit., p.131.

³⁷³ "U.N. to let Iraq sell oil for euros, not dollars", *CNN*, available at <http://archives.cnn.com/2000/WORLD/meast/10/30/iraq.un.euro.reut/> (accessed on 06.04.2011).

³⁷⁴ Clark, op.cit., p.116.

³⁷⁵ Faisal Islam, "Iraq Nets Handsome Profits by Dumping Dollar for Euro", *Observer*, February 16,2003, available at <http://observer.guardian.co.uk/iraq/story/0,12239,896344,00.html> (accessed on 06.04.2011).

³⁷⁶ Clark, op.cit., p. 118.

reserves from dollars to euros.³⁷⁷ Concerned about the deteriorating conditions of American economy, before the invasion of Iraq, China, Japan and Russia significantly reduced their dollar holdings. Furthermore, given the continuing devaluation of dollar, OPEC countries became more inclined to switch to the euro. There has been a discussion within OPEC about the possibility of pricing oil in a basket of currencies including dollar and the euro.³⁷⁸ If the oil transactions began to be made via euro, oil-consuming nations would have to replace dollars in their reserve funds with euros. According to Spiro, as long as US remain as the world reserve currency, the US enjoys a double loan. First, US could print dollars to pay for oil and the American economy does not have to produce goods or services in exchange of oil. Second, all other economies that had to pay dollars for oil have to trade their goods and services for dollar to pay OPEC.³⁷⁹

Saddam alone cannot be regarded as a threat to dollar hegemony. However, it is unacceptable for the interests of the US if other OPEC producers and holders of huge dollar reserves join Saddam in his attempts to challenge dollar hegemony. Other members of the OPEC would follow Iraq and shift to a petro-euro system thereby eroding the dollar's dominant role in the global economy. This is why US immediately reverted Iraq's oil exports to a dollar standard to prevent further momentum towards petroeuro after the war. It can be argued that US risked domestic and international economic chaos by invading Iraq to prevent long-term dollar crash that would result from a collective OPEC switch from dollars to euros.³⁸⁰ The Second Gulf War can be considered as a message to other OPEC countries that they

³⁷⁷ Ibid, p. 137.

³⁷⁸ Ibid.

³⁷⁹ Spiro, op.cit., 1999, pp.121-122.

³⁸⁰ Clark, op.cit., p.116.

might face regime change if they think about switching to petroeuro. Moreover, keeping the control of the Iraqi oil gave the US the possibility to balance the monopolistic power of OPEC through increasing the oil production of Iraq above the predetermined OPEC quotas. Controlling the oil reserves of Iraq could also be important for the US in terms of balancing the power of OPEC. In addition, the oil needs of Israel which is the most strategic partner of the US in Middle East could be satisfied with the pipeline to be established between Mousul and Haifa in the future.³⁸¹

Resistance and reaction against the US invasion and chaotic environment in Iraq after the end of the war showed the limits of US power. Unlike the first Gulf War, the US did not receive sufficient financial support from its allies. This led to enormous budget deficits in the US. In the context of this chaotic situation, Bush Administration came up with a new project namely Broader Middle East and North African Initiative in order to ensure regional stability and promote democracy and freedom. However, considering the alliance between the US and Arab monarchies, this project was just a rhetorical one just to demonstrate US respect to democracy and human rights. Despite all these failures, US does not intend to withdraw its forces from Iraq due to its crucial interests in Iraq and the whole Middle East region.

4.7. Conclusion:

The emergence of Euro as the first viable contender against US dollar as the world reserve currency in the context of deteriorating US economy and attempts of Saddam to shift Euro in oil transactions prepared the ground for invasion of Iraq by

³⁸¹ Pala, op.cit.

US. US also wanted to ensure secure access to Middle Eastern oil for its domestic needs. Locating its forces in Iraq, US gained important opportunity to control whole Middle Eastern region. In doing so, US foreign policy makers calculated that Western Europeans and other industrialized nations of the world would be dependent on US to maintain their economic growth and would not dare to challenge US hegemony.

In the final analysis, Arrighi indicates that “the new conservative project amounted to a rejection of hegemony through consent and moral leadership in favour of domination through coercion”.³⁸² Actually, we can not talk about a total rejection of consent during the reign of George W. Bush Administration. However, its unilateral actions led to such a perception. Acting unilaterally and being considered as acting only on behalf of its own interest lead to destruction of consent which is the basic pillar of a hegemonic power.³⁸³ This is why with the Obama Administration coming to power, US foreign policy makers started to seek more cooperation with European allies including Russia.

³⁸² Giovanni Arrighi, “Hegemony Unravelling –I”, *New Left Review*, 32 (2005), p. 15.

³⁸³ Nathan Gardels, “Rise and Fall of US Soft Power”, *New Perspectives Quarterly*, 22/1 (2005), available at http://www.digitalnpq.org/archive/2005_winter/02_gardels.html (accessed on 06.05.2011)

CHAPTER V

POST GULF WAR CHALLENGES TO PETRODOLLAR HEGEMONY AND OIL GEOPOLITICS

5.1. Introduction

Despite all the attacks against economic growth by the financial capital, new important industrial complexes emerged such as Guangdong in China, Taiwan and Singapore. They were able to protect themselves from the pressures of the financial capital.³⁸⁴ The superiority of East and Southeast economies against the US in the production sphere appeared as a challenge to US financial hegemony. These economies had great trade surpluses which ultimately recycled back to Wall Street and ensured the financial superiority of the US. However, the collapse of dot.com companies and financial scandals lowered the credibility of the Wall Street and people began to question the link between financial capital and productive activity. The global economic crisis of 2008 further deteriorated the situation for US. It resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. It led to the failure of big businesses, declines in consumer wealth, leading to a severe global economic recession in 2008. The risk of devaluation of the financial instruments was increasing. New options have to be found out for profitable capital accumulation.

The trade and budget deficits of the US increased to record levels and this became the basic factor leading instabilities in the system. However, there is

³⁸⁴ Harvey, op.cit., p. 61.

interdependence in the global economic system. If US economy collapses, this would have a very negative impact on China, Japan and Taiwan since these countries are dependent on the US consumers and the markets to sell their over-produced capacity. This is why they are willing to finance the US debts.³⁸⁵ Ferguson points to a remark of Balzac to explain the situation: “If a man is indebted too much, he has a big authority over his creditors.”³⁸⁶ Despite this mutually interdependent relationship, the US hegemony is still under serious threat. Historically, financial expansions always lead to a new stage in capitalist development.³⁸⁷ For, budget and trade deficits can not be sustained forever and the powers financing the deficits of the US would not be willing to do so forever.

This chapter attempts to examine the status of dollar and petro-dollar recycling system after the end of Second Gulf War. In this respect, it will also be interesting to explore the position of Russia under the presidency of Vladimir Putin and China vis-à-vis US world hegemony.

5.2. Dollar’s Reserve Currency Status After War: A General Outlook

Second Gulf War has not led to any increase in the dollar’s value. In fact, dollar continued to lose its value because of the war. Members of OPEC have cut the proportion of deposits held in dollars from 75 percent in the third quarter of 2001 to

³⁸⁵ Ibid., p. 61.

³⁸⁶ Niall Ferguson, “The True Cost of Hegemony”, *New York Times*, 2003, available at <http://www.nytimes.com/2003/04/20/weekinreview/the-nation-true-cost-of-hegemony-huge-debt.html> (accessed on 20.04.2011).

³⁸⁷ Giovanni Arrighi and Beverly J. Silver. *Chaos and Governance in the Modern World System* (Minneapolis: University of Minnesota Press, 1999), pp. 31-33.

61.5 percent by the third quarter of 2004.³⁸⁸ More critically, there is a discussion within Saudi Arabia regarding a potential switch to a petroeuro. If the regime makes such a transition, US would likely to transfer the war on terror directly to Saudi Arabia. Saudi Arabia's prince Muhammed Bin-Turki Bin-Abdullah Bin-Abd-al Rhaman stated that

rather than resorting to an oil embargo, more effective punishment for US, Israel's principal source of financial and political supporter, would be to change the currency in which oil is traded from the dollar to euro.³⁸⁹

In addition, in 2004, Iran announced its intentions to create an Iranian oil Bourse. Iranian Oil Bourse will provide the Europeans with the opportunity to pay for oil with their own currencies and they will not have to accumulate dollars for their oil payments.³⁹⁰ This would remove the basic obstacle to a euro-based oil transaction system which is the lack of a euro-denominated oil pricing standard. By December 8, 2007, Iran reported to have converted all of its oil export payments to non-dollar currencies.³⁹¹ The Iranian Oil Bourse (Kish Bourse) was officially opened on February 17, 2008.³⁹² Iranian Oil Minister Gholamhossein Nozari told ISNA News Agency:

³⁸⁸ Steve Johnson and Javier Blas, "OPEC Sharply Reduces Dollar Exposure", *Financial Times*, December 6, 2004, available at <http://www.ft.com/intl/cms/s/0/67f88f7c-47cb-11d9-a0fd-00000e2511c8.html> (accessed on 05.04.2011).

