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How has the US maintained hegemony in the international oil trade through its control of the Middle East?

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Abstract

This article discusses the dominance the US has over the Middle Eastern oil industry. It explores the timeline in which this happened, dating back to the collapse of the Bretton Woods system, as well as how strong their dominance is in the current world. The US has created numerous wars to maintain its oil hegemony and has dismantled governments in countries that do not act according to American oil interests. There have been multiple threats to the Bretton Woods system including structural issues and fierce competition. The petro-yuan has become a major component of the world oil trade and diminishing relations between the US and its trade allies could ultimately end the dollar's currency dominance.

Keywords: oil politics, US hegemony, Middle East, petrodollar, petro-yuan

Introduction

The Middle Eastern oil industry is a trade that America has embraced. Not only have the United States embraced this industry, but they have dominated, profited from, expanded, and exploited it. After the World War II, the US was in its "golden age". While the rest of Europe was recovering from the damage of the war, the US was thriving. They created a system, in the last year of the war, in which their currency became the reserve currency, connected to the gold standard at the Bretton Woods Conference. In this post-war global system of trade and finance, the US was recognized to be the hegemonic power as all nations had to trade with the dollar. With little competition from its Western allies, the beginning of the Bretton Woods system was a symbol of America's economic and financial strength. However, in the span of 25 years, the US dollar faced several challenges such as huge financial costs that accrued because of the Vietnam War. The war was a key indicator of American foreign policy failure, which weakened the prestige and hegemonic authority of the US. There was also

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increased competition from other industrialized nations such as Western European states and Japan that had recovered from the war damage. When all these developments were seriously challenging the hegemonic position of the US, a series of agreements were signed between the US and the largest oil-exporting country, Saudi Arabia. This agreement would eventually lead to the creation of US oil dominance, which in return would secure the dominant position of the American currency, the dollar, in the global economy.

Oil is the most important resource that companies, organizations, and states run on. The demand for oil is limitless while the resource is a finite measure. The US created a deal with Saudi Arabia that advanced its relationship with oil-producing nations of the Middle East, the most oil-rich region in the world. This deal paved the way for American domination in Middle Eastern oil as the deal introduced the petrodollar. In the following sections of the article, the intricate dynamics that led to the development of this relationship will be explored and its significant consequences for the world political economy will be clarified.

Why was there a need for the Bretton Woods system?

The Bretton Woods system was created in 1944 when 44 nations' delegates assembled in New Hampshire, US, for the Bretton Woods Conference to restructure the world's monetary system following the end of World War II. The International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) were two extremely significant financial institutions that were established after the agreement. The objectives for the creation were largely due to the desperate international economic and financial situation of World War II. There is a debate about whether the post-war economic period was the golden age of economic growth, as various scholars view this time as a period of economic progression. However, according to Institute for Economics and Peace (2015), the negative shock of World War II impacted later economic growth that was statistically significant in terms of quantity.

Why did certain aspects of Bretton Woods collapse?

This article argues that one of the major causes of the failure of Bretton Woods was the depreciation of the US dollar as the global reserve currency. As briefly mentioned above, the end of World War II created the conditions in which the US economy emerged as the internationally dominant power. Industrialized countries such as France, Great Britain, and Germany were economically damaged after the war. This led to an international power shift whereby the US expanded its growth and influence due to the lack of competition from other nations. This new circumstance gave the US the power to rearrange the international economic architecture and also created the status of the US dollar as a stable reserve currency. This meant any goods and services produced and exported by the US were priced at higher values since they were taking part in a weak and broken international market and therefore did not have to participate in competitive pricing. However, at the end of the 1960s, the developed European nations started to recover from their economic devastations, and therefore started competing with the US. This meant that goods and services sold by the US had to deal with the recovered international market and so had to compete with other nations, which lowered their prices, and hence their profit margins (rate of profit). This smaller profit margin for American companies slowed down growth, and eventually led to the depreciation of the US dollar. The US dollar (USD) currency first started having issues domestically and soon transferred into international territory from the 1960s to the 1970s. This can be explained by Triffin's paradox.

Triffin (1978) recognized some issues regarding the role of the USD. One reason is that the USD needs a currency outflow to resupply the rest of the world's foreign exchange reserves, meaning if this supply was strained, the USD would become unstable. Another reason is that an influx of USD is necessary to support its position as the reserve currency, but some nations have fixed exchange rates and hence will cause instability during a currency deficit. The US experienced this, and the USD deprecated in its value. This meant that massive US deficits (a "dollar glut") would damage confidence in the dollar's value. The dollar would cease to be recognized as the world's reserve currency if confidence in it was lost. This could suggest that because of the dollar's dual purpose, one being a domestic currency and the other as an international currency, it struggled to control international demand as well as domestic inflation. However, Triffin's theory was criticized by Bordo and McCauley (2019) as they suggested that Bretton Woods failed not because US dollar reserves exceeded US gold holdings, but because of overly broad US monetary policy. They suggested that the dollar's asymmetric function as a reserve asset gave it a leading influence on global inflation. Although American monetary policy is significant, the US did not have enough gold reserves. In 1971 the United States treasury was asked by the UK to convert $3 billion into gold to cover all their gold assets. This caused such distress to the US government that President Nixon publicly addressed this financial crisis (Manly, 2021). According to the Bretton Woods Agreement, America could print more money as long as it had a corresponding amount (worth) of gold reserves. However, as mentioned earlier, by the end of the 1960s, the USD started to lose its stability running a current account deficit and leading to depreciation in its value.

