2008

Western involvement in the Middle East: Imperialism and its effects

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WESTERN INVOLVEMENT IN THE MIDDLE EAST:

IMPERIALISM AND ITS EFFECTS

A Thesis

Presented to the

Faculty of

California State University,

San Bernardino

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

in

Social Sciences

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Approved by:

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Dr. Mayo Toruno, Chair, M.A. Social Science 6/2/08 Date

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ABSTRACT

This paper explores Britain's and the United States' relationship with the Middle East, as specific examples of the theory of imperialism. The economic theory of imperialism, as understood by Marxian theoreticians and specifically Harry Magdoff, is used to explain these relationships. It is shown that the history of both Britain's and the United States' involvement in the Middle East conforms to the patterns outlined in the Marxian theory of imperialism. The economic motivations for Britain's involvement in the Middle East are shown to be similar to those of the United States' involvement, and both of these are consistent with the theory of imperialism. In addition, it is shown that, consistent with the Marxian theory of imperialism, Iraq's political economic dependence on the United States prevents it from achieving the kind of autonomous development and democracy extolled in the official rhetoric of contemporary U.S policy.

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CHAPTER ONE

INTRODUCTION

I will be relying on Harry Magdoff's theory of imperialism to explain the relationship between Great Britain, the United States, and the Middle East. The nature of imperialism has changed over time from that of the overt colonialism which European powers practiced from the late 15th century until the 19th century, and in some cases the 20th century, to the much more covert form of economic domination which core imperial powers, such as the United States, now exercise over peripheral nations. The history of Great Britain and the United States in the Middle East conforms to the classic Marxian theory of imperialism; and the latter theory explains the economic motivations for Britain's and the United States' involvement in the Middle East, while predicting the emergence of dependent political economic structures among peripheral nations, such as Iraq.

Imperialism is a mechanism by which a dominant power is able to control the trade, investment, labor, and natural resources of other peoples. It can take different forms in different stages of capitalist development and evolves out of the need for profits on the part of capitalists and corporations (Tabb 2007). This need for profits motivates the capitalist and/or corporation in the dominant nation to seek business opportunities in foreign, peripheral nations. And the need to ensure a flow of profits from these foreign investment opportunities motivates capitalists to create political economic relationships, in both the dominant and peripheral nation, that help bring this about. Western capitalist powers have had relations with the Middle East of an imperialist nature since before the 20th century because of its strategic location and abundant supplies of natural resources, specifically oil. What's more this relationship has led to the creation of political economic structures that prevent many nations of the Middle East from achieving autonomous economic growth and democracy.

Western interest in the Middle East began long before the discovery of oil in the region. During the period of the Ottoman Empire from the early 1800's various trade agreements were established between European governments and the Ottoman Empire for the purpose of securing markets for European investors. As Britain expanded it's global empire, the Middle East became an increasingly important region; providing it with land access to India and a strategic location from which to defend it's Asian dependencies. With the discovery of oil in the region British interests increased as their economy transitioned to being fueled by oil rather than coal. As other industrial nations followed, control of the petroleum resources in the region intensified the intervention in the region. In the post World War I era the U.S. became involved in the petroleum industry of the Middle East, and following World War II that involvement increased even more. The history of British and U.S. involvement in the Middle East is outlined to show that western involvement in the Middle East is not new and that it conforms to the Marxian theory of imperialism. The British involvement in the region from 1918 to 1925 is compared to U.S. involvement there from 2003 to present. The similarities in the political and economic motivations of the British and the U.S. for involvement in the region are examined, as well as the political and economic structures that evolved as a result of these relationships. The dominant classes within the Middle East have played a role in maintaining the imperial relations with the capitalist powers due to the benefits these relationships bring to them. However, the continuation of the relationship has led to a lack of democracy and autonomous economic development.

CHAPTER TWO

IMPERIALISM AS A STAGE OF CAPITALISM DEFINED

In this chapter I will discuss imperialism, including the role of the state and the importance of the export of capital in this stage of capitalism, as well as the causes and conditions that give way to this stage in capitalist development, as explained in the works of Harry Magdoff. Magdoff has summarized the stages of capitalism, and as William Tabb points out in his article "Imperialism: In Tribute to Harry Magdoff", this summary provides a useful guide for how ongoing technological advancements and changes in government policies and practices influence imperialism and the global order. Tabb states in his article that Magdoff's summary of the stages of capitalism has,

> . . .explained the global transitions: from direct robbery, looting, plunder, and piracy in the first wave of European overseas expansion at the end of the fifteenth century; through the domination of commercial capital from the seventeenth to the late eighteenth century; to global intercapitalist rivalry, the rise of

> industrial capital, and the new imperialism; and then to the stage of decolonization and the rise of the multinational corporation." (Tabb 2007)

Imperialism can be summarized as a phase in the development of world economy in which several advanced capitalist countries are competing in the world market for industrial products, monopoly capital is the dominant form of capital, and the accumulation process has reached such maturity that capital export is an outstanding feature of world economic relations (Sweezy in Chilcote 2000, p. 33). As a consequence of these basic economic conditions, two further characteristics have developed- severe rivalry in the world market leading to international monopoly and the territorial division of the world among major capitalist powers (Sweezy in Chilcote 2000, p. 33).