³⁸⁹ "Protest by Switching Oil Trade from Dollar to Euro", *Oil and Gas International*, April 15, 2002, available at www.agitprop.org.au/nowar/200020415-ogi-switch-trade-currency.php, cited in Clark, op.cit., p.148.

³⁹⁰ Krassimir Petrov, "The Proposed Iranian Oil Bourse", available at <https://www.technicalindicatorindex.com/subscribers/guest-articles/Main%20Line%20Investors%20Guest%20Article%20Janaury%2023,%202006%20Iranian%85.pdf,2006> (accessed on 12.05.2011).

³⁹¹ "Iran Stops Selling Oil in U.S. Dollars –Report", *Reuters*, available at <http://uk.reuters.com/article/2007/12/08/uk-iran-oil-dollar-idUKDAH83366720071208> (accessed on 12.05.2011).

In regards to the decrease in the dollar's value and the loss exporters of crude oil have endured from this trend, the dollar is no longer a reliable currency...This is why, at the meeting of the heads of states, Iran proposed to OPEC members that a currency (for oil exports) would be determined that would be reliable and would not cause any loss to exporter countries.³⁹³

Saudi Arabia rejected that offer arguing that such a move could cause even larger depreciation of dollar making things even more complicated.³⁹⁴ Iranian President Mahmoud Ahmadinejad expressed his displeasure with the outcome of the meeting and complained that a falling dollar meant that oil producers like Iran were being forced to subsidize the US economy.³⁹⁵ Dollar's depreciation caused inflationary pressures in OPEC countries whose oil revenues were denominated in dollars. Dollar's further decline is widely expected in the context of rising twin deficits of the US. In the midst financial crisis in US in 2008, OPEC Secretary General said in an interview that OPEC might switch to Euro. "May be we can price the oil in the Euro" he said.³⁹⁶ However, several weeks later, Governor of Saudi Arabian Monetary Agency announced that Saudi Arabia would continue to price its exports in dollars.³⁹⁷

In this context, ultimate aim of Bush Administration was regime change in Iran similar to Iraq. Iran possesses the world's largest petroleum reserves (after Saudi

³⁹² "Oil Bourse Opens in Iran's Kish Island", available at <http://edition.presstv.ir/detail/43476.html> (accessed on 13.05.2011).

³⁹³ "Iran Stops Selling oil in U.S. Dollars –Report".

³⁹⁴ Patrice Hill "OPEC Faces Dollar Headaches; Iran, Venezuela Seek Action," *Washington Times*, November 17,2007, quoting Saudi Foreign Minister Prince Saud al-Faisal, available at http://www.redorbit.com/news/business/1150541/opec_faces_dollar_headaches_iran_venezuela_seek_action/index.html (14.08.2011)

³⁹⁵ El-Gamal and Jaffe, op.cit., p. 123.

³⁹⁶ Perry Williams "OPEC Chief Muses about Gradually Switching Oil Pricing to Euros" *Middle East Economic Digest*, February 8, 2008, available at <http://www.gata.org/node/5984> (accessed on 09.05.2011).

³⁹⁷ "Saudi Arabia Rules Out Oil Pricing in Euros", *Middle East Economic Survey*, 2/9 (2008), cited in El-Gamal and Jaffe, op.cit., p. 124.

Arabia, Iraq, Kuwait and the UAE). At its peak, it produced 6 million barrels of oil per day. On the other hand, within the Middle East, Iran is the undisputed top holder of gas reserves. Its South Pars gas field is the world's largest.³⁹⁸ However, out of date infrastructure of oil industry is the biggest obstacle before increasing the production in Iran. As long as the US sanctions imposed to foreign companies investing in Iran with Iran-Libya Sanctions Act are maintained, it is unlikely for Iran to improve its infrastructure for production of more oil. The US is deeply concerned about potential threat of Iran to the outflow of oil through Strait of Hormuz, the water way that connects the Persian Gulf with Indian Ocean. It is one of the world's most important oil checkpoints. Providing security of this checkpoint has been one of the priorities of Central Command.³⁹⁹ Iran's elite Revolutionary Guards on July 6 2011 launched several anti-ship missiles near the strategic Strait of Hormuz which deepened the concerns of the US.⁴⁰⁰ Iran has developed close relationships with foreign suppliers that are not allied to the United States, especially Russia, China, and North Korea. Preventing arms and technology supplies to Iran has formed an important part of the US agenda with all three of these countries. Despite the sanctions applied by the US government, Iran continues to receive critical technology from all three. China opened a missile plant in Iran in 2011, even as the United States and its allies were pressing Beijing to support a new round of tough economic sanctions on Iran over its nuclear program.⁴⁰¹

³⁹⁸ Finian Cunningham , "Iran's Natural Gas Riches: US Knife to the Heart of World Future Energy", *Global Research*, March 18, 2010, available at <http://www.globalresearch.ca/index.php?context=va&aid=18176> (accessed on 06.05.2011).

³⁹⁹ Klare, *Blood and Oil*, p. 108.

⁴⁰⁰ "Iran Fires Anti-Ship Missiles Near Key Gulf Strait", *Defense News*, available at <http://www.defensenews.com/story.php?i=7021364> (accessed on 06.06.2011).

Due to failures in Afghanistan and Iraq, the US lacks the necessary power to attempt a regime change in Iran through invasion. US realized that another preventive war in Iran is impossible in the context of rising anti-Americanism in the world. Also, another war in Middle East could worsen the things for America due to geopolitical risks. Considering the fact that Iran and China signed a huge oil and gas trade agreement valued at 70 billion dollars, reaction of China to possible invasion of Iran by China would be very negative.⁴⁰² Possible US attack on Iran would surely create a serious crisis between US and China. The moment China starts selling dollars to rest of the world, there would be a run on the dollar and this could create catastrophic impacts on the US economy.

US supported the dialogue between Europeans and Tahrán and tried to convince the UN Security Council for applying sanctions against nuclear program of Iran. The strategy of the US has been to apply economic and diplomatic pressure on the existing regime with support for anti-government forces within the country. The US hopes that political, economic and diplomatic pressure will exacerbate existing divisions within Iranian society and led to a popular uprising. However, if the situation improves in Iraq and the diplomatic, economic and political pressures does not yield any result, the US could prefer direct invasion or a covert operation.⁴⁰³

On the other hand, Venezuela made barter deals with 12 Latin American countries to trade oil without using dollar. Chavez instructed Venezuela's state oil company "Petroleos de Venezuela SA" to change its dollar investments to euros and

⁴⁰¹ "China Opens Missile Plant in Iran", available at http://www.upi.com/Business_News/Security-Industry/2010/04/23/China-opens-missile-plant-in-Iran/UPI82791272037022/#ixzz1VHoVs8ME (accessed on 06.06.2011).

⁴⁰² "China and Iran Sign Biggest Oil and Gas Deal", *China Daily*, October 31, 2004, available at www.chinadaily.com.cn/english/doc/2004-10/31/content-387140.htm (accessed on 07.06.2011).