A major reason for this was America's political war in Vietnam between 1955–1975. This was considered a massive failure for the United States both politically and financially. The war cost America $141 billion and over 56,000 American soldiers died. Military weapons and equipment alone were over $2 billion (Gwertzman, 1975). As well as financial strain, the Vietnam War cost the US prestige. The United States had leveraged its gold reserves to the breaking point by 1971, owing largely to the costs of the war. The increase in the United States money supply caused the Consumer Price Index (CPI) to rise by over 6% in 1970, and it remained above 4% in 1971.

When US President Nixon "closed the gold window" and introduced price controls in August 1971, the Bretton Woods system came to an end, and a floating exchange rate system emerged. Between World War II and 1971, the United States' gold reserves fell from approximately 20,205 tons to approximately 8,134 tons. The United States devalued the dollar in February 1973, raising the official dollar price of gold to $42.22 per troy ounce (Hera, 2012). This cost the US international prestige due to the instability of the dollar. The United States was no longer seen as the dominant hegemon and their years of economic growth came to a halt. The loss against local guerrilla militant groups was embarrassing to America's global image, so much so that even their allies started to speak against American intervention in Vietnam. This was enough reason for President Nixon to announce a new economic policy and temporarily dissolved the currency's convertibility to gold. Countries were free to form their own exchange rate agreement. After 1973, they stopped attempting to have a fixed exchange rate and so the Bretton Woods system was abandoned (Jin, Liu & Li, 2018).

What was the impact of the collapse of the Bretton Woods system on the American economy?

From more than $20 billion in the early 1950s to less than $9 billion in 1970, the US gold stock decreased. This was because of the flaws of the Bretton Woods system as it was a rule that the US could print out more money as long as they had enough gold reserves. Foreign nations were unaware that, although gold reserves supported their currency reserves, the United States would continue to manufacture dollars backed by its debt held in the form of US treasuries. As the US produced more money to fund its spending, the gold underpinning the currency deteriorated. The increased monetary supply of dollars exceeded the number of gold reserves, lowering the value of other countries' currency reserves. Early in the Kennedy Administration, there was anxiety about this gold decline, but it was not until the US trade balance became negative in the late 1960s and early 1970s that it became a disaster (Gokay & Whitman, 2009. The Bretton Woods collapse left the American economy vulnerable to high rates of inflation, low economic growth, depreciation of the dollar, and economic instability. Laroisere (2019) supports this by explaining that since the Bretton Woods system's demise, the global economy has experienced a significant transformation, entering a "debt-driven" period in which loan expansion exceeded potential economic development. This led to a period of American instability as they lost their position as the currency tied to the gold standard, which affected their image as the global hegemon. However, if it was not for the failure of the gold standard, would they have been able to become the biggest player in the oil world? The US could monopolize on the absence of a reserve currency for the oil trade, and thus the collapse of the Bretton Woods system paved the way for the dollar to be the currency used in oil in the global political economy.

As a result of a monumental agreement between the United States and Saudi Arabia, the petrodollar system was established in 1973. This marked the transition period in which the US went from the gold standard to oil. At the lowest point of an American fight for dominance, the US leaders had to find another way of convincing other nations to continue to use the dollar as the global reserve currency in their trade. Henry Kissinger, the secretary of state for the United States at the time saw that oil was the most important trade, bringing in high revenues to countries that invested and consumed it. Investment in this industry would solve the US's problem. As a result, crude oil imports increased from 9% in 1954 to 36% of US consumption by 1973 (New York Times 1976). Other sources suggest Saudi Arabia was interested first as they enquired about an American proposal to impose a minimum floor price for oil in consumer nations that would be lower than present prices but more than what oil from the Middle East previously cost. This suggests a Saudi Arabian perspective, which highlights their interest in maintaining good relations with the United States. The two countries agreed to only price and trade oil in US dollars, henceforth the US dollar became the world's standard for measuring oil prices. As a result of this standardization, other oil-producing countries adopted the same pricing system and traded in US dollars because any country wanting to acquire oil from Saudi Arabia had to do so using dollars. In return, the US promised to buy Saudi oil as well as provide military weaponry to them. The United States started to rely more on privately operated modes of transportation in the late 1960s, which led to an imbalance between domestic petroleum supply and consumption. Middle East and North African (MENA) nations, which made up two-thirds of proved reserves and 41% of the world's proved output, were crucial in fulfilling this growing demand. Yet, the inability to continue having access to cheap foreign petroleum supplies led to a sharp increase in the price of oil, throwing a serious blow to the already fragile US economy (Wight, 2021).