Magdoff described neocolonialism as,

> . . .the existence of considerable foreign direction over a nominally independent nation. In its narrowest sense, this means a high degree of influence over a country's economic affairs and economic policy by an outside nation or foreign business interests, usually entailing influence

> over political and military policy as well. In addition, the term is used to suggest the predominance of the culture and values of the former colonial powers. (Magdoff 1978, p. 73)

The present period of imperialism is moving beyond neocolonialism to a more complete integration of peripheral states into the world economy (Tabb 2007). Under imperialism today, an area doesn't necessarily have to be a formal colony, but instead economic domination takes place. The domination occurs as a result of the dependence of the peripheral nation upon the core nation. This domination can exist in the form of a peripheral nation's dependence on the revenues generated from the sale of its few export products to a single core nation. It can also exist in the form of a peripheral nation's dependency on loans made available to them by a core nation, and the export of capital, which permits the core nation to receive interest and profits, thereby increasing their domestic surplus and strengthening their control over the economy of the peripheral nation. For the dependent nation, these relations represent an export of profits and interest, which removes part of the surplus generated domestically and leads to a loss of control over their productive resources. Additionally, multinational corporations invest in industries in the peripheral nation, causing the industries to become dependent upon the technology and continued investment by these corporations in order to modernize and expand production (Dos Santos in Chilcote 2000, p. 272-274).

The competition that develops between the capitalist powers is balanced with the desire to create order and harmony over large territory for the purpose of economic gain. Thus the capitalist states are not just looking to receive tribute from a colonized territory, as in earlier examples of imperialism, but instead are seeking to organize the socio-economic life of the new territory to the benefit of the imperial state (Biel 2000, p. 8).

Capitalist expansion is what propels the geographic extension of the economic system to new regions of the world. Once capitalism has expanded into a region, if that region is not capitalist already, the imperial nation seeks to transform the economies in the region away from its traditional pre-capitalist arrangement into capitalism. This is done in order for the new area to be receptive to capitalist expansion, which will benefit the imperial nation (Howard and King in Chilcote 1999, p. 24). This is done through the assertion of modernization and all of its supposed benefits for the colonized region.

Magdoff tells us that imperialism would not have been possible without the prior phase of colonialism, and that colonialism actually helped to establish the conditions necessary for imperialism to flourish.

> Colonialism, considered as the direct application of military and political force, was essential to reshape the social and economic institutions of many of the dependent countries to the needs of the metropolitan centers. Once this reshaping had been accomplished, economic forces- the international price, marketing, and financial systems- were by themselves sufficient to perpetuate and indeed intensify the relationship of dominance and exploitation between mother country and colony. (Magdoff 2003, p. 109)

Some countries, however, which already have suitable social and economic institutions come under the economic domination of capitalist powers without ever going through the colonial phase (Magdoff 2003, p. 109).

Once colonies are integrated into the circuits of capitalist exchange there becomes less of an incentive for the core nation to maintain external political control and imperialist domination can take on the form of extra-economic or economic means of control (Howard and King in Chilcote 1999, p. 31). Extra-economic mechanisms of control which may be utilized by the core nation include military threat or occupation, providing military or economic aid, or constructing a network of military bases abroad. Economic control may be in the form of loans from core nations, and business firms making investments in the periphery. These forms of economic imperialism are referred to as characteristics under finance capital or the export of capital.

Magdoff offers an explanation as to why there is an upsurge of capital exports by core nations associated with modern imperialism. Magdoff writes, that "the tie between the export of capital and imperialist expansion is the obvious need of investors of capital for a safe and friendly environment" (Magdoff 2003, p. 95). When there is more than one industrialized state, a rivalry is created in foreign trade and this rivalry results in competition for preferential markets. This rivalry between core nations is a motivation for them to invest abroad.

The desire to control pricing by large firms makes the ownership of raw materials of primary importance. Advanced capitalism is based upon industries which require substantial new supplies of raw materials, such as oil. Oil requires not only large amounts of capital for exploration and development of foreign sources, but also loan capital to enable peripheral nations which contain these sources to construct the needed transportation and public utility facilities. With the maturation of financial institutions comes the means for mobilizing capital more easily. As giant corporations emerge, their ability and desire to control markets provides a major incentive for the expansion of capital abroad (Magdoff 2003, p.95). Magdoff writes,

> The impetus to invest abroad arises out of the competitive struggle among giant corporations. The ownership of raw materials is of strategic importance in the push for the control over process and the need to control and expand markets is a major spur and incentive for capital export. (Magdoff 2003, p. 103)

The increase in the export of capital in the form of direct investment in and loans to the peripheral nations is another way for core nations to maintain influence and domination over the economies and politics of those peripheral states.

Periphery nations are able to build up and improve upon their infrastructure from the investments and loans being made in the imperialist phase. However, because the base for these investments lies within the core nation, the economic benefits are brought back to the core nation rather than remaining within the periphery nation to be reinvested for growth. Additionally, foreign contractors are often hired for these projects paid for by the loans and investment funds from core nations. Therefore the loans end up as income to the core nations in two ways: first through the direct flow of money that comes back to them when the contractors are paid for out of the loan money; and secondly in the form of interest payments, which the peripheral nation makes to the core nation lenders. The core nation benefits immensely from this relationship and will use the persuasive diplomatic or military power of its state to influence the periphery nation into political and economic decisions favorable itself (Howard and King in Chilcote 1999, p. 31+). This is how new imperialist relationships utilizing economic domination arise under the new imperialism of the twentieth and twenty-first centuries. This form of economic domination, enforced and continued through use the persuasive diplomatic and military power of its state, has been typical of British and U.S. policy in the Middle East.