⁴⁰³ Klare, op.cit., p. 110.

other currencies due to tendency of devaluation in US dollar.⁴⁰⁴

Russia, the second biggest oil exporter and the biggest natural gas exporter in the world, is also considering switching to other currencies. Russian ambitions against the dollar for energy exports go back to 2006. That year, former President Vladimir Putin made plans to set up a ruble-denominated oil and natural gas stock exchange in Russia. According to RIA Novosti Putin said in 2006:

The ruble must become a more widespread means of international transactions. To this end, we need to open a stock exchange in Russia to trade in oil, gas, and other goods to be paid for with rubles...Our goods are traded on global markets. Why are they not traded in Russia?⁴⁰⁵

The intention of Russia to make ruble a world reserve currency caused a shock to currency markets, lowering the value of dollar temporarily in 2006. However, due to world financial crisis in 2008, oil prices crashed, and the Russian ruble was devalued against the dollar. Nevertheless, Putin continued to work on converting oil and gas customers to paying in rubles rather than dollars. China and Belarus have already agreed. China and Russia have agreed to allow their currencies to trade against each other in spot inter-bank markets. This can be regarded as continuation in a series of efforts by both countries to move away from U.S. dollar usage in international trade further threatening the dollar's reserve currency status.⁴⁰⁶ With special pricing incentives, Ukraine could follow too. It should be stated that Russia is trying to exit

⁴⁰⁴ Jessica Merit, "7 countries Considering Abandoning the US Dollar: What It Means?"; available at <http://www.currencytrading.net/features/7-countries-considering-abandoning-the-us-dollar-and-what-it-means/> (accessed on 07.06.2011).

⁴⁰⁵ "China-Russia Currency Agreement Further Threatens U.S. Dollar", November 24, 2010, available at <http://www.ibtimes.com/articles/85424/20101124/china-russia-drop-dollar.htm> (accessed 17.06.2011).

⁴⁰⁶ Hao Li, "Marc Chandler: In Defence of the Dollar", available at <http://www.ibtimes.com/articles/118984/20110304/marc-chandler-dollar-us.htm> (accessed on 18.06.2011).

from dollar in a controlled manner since Russia still holds a huge number of dollars in its reserve fund, and it will take time to get rid of them.⁴⁰⁷ As a result of its status as the world's biggest energy exporter, the Russian state has accumulated about \$300 billion worth of U.S. dollar denominated foreign exchange reserves.⁴⁰⁸

In the context of these challenges, US foreign and military policy aims to control every major existing and potential oil source and transport route in the world. In doing so, the US would be in a position to decide who gets how much energy and at what price. In the face of global supply shortages especially in China, US would be in a position to dictate the terms of world economic development.⁴⁰⁹ In this regard, National Energy Policy created by NEDGP targeted not only Middle Eastern oil but also the oil resources in other parts of the world for the maintenance of US world hegemony. Establishing control over world oil resources not only serves to the global interests of the US, it is also necessary for satisfying domestic needs. Klare indicates that the US can not depend exclusively on traditional sources of supply like Saudi Arabia and Canada for domestic consumption. It will also obtain substantial imports from new sources such as Caspian states, Russia and West Africa. According to Department of Energy, global oil output must grow by 45.3 million barrels per day between 2001 and 2025 to satisfy anticipated world demand. If the necessary infrastructure improvements are made, Gulf countries will provide 22.8 millions more barrels per day.⁴¹⁰ The remaining amount will have to be supplied by other

⁴⁰⁷ Avery Goodman, "Russia Doesn't Want Any More Dollars - What This Means for Investors", available at <http://seekingalpha.com/article/265375-russia-doesn-t-want-any-more-dollars-what-this-means-for-investors> (accessed on 17.06.2011).

⁴⁰⁸ Robert Fisk, "The Demise of the Dollar", *Independent*, October 6, 2009, available at <http://www.independent.co.uk/news/business/news/the-demise-of-the-dollar-1798175.html> (accessed on 25.06.2011).

⁴⁰⁹ Engdahl, *A Century of War*, p. 264.

regions. In this respect, diversification of the oil resources is critical for the US in terms of diminishing the impact of an interruption in any of them. The National Energy Policy lists 8 countries in particular which are Mexico, Venezuela, Colombia, Russia, Azerbaijan, Kazakhstan, Nigeria and Angola.⁴¹¹

In 2010, the US received about %23 of its oil imports from Africa with Nigeria and Angola serving as the two prime producers.⁴¹² The oil reserves in West Africa are believed to be around 77 billion barrels. Compared to 686 billion barrels of Middle East reserves, it might seem insignificant at first look.⁴¹³ However, for the capitalist logic, the amount does not matter. As long as it is profitable to extract it, it is valuable. American oil and gas or mining companies are very likely to support dictatorships in the region since it makes natural resource extraction easier and profitable.⁴¹⁴ Despite their oil wealth, human right abuses and poverty levels rank very high in the two most oil-rich nations of Africa which are Angola and Nigeria. However, there is an indigenous antagonism toward US oil companies due to feeling of exploitation. This could disrupt the US strategy of relying on West African sources of oil. This is one of the reasons why NEP states that:

⁴¹⁰ Klare, *Blood and Oil*, p. 114.

⁴¹¹ National Energy Policy, op.cit., Chapter 8, pp. 6-14.

⁴¹² "Petroleum Supply Monthly", *US Energy Information Administration*, February 2011, available at http://www.eia.gov/energy_in_brief/images/charts/sources_of_petroleum_net-large.gif (accessed on 10.06.2011).

⁴¹³ Clark, op.cit., p. 67.

⁴¹⁴ John R. Talbot, *Where America Went Wrong: How to Regain Her Democratic Ideals* (Financial Times Prentice Hall: New York, 2004), p.133.

US can not rely on market forces alone to gain access to these added supplies but will also require a significant effort on the part of government officials to overcome foreign resistance to the outward reach of American energy companies.⁴¹⁵

This requires an alliance between oil companies and state. Oil companies make their investments based on commercial considerations while the US government uses its military, diplomatic and economic power in order to guarantee their access to oil.⁴¹⁶ This is actually one of the basic patterns of relationship between state and the capitalist class.

US soldiers are given the duty of protecting oil in the Persian Gulf, the Arabian Sea, South China Sea and along other sea routes that deliver oil to US and its allies. In fact, American military is increasingly being converted into a “global oil protection service”.⁴¹⁷ Recent US military activity shows a pattern of military basing activity that translates to deployments in areas with either energy reserves or oil pipelines. Global war on terrorism is used as a justification in this process. Actual aim is domination over the world’s largest oil reserves in the name of war on terror and spreading democracy. It is getting harder to distinguish US military operations designed to fight against terrorism from those designed to protect energy assets.⁴¹⁸

⁴¹⁵ Micheal Klare, “Oil Junkie: America Will Act Globally to Lock in U.S. Supply”, available at http://www.finalcall.com/artman/publish/Perspectives_1/article_7716.shtml (accessed on 10.06.2011).

⁴¹⁶ Bahgat, op.cit., p. 10.

⁴¹⁷ Micheal Klare, “Transforming the American Military into a Global Oil Protection Service” Global Policy Forum, October 7, 2004, available at <http://www.tomdispatch.com/post/1888/> (accessed on 12.06.2011)

⁴¹⁸ Klare, Blood and Oil, p.72.

5.3. Intentions of Putin's Russia and Geopolitics of Caspian Region:

In Russia, oil and gas revenues constitute the major part of foreign revenues. Therefore, increasing productivity and efficiency in energy sector is crucial for keeping Russian economy intact. Until the presidency of Putin, the oil and gas resources of Russia have been distributed to the private sector and this paved the way for creation of a Russian group of oligarchs making great profits from energy. On the other hand, foreign investments were welcome with the hope of increasing productivity and efficiency.

After being elected, Putin initiated his ambitious plan to reform Russia's oil and gas industries. Putin's project comprises the reconstitution of state power in Russia and the restoration of Russia's international great power status. Putin believed Russia's hydrocarbon wealth is critical to reestablishing its geopolitical position in the world.⁴¹⁹ That is why Putin has been concerned to increase state's control on Russia's oil and gas sectors. Putin believes that the state should appropriate a larger share of the economic surplus generated by these sectors. In this respect, the government made series of moves to reassert and widen the state control. This includes; renationalization of Yukos, acquisition of Yuganskneftegaz by state company Rosneft, rejection of acquisitions of energy assets by foreign companies like ExxonMobil in Yukos and by Total in Sibneft, restrictions on foreign participation in oil and gas upstream and pipelines, large-scale intrusion by Gazprom in the power sector and acquisition of over 75 percent of the share capital of Sibneft

⁴¹⁹ William Thompson, "A Frozen Venezuela? The Resource Curse and Russian Politics" in Micheal Ellman (ed.), *Russia's Oil and Natural Gas: Bonanza or Curse?* (Anthem Press: New York, 2006), p. 206.

by Gazprom.⁴²⁰ The Russian state, having a decade previously allowed its major oil assets to pass oligarchs purchasers began to pay serious money to buy some of them back. In the final analysis, while dominating the gas sector through Gazprom, with Yukos affair the state raised the share of oil production under its control from 17 percent in 2003 to 45 percent.⁴²¹

Having an economy based entirely on energy sector and revenues coming from energy exports, establishing its hegemony over Caspian oil and gas is really significant for the interests of Russia. Russia does not want competitors in the region for supplying the European and Asian markets. It also aims to obtain further revenues by ensuring that the Caspian energy would be distributed through Russian territory. By this way, Russia calculates to establish its hegemony over the Caspian region countries and exploit the energy resources in the region for further profits.