At the start, the Organization of the Petroleum Exporting Countries (OPEC), which was established in 1960, had control over the price and production of oil throughout the world. The organization made it difficult to enter the oil market for the US. OPEC used its influence to strike back at Americans for their support of Israel during the Yom Kippur War. This political alliance with Israel cost America as they were limited in having any source of influence. The OPEC nations are predominantly Arab and Muslim and have throughout displayed solidarity with Palestinian Muslims. So, the US alliance with a Zionist nation crossed the nations of OPEC and discouraged cooperation. To fulfill its rising oil consumption, the United States has grown more dependent on imports from OPEC nations. OPEC utilized this dependency by enforcing a sharp increase in oil prices which caused the stock market to crash, and inflation surged. This was the point when the US agreed to buy oil from Saudi Arabia and offered military aid to the kingdom, with the Saudis investing billions of dollars in treasuries to fund American spending. This also meant Saudi taking on America's debt. For example, the $117 billion (£81 million) sum makes Saudi Arabia one of America's greatest foreign creditors, but the official amount grossly underestimates the kingdom's holdings in US government debt, which might be double or more. Since the US was determined to prioritize oil access and loosen the grip of OPEC, they allowed Saudi shortcuts to their investment in America. The United States allowed Saudi Arabia authority to purchase treasuries without going through the traditional competitive bidding system as part of a package of special arrangements (Wong, 2016). These transactions were not included in the official auction data and were used to conceal Saudi Arabia's participation in the US government debt market. By 1977, Saudi Arabia had amassed roughly 20% of all foreign treasury holdings. When the treasury started publishing monthly country-specific analyses of US debt holdings, another exception was added for Saudi Arabia. Rather than disclosing Saudi Arabia's assets separately, the treasury combined them with those of 14 other nations, including Kuwait, the United Arab Emirates, and Nigeria, under the umbrella designation "oil exporters". The US also made particular financial confidentiality pledges to Saudi Arabia and other OPEC states. As part of this arrangement, oil was also sold for US dollars, which Saudi Arabia then used to purchase US Treasury bonds and bills and reinvest in the US economy. To price their oil exports in US dollars, all OPEC members agreed to adopt the petrodollar system by 1975 (Salameh, 2015). As a result, the US dollar had taken over as the predominant currency on worldwide energy markets, with the dollar currently accounting for about two-thirds of the global economy. Due to its dominance in the natural gas and oil markets, the US dollar has become the favored reserve currency for the majority of central banks globally. Although the US was left in a situation of vulnerability after the collapse of the Bretton Woods system, they were able to recover quickly with the creation of the petrodollar, meaning that the US dollar became the global currency in which oil would be sold and purchased. This was seen as an upgrade compared to the gold standard since there would be less risk of oil shortage compared to that of gold, as well as structural reform that aids stability to the dollar. This also signifies America's recovery as a hegemonic power as America gained access to the Middle East, not just through the global political economy of oil but as an influential political power within the region. The state was powerful enough that its foreign policy, which can be narrated by many Middle Eastern nations as imperialist, was still able to acquire control of its main oil corporation. So, the end of the gold standard did place the US economy in a place of turbulence as inflation rose and they had a widening current deficit. However, if it were not for the end of the gold standard, the United States would have not been the reserve currency for the oil trade.

How did the petrol dollar affect America and the world?

The petrodollar has helped America become a major hegemon in the international oil trade. The biggest way it has accomplished this is by making the American dollar a reserve currency. The petrodollar system promoted the US dollar to the status of the primary currency in the global economy. A reserve currency is a foreign currency held as part of a country's official foreign exchange reserves by a central bank or treasury (Siripurapu, 2020). Because much international trade is conducted in dollars, numerous nations cannot borrow money or pay for imported products in their own currencies. They must maintain reserves to ensure a constant supply of imports during a crisis. This implies that the United States, as the world's reserve currency, has to pay for the cost of the service they wish to purchase, rather than another currency and exchange rates. They may also print additional dollars to pay for goods they obtain, as opposed to other countries, who must buy the price of the dollar. This creates a sense of stability for the US as other currencies are dependent on the dollar. The primary benefit of the United States' reserve currency function has been in supporting the country's trade imbalances. Foreign financial institutions' desire to purchase liquid dollar assets acts as a partial substitute for greater US gold holdings or international credit lines. This means that other nations' interest in maintaining and engaging in US dollars has aided the US in maintaining trade deficits by allowing itself to purchase more goods and services than it exports while avoiding major currency depreciation. However, benefits extend to income advantages as well. The reserve currency status has allowed the US to pursue more overseas goods, amenities, and investments, as well as provide more foreign aid than would otherwise be feasible. The US receives a sovereignty benefit from this role (Aliber, 1964). Although these advantages incentivize other countries to engage with the dollar as well as heighten sovereignty, they also come with the cost of limited control over domestic affairs meaning they have to engage in expansive monetary policy to facilitate being the reserve currency. This means confidence in domestic investments may be low. However foreign investments accumulate higher revenues as reserve currency attracts foreign direct investment.

Other benefits include international capital inflows via petrodollar recycling and regular trade deficits and having a significant impact on global economic markets. Petrodollar "recycling" refers to the re-flows of the dollar to the rest of the international community caused by the use of oil income by oil-exporting countries. A part may be spent on foreign products and services, while another could be saved on foreign assets maintained overseas. This indicates that oil-producing countries invest their extra oil income in US debt securities. This is beneficial as it uses only dollars for oil transactions and then invests the extra revenues in American debt securities. This has allowed the United States to keep interest rates artificially low. The US economy has become reliant on these artificially low interest rates and hence has a strong interest in preserving them by whatever means necessary. As well as creating economic benefits, America was also able to insert dominance by becoming the biggest player in the Middle East and hence being able to influence major oil decisions in the region. (Wight, 2021) He claims that high oil prices in the 1970s contributed to the change in international history by reshaping the relationship between the US and one of the world's most significant oil-producing areas, the MENA. Wight defines the United States as an empire in the sense that it had disproportionate power over many nations and areas, which it incorporated into the networks of commerce, investment, and security that fueled US-led globalization. Following the demise of the Bretton Woods system, which ended the US dollar's direct convertibility to gold, the US attempted to keep its worldwide dominance by creating the petrodollar system. This action enabled the United States to establish a dominant position regarding the international oil trade, which is one of the most important areas of the global economy. Therefore, the United States was able to use its petrodollar system dominance to exert considerable influence over the global oil market, including setting oil prices and shaping the policies of oil-producing nations. By assuring continuous demand for the US dollar, the petrodollar system enabled the US to keep reduced financing costs and greater financial security. In effect, the petrodollar system allowed the United States to keep its hegemony in the global political economy by making the US dollar the dominant currency in the vital energy trade sector. As a result, the United States acquired considerable economic and political authority in the global energy market, cementing its place as a global economic superpower.