The subjugated nation's political and social power structure helps to sustain the imperialist relations once established there. Imperial powers may seek to transform the traditional economic arrangements in an area to better suit their need for capital expansion, but they will also utilize the class system in place for their benefit. "Imperialism is unwilling to reform the land system because its rule typically depends upon the support of the colonial landlord class, both native and foreign" (Sweezy in Chilcote 2000, p. 43). There is a class of people in the subjugated area who benefit from the imperial relationship, and therefore will work with the capitalist power in order to perpetuate the economic and political arrangements under imperialism.

> In the most general terms, there are three constituents of the ruling class in these countries: large landowners, business groups whose affairs are interrelated with foreign

> business interests, and businessmen with few or no ties to the foreign business community…none of them has a strong motive to sponsor the kind of structural economic changes that would be required for an independent economy. (Magdoff 2003, p. 111)

Therefore, the classes within the society of the subjugated nation who profit from the imperialist relations do little to nothing to reform the government or economy of their nation in order to remove the imperial power from influence there because they benefit from the continuation of that relationship. This is true in rentier economies in which the recipients of the rents, or externally generated revenues such as those derived from the sale of a single commodity resource such as oil, benefit enormously. Because the state's economy is not based upon the domestic population's surplus production, but rather upon the income derived from the commodity export, which is then distributed amongst the population in various ways, participation by the local population in the growth of the economy and political process is limited. There is little motivation to alter the arrangement in favor of a more democratic system.[1]

Though these subjugated countries are politically independent, they continue to be economically dependent in many ways on the imperial power. This poses a problem, however, due to the instability of the power structure of the former colonies.

> In many colonies, the dominant power had in the past disrupted the traditional ruling groups and destroyed their political power. In addition, the mother countries created and sponsored elites which were psychologically and economically dependent on the foreign rulers. (Magdoff 2003, p. 112)

During the time of colonialism, this was an effective and relatively inexpensive way to keep a nation within the empire of the dominant state. This arrangement poses a problem from the perspective of the both the core and peripheral states. For the peripheral nation it hinders their autonomous political and economic development.

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[1] See chapter five for further discussion of the rentier economy, its connection to imperialism and the relationship between Middle Eastern nations and Western capitalist powers.

Magdoff explains the weakness in this arrangement for the peripheral nation "was that it prevented the emergence of the self-reliance and strength needed by any one sector to take power in its own name and reshape the economy for its own purposes" (Magdoff 2003, p. 112). For the core nation it creates a situation in which more direct applications of power must be used in order to create a stable political and economic environment for investment. Therefore, the retention of influence and control by the metropolitan centers in the post colonial period has required special attention by the states of the capitalist powers. The techniques used fall into several categories: 1) where possible, formal economic and political arrangements are used to maintain former ties. These include preferential trade agreements and maintenance of currency blocs; 2) manipulation and support of the local ruling groups with the goal of keeping the influence of the metropolitan center and preventing internal social revolution; 3) establishing influence and control over the direction of economic development, and as much as possible, over government decisions affecting the allocation of resources (Magdoff 2003, p. 112).

Magdoff states that the roots of imperialism are to be found in the expansive drive of each advanced capitalist nation to operate on a world scale, the development of monopoly, and the national rivalries associated with the needs of advanced economies with monopolistic structures. ((Magdoff 2003, p. 105) However, as capitalist enterprise searches out export markets, the overseas areas often do not have enough goods to offer in exchange. As a result, many of the countries which buy from industrialized countries fall into debt, since their imports tend to exceed their exports. Under these conditions the need for loan capital from the metropolitan centers increases and capital exports become an important means to the continuation of export of goods. (Magdoff 2003, p. 94) This situation will continue because, according to Magdoff,

> . . .given a chance to make additional profits abroad at a higher marginal rate, the entrepreneur will grab at it, providing that the politics of the foreign country is friendly to foreign investment and to the withdrawal of profits from that country. (Magdoff 2003, p. 103)

In many cases, imperialist domination forces the privatization of state enterprises, often selling them to foreign investors from the core countries. Core governments demand policies such as liberalization, opening local markets to transnational capital, lowering taxes on capital, and a smaller role of government through deregulation of markets (Tabb 2007).