Caspian Sea with its huge oil and natural gas reserves has been one of the regions attracted the attentions of advanced capitalist nations from the beginning of 20th century. In January 1904, Mackinder made his famous “heartland” argument. He claimed that “who controls heartland controls world-island and who rules the World-Island rules the world.”⁴²² Inclusion of the Caspian region to the heartland is not surprising as he made his argument when oil was increasingly becoming popular source of industry and Baku was regarded as having world’s most important oil reserves.

The Caspian region contains 10 billion barrels of proven oil reserves (defined as oil and natural gas liquids deposits that are considered 90 percent probable). In

⁴²⁰ Oppenheimer and Maslichenko, op.cit., pp. 29-30.

⁴²¹ Thompson, op.cit., p. 207.

⁴²² For the famous heartland argument see H.J. Mackinder, “The Geographical Pivot of History, *Geographical Journal*, Vol.23(1904), p. 421-42

addition the region's possible oil reserves (defined as 50 percent probable) could yield another 233 billion barrels of oil. Proven natural gas reserves in the Caspian region are estimated at around 170 trillion cubic feet (Tcf).⁴²³

Although some experts⁴²⁴ argue that Caspian region's oil and gas reserves are exaggerated, still great importance is attached to region's oil resources by the great powers of the world. The region became an area of competition between the US, Russia and China. In this respect, after the end of Cold War, US oil companies made attempts to capitalize on the region's energy resources. Chevron gained concessions in Tengiz oil field in Kazakhstan and began to supply oil to Russian Black Sea port of Novorossiysk for subsequent export to Western Europe. In addition, the US Amaco established its presence in the Azeri oil. Chevron, Exxon Mobile participated in Caspian Pipeline Consortium.⁴²⁵

Until the establishment of Baku-Tbilisi-Ceyhan Oil Pipeline (BTC), the countries in the region were dependent on Russia to transport their energy resources to Europe. Baku-Novorossiysk Pipeline which links Azerbaijan to the Russian Black Sea Port of Novorossiysk, the Altyrau-Samara pipeline which takes Kazakh oil to the Russian oil hub at Samara and from there to Europe via the Druzszyba system and Caspian Pipeline Consortium which export oil from Kazakhstan's Tengiz field via

⁴²³ Bernard A. Gelb, "Caspian Oil and Gas: Production and Prospects", *CRS Report for Congress*, September 8, 2006, available at <http://www.usembassy.it/pdf/other/RS21190.pdf> (accessed on 10.06.2011).

⁴²⁴ See; Alec Rasizade, "The Great Game of Caspian energy: Ambitions and Realities", *Journal of Balkan and Near Eastern Studies* 7/1 (2005), pp. 1-17; Kirill Nourzhanov, "Caspian oil: Geopolitical Dreams and Real Issues", *Australian Journal of International Affairs*, 60/ 1 (March 2006), pp. 59-66. Nourzhanov indicates that when compared to Persian Gulf of 729 barrels, it is hard to claim that Caspian oil will make a huge difference in terms of diversifying international oil supply away from the Gulf.

⁴²⁵ Randall, op.cit., p. 306.

Russia provided Russia with a virtual monopoly over exports from the region.⁴²⁶ By this way, Russia tried to establish its hegemony over the resources in the region.

The US is against Russian monopoly over oil and gas pipelines from Caspian Sea to international markets. The best way for the US to challenge Russian control of energy resources in the region is breaking Russian monopoly over transferring the region's energy to Europe through establishing pipelines that would provide direct linkage between Europe and the region bypassing Russia. More routes mean less threat to supplies and reducing of Russia' economic and strategic influence in the region. At this point, it is plausible to examine the pipeline politics.

Actually, there are two options to break Russian monopoly over oil resources in the region. First one is transferring oil through Georgia and Turkey to Mediterranean. In this respect, with the support of the US, BTC oil pipeline was initiated to bring Azeri oil to Europe. It was signed by Azerbaijan, Georgia, and Turkey on 18 November 1999. From Ceyhan, the oil has begun to be shipped to Southern Europe. As a pro-American country, Turkey staunchly supported the project. Turkey wanted to benefit from cheap energy and transit fees. More importantly, by becoming an energy-transit country, it tries to promote its strategic significance in the eyes of both the US and the EU. France and Germany also supported the project since it would diversify European energy supply. In Georgia, rose revolution brought pro-American Mikheil Saakashvili to presidency and consent of Georgia to the project was taken in this way.

The second option is to use Ukrainian route. Odessa-Brody pipeline between Ukrainian cities Odessa and Brody was proposed to be expanded to Poland in order to transfer Kazakh oil to Poland Baltic Sea. Ukraine has a great strategic importance

⁴²⁶ Sarah L. O'Hara, "Great Game or Grubby Game : The Struggle for Control of the Caspian", *Geopolitics*, 9/ 1 (2004), p. 149.

being a transit country in bringing Russian energy through Druzhba pipeline to Europe as well as having potentiality to be transit-country in transferring Caspian energy to Europe. The US supported the orange revolution in Ukraine in 2004 which brought pro-American Yushchenko to presidency. However, the situation in Ukraine and Black Sea overall is very much complicated. As Türkeş indicates, there are basically four hegemonic projects including Russian, American, EU and Turkish ones in the region and none of them have turned into historic bloc so far.⁴²⁷ Therefore, neither Russia nor the US are able to establish their hegemony in the region. In this sense, Ukraine is divided into two rival blocs as pro-Western and pro-Russian. Although, Yushchenko supported the project, pro-Moscow Yanukovich government agreed with Moscow to cancel considerations of the pipeline. Therefore, at least for now this option is not feasible.

On the other hand, 9/11 attacks gave US the opportunity to invade Afghanistan which is considered to be the best option for the route of the pipelines that would bring Central Asian oil resources to Asian markets of India, China and Japan. Following 9/11, Azerbaijan, Georgia and Kazakhstan agreed to provide logistical support for US attacks on Afghanistan. Kyrgyzstan and Uzbekistan allowed US forces to establish temporary bases on their territory. All in all, US military ties with Caspian states were furthered after 9/11. Anti-terrorism and energy protection polices became integrated. In 2006, the US initiated the “Caspian Guard” in the name of countering terrorism and providing the security of the pipelines. The Caspian Guard Initiative is a framework program designed to coordinate activities in Azerbaijan and Kazakhstan with those of US Central Command. In March 2005, General James Jones, Commander of the US European Command declared

⁴²⁷Mustafa Türkeş, “Contested Hegemonies in the Black Sea Region”, in L. V. Hubersky (ed.), *Current Problems of International Relations* (Kiev National University "Taras Shevchenko" Institute of International Relations: Kiev, 2006), p. 38.

‘tremendous progress moving from concept development of full implementation of the Caspian Guard initiative which established airspace, maritime and border control regime across the region.’⁴²⁸ Rumsfeld visited Baku in May 2005 and one element of the Caspian Guard has become operational. Two radar stations close to Azerbaijan’s borders with Russia and Iran were established.

Russia is aware of the American ambitious to dominate the region and undermine the Russian influence. Thus, Russia opposed to BTC pipeline. Russians argued that Northern route represent the most economical and feasible option for exporting both oil and gas from the region. In addition, Russians showed very negative reaction to Caspian Guard. In his speech, Putin characterized the US foreign policy as “one single center of power. One single center of force... One single center of decision-making... This is the world of one master, one sovereign.”⁴²⁹

Russian response came in October 2005, Nikoalai Bordiuzha, general secretary of the Collective Security Treaty Organization (a military bloc comprising Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan) stated:

At presence a decision has made to establish a large military grouping to emulate the already existing military grouping within the framework of the treaty such as Russian-Belarusian, Russian-Armenian and Collective Rapid Deployment forces.⁴³⁰

In addition, Russia also tried to use its leverage on Shangai Cooperation Organization (SCO) to challenge US position in the region. SCO signed an agreement with the Collective Security Treaty Organisation (CSTO), “to broaden

⁴²⁸ “Statement of General James L. Jones, USMC Commander, United States European Command Before The Senate Armed Services Committee On 1 March 2005”, available at, <http://armed-services.senate.gov/statemnt/2005/March/Jones%2003-01-05.pdf>. (accessed on 14.05.2011).