Petrodollar as a weapon – how does that create dominance?

The breakthrough of the petrodollar was enough for America to enter the oil hegemonic period; however, it was maintained for decades through the use of the petrodollar as an aid in war and the trade of the weapon-dollar. Through creating wars and selling weapons in the Middle East, the US gained power over many regions, meanwhile utilizing its hegemonic power to conduct US foreign policy. The case of Saudi and American relations exposes the link between the petrodollar and the weapon-dollar. The basic concept is that Saudi sells its oil to America and uses the USD currency. To pay Saudi back for selling a high percentage of oil, the US pay back by supplying Saudi with weapons. This is good for American dominance in trade as the USD flows in and out of international trade. This helps maintain USD use globally. The demand for the dollar becomes greater, which strengthens the currency. What happened in 2003 between Iraq and the United States illustrates the weaponization of the petrodollar. Saddam Hussein announced that he no longer wanted to sell oil in dollars, instead, he wished for them to be sold in euros. This was done under the United Nations "Oil for Food" program (UN, 2023). Iraq's incentive for this carries multiple arguments. The "Oil for Food" program enables Iraq to avoid trade restrictions and sell its oil as long as the majority of the revenue is used to satisfy its people's requirements. The restrictions were implemented in response to Iraq's invasion of Kuwait in 1990. America has been the most vocal supporter of maintaining these restrictions intact until Iraq demonstrates that it has relinquished its weapons of mass destruction (Faleh, 2000). Although this may not be the final cause, it portrays Iraq's anti-American sentiments.

However, Iraq's protection under the "oil for food" scheme would not have incentivized them to abandon their alleged ownership of weapons of mass destruction as long as Iraq continued to use ammunition domestically. The euro was also at an appreciated value compared to that of the USD. Petrodollar hegemony was receding and forcing the United States to substantially alter its present tax, debt, trade, and energy policies, all of which are badly unbalanced. So, it was in Iraq's best interest that it would switch to the euro. Even after the 2003 invasion of Iraq, when Iraq agreed to continue with USD currency, the euro was approximately 13% greater in value than the US dollar, limiting the capacity of potential energy revenue to rebuild Iraq's infrastructure. This meant that the euro was seen as profitable and amplified the downfall of the dollar. The attack on Iraq was because of oil but was discussed by American media as liberating the Iraqi people. This shows the abolishment of any resistance against the petrodollar and how it is a significant reason for conflicts within the Middle East as well as the world. The invasion of Iraq was initially considered as a success in US foreign policy but a complete violation of human rights. This shows the dominance of the US as they were able to change the narrative from a petro currency conflict to fighting for the Iraqi people's freedom. The complete annihilation of Iraq left a scar symbolizing the consequence of not complying with American interests. Although destroying a country that does not comply with the petrodollar illustrates the conflicts caused by the petrodollar and American dominance, there is also an alternative economic perspective that shows the involvement of private players and the petrodollar, in enhancing conflict in the Middle East. This alternative provides details on how conflict is managed through private and state players that are not explained through the narration of war. It is important to note that the many firms discussed in the section are American-based firms and directly profit from US hegemony over Middle Eastern oil. Nitzan and Bichler (2002) offer the idea that these firms' efforts contributed to the maintenance of an almost structured relationship between energy crises and military confrontations. The growing militarization and conflicts in the Middle East, have resulted in an "oil crisis", leading to increased prices and rising oil exports. The proceeds from these exports were used to finance additional weapon deals, resulting in another period of tension, hostility, and rising energy costs. This meant that increasing export revenues were assisting in financing weapons imports, fueling the regional arms competition. According to their numerical investigation, it appears that understanding the oil income of the countries of the Middle East was nearly enough to anticipate the whole worth of ammunition sales three years in advance. Local tensions and inter-country conflicts, superpower efforts to defend and expand their sphere of influence, and the growth of local arms manufacturing were all factors influencing arms transfers into the area. This meant that the greater the oil income, the more money was spent on weaponry, which enhanced the usage of weapon-dollars. This shows the true essence of what the weapon-dollar is. It is the use of oil revenues to spend on weaponry. The existence of the petrodollar allows this trade to expand without resistance as these arms help the US advance their relationship with Middle Eastern nations. With the trade of arms, the US can supply these nations with arms for protection and in turn, have dominance over the oil-producing nations and therefore have greater political influence over their foreign policy. As mentioned before the trade-off, these nations use the dollar and therefore maintain its significance and are given American weapons.