> Thus peripheral states have been reorganized in form and function by the global economic governance institutions to maximally extract locally produced surplus and allow its appropriation by foreign capital and its local collaborators. (Tabb 2007)

Because monopoly capital needs to expand abroad, it requires the assistance and protection of the state (Sweezy in Chilcote 2000, p. 76). The impact of imperialism on the state of the core nation is the need for a strong centralized government ready and able to rule over distant territories, to direct the activities of the military, and to solve complex economic problems, all resulting in an increase in the power and function of the state (Sweezy in Chilcote 2000, p. 41). Magdoff sees the role of the government in imperialism as neither an initiator of imperialism, nor as a potential agent for the abolition of imperialism. He states the two extremes are:

> . . . 1) those who see the government as merely the direct servant of large corporations and banks, and 2) those who see government as an independent force that arbitrates conflicting interests and has wide freedom of choice in setting policy. (Magdoff 2003, p. 107)

Instead, the functions of government in advanced societies result in the development of a political structure with responsibilities adapted to maintaining political power (Magdoff 2003, p. 107). Because of this a government may or may not be responsive to the needs of particular firms or industries. The actions of government will be influenced

> . . . by their own sense of what is best suited to keep themselves in power. Even a political regime responsive to the pressures of a particular industry or firm will… withstand such pressure in the overall long-term interest of the class, or classes, it relies on to remain in power. (Magdoff 2003, p. 107)

In order for a political regime to retain its political power it must have a successful economy. The ultimate test of a government's competence, or its ability to achieve its political and military goals, is a successful economy. However, that economic success rests on the success of big business and big finance (Magdoff 2003, p. 108).

Magdoff argues that we must keep in mind, in light of the limited alternatives open to political regimes, two significant developments that prepared the way for the new imperialism. "The internal conflicts among competing vested interest groups within the Great Powers became resolved in favor of the needs of large-scale industry and the financiers of these industries", and "the successful development of large-scale industry is associated with increasing concentration of power" (Magdoff 2003, p. 107-108). Therefore, a later government has to continue to pursue similar paths, even when no longer party to previous conflicts, in order to provide a comfortable environment for industrialist and bankers, "an environment that would stretch over as much of the world as these interest groups need to operate in" (Magdoff 2003, p. 108). So in order for a government to maintain its political power it must maintain a successful economy, and in order to do so, it must, in many cases, cater to the interests of large corporations and financial institutions.

The connection linking the economic and political relationships of the monopoly firm or corporation, and the state in imperialism is important. These giant corporations must gain control over the sources of raw materials. Magdoff writes, "Ownership of and control over raw material supplies is, as a rule, an essential prerequisite for the ability of a leading firm or group of leading firms to limit new competition and to control production and prices of the finished products" (Magdoff 2003, p. 42). The history of the oil industry is a classic example of this. As the age of formal colonies ended, what became important to both the corporations and the states under which those firms were associated, was to be able to hold on to as many of the economic and financial benefits of the former colonies as possible. This meant the continuation of economic and financial dependency of former colonial states on the metropolitan centers (Magdoff 2003, p. 46). The economic needs of these firms became enmeshed with the politics of the states to which they are associated, according to Magdoff, in several ways.

a) The United States has firms which are large enough to have, or be able to obtain, sufficient capital to develop necessary technology and take

> advantage of preempting the field in other countries. b) United States firms are supported in this technological lead by huge government grants of research and development. c) These same firms have had experience in international operations; either on their own or in cooperation with the United States government, in the process of the latter's stretching its various military and foreign activities around the globe. (Magdoff 2003, p. 50)

For Magdoff, the essential issue in imperialism is the nature of control and behavior in business, and the government's response to the operational needs of business. Magdoff states, "The decisive issues are…the controls business firms desire in order to manage world production and prices for the sake of greater profits" (Magdoff 2003, p. 52). The monopolistic firm attempts to achieve domination and control over sources of supply and markets; the governments of the core states in which these firms are located attempt to create policies which allow this to happen.

Imperialism today has changed its form.

> The world economy is dominated by the activities of advanced capitalisms and they control the institution of regulation. The rules they enact are largely designed to meet their interests and have been savagely disruptive in emerging markets, as is evident in IMF shock therapies and World Bank structural adjustment programs, which are often backed by threats of extra-economic coercion. (Howard and King in Chilcote 1999, p. 36)

Therefore imperialism continues to exist today in a more disguised, yet equally aggressive and overt manner as the previous eras of imperialist domination characterized by pillage and plunder of colonial territory.

CHAPTER THREE

HISTORY OF WESTERN INVOLVEMENT IN THE MIDDLE EAST

Capitalism began to change toward the end of the nineteenth century. Throughout most of the nineteenth century, the development of capitalism had been mainly built on competition between rival firms in national markets and, at least in principle, free trade between nations. But from about 1880, the mature economies of the principal states of Europe and the United States were dominated by gigantic industrial and financial monopolies. The national governments supported the existence of these powerful firms through the imposition of tariffs, the acquisition of colonies, and large-scale expenditure on armaments, increasingly discarding their commitments to laissez-faire and free trade policies (Heller 2006, p. 16). Support from the state became indispensable to the pursuit of new markets. In each imperialist country, state policy became increasingly integrated with the economic strategies of the most powerful monopoly capitalists (Heller 2006, p. 16). Late-nineteenth century imperialism was driven by the need to export increasing amounts of surplus capital in search of profitable investment. Major capitalist financial institutions facilitated the export of capital through increasingly sophisticated credit operations (Heller 2006, p. 16). The effects of this economic policy began to be felt in the Middle East as European powers expanded their influence into the region. The long history of western involvement in the Middle East sheds light on the political motivations behind the relationship between the western powers and the Middle East.