⁴²⁹ Martin Walker, “Russia V. Europe: The Energy Wars”, *World Policy Institute*, 24/1, 2007, p. 1.

⁴³⁰ Nourzahnov, op.cit., p. 64.

cooperation on issues such as security, crime, and drug trafficking”.⁴³¹ Furthermore, the presidents of Russia, Ukraine, Kazakhstan and Belarus signed a document which is a big step toward recreating the Russian regional hegemony that existed during the time of the Soviet Union. The four countries, all former Soviet republics, agreed to create a "Common Economic Space" in 2003 which is a sort of free-trade zone calling for them to open their borders to trade, unify their tax and customs systems and devise shared tariff and energy-transport policies.⁴³²

Lastly, Russians proposed Burgas-Alexandropolis oil pipeline via Bulgaria to Greece which aims to bring Kazakh oil from the Caspian Consortium Pipeline. Taking this project into consideration, it can be argued that Bulgaria has also a great strategic significance and both US and Russia try to take Bulgaria into their own sphere of influence. Establishment of US air bases in Bulgaria in 2006⁴³³ was important move for US in this respect but still we can say that neither Russia nor US have been successful in consolidating their hegemony over Bulgaria.

On the other hand, for the hegemonic interest of the US, in addition to oil, transit-monopoly of Russia over Caspian gas should also be broken. There are again two options to bring Caspian gas to Europe bypassing Russia. First one is again Ukrainian option. White Stream (also known as the Georgia-Ukraine-EU gas pipeline) was proposed to transport natural gas from the Caspian region to Romania

⁴³¹“Security alliances led by Russia, ChinaLink up”, October 2007, available at http://www.dailytimes.com.pk/default.asp?page=2007%5C10%5C06%5Cstory_6-10-2007_pg4_3 (accessed on 08.06.2011).

⁴³² Mark Mackinnon, “Former Soviet Republics Poised to Sign Trade Deal Critics Fear Economic Pact Signals Attempt to Consolidate Power in Hands of Kremlin”, *CDI Russia Weekly*, September 18, 2003, available at <http://www.cdi.org/russia/274-17.cfm>, (accessed on 07.06.2011).

⁴³³ Saffet Akkaya, “US Military Bases in Romania and Bulgaria and their possible Implications on Regional Security”, *Opinion Editorials*, 2009, available at <http://www.ccun.org/Opinion%20Editorials/2009/January/25%20o/US%20Military%20Bases%20in%20Romania%20and%20Bulgaria%20and%20their%20possible%20Implications%20on%20Regiona%20Security%20By%20Saffet%20Akkaya.htm> (accessed on 11.06.2011).

and Ukraine with further supplies to Central Europe. But as indicated above, the situation in Ukraine is very much complicated and this option is not feasible for now.

As a second option, Nabucco Gas Pipeline Project was proposed with the support of US in 2005. It would transport gas from Azerbaijan via Turkey, Bulgaria, Romania, Hungary and Austria to Europe. However, there are important obstacles before Nabucco. First obstacle is the lack of gas to fill it. Iran, with the world's second-largest natural gas reserves, could easily fill the pipeline, but it is impossible to imagine Iran as a reliable partner in Nabucco considering the Iran's relations with US and Iran-Libya Sanctions Act. Turkmenistan could also play a prominent role in Nabucco, but this would require building a new Trans-Caspian gas pipeline. Russian pressure on Turkmenistan and the conflict between Azerbaijan and Turkmenistan on border limitation in the Caspian Sea are the obstacles before this option.⁴³⁴

Secondly, unlike the Baku-Tibilis-Ceyhan oil pipeline, France and Germany are reluctant about this project although they do not directly oppose to it.⁴³⁵ German Chancellor Angela Merkel has already said that the EU should not have to raise the funds for the project, arguing that the resources should come from private investors.⁴³⁶ Merkel's attitude and overall reluctance of France and Germany is not that surprising given that Germany is far more interested in Gazprom's Nord Stream project which would bring Russian gas beneath Baltic Sea directly to Germany bypassing the transit countries. However, the European Union's energy

⁴³⁴ See: Svante E. Cornell, "Transcaspian Pipelines and Europe's Energy Security" in Svante Cornell and Niklass Nillsonn (eds.), *Europe's Energy Security: Gazprom's Dominance and Caspian Supply Alternatives* (Central Asia-Caucasus Institute & Silk Road Studies Program: Washington DC, 2008).

⁴³⁵ However, interestingly, German energy company RWE has become a shareholder in the project in 2008. This shows that RWE wants to benefit financially from the project in case it is realized. Gas de France's offer to participate in Nabucco was rejected as a result of Turkish opposition.

⁴³⁶ "No EU Funding for Nabucco, Says Merkel", March 2009, available at <http://www.euractiv.com/en/energy/eu-funding-nabucco-merkel/article-179883>, (accessed on 14.06.2011).

commissitioner Guenther Oettinger articulated that disaster in Fukushima and Germany's plan to close down all nuclear plants increased the probability of Nabucco.⁴³⁷

One of the reasons why Germany and France agreed on Nord Stream is that they are aware that in the long- term they are dependent on Russian gas and the gas coming from Caspian region would only have medium-term impact on diversifying European energy supplies. Russian gas imports account for 26 percent of EU consumption, representing 40 percent of the imported gas. In Central and Eastern Europe, Russian gas accounts for 87 percent of total imports and 60 percent of consumption. The EU's dependence on imports is predicted to increase to 80 per cent by 2020, while the share of Russian gas in the EU's total gas import could rise to 40 or 50 per cent in the same period.⁴³⁸

Secondly, in January 2006 Russian–Ukrainian gas dispute, when Russia cut off gas shipments to Ukraine and Ukraine responded by taking the gas from Russia that was destined for EU countries. The affair resulted in a temporary interruption in the EU gas supplies. 80 percent of Russia's natural gas exports reach the EU via Ukraine with another 20 percent through Belarus.⁴³⁹ Germany and France do not want such interruptions since the Russian gas is really important for their energy needs.

On the other hand, Russia had long wanted to diminish the influence of transit states in gas shipment to Europe, thereby denying Ukraine, Belarus and other Eastern

⁴³⁷ "Nabucco More Likely After Fukushima-EU's Oettinger", *Reuters Africa*, August 29, 2011, available at <http://af.reuters.com/article/energyOilNews/idAFL5E7JQ1P320110829> (accessed on 30.08.2011).

⁴³⁸ Jonathan P. Stern, *The Future of Russian Gas and Gazprom* (Oxford University Press: Oxford, 2005), p. 143, Table 3.6..

⁴³⁹ Ariel Cohen, "The North European Gas Pipeline Threatens Europe's Energy Security", available at http://www.heritage.org/research/Europe/bg1980.cfm#_ftnref34 (accessed on 20.05.2011).

European countries considerable transit-fee revenue and eventually assuming ownership over gas transit infrastructure. It is obvious that Russia aims to use dependence of Eastern Europeans to Russian gas to exert influence over Eastern Europe as part of its hegemonic ambitions. Actually, since the independence of Eastern European countries after the end of Cold War, Russia has used the energy weapon against them. In 1992, it was used against Baltic States which demanded from Russia to remove its remaining forces from the region. In 1993 and 1994, Russia reduced gas supplies to Ukraine in order to force Ukraine to cede more control to Russia over the Black Sea Fleet and over Ukraine's energy infrastructure. Belarus, Poland and Lithuania suffered supply disruptions in 2004 as a result of the Russia's effort to take over Belarus's gas pipeline system.⁴⁴⁰

In this context, despite staunch opposition of Eastern Europeans to Nord Stream, European Commission rapidly accepted it and construction began in 2005. Intention is to use Nord Stream to transport gas from the Shtokman field to Europe. Germany, Russia, and their project partners believe that Nord Stream will enhance overall EU energy security, which is particularly advantageous to Germany because it would make Germany the primary distributor of Russian gas in Europe. The pipeline will transport gas from Germany not only to the rest of Western Europe, but also to former transit countries: the Baltics, Poland, and other states of Eastern Europe. Some in Poland have even compared the proposed pipeline to the Molotov–Ribbentrop pact between Hitler's Germany and Stalin's Soviet Union.⁴⁴¹ One Latvian spokesperson estimated that constructing another pipeline through the Baltic countries to Germany would have cost 2.2 billion Euros, whereas the undersea Baltic

⁴⁴⁰ Keith C. Smith, "Russian Energy Pressures Fails to unite Europe", *Euro-focus*, 13/1 (2007), p. 6.