American wars for oil

The narrative of the Middle East as a war-centered culture with overwhelming hostility has been emphasized for the past decades. This article argues that even though there are territorial and cultural reasons for these wars, the main reasons for conflict in the region have been manipulated by the US to maintain power. There is a common thread running through all wars, which is that all centered around the subject of oil. The main goal is the necessity to maintain sufficient and cheap oil from the region, and particularly within firm control of the US, to ensure the US system of global capitalist economies continue to flourish. US policymakers are interested in obtaining oil; however, they also seek to remove any prospective rivals, securing the region militarily as well as politically so that the movement of oil from the Middle East to global markets may be controlled directly. Gokay (2010) argues that the continued employment of the US military might thus be regarded as a reaction to its falling economic dominance, rather than just as a reaction to the post-Cold War geopolitical situation. Leaders in the United States regard themselves as superior. Military strength is the primary instrument that can be used successfully to win over all opponents and halt this decline. As a result, it creates a hostile environment in which players retaliate instead of having fair and peaceful interactions. Continuing military aggression and arrogance of the US, other states may instead push the regional powers to distance themselves from US strategic goals. Member countries of OPEC, for instance, have accelerated deposits in other currencies including the euro and the Japanese yen and placed less in dollars starting from 2001 and during the Afghan War. OPEC members cut the proportion of deposits held in dollars from 75% in the third quarter of 2001 to 61.5% in the last quarter of 2004. During the same period, the share of euro-denominated deposits rose from 12% to 20%. This means that because of economic decline over the past decades, Americans could not maintain their economic golden days. To compensate for being heavily reliant on force and the destruction of competition, the US frames it as a military intervention for peace and democracy. From a liberal international theory perspective, this is justified as they endorse foreign intervention for democratization. However, in practice, it comes off as Western imperialism (Meiser, 2018). This is due to theories such as the democratic peace theory which is a pillar of liberalism in the international relations context, which suggest democracies tend to perceive each other as genuine and unthreatening, and hence have a greater ability for collaboration than non-democracies. While democracies are reluctant to go to war with each other, some research shows that they will be hostile toward non-democracies. In this example, the United States began its war with Iraq in 2003. There is support for the previous point of violence used to keep dominant power, but it further argues that oil-based violence is used as a way to speed up oil production. Merrill and Orlando (2020) investigate a form of the risk-induced extraction theory in the setting of state oil monopolies and quantify the consequences of political violence on output. They find substantial support for the hypothesis that oil suppliers increase extraction as a reaction to escalating political violence, particularly violence that threatens institutions entrusted with protecting property rights. Their findings support the risk-induced extraction theory and give a more comprehensive picture of where and when it occurs. They explain that if political situations expose market players to the degradation of property rights or increased expropriation threats, deteriorating security is more inclined to push national oil firms to reduce the value of their reserve assets. So, if this theory was applied to the countries that experienced American military interventions, such as Iraq, it would conclude that Iraq would increase the extraction of oil due to risk-induced factors such as environmental damage of war. However, their research is based on secondary data analysis and the research does not apply any real-life applications. It is important to understand that context is important when applying this theory and so a numerical database makes it difficult to establish a cause and effect.

Dessert Storm was America asserting its dominance and defending its role in the Middle Eastern oil industry. The First Gulf War, commonly known as Operation Desert Storm, or the Persian Gulf War, was a conflict that erupted in the Persian Gulf in 1991 when Iraqi President Saddam Hussein gave the order to invade and occupy Kuwait in early August 1989. The United States was requested to launch a military operation. A significant US-led aerial assault marked the start of Operation Desert Storm. President George H.W. Bush of the United States issued a cease-fire order on 28 February following 42 days of nonstop assaults; at that point, the majority of Iraqi soldiers in Kuwait had either capitulated or left. The non-complex attitude toward US foreign policy in the Middle East is to control oil prices; however, to become a hegemon, one must be able to overthrow any interruption as well as destroy competition. One key motivation driving American military policy in the oil-rich region is the need to prevent control over such large resources to strong adversaries, who would grow even more powerful and hence more threatening as a result. The root cause is not about potential interruptions in oil supply and resulting price shocks caused by unfriendly governments' activities, although it is still a security issue for the US (Khadduri, 1996). The greater concern for the United States is that, regardless of whether Iraq or Iran were ready to sell all the oil reserves they had taken from Kuwait to the rest of the world, by seizing additional oil reserves, their regimes would quickly become even more dangerous to the United States than they already are. This supports the claim of destroying competition as US foreign military interest is for control of Middle Eastern oil reserves. However, in order to have this power, there would be weaker players that support America and would inevitably depend on the US for its protection. That player is the Gulf Cooperation Council (GCC). Telhami (2002) argues that it remains in the interest of the GCC states to have American military backing. That gives the United States some leverage but is limited since the GCC states know that the US strategy also serves American interests. The result is clear mutual incentives to cooperate. Certainly, when threats to oil are clear, such as the Iraqi invasion of Kuwait in 1990, Saudi Arabia and other GCC states will undoubtedly rally behind the United States to defend the oil reserves. And even without an imminent threat, GCC states, especially Kuwait, have an interest in the US presence in the region. US forces are spread throughout much of the Gulf, from pre-positioned equipment in Qatar to forces and equipment in Kuwait, to the naval facilities in Bahrain. The Saudis, who also host American troops, have incentives to maintain an American presence in the region even as they seek to lower the numbers and the profile of American forces on their own soil for fear of public backlash. This may be due to cultural conflicts between these two nations. Although Saudi and America profit from each other through trade and arms deals, their similarities end there. Culturally the US and Saudi exist on opposing sides of the cultural paradigm and America has displayed a great amount of islamophobia in their recent decades of foreign policy, resulting in anti-American sentiments around the Islamic world. This would induce a state of panic and dissatisfaction in the Kingdom of Saudi Arabia, as they would receive scrutiny for allowing Western culture inside a country with one of the holiest sites in Islamic history. In this sense, Saudi wants protection from the US military as well as other GCC nations due to their weak military. However, from this, it is evident that Saudi and other GCC nations fear American power and therefore are reluctant to allow them free access to their nation, which emphasizes a level of distrust in the American government. American imperialist foreign policies evoke fear even within its non-Western, less militarily strong allies, as American national interest is usually pursued at the expense of other nations such as Iraq.