From 1517 until the end of World War I, the Ottoman Empire was the ruling power in the central Middle East. At its peak, the Ottoman Empire was both a European and a Middle Eastern power, stretching from southeastern Europe, through Anatolia, the Fertile Crescent in what is now Iraq, through the Hijaz region in what is now Saudi Arabia, the regions along the Mediterranean of what are now Syria, Lebanon, and Israel, into Northern Africa and parts of Egypt. The Ottoman Empire began a long period of transformation beginning in the seventeenth century with the penetration of European merchant capital into the empire, which caused a displacement of the Ottoman economy. The penetration of European manufactured goods into the empire and the eventual domination of Ottoman commerce by Europeans were facilitated by a series of commercial treaties, know as Capitulations. Most of these agreements were modeled after the first agreement negotiated with France in 1536, which allowed French merchants to trade freely in Ottoman ports, to be exempt from Ottoman taxes, and to import and export goods at low tariff rates. Additionally, the treaty granted extraterritorial privileges to French merchants by permitting them to come under the legal jurisdiction of the French consul in Istanbul, and not subject to Ottoman-Islamic law (Cleveland 2004, p. 50). These treaties had devastating effects on the Ottoman economy as well as long-term political implications.

With the end of the Napoleonic Wars of 1815, came the penetration of European commerce into the Middle East to an unprecedented extent. Because of the incursions of European commerce and capital, the formerly self-sufficient economies of the Middle East became integrated into the world economy. However, for the most part the Middle East became incorporated into the global economic system as a dependent region, as a supplier of raw agricultural commodities and a consumer of European manufactured goods (Cleveland 2004, p. 58).

In the mid-1800's, following the Anglo-Turkish Commercial Convention of 1838, the process of British and other European expansion into the Ottoman economy increased. The Anglo-Turkish Commercial Convention of 1838 extended extraterritorial privileges to all foreign traders and abolished the state's protective tariffs and monopolies (Berberoglu 1999, p. 7). This led to a reversal in the import-export structure of the empire and led to the destruction of the textile industry in Ottoman Turkey. Soon many other branches of Ottoman industry were affected, and by the late 1800's Ottoman industry was on the verge of collapse. This marked the end of industrialization in the manufacturing sector and the empire was instead relegated to raw materials production for the needs of a world economy dominated by Europe (Berberoglu 1999, p. 7). By destroying the native industry, Europe was able to turn the Ottoman Empire gradually into an "agrarian reserve of the expanding European capitalist economies" (Berberoglu 1999, p. 8). By the late nineteenth century, the Ottoman Empire had essentially become a semi-colony of the expanding Western powers.

By the mid 1920's the Western capitalist powers had divided up the Middle East amongst themselves to secure trade routes, raw materials, and new markets for the expanding world economy controlled by Europe (Berberoglu 1999, p. 9). The object was control over the oil needed to fuel their expanding capitalist economies.

> Control over petroleum resources became the overriding focus of Western rivalry in the area and the main impetus for the Western powers to establish and maintain political and economic control over the region. (Berberoglu 1999, p. 9)

Through the influx of foreign capital in search of raw materials at low prices, profitable investments for their capital, markets for their products, and the guarantee of safe lines of communication, Europeans were able to control banking, the means of transportation and communication through railways, ports and roads, the main services such as water, gas, electricity, and telephone, as well as mining and oil.

Persia, now Iran, became a major center for Western imperialist designs because of their rich oil resources. Lord Curzon, Viceroy of India, described Persia as one of "the pieces on a chessboard upon which is being played out a game for the domination of the world" (Yergin 1991, p. 136). Britain and Russia fought for influence over Persia through concessions and loans and other tools of economic diplomacy. William Knox D'Arcy, a British capitalist, became the founder of the oil industry in the Middle East, when the British government decided to back his venture in Persia in order to balance against Russian influence in the region. On May 28, 1901, Shah Muzaffar al-Din signed the oil concession to D'Arcy good for sixty years, covering three-quarters of the country (Yergin 1991, p. 137). However, D'Arcy soon began to fall under financial difficulties, which worried the British as they feared losing control of the oil concession under control of a British venture. The British Admiralty did not want to lose the possibility of obtaining a source of secure supplies of fuel oil for the British fleet, and argued that British majority control in the concession should be maintained at all costs. The Admiralty asked D'Arcy, in regards to the concession, to allow for its acquisition by a British syndicate. Lord Strathcona was asked to become the head of a "syndicate of patriots" and the concession was arranged to be taken over by a firm called Burmah oil, founded by Scottish merchants in 1886. Burmah oil had concerns about whether or not Persia could be considered under British protection. The Foreign Office reassured them that it could, thus was born British "profits and politics" inextricably linked to Persia and the growth of British and other Western nation's interest in Middle Eastern oil (Yergin 1991, p. 142).

Following the breakup of the Ottoman Empire after World War I the map of the modern Middle East started to be drawn. In the drawing of these borders for new states, which had previously not existed in the region, the interests of some were served while those of others were ignored. Forces behind new ideas such as nationalism and self-determination were calling for the borders to be drawn to reflect the interests of some groups, while others, particularly the "Great Powers", or those European powers on the side of the Allies in WWI, were looking to serve their own interests in acquiring and maintaining natural resources, commodity acquisition, access to waterways and imperial holdings in the Middle East through the creation of a friendly or pliable political ally in the region.