⁴⁴¹ Walker, *op.cit.*, p. 3.

pipeline will be approximately three times as expensive.⁴⁴² A parallel pipeline to the Yamal I that runs through Poland would have been much cheaper for the German consumer.

After securing Nord Stream, Russia accelerated its monopolistic expansion in Europe, in 2006, Gazprom cut off supplies to Ukraine demanding higher prices. In December 2006, oil supplies to Belarus were blocked again in a demand for higher prices. In most cases, Moscow argue that it is simply increasing prices to market rates by removing wasteful former subsidies, position that is hard for EU to contest. Russia's present strategy is to secure gas-price increases for weak neighboring countries in the expectation that they will build up large debts, find themselves unable to pay for the gas and ultimately have to cede control over their domestic pipeline to Gazprom or Transneft. This has happened in Belarus, Armenia and Moldova. Gazprom's effective monopoly over gas supplies from Turkmenistan, Kazakhstan and Uzbekistan strengthens Moscow's political leverage in Central and Eastern Europe and increase energy prices in all of Europe.⁴⁴³

Furthermore, as an alternative to Nabucco, Russia initiated the South Stream which was announced in 2007 and will transport Russian gas to Europe via the Balkans, first crossing the Black Sea and then splitting into two. One arm will go northwest to Austria and the other to southwest to Greece and southern Italy.⁴⁴⁴ Many experts doubt that South Stream is a viable project, since it would cost at least twice as much as Nabucco and would simply divert some gas exported through

⁴⁴² Keith C. Smith, "Security Implications of Russian Energy Policies", *CEPS Policy Brief*, January 2006, p. 2

⁴⁴³ Smith, *op.cit.*, p. 5.

⁴⁴⁴ Marvin Baker Schaffer, "The Great Gas Pipeline Game: Monopolistic Expansion of Russia's Gazprom into European markets", *Foresight*, 10/5, (2007), p. 4.

Ukraine, instead of providing a new source of gas. It is a political pipeline designed to counter Nabucco.

On the other hand, Russia is consolidating its ties with the expanding economies of East Asia. As early as 1997, Boris Yeltsin and Jiang Zemin (the presidents of their respective countries) set for their two countries the goal of establishing a strategic partnership for the twenty-first century.⁴⁴⁵ In July 2000, Putin and Chinese President signed a memorandum of understanding for a potential pipeline between two countries. Also, Japan and Russia signed several agreements including Sakhalin I and Sakhalin II that would transport Russian oil and gas to Japan. Exxon Mobil and Royal Dutch/Shell lead the consortia.⁴⁴⁶ In 2008, Shell lost its dominant position in Sakhalin Island cutting its stake from 55 per cent to 27.5 per cent and Gazprom bought Shell's share plus half of the stakes owned by Japanese partners Mitsui and Mitsubishi.⁴⁴⁷ This was actually a big blow for the interests of the US.

In the final analysis, active Russian policy of making energy deals with Germany, France and Asian countries is threatening for the interests of the US. Although military superiority of the US against Western Europeans is uncontested and integration of Russian political and economic elite to global capitalist system is apparent since the disintegration of Soviet Union, good relations of Russia with Western Europeans and Asians are against the overall American strategy of keeping competitive industrialized countries dependent on energy resources over which US

⁴⁴⁵ "China, Russia Sign Pact", *CNN World*, 1997, available at http://articles.cnn.com/1997-04-23/world/9704_23_russia.china_1_prime-minister-viktor-cheromyrdin-russian-president-boris-yeltsin-chinese-president-jiang-zemin?_s=PM:WORLD (accessed on 01.08.2011).

⁴⁴⁶ Bahgat, op.cit., p.33.

⁴⁴⁷ Abrahm Lustgarten, "Shell Shake Down", *Fortune Magazine*, February 5, 2007, available at <http://royaldutchshellplc.com/2007/02/01/moneycnffortune-magazine-shell-shakedown/> (accessed on 10.08.2011).

hegemony exists. The Obama Administration initiated new Transatlantic Energy Council in 2009 in order to boost cooperation at energy sphere and to prevent EU's further dependence on Russia. Also, while trying to prevent emergence of Russian hegemony over Caspian region and Eastern Europe, the US is also looking for improving its relations with Russia to slow down Russian ambitions. In this respect, the NATO-Russia Council was established in 2002 for cooperation in security matters. More importantly, US-Russian Energy Dialogue was initiated in 2002 to develop bilateral cooperation in the energy sphere and promoting access to world markets for Russian energy. US-Russian Commercial Energy Summit was convened five months later to strengthen their ties.⁴⁴⁸ In addition, New Strategic Arms Reduction Treaty was signed between President Obama and Russian President Medvedev on April 2010. This move can be regarded as part of Obama Administration's attempts to further improve US relations with Russia. These initiatives are really significant in terms of institutionalizing relations of US with Russia and keeping Russia under its control.

5.4. Rising Power of China and Oil Factor

In the last decades, Chinese economy became one of the biggest economies of the world. China turned out to be economic locomotive also for the other economies of Asia. It has been developing its economic ties with every region in the world from Africa to India, from Europe to Latin America.

⁴⁴⁸ White House Press Office, "President Bush President Putin Announce New Energy Dialogue", Joint Statement by President George W. Bush and President Vladimir V. Putin on the New U.S.-Russian Energy Dialogue, available at <http://georgewbush-whitehouse.archives.gov/news/releases/2002/05/20020524-8.html> (accessed on 10.08.2011).

In the context of rapidly growing economy, Chinese thirst for energy increased dramatically. According to the International Energy Agency, China is already the largest consumer of energy, although the U.S. is still the largest consumer of oil.⁴⁴⁹ With the growth of private automobile ownership and industrial output, China's oil consumption is rising rapidly.⁴⁵⁰ In 1993, rising consumption exceeded domestic consumption and China became dependent to imported oil.⁴⁵¹ Since the publication of a White Paper of the Chinese Ministry of Defense in 1998, energy security has been regarded by Chinese government as a vital part of its all overall national security.⁴⁵² Together with Middle East, Eurasia attracted the attention of China. Middle East oil constitutes the major share of Chinese oil imports.⁴⁵³

China is uncomfortable with the fact that US is the major power in Middle East. China fears that US could cut off China's flow of oil and distort its economy. Down argues that "China does not possess the naval capabilities necessary to defend its sea shipments of oil and consequently regards their passage through waters dominated by US Navy as a key strategic vulnerability."⁴⁵⁴ China produced diesel submarines to ensure the security of the flow of energy through water ways.⁴⁵⁵ For secure access to energy, Chinese strategy has been to develop close economic, political and

⁴⁴⁹ US Energy Information Administration, "China, Country Analysis Brief", available at <http://www.eia.gov/countries/cab.cfm?fips=CH> (accessed on 07.07.2011).

⁴⁵⁰ "Cars in China: The Great Leap Forward", *The Economist*, February 1, 2003, available at <http://www.economist.com/node/1560514> (accessed on 07.07.2011).

⁴⁵¹ Klare, op.cit., p. 165.

⁴⁵² John Hill, "China Struggles to Fulfill Spiraling Energy Demands", *Janes Intelligence Review*, 16/7 (2004), p. 56.

⁴⁵³ US Energy Information Administration, "China, Country Analysis Brief", available at <http://www.eia.gov/countries/cab.cfm?fips=CH> (accessed on 07.07.2011).

⁴⁵⁴ Erica Strecker Downs, *China's Quest For Energy Security* (Rand Publishing: Santa Monica, 2000), p. 47.

⁴⁵⁵ Robert D. Kaplan, "How We Would Fight China", *Atlantic Monthly*, 295/5 (June 2005), p. 50.

military relations with major providers and diversify both the sources and transportation routes of imported energy.