The GCC and America's relationship is complicated. In one sense it seems like an alliance and in others, it is only a trade deal. However, the GCC allows the United States to have huge amounts of hegemonic power in the Middle East and can secure oil security in the regions as opposed to OPEC. The GCC was formally established on 26 May 1981, in Abu Dhabi, United Arab Emirates, following a conference of the leaders of the state of six Gulf nations (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman). The official justification for the collaboration was that the GCC represented the similar ideals and ties that united the Gulf states, including their shared Islamic identity since all six are countries with majorities of Sunni Muslims. Since its formation, the GCC has placed a high priority on security and this article argues that it is the primary reason for its formation. The Iraq–Iran conflict was one of the issues raised in the formation. The Islamic Republic's founding in 1979 introduced a new level of intricacy to the Gulf's geostrategic position and strengthened the drive for the creation of the GCC. Meanwhile, worry over the growth of Shia Islam in the Gulf area was growing, especially in Kuwait, Bahrain, and the Kingdom of Saudi Arabia. The necessity for regional cooperation on security gave rise to the GCC. The GCC member nations immediately established a coordinated military defense force, the very first of its type in the region shortly after the organization's formation. Rising military tensions in the area and the start of the Iran–Iraq war gave the concept of collective security a new meaning. Omar Al Hassan (2015) writes after the conflict, both sides were worn out and unable to serve as the Gulf region's "gendarmerie", which in turn caused fundamental changes in the balance of power and forced the other Gulf governments to concentrate on maintaining regional peace and stability.

The US saw an opportunity to expand its powers to the Middle East as it became involved in the Cold War because of its attractive oil reserve and its fragile national defense. US President Jimmy Carter declared in 1980 that the US would use force if necessary to protect its interests in the Gulf. The reaction of Soviet leader Leonid Brezhnev to US military protection directly affected the security of the Gulf area. The Soviet Union attempted to strengthen its position which concerned the United States by making use of its connections with Iraq and other Gulf states. The continued Soviet occupation of Afghanistan and the fact that the area participated in the Cold War increased the tension during the discussions between the GCC governments. Although this relationship seems like an alliance for protecting nations from the Soviets, the US went beyond military protection (which expresses its hegemonic dominance) to having control of the GCC oil productions. This reflects the point made about underlying fear of the US, coming from the GCC nations, due to one party being a strong military and the other being weaker. Shayji (2014) supports this security dilemma and writes the alliance that exists between the GCC and the United States is a prime example of the problems that arise when a stronger party joins forces with a weaker party. This means that the GCC is in fear that the US would follow its own interest over their alliance and therefore become threatening to the GGC nations. So, in a hypothetical example, if the US threatens to indicate nuclear war against Iran, the GCC are under threat from Iran or if relations with Iran and the USA improve and they negotiate a deal, the US then has the power to establish Tehran as the dominant force in the region. However, these worries do not just arise from speculation but from previous events. Sheikh Mohammad Al-Sabah, a former deputy prime minister and minister of foreign affairs of Kuwait, raised this precise concern in a speech at the 2013 Manama Dialogue and questioned if Syria and Bahrain were a part of the interim agreement with Iran and criticized the GCC's absence from the P5+1 negotiating table on Iran's nuclear program. This shows the distrust and low confidence in the American dominance of the Middle East and further emphasizes the control they have over the region as their decisions have an inevitable effect on the GCC countries' vital security concerns. The Gulf states have built up sizable foreign currency reserves based on dollars over various years. Additionally, they recycled their petrodollar income by buying US debt and equities, which maintained the US dollar to be more resistant to inflationary and fiscal pressures (El-Katiri, 2014). Oil exporters would be less interested in diversifying their official reserves with non-dollar assets as long as they continue to assemble dollars in their reserves and convert their petrodollars into dollar-based securities. This, in addition to the security blanket of the United States, means that the GCC will continue to trade with the dollar and so the petrodollar will continue to flourish as the reserve currency among these GCC nations. However, this is not the current case, as market specialists have forecast that the US dollar will decline drastically and irregularly due to the instability of the dollar and increased international competition (Momani, 2008). The US dollar's gradual decline has also presented several oil exporters with the possibility of losing oil earnings and has led to sharp increases in Gulf inflation rates (double-digit inflation in both Qatar and the UAE). However, this relationship is unlikely to dissolve as the GCC need US military protection. Moreover, given the reputation of America destroying competition, it is unlikely that these nations will drift to a different currency such as the euro as countries such as Iraq have paid the price of switching currency from the dollar.

