

Iran: Why does Bush invoke the threat of World War III?

Part 3: Globalization, Iran, and the dollar crisis

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The important role of oil in US Middle East policy—and particularly in the campaign of war and occupation launched by the Bush administration—is widely acknowledged, though it is ignored by the corporate media. Less often discussed is the role of the oil trade in propping up the US dollar, and thus helping to maintain the increasingly tense and unstable relations between the world's main trading blocs.

These tensions find their most finished expression in the US trade deficit and the crisis of US industry. Since the economic crisis and oil shock of the 1970s, the US has gone from the world's largest industrial power to its largest debtor and importer. According to European Union (EU) statistics, in 2006 the US posted a trade deficit with all its major trading partners: 100 billion euros with the EU, 61 billion euros with Canada, 53 billion euros with Mexico, 73 billion euros with Japan, and 200 billion euros with China. Yearly capital inflows into the US of more than US\$600 billion were needed to finance this deficit, as the rest of the world paid the US to buy the products it made.

In particular, the East Asian countries—China, Japan, and Korea—have amassed huge dollar reserves by lending money to the US to purchase their products. China's dollar holdings alone are at least US\$1.2 trillion, and total East Asian dollar holdings are estimated at more than US\$2 trillion.

The material reality underlying this phenomenon in the US (and, to a lesser extent, in Japan and high-wage countries of Europe) has been wave upon wave of plant closures and layoffs, wage and benefit concessions by trade unions, and the shifting of much of the working class towards low-paying service jobs. As anyone who has shopped at a US discount store like Wal-Mart or Target knows, the living standards of the US population are dependent on the availability of cheap foreign manufactured goods.

The US bourgeoisie has continued to realize huge profits on such goods, however, by pocketing the difference between the low prices it pays to foreign manufacturers in the cheap-labor countries and the prices paid by the American masses. The survival of the downsizing of America's industrial base has thus relied in large part on forcing foreign exporters to accept low prices for—and even lend money for the purchase of—their goods.

The US bourgeoisie has also partially relied on the implicit military threat posed by its strategic position in the Middle East. Simply put, every exporting country negotiating prices with US retailers must keep in mind that the US can threaten it with an oil blockade (if it imports oil) or with military attack (if it is near the Middle East). As has already been pointed out, Beijing's foreign policy in the Indian Ocean and Southeast Asia shows the central importance of this preoccupation in the minds of leading Chinese state officials.

However, financial concerns also play an important role in encouraging

other countries to hold dollars. Most of industry's basic raw materials—oil, gas, metals, grain—are traded in markets that denominate their sales in dollars. This gives other countries a powerful incentive to accept US dollars in return for their products, even when they do not intend to purchase US goods: they will use these dollars to purchase raw materials on world markets.

The crisis of the US economy—notably the bursting of the sub-prime mortgage bubble and the rapid fall of the US dollar versus other major currencies—places a question mark over the viability of the strategy of exporting on credit to the US. The plunge of the dollar against other currencies means that their dollar holdings generate losses when converted back into those currencies, and there is increasingly the possibility of a major credit crisis in the US.

Increasingly, the fall of the dollar is also encouraging exporters—notably oil-producing countries—to consider selling their commodities in different currencies, such as the euro.

Such a shift would further decrease the incentive to sell goods and provide credit to the US economy: US dollars would no longer be needed to purchase essential raw materials on world markets. Absent the need to sell on credit to the US, the maintenance of current trading patterns would represent a very costly political decision to supply the US market with goods and financial backing.

Though the risk of a flight from the dollar in world currency and commodity markets is currently described as small by most bourgeois financial journalists, it is of utmost concern to the US bourgeoisie and is actively discussed in the US foreign policy establishment.