In this regard, China makes investments in foreign energy firms especially in Persian Gulf, North Africa and Caspian Sea. There are three major Chinese companies namely China National Petroleum Corporation (CNPC), the China National Petrochemical Corporation (Sinopec), and China National Offshore Corporation leading Chinese energy investments. These companies act like government's agents in order to establish Chinese presence in energy rich countries.⁴⁵⁶ Kazakhstan received the largest Chinese investments. CNPC gained majority share in Aktobemuniagaz that controls several large fields in Aktobinsk area. The location of Kazakhstan gives China the opportunity to transport Caspian oil and gas to China on interior routes avoiding US dominated Persian Gulf. China is committed to build a pipeline from Aktobinsk fields in Kazakhstan to coastal China calculating that this would enable to free itself from reliance on Gulf to some degree.⁴⁵⁷

Iran supplies major portion of China's imports. Because of difficulty of moving Caspian energy directly to Eastern Asia, China has begun to deliver Kazakh oil to refineries in Northern Iran in exchange for equal amounts of Iranian oil from fields in South which can be shipped to China from ports in Persian Gulf.⁴⁵⁸ Iran and China signed \$70 billion energy deal in October 2004, and *Jane's Intelligence Digest* claims that the price may rise to \$200 billion.⁴⁵⁹

⁴⁵⁶ "Drilling for the Party", *Economist*, 2003, available at <http://www.economist.com/node/1801323> (accessed on 08.07.2011).

⁴⁵⁷ Klare, *Blood and Oil*, p. 170.

⁴⁵⁸ *Ibid*, p. 171.

To further develop its relations with Iran, China sold missiles and arms technology to Iran. China has supplied Iran with advanced C-802 antiship missiles and C-801K air-to-surface missiles. China is also believed to provide technological assistance and equipment to Iran's Shahab ballistic missile program.⁴⁶⁰ Furthermore, China has provided equipment to Kyrgyzstan, Uzbekistan and Kazakhstan which have been crucial for their internal security and shares intelligence with them on the activities of insurgent and separatist groups.⁴⁶¹

More importantly, China has established formal security ties with states in Gulf and Caspian region to institutionalize its expanding military influence. Shangai Five was created with the participation of China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan. In 1999, Shangai Five established a joint anti-terrorism center in Bishkek. The alliance was formalized in 2001 as Shangai Cooperation Organization (SCO). Uzbekistan also became a member of Shangai Cooperation Organization. China has supported the SCO decision to make India, Pakistan, and Iran observers of the SCO.⁴⁶² All in all, together with Russia and the US, China aims to establish its hegemony over the countries in the region. However, until now, it can not be argued that any of these powers' hegemonic projects turned out to be a historic bloc in the region. The situation in Kyrgyzstan is remarkable in this respect. There is a Russian base at Knat symbolizing Moscow's security role in the region, while the US base at

⁴⁵⁹ "An Iran-Russia-China Axis?", *Jane's Intelligence Digest*, October 27, 2005, available at <http://www.freerepublic.com/focus/f-news/1510280/posts> (accessed on 08.07.2011).

⁴⁶⁰ Kenneth Katzman, "Iran: Arms and Weapons of Mass Destruction Suppliers", Report for Congress, pp.15-17 available at <http://www.fas.org/sgp/crs/nuke/RL30551.pdf>.(accessed on 08.07.2011).

⁴⁶¹ Bates Gill and Matthew Oresman, *China's New Journey to the West: China's Emergence in Central Asia and Implications for U.S. Interests* (Center for Strategic and International Studies: Washington D.C, 2003), p. 20.

⁴⁶² Stephen Blank, "The Eurasian Energy Triangle China, Russia, and the Central Asian States", *Brown Journal of World Affairs*, 12/2 (2006), p. 63.

Manas plays a vital role in sustaining NATO military operations in Afghanistan. China has also plans to establish military base in Kyrgyzstan.⁴⁶³

On the other hand, in order to avoid excessive dependence upon any one producer or region China is willing to diversify its sources of access to energy. Chinese gas and oil firms are also making deals in North and South America, as well as in Australia.⁴⁶⁴

Regarding Chinese energy relations with Russia, things are more complicated. On the one hand, Russia perceives China as an important market for its energy sales and tries to develop its bilateral relations with China. On the other hand, Russia does not want to allow China to acquire major shares in Russian energy. Sergei Kuprianov, Gazprom's press secretary, stated in 2004 that:

Sharing mineral resources with foreign companies is against our policy. In fact, sharing oil with the Chinese would be even more inappropriate. After all, their stake in Yuganskneftegaz could complicate future price negotiations.⁴⁶⁵

While opposing Chinese share in its oil fields, Russia agreed on the establishment of Sino-Russian oil pipeline in 2010. This pipeline linking the Chinese city of Daqing with the Russian city of Skovorodino officially began operating in 2011. It will give Russia to broaden its market access and increase its revenue. “Now, Russia’s oil infrastructure is pointing east — and its gas infrastructure will also soon be pointing east, as well as west,” Liam Halligan of Prosperity Capital told CNN News. “Russia can play one side off the other. Russia can command higher prices. Russia can

⁴⁶³ “China, US, Russia Eye Bishkek”, *The Diplomat*, April 12, 2010, available at, <http://the-diplomat.com/2010/04/12/china-us-russia-eye-bishkek/> (accessed on 12.07.2011).

⁴⁶⁴ Hill, *Ibid*.

⁴⁶⁵ Aleksandr' Tuttushkin, Irna Reznik, and Rodlon Levinsky. "Without a Struggle Gazprom Talked China Out of Bidding on Yuganskneftgaz," *Vedomosti*, 10 December 2004. in FBIS-SOV, December 10, 2004, cited in Stephen Blank, “China, Kazakh Energy, and Russia: An Unlikely Ménage à Trois”, *The China And Eurasia Forum Quarterly*, 3/3 (2005), p. 106.

expand its hydrocarbon exports.” he added.⁴⁶⁶ For China, it is an important step for its energy security. Russia will annually pump 15 million tons of crude oil to China from 2011 to 2030, according to agreement on the pipeline between the two countries.⁴⁶⁷

All in all, China’s aggressive push for oil in every corner of the world made it an important global player in energy sector. China did not refrain from making an offer even for the US oil company Unocal. This increased the concerns of US about growing power of China and the offer was rejected in the Congress.⁴⁶⁸ US is very much concerned with rising Chinese economic power, invasion of its markets by Chinese products together with Chinese quest for energy in the world. Chinese quest for energy security began to be viewed as a national security matter. William Fallon, Commander of the US Pacific Command (PACOM), before the Senate Armed Services Committee noted that "It seems to be more than might be required for their defense. We're certainly watching it very closely, and we're looking at how we match up against these capabilities." To counter China's latest initiatives, Fallon called for improvements in US antimissile and antisubmarine warfare capabilities, along with a deepening of military ties with America's old and new allies in the region.⁴⁶⁹ In 2004, in the Republican Party’s Congress, it was declared that US would militarily

⁴⁶⁶ “Report: Russia-China Oil Pipeline to Move Millions of Tons in 2011”, January 3, 2011, *CNN World*, available at http://articles.cnn.com/2011-01-03/world/china.russia.pipeline_1_oil-pipeline-russia-and-china-russian-oil?_s=PM:WORLD (accessed on 13.07.2011).

⁴⁶⁷ “Sino-Russia Pipeline Opens”, *China Daily*, available at http://www.chinadaily.com.cn/photo/2011-01/03/content_11787372.htm (accessed on 13.07.2011).

⁴⁶⁸ Arrighi, Adam Smith in Beijing..., p. 284.

⁴⁶⁹ Micheal Klare, “Revving Up the China Threat: New Stage in US China Policy”, *Japan Focus* available at http://japanfocus.org/-Michael_T_Klare/1716 (accessed on 14.07.2011).

assist Taiwan. In 2005, the US made a military agreement with Japan for ensuring the security of Taiwan Straits.⁴⁷⁰ All these moves aimed to contain Chinese threat.