The slow but consistently growing unpopularity of the US dollar

Petro-yuan

The end is coming to US oil dominance in the Middle East, and its decline has been more obvious in the last decade. Similar to how it became powerful (the introduction of the dollar as the reserve currency), other developed and developing countries have decided to change the currency in which they trade oil. The biggest threat to America's oil dominance is China. China created the petro-yuan to counter the petrodollar. The first step toward making the yuan a petroleum currency was the agreement in 2018 between the People's Bank of China and the Central Bank of the Russian Federation to conduct oil transactions in Chinese currency via the Shanghai Oil and Natural Gas exchange platform. Salameh (2018) suggests that over the course of two and a half hours on the day the agreement was passed, 15.4 million barrels of crude oil for delivery in September 2018 were traded. Petro-yuan trading volume topped Brent trading volume exactly one week after China began its crude oil futures. This suggests the effectiveness of China in its production of oil without the use of the dollar. This strikes as a problem for the US because if other nations do not use the dollar, it will cost them the role of oil dominance. Russia landed the first blow to the petrodollar back in 2015. The third-largest oil producer in Russia, Gazprom Neft, decided to switch from using the dollar to using the yuan alongside additional Asian currencies. Iran used a similar strategy in the same year, accepting yuan as payment for Iranian oil. This shift of currencies has activated a chain reaction that was damaging to the US as China became the top importer of crude oil globally as of 2017. However, it is important to consider these countries mentioned above are not American allies and had periods of conflict with each nation. Iran especially has anti-American sentiment both politically and economically. Their transition to the yuan acts as a punishment for the years of US sanctions against Iran. Iran's economy has been subject to several progressively more severe US economic sanctions since January 1984 (Amuzegar, 1997). Beginning with a ban on the export of American weapons and dual-use technology, the sanctions progressively grew to the current level, which entails a complete embargo on all bilateral trade and investment. They were even expanded to secondary boycotts, which penalize foreign firms that invest in Iran's oil and gas industry. Therefore, Iran had every incentive to switch the currency to trade gas. This also highlights America's dominance as they have created more enemies by asserting their powers to dismantle governments that do not run according to American interests. With the rise of the petro-yuan, these nations can not only benefit from faster and more efficient trade of oil because of China's booming economy but also as retaliation toward the US. Russia and China have strengthened relations to the point that numerous locations in China now accept the Russian rubble as payment, while other nations like Iran and Venezuela will utilize the petro-yuan to undercut the petrodollar and lessen the impact of US sanctions on their economy. If the impact of the petro-yuan increases its influence, it poses a direct challenge to the dollar. The impact of US trade sanctions would be mitigated by falling petrodollar demand. This shows a rejection of American currency as well as their role as a leader. The backbone of the world financial system is the American financial system, considering that almost everyone uses the US dollar and so the core of the global financial system is the US financial system (Garver, 2021). That would the increase debt that the US also has at its core. Unfortunately, the US debt is fully and utterly unsustainable since it is increasing far more quickly than its GDP. Therefore, growing US debt has implications globally. The purchasing power of current currency stock would decline in nations that utilize the petrodollar in the event that a debt crisis reduced the value of the dollar. As they would not have a particularly reliable domestic currency, emerging markets would suffer severely as a result. The US is also one of the biggest oil importers, but if its debt causes it to enter a recession, American consumers would buy less oil from the Middle East since the devaluation of the currency will make it more costly to import. This would affect their relationships with the Arab oil nations and would motivate them to conduct business using a more reliable currency. This creates a vulnerable position for the US to defend its role as the reserve currency and China has foreseen these possible economic chances. However, it is unlikely to see major shifts in power immediately. Hughes (2018) argues the Shanghai oil futures contract is solely for the supply of a certain kind of crude oil, particularly the high-sulfur variety that is primarily used by Chinese refineries, and not for the delivery of global oil supplies in general. This suggests the quality variation in the trade of oil by China is not as developed or advanced as the oil consumed by the US. The improvement of production will take time and therefore the association of better oil and the petrodollar creates better incentives for the use of US currency. The Chinese financial system, which is now far from being able to confront Wall Street, is also a factor in any threat to the petrodollar system, in addition to trade. China's capacity to function as a global settlement currency, let alone a world reserve currency, is compromised by its capital restrictions and yuan peg. Bovaird (2022) explains consumers using other currencies may buy more of China's goods than they would if the yuan were a more costly currency as long as a currency peg maintains it as cheap in relation to other currencies. Also, China does not have a floating exchange rate and is likely to run into the same troubles as the Bretton Woods system as it also had a fixed rate. Therefore, China's financial system is likely to fail if they establish a reserve currency unless they reform the role and characteristics of the yuan.