In 2002, during a Capitol Hill Conference Series on US Middle East Policy, former US ambassador to Saudi Arabia Chas. Freeman said: "It seems to me that one of the major things that the Saudis have historically done...is to insist that oil continue to be priced in dollars. Therefore, the United States Treasury can print money and buy oil, which is an advantage that no other country has. With the emergence of other currencies and with strain in the relationship [between Saudi Arabia and the US], I wonder whether there will not be again, as there have been in the past, people in Saudi Arabia who raise the question of why they should be so kind to the United States."

Referring to the massive inflows of capital financing the US trade deficit, Freeman added: "I think the issue is the US balance-of-payments deficit."

Iran ditches the US dollar

Washington's policy of embargo against Iran and war and occupation in Afghanistan and Iraq has destabilized this already tense situation and strengthened tendencies pushing toward the abandonment of the US dollar by the Middle East oil trade. Iran, which has no legal trade with the US, and upon which US financial authorities are trying to impose a total

blockade of financial transactions, is perhaps the Middle Eastern power with the least reason to hold dollars.

Unsurprisingly, the Iranian state has progressively shifted its oil sales at the Iranian Oil Bourse out of US dollars and into other currencies, notably euros and Japanese yen. This event has gone surprisingly unreported in the US corporate media.

According to a March 2007 report in the *Scotsman*, China's Zhuhai Zhenrong Corporation began paying euros for Iranian oil deliveries in late 2006. In September 2007, Japan's Nippon Oil agreed to purchase oil in yen. In October 2007, AFP quoted Mohammad-Ali Khatibi, deputy head of the National Iranian Oil Company, as confirming Iran's switch out of the US dollar.

Khatibi said: "Iran is selling about 85 percent of its oil in the non-dollar currencies. Currently, about 65 percent of the oil sale income is in euros and 20 percent in yen." He also suggested that the remaining 15 percent of Iranian oil sales could soon be denominated in dirhams, the currency of the United Arab Emirates—a major Iranian trading partner.

The UPI press service interviewed PFC Energy analyst David Kirsch, who noted that for Iran, "a key motivation is the US informal sanctions that the Treasury, and [US Treasury] Undersecretary [for Terrorism and Financial Intelligence] Stuart Levey in particular, put on banks not to do financial transactions with Iran."

Kirsch also implied that, should Iran be allowed to continue its currency policy unmolested, it might end up leading a shift of the Persian Gulf oil industry out of dollar-denominated oil sales. He said: "There is also another key issue that you are seeing, not just in Iran, but in other oil producers, especially Gulf oil producers, is given the depreciation of the dollar, it is better to hold their reserves at least in euros, it is a better store of wealth. Some of the other Gulf producers will accept payment in euros."

The geopolitics of the dollar and the euro

In the current tense international situation, the possibility that the euro might supplant, at least partially, the US dollar as the main currency of world trade is becoming tangible. The dollar's role in international markets—from its plunge against other currencies to the explosion of (dollar) prices of global commodities and raw materials—resembles nothing more than worldwide theft benefiting the American bourgeoisie.

The rapid fall of the dollar risks pricing the European bourgeoisie out of world markets, as its goods are undercut by US competitors, whose costs are counted in cheaper dollars. It also cuts down the value of dollar-denominated profits realized abroad by European corporations, once brought back to Europe and converted into euros.

This was perhaps most prominently discussed by French President Nicolas Sarkozy during his latest trip to Washington, D.C. Noting that every cent that the euro rises against the dollar costs Franco-German airplane maker Airbus 100 million euros in profits, Sarkozy warned that "monetary disorder risks growing into economic war." He refrained from adding that Airbus's difficulties profited its only competitor, US-based Boeing.

For oil sellers like Iran, Russia, and the Persian Gulf kingdoms, most of whose trade is realized with Europe and Asia, the fall of the dollar against the euro (and to a lesser extent versus the Asian currencies) cuts into the purchasing power of their oil earnings, unless they are denominated in other currencies.