Military confrontation or Cold War like relations does not seem probable considering the interdependent relations between US and China. Taking into account the fact that Wall Mart replaced General Motors as the biggest company of the US, it can be argued that maintenance of the domestic consumerist culture is one of the most important parts of the US domestic hegemony.⁴⁷¹ China's dollar investment and cheap Chinese goods coming to the US has been an important factor in sustaining that consumerist culture. In addition, by opening up of its economy to foreign investment, China provided with lucrative investment opportunities to US companies.⁴⁷² On the other hand, China, Japan and east Asian exporters invested billions of their surplus trade dollars in US Treasury and other assets, out of fear of losing exports, becoming more dependent on US in the process. US with strong control over oil held a potential blackmail over the rest of the world daring to challenge the dollar. However, Iraqi War lowered the credibility of US army and distorted the central position of dollar in world political economy and reinforced the possibility of replacement of US by China. Chinese government is making an effort to create bonds and other financial vehicles for credit expansion in Asia which will soon reduce their purchase of US Treasuries.⁴⁷³ In addition, Fisk argues that secret meetings have already been held by finance ministers and central bank governors in Russia, China, Japan and Brazil to work on the scheme, which will mean that oil will

⁴⁷⁰ Arrighi, Adam Smith in Beijing, p. 287.

⁴⁷¹ According to Fortune 500 listing the 500 biggest corporations of the US, Wall Mart has been the leading company in 2010 and 2011. See; "Fortune 500", *CNN Money*, available at <http://money.cnn.com/magazines/fortune/fortune500/2011/index.html> (accessed on 13.07.2011).

⁴⁷² T. Fishman, "Betting On China", *USA Today*, February 2005, available at: http://www.usatoday.com/news/opinion/2005-02-16-china_x.htm (accessed on 13.07.2011).

⁴⁷³ Clark, op.cit., p.175.

no longer be priced in dollars.⁴⁷⁴

In any case, if the East Asian economies could get rid off dependence on the US markets and create their own domestic market, this would necessitate a radical restructuring of the US policies. The US control over petroleum resources is the best available instrument in the hands of US policy makers to prevent any attempt to change the global balance of power at the expense of the US interests.⁴⁷⁵ The US does not have military control over China unlike Japan. China has the capacity to claim leadership in the whole region. Whenever, US would like to keep the Chinese power under control, it could use Middle Eastern oil as an instrument.

5.5. Conclusion:

Contrary to expectations, Second Gulf War did not lead to reinforcement of the US world hegemony and dollar continued to lose its value. Rising foreign debts of US together with financial crisis of 2008 deepened the concerns of oil producing countries about the reliability of US dollar. In this respcet, calls for using other reserve currencies increased dramatically. Therefore, it became even more important for US to establish its hegemony over oil rich territories in every corner of the globe. Attempts of US to prevent emergence of Russian hegemony over the Caspian region should be evaluated in this framework. While competing with Russia in Caspian region, US also tries to improve its relations with Russia to neutralize Russian challange to its world hegemony.

On the other hand, the US is also deeply concerned about rising Chinese power. Unlike Japan and Western Europeanas, China is not militarily dependent on

⁴⁷⁴ Fisk, op.cit.

⁴⁷⁵ Harvey, Neo-Imperialism, p. 66

the US. Therefore, the most important instrument in the hands of US foreign policy makers to contain China is to keep control of energy resources China is dependent on for maintaining its economic growth.

CHAPTER VI

CONCLUSION

Through the end of 19th century, rising importance of oil for the industrial growth as well as modernization of armies and navies attracted the attention of all industrialized great powers of the world. This led to geopolitical competition among the major industrialized nations of the world for capturing the valuable oil resources of the world and maintaining their economic growth. This competition played an important role in outbreak of two World Wars.

After the end of the Second World War, the US emerged as the hegemonic power of the Western World. The Keynesian consensus and Bretton Woods System targeted continuous economic growth in every individual country in the Western World. The system led to a consumerist culture since the weakness of the demand side of the economy was regarded as the basic factor that led to economic crisis during the inter war period. In this context, in order to sustain economic growth and consumerist culture having secure access to oil and controlling oil resources in the world became an important factor in consolidation of the US hegemony both domestically and globally. Actually, having secure access to oil was one of the important pillars of Bretton Woods System. In this respect, with the rising importance of oil for the US hegemony, this period witnessed increased efforts of US government and oil companies to take control of the oil resources of the world.

Controlling world energy had an important role also for the neo-liberal world order established under the leadership of the US after the collapse of Bretton Woods system. Petrodollar recycling system created during this period played an important

role in reinforcing the world reserve currency role of US dollar. As a result of oil shocks the needs of developing countries for dollar increased dramatically. The dollar earnings of oil rich countries were invested in US financial instruments. On the other hand, the oil shocks dragged developing countries to debt crisis and they opened up their economies to global financial capital.

Under the neo-liberal order, rising financialization of US economy led to a deindustrialization process in the US. US foreign debts and budget deficits began to grow rapidly. With the financial crisis of 1987 and rising competitive power of European and Asian economies, it was expected that post Cold War would bring about a multi polar system with equal distribution of power among Europeans, Asians and Americans. All these expectations were let down by US thanks to First Gulf War. The First Gulf War was one of the most important incidents that helped the reproduction of US hegemony in the post-Cold War Period.

The emergence of Euro as the first viable contender against US dollar as the world reserve currency in the context of deteriorating US economy and attempts of Saddam to shift Euro in oil transactions prepared the ground for invasion of Iraq by the US. US also wanted to ensure secure access to Middle Eastern oil for its domestic needs. US has to ensure secure access to oil to maintain domestic consumerist culture. Therefore, establishing its control over the world oil resources is critical for both domestic and global hegemony of the US.

By locating its forces in Iraq, US gained important opportunity to control whole Middle Eastern region. In doing so, US foreign policy makers calculated that Western Europeans and other industrialized nations of the world would be dependent on US to maintain their economic growth and would not dare to challenge US hegemony. The US control over petroleum resources seems to be the best available

instrument in the hands of US policy makers to prevent any attempt to change the global balance of power at the expense of the US interests. Adoption of coercion instead of consent and unilateralism by the Bush Administration and its use of force to keep control of global petroleum resources relying on its military power can be regarded as an indication of the US willingness to obtain colonial power as in the British case. Especially after Bush administration came to power, unilateralist policies of US created serious concerns among the leading powers of the world.

Being a former super power and having rich energy resources, Russian energy policies and strategies should also be taken into account. Although, Russia has made some attempts to diversify its economy in recent years, it is still dependent on to a great extent the revenues coming from oil and natural gas sales. In this context, it is crucial for Russia to gain control of the transportation of energy to Europe since Europe constitutes the biggest market for Russian oil and gas. In addition, Russians also have been making lucrative deals with Eastern Asians. Therefore, it can be argued that the hegemony of current Russian ruling class is entirely based on exploitation of energy resources. Furthermore, Russian political elite is very much willing to use the Russian energy resources as an instrument for exerting its influence in the world in line with its imperialist desires. Here, Putin's coming to power and economic recovery after 1998 economic crisis constitute a breakthrough because from this point on Russia transformed from a power entirely dependent on IMF for economic survival to a power being able on the one hand to stand against US and challenge US world hegemony and on the other hand to cooperate with US. Considering the fact that Russians accumulated billions of dollars in their reserves, it is not plausible to expect that Russia would take radical steps that would give a big damage to US world hegemony.

The US is especially concerned about the rising power of China. China has emerged as the greatest exporter nation of the world. Thanks to revenues coming from these exports, Central Bank of China has accumulated billions of dollars as reserve currency. If China decides to release these dollars, it would be a big blow for the financial interests of the US. Therefore, it is crucial for US to keep China under its control. The most appropriate way for US to achieve this is to establish control over the world's energy resources that China is dependent on in order to sustain its current export levels. On the other hand, China is dependent on US markets to sell its products for maintaining its economic growth. However, if the East Asian economies could get rid off dependence on the US markets and create their own domestic markets and if they break US control over world energy resources, this would necessitate a radical restructuring of the US economy and the world order.

Finally, it has to be noted that with Obama Administration coming to power, the US became more cautious about using coercive mechanisms to sustain its world hegemony. Improving its relations with the great powers of the world which have the potential to challenge the US world hegemony and being perceived as a benevolent hegemon turned out to be the primary agenda of the Obama Administration. It is obvious that recently due to its deteriorating economic power; the US world hegemony has been under serious threat. However, in the absence of an alternative world hegemon being able to replace the US and to protect the global capitalist system against progressive forces, and considering the continuing US control over the most of the world's energy resources thanks to its military superiority, and taking into consideration the existing dollar supremacy in the global financial system, the reproduction of the US hegemony is still possible.

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