Diminishing relations

The US's relationships with Saudi and other Middle Eastern oil nations have started to wither. That this will not be the cause of the collapse of the petrodollar and oil dominance, however, is a factor contributing to the weakening of its power and US oil dominance in the Middle East. This is a huge blow to the strength of the US currency. As discussed below, Saudi and the US have had an alliance based on oil and the weapon-dollar. However, over the years tension has risen between these two nations from many political and economic areas. One factor is Saudi's increasing cooperation and trade with non-allies. One of these cases is between Russia and Saudi. The alliance was firmly established by shared objectives in oil policy; as of 2016, OPEC+ was Saudi Arabia's and Russia's primary tool for market stabilization. Saudi companies, undoubtedly encouraged by the Royal Court, saw opportunities in Russia. Kingdom Holding, a business owned by Prince Al Waleed and the MBS-controlled Public Investment Fund (PIF), invested $500 million in significant Russian energy firms just as Western sanctions were being imposed on them. However, in a political sense cooperation with Russia has shifted power dynamics. Saudi seeks interest in Russia as there is a suspicion of Moscow's growing defense ties with Iran as shown by Iran's donation of unmanned aerial vehicles (UAVs) to Russia. This may imply the Saudis believe that by maintaining contact with the Russians, they may limit Moscow's support for Tehran and stop the supply of military technology to Iran. This wounds the relationship between Saudi and the petrodollar as Saudi is investing more of its oil in other nations. This could lead to Saudi adopting different currencies as there is more investment elsewhere. Politically, Russia is a militarily advanced nation just like America and so has the capability of supplying Saudi with weapons for Russian currencies. However, America has the leverage in this situation as they already have military deployed around some GCC nations.

There has been more interest in Saudi relations by China which is a threat to Saudi and US relations. China's rising economy and need for oil will result in a high degree of economic dependency between Saudi Arabia and the Middle East as a whole. For China, developing a relationship with Saudi is attractive because, with a present crude oil production capacity of over 12 million barrels per day and the massive amount of oil demand in China, Saudi Arabia is the best petroleum exporter in the world. China and Saudi Arabia established diplomatic ties in Jeddah in 1946, following the signing of a treaty of amity (Naser, 2012). However, the relationships persisted until the Chinese Communist Party (CCP) took over in China in 1949, at which point diplomatic ties between the two nations ended. Unofficial contacts between the two nations have still grown since China's accessibility to the outside world in 1979, despite the absence of formal relations. For instance, the Hajj (pilgrims) of Chinese Muslims to Makkah resumed at the end of the 1970s, followed by economic developments as Chinese goods entered the Saudi market at the start of the 1980s, and finally, military developments as Saudi Arabia received long-range missiles in the latter half of the 1980s. Saudi Arabia needs a stable market, and China needs a steady supply, therefore strategic energy cooperation is beneficial for both nations. Given China's sensitivity to fluctuations in oil prices and supplies, the stability of the Saudi oil supply and the degree of control the Saudis are thought to have over both "OPEC" and "non-OPEC" oil producers are both attractive. Moreover, a stronger economic connection means there should not be any concerns about potential political repercussions or image issues like there are in Sino-Iranian ties with Saudi Arabia. In China's opinion, maintaining good relations with Saudi Arabia is the wisest course of action to prevent being cut off from essential oil supplies in the event that Sino-American relations deteriorate.

Conclusion

In conclusion, this article suggests the ways the US became a hegemon was through becoming the reserve currency for the trade of oil in the Middle East. It has maintained its status by being involved in expansionist foreign policy by engaging in military force with countries that do not act according to the US's interest. However, this global dominance is becoming increasingly vulnerable as other nations have started using different currencies as opposed to the dollar. The collapse of the Bretton Woods system jeopardized the US hegemonic global role. The US desperately needed to convince other nations to use the USD to become the reserve currency. This led to the US creating agreements with oil-rich nations as the industry was foreseen to be the most important and profitable resource. The most important agreements were made in 1973 with Saudi Arabia, whereby they would use the dollar to trade oil. Saudi would become one of the most important methods of access for the US to acquire influence over the Middle Eastern oil industry. The US would provide Saudi with American weapons as well as give other GCC nations such as Kuwait protection from national threats. This way, these nations continued using the dollar in oil sales and maintained the USD as the reserve currency. In order to continue the use of USD, the weapon-dollar was created and enhanced conflict within the region. This meant that wars have been manipulated so that oil-dollar revenues become profitable and pursue American National Interests. These types of political power are displayed through the invasion of Iraq in 2003, during which the US deployed their military in Iraq because of Iraq's decision to trade with euros instead of the dollar. However, papers argue although the US has managed to become a global hegemon, its maintenance is withering due to increased competition and its diminishing relationship with the GCC and Saudi Arabia. This article argues that Middle Eastern oil-producing nations have a certain level of distrust within their alliance with the US. The US has been known to force out any threats to its reserve currency dominance and so may sacrifice the military security they provide to these oil-producing nations. There is also evidence that there is an emerging alliance between these oil-producing nations and China, and therefore the alliance with America is diminishing. The petro-yuan has become a popular area of interest within the oil industry and there is speculation that it will take over as the reserve currency in the trade of oil. This is not unlikely as the power of the dollar struggles to maintain attractiveness; however, this will take years to achieve. Unlike the dollar dominance, the future of the oil industry looks diverse. There would be numerous currencies in the trade of oil and nations are incentivized to trade with their own currencies. For example, on 8 March 2023, the majority of the Russian oil purchased by Indian consumers was paid for in non-dollar currencies, such as the United Arab Emirates dirham and, more recently, the Russian rouble (Blackmon, 2023). This means the role of oil hegemon is no longer accepted and the fear of consequences for not using the dollar has dissolved within the industry. This displays the weakening dollar and the development of those who display the economic power and courage to go after the role of oil dominance.

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