World War I was entered into by the Great Powers of Europe, particularly Britain, France, and Russia, with the intention of gaining as much of the territory of the crumbling Ottoman Empire as possible. The agreements entered into during and after World War I by the British with various leaders in Europe and the Middle East were done so with the intention of winning the war in order to gain the Ottoman territory for their own, whether through direct colonial rule or indirect economic and political influence via mandates and protectorates. Even after official colonialism came to an end, Western Powers continued to play a dominant role in determining the economic and political policies and future of the Middle East.

By 1922, the modern map of the Middle East was essentially drawn into existence. The interests of the European colonial powers, primarily Britain and France, were served by the settlement on the boundaries more so than those of the local populations. The series of conflicting agreements, including the recommendations of the De Bunsen Committee, the Husayn-McMahon Correspondences, the Sykes Picot Agreement, and the Fourteen Points for the League of Nations, made in regards to the former Ottoman territory in the Middle East have had lasting effects shaping the events of the region into the present day.

The British had wanted to maintain the status quo in terms of the territory of the Ottoman Empire prior to World

War I because it allowed them to guard the areas it saw as most vital to them for strategic reasons, such as southern Iraq, where they controlled the oil fields, and in Egypt where the Suez Canal served as the gateway to their Asian colonies, most importantly India. The British were able to control this territory with little challenge from other European Powers for the most part, through the continued existence of the Ottoman Empire. At the end of World War I, the Ottoman Empire was broken apart, and the balance of power now rested on the equitable parceling out of the former Ottoman territory to the Great Powers based on recognized geopolitical interests (Smith 1992, p. 39). In the immediate post war period, British officials sought to advance the strategic interests of Britain at the expense of their allies, rather than working within the former diplomatic boundaries of compromise to maintain balance of power and avoid conflicts among European powers.

The British cabinet appointed a special committee chaired by Maurice de Bunsen in April 1915 to explore options for defining potential areas of interest to Britain in the Middle East. The de Bunsen Committee delivered its report on June 30, 1915. It identified four potential options for the fate of the former Ottoman territory. The option most favored by the British stipulated that the oil fields of Mosul would be under direct British control or influence and also took into account Britain's desire to build a railway from Haifa in Palestine to Baghdad and Basra in Iraq in order to increase the security of their empire in India and their oil fields in southern Iraq by creating a direct link between the Mediterranean and the Persian Gulf across the territory they controlled. France, under the committee's recommendations, would be given Syria, including Lebanon, from south of Damascus to southern Anatolia in order to compensate them for losing Palestine.

Throughout 1915, the Ottoman Empire was beginning to crumble from within due to internal revolts against the Sultan's rule and France was bearing the brunt of terrible trench warfare on the western front. The French could not directly protect their Middle Eastern interests and were alarmed at Britain's growing military involvement in the region. Within this context, in order to resolve the concerns about the post war division of Middle Eastern territories, France and Britain moved urgently ahead in negotiating the terms for the post war land settlements. Britain and France through their principle negotiators, Sir

Mark Sykes, the Assistant Secretary to the British War Cabinet, and Georges Picot, former French Consul-general in Beirut, began negotiations in December 1915. They drew up a secret treaty in which they divided up most of the Arab Middle East between them. The treaty remained secret, except to those who had a say or stake in its outcomes, including Britain, France, and Russia. The agreement recognized the long standing French claims to Syria by awarding France a large zone of direct control stretching along the Syrian coast from southern Lebanon into Anatolia, including Syria just west of the "districts" of Damascus, Homs, Hama, and Aleppo through northern Iraq, including Mosul, to the Iranian border, and gave France a sphere of exclusive indirect influence in the Syrian interior. Britain gained the right to exercise direct control over southern Mesopotamia and was granted a huge zone of indirect influence stretching from Gaza to Kirkuk, thus protecting the Baghdad-Basra line and establishing the linkage to the Mediterranean recommended by the De Bunsen Committee. In the areas of direct authority both Britain and France would have the right,

> . . . to establish such direct or indirect administration as they desire and as they think

> fit to arrange with Arab State or Confederations of Arab States. In the spheres of indirect influence, each would have priority of right of enterprise and local loans…and shall lone supply advisors or foreign functionaries at the request of the Arab State or Confederation of Arab States. (Smith 1992, p.48)

What became known as the Sykes-Picot agreement, ratified in April 1916, was one of the most controversial documents of the war.

These documents were created under the assumption that if a population, "more or less homogenous in language and religion, with a little assistance and a good deal of advice", could be protected from external aggression, and the European mandated government could keep internal violence under control, then the new state would, "speedily and spontaneously organize themselves into a democratic state, on modern lines" (Kedourie 1987, p. 41). And the European designers of these agreements presumed, or at least hoped, that the new states would also be open to continued European control of the resources that were necessary to their geo-strategic and economic interests.

At the end of the War, in the face of a changed world pattern of power, Britain had four major concerns with respect to the future of the Middle East which they used as their basis for negotiating the terms of the peace settlements. Those concerns included the continued access to and defense of India, security for the oil fields, a stable regime bordering Mesopotamia where the bulk of their territory lay, and a buffer zone between British territory of interest and Bolshevik Russia. In addition to the desires of Britain, several other players arrived on the scene to exert their interests in the formation of a post war Middle East.

At the Paris Peace Conference in 1919, the final settlement agreements reapportioned Ottoman Arab provinces and divided them into mandates. Britain received mandates for Iraq & Palestine, France the mandate for Syria. In April 1920, in drawing up the settlement, the Allies could have considered the new principle of self-determination but instead they chose to apply the principle only when it furthered their own interests or coincided with their sympathies. So instead of an "independent" Iraq and Syria, what came to be were the mandates, which were nothing more than nineteenth-century imperialism repackaged to give the appearance of self-determination. The Treaty of Sevres created Iraq out of the three Ottoman provinces of Basra, Baghdad, and Mosul that had little in common. By acquiring control over the new entity of Iraq through the mandate, Britain enhanced its position in the Persian Gulf, secured the approaches to India, and gained access to petroleum resources

By 1922 it was thought that the "Middle Eastern Question" had been answered by the division of territory into new political entities, being primarily overseen by the British, French, Russians, and Turkey. The settlement of 1922 was not a single act, agreement, or document, but rather was the design that emerged from many separate acts, agreements and documents. The partitioning of the Middle East came from documents such as a trade agreement signed by the Soviet Union and Britain in 1921. France and Britain partitioned the rest of the Middle East territory through such documents as France's League of Nations Mandate to rule Syria and Lebanon in 1922, Britain's League of Nations Mandate to rule Palestine including Transjordan in 1922, and the treaty of 1922 with Iraq which Britain saw to serve as approval of a Mandate to rule Iraq. Britain, France, and Russia each established states in their respective spheres of influence in the Middle East, that had previously not existed, appointed persons to govern them, and drew boundaries between them. "As they had long intended to do, the European powers had taken the political destinies of the Middle Eastern peoples in their hands- and they did so by the terms of…the settlement of 1922" (Fromkin 1989, p. 560).

Britain's long time aspirations to annex new colonies in the Middle East had come to fruition too late, as Europeans could no longer pursue colonialism with adequate resources, and to a growing number of Europeans, imperialism seemed out of place in the modern age. In the first years of the war it had still seemed a viable possibility for Britain and other European nations to gain colonial holdings in the Middle East. However, Britain was able to commit itself to a presence in the Middle East only because Winston Churchill had made it seem possible to the British people that it could be done relatively inexpensively at a time when British subjects no longer saw the benefits of an empire, and rather viewed maintaining one as a costly drain on a society desperately in need of investing its resources in rebuilding itself after the war.

In the years following the settlements, Britain came to govern the Middle East with little sense of direction, though the purpose in theory of the mandate system was to guide the local leaders and population through the process of nation-building and self-rule. The Middle East in many respects is today what it is because European powers wanted to reshape it, but Britain and France had, "failed to ensure that the dynasties, the states, and the political system that they established would permanently endure" (Fromkin 1989, p. 563). During and after World War I, the old order in the Middle East was destroyed, and to take its place, Britain and France, "created countries, nominated rulers, delineated frontiers, and introduced a state system of sort that exists everywhere else; but they did not quell all significant local opposition to those decisions" (Fromkin 1989, p. 563). As David Fromkin points out, "the events of 1914-1922, while bringing to an end Europe's Middle Eastern Question, gave birth to a Middle Eastern Question in the Middle East itself" where many people and nations are not only fighting over borders and boundaries, but the right to exist at all, as their needs and desires for autonomy were ignored and overlooked in the post war settlements in favor of putting into place a system that would further the economic and geo-strategic interests of Britain and to some degree France, Russia, and the United States (Fromkin 1989, p. 563).

It was in this interwar period that the U.S. interests in the Middle East began to emerge. The growing involvement of the U.S. in the area was dictated by the region's oil wealth. In reaction to British dominance over world petroleum markets, U.S. oil companies began to prospect for oil in Saudi Arabia during the 1930's. During the Second World War, the Saudi monarchy entered into an exclusive economic and political relationship with the United States as a counter to British control over the surrounding Arab states. Half of all global oil production was concentrated in the Middle East, and State Department planners envisioned postwar expansion of U.S. interests into the oil fields of the Persian Gulf and Iran (Heller 2006, p. 50).

It turned out that Saudi Arabia in particular had the world's largest oil reserves, and it was from Saudi Arabia and the other oil-producing states of the Middle East that the majority of new petroleum supplies for the postwar global market came. In the following decades, oil's relative cheapness led to the rapid transfer of the industrialized economies in Europe and Asia from coal to oil. Control of this strategic commodity by the U.S. was critical to their dominance over the postwar global economy. Politically, the U.S. goal became to reduce British and French influence in the Middle East, while increasing its own (Heller 2006, p. 50). The decline of British imperialism facilitated the U.S. assuming a dominant role in the region. One essential component justifying the expanding U.S. influence was the pretext of containing Russian or communist influence (Heller 2006, p. 50).

Toward the end of World War II, Washington was able to acquire oil concessions from the Iranian government. U.S. defense of Iranian territorial integrity greatly reinforced their influence in the country at the expense of the USSR and Great Britain. Monarchist politicians in Iran looked to the U.S. to reorganize and equip the Iranian police and army and to plan the development of Iran's oil economy. The U.S. was on its way to superseding British influence in Iran and elsewhere in the Middle East. Domestically the U.S. found that opposition to Russian communist influence in the region proved an effective factor in pursuit of this goal (Heller 2006, p. 51).[2]

Western capitalist powers were seeking access to the primary materials of the third world at the lowest possible cost, while looking for profitable markets and investment opportunities. In the Post World War II period, radical nationalists in the newly independent states sought to raise the price of primary products, to use these products in state-directed development programs, and to restrict foreign imports and investments. This demand for economic autonomy threatened the U.S., which needed access to foreign raw materials, markets, and investment opportunities. As a result, the United States became increasingly entangled in the politics of Southeast Asia, the Middle East, and Africa (Heller 2006, p. 76). U.S. intervention in Lebanon (1958) and Iran (1953) and the restraint of its French and British allies during the Suez Crisis (1956) marked the active engagement of the United

[2] Success in Iran and Turkey (U.S. president Truman committing a permanent force to the Mediterranean, the U.S. Sixth Fleet which dominates the Mediterranean to this day, in order to stop Soviet access to the Mediterranean through th2e straits of the Dardanelles) was part of the process that made the containment of Soviet ambitions the rationale for the emergence of Washington's sphere of influence in the Middle East (Heller 2006, p. 51).

States in Middle East politics for the first time. By 1957, the Eisenhower Doctrine promised that the U.S. would intervene to guarantee the security of Middle Eastern states threatened by Communist subversion. From this point on it was the U.S., not Great Britain, which would undertake the protection of Western access to oil in the Middle East (Heller 2006, p. 118). One such place was in Iran during the Cold War.

The U.S. was intimately involved with the Iranian government under the Shah from the 1950's until the 1979 Revolution. The U.S. has had an ongoing interventionist policy with regards to the region based upon the need for capitalist expansion by U.S. corporations via the policies of the U.S. state. Military spending is encouraged and intervention abroad is also viewed as in line with meeting both political and economic objectives. Under Keynesian policies, military expenditure is 'safer' economically than other forms of government spending because it provides a way of injecting money into the economy without increasing production in the economy. The expansion is what propels the geographic extension of the capitalist system to new regions of the world. An example of this intervention is the U.S. involvement in Iran in the overthrow of the

Iranian Mosaddiq government and subsequent U.S. support of the dictatorship of the Shah. In this way, world security order, or security for capital accumulation was legitimized under the policies of the Cold War.

Many times dictators in ex-colonial countries have been supported by the United States to forestall or obstruct the emergence of regimes that might be less than sympathetic to purely economic exploitation. An example is the coup promoted by the CIA in Iran in 1953, which overthrew the democratically elected nationalist government of Dr. Mosaddiq when he attempted to nationalize Iranian oil. Under the pro-Western regime which followed under Shah Reza Muhammad Pahlavi, American companies strengthened their position at the expense of the Iranians and the British, who ruled Iranian oil through the UK-owned Anglo-Persian Oil Company that began operations in 1908. Soon thereafter, U.S. companies took a large share of the oil concession and the U.S. replaced Britain as the most influential foreign power. The State Department in the U.S. sought to force Great Britain to give U.S. companies a share of the lucrative Middle Eastern oil concessions. Before Mosaddiq nationalized Iranian oil, British-owned companies received 100% of the profits from oil. After the

1953 coup, which brought the Shah back into power, Iran reopened Iranian oil concessions, which U.S. companies received 40% of the former 100% British owned company (Shalom 1993). The British dominance in Iranian oil by the Anglo-Iranian Oil Company was not restored to its previous dominance and was instead replaced by U.S. interests.

In October 1969, the Shah asked the U.S. to purchase more Iranian oil as a way to boost revenues. The Shah's request was rejected because a substantial portion of the profits from these purchases would go to non-American companies if Iranian oil was bought. If Saudi oil was purchased, the U.S. share would be larger (Shalom 1993). Instead of the U.S. pursuing a balanced economic relationship with Iran, and reciprocating the economic relationship in a way that was favorable to Iran's economy, the U.S pursued a policy that undoubtedly benefited the U.S. economically, though Iran received desired product and assistance in exchange. For 25 years, Iran served as a key U.S. ally in the Middle East region, and key consumer of expensive U.S. military hardware. The United States initiated its military assistance grant program to Iran in 1950 and established a Military Assistance Advisory Group (MAAG) to administer the program. In 1962, the two missions were consolidated into a single military organization, ARMISH-MAAG, which remained active in Iran until the Islamic revolutionary regime came to power in 1979. United States military assistance to Iran between 1947 and 1969 exceeded US$1.4 billion, mostly in the form of grant aid before 1965 and of Foreign Military Sales credits during the late 1960s (Global Security 2006).

The financial assistance programs were terminated after 1969, when it was determined that Iran, by then an important oil exporter, could assume its own military costs. Thereafter, Iran paid cash for its arms purchases and covered the expenses of United States military personnel serving in the ARMISH-MAAG and TAFT programs. Iran depended on the United States for security assistance, to the mid-1970s, when the government-to-government Foreign Military Sales program dominated other issues. Arms transfers increased significantly after the 1974 oil price rise, accelerating at a tremendous pace until 1979. From fiscal year 1950 through FY 1979, United States arms sales to Iran totaled approximately US$11.2 billion, of which US$10.7 billion were actually delivered (Global Security 2006).

The Kissinger Accord in 1972 included designs to sell the Shah of Iran all the conventional weapons he