The Asian bourgeoisies, for whom the US is a key export market, are caught between surging prices for oil and raw materials on dollar-denominated markets, and the low dollar prices for their manufactured goods set by US retailers like Wal-Mart. According to figures published in *Le Monde*, in 2007 alone, dollar prices for oil, wheat, lead, and gold have increased on world markets by 64 percent, 63 percent, 118 percent, and 26 percent, respectively. This has led to what some, notably in Australia, have called the "China resources boom."

The US government's demand that China let its currency rise in value against the US dollar is an unobvious invitation for the Chinese bourgeoisie to take large capital losses (in home-currency terms) on its gigantic dollar holdings.

Chinese officials have begun to argue for greater use of other currencies in trade and finance, and in the Chinese government's own investment portfolio. On November 7, the vice-chairman of the Chinese parliament, Cheng Siwei, said: "In terms of the structure of our foreign exchange reserves, we should take advantage of the appreciation of strong currencies to offset the depreciation of weak currencies.... For example, in the current foreign reserves structure, I mean the bonds we bought, the euro is appreciating against the yuan while the US dollar is depreciating against the yuan. So we should make a balance between the two."

Another official, Xu Jian of the People's Bank of China, commented: "The US dollar's global currency status is shaky and the creditworthiness of dollar assets is falling."

The interest of Chinese officials in other currencies, such as the euro, comes as Chinese goods are increasingly penetrating the European market. The EU reportedly overtook the US this year as China's largest export market; already in 2006, the EU, due to its larger export volume to China, was China's largest trading partner (216.2 billion euros, versus 208.9 billion euros for the US, according to EU figures).

Any significant shift in global demand for dollars toward demand for euros would, however, pose a massive challenge to the US economy. Due to its trade and current accounts deficits, the US requires daily inflows of billions of dollars in capital—that have so far largely come from East Asia—for its financial system to function. Any significant contraction of these inflows risks triggering massive interest rate increases and a collapse in the dollar, as demand for dollar-denominated debt dries up, and thus a serious recession in the US and world economy.

In this context, it should be remarked that the US establishment has long been aware of the euro's strategic and military implications. In 1997, five years before the launching of the euro, Harvard economics professor and US National Bureau of Economic Research CEO Martin Feldstein wrote in *Foreign Affairs* that the formation of a single European currency risked weakening "America's current global hegemony." He added that this "would undoubtedly complicate international military relationships more generally."

The link between currency rivalry and military tensions is not the product of Feldstein's imagination.

Such calculations clearly took place in Europe and Russia at the time of the US invasion of Iraq, in 2003—when the governments of Germany, Russia, and France were trying to oppose US plans for Middle East domination. At an October 2003 joint press conference with then-German chancellor Gerhard Schröder in the Russian city of Yekaterinburg, Russian President Vladimir Putin suggested that Russia could price its oil sales to Europe in euros.

Iran's more recent decision to sell its oil in euros and yen also takes place in a definite military context: a US campaign of political provocation resembling that which, in 2003, led to the US invasion of Iraq.

Conclusion

In remarking that current tensions over Iran threatened to provoke World War III, President Bush inadvertently acknowledged the profound tensions tearing at the political and economic foundations of world capitalism. Plans for a US war against Iran are baring the rivalries between the different cliques of the world bourgeoisie—American, European, Russian, Chinese, etc.—and their preparation for war against each other.

They are again affirming the basic contradiction identified by the great Marxists of the early twentieth century: the clash between the global character of mankind's productive forces and the fetters imposed upon

them by the capitalist nation-state system.

The idea that the current Middle East conflicts would remain localized in the case of US aggression against Iran is historical and political blindness. Globalization on a capitalist basis—with a ferocious competition inside the world bourgeoisie for the global division of profits, and where the living standards of the working classes of each region are pitted against each other in a race to the bottom—has dangerously outlived itself. It threatens not only a further eruption of US militarism in the Middle East and the destabilization of world finance, but a horrific global military conflagration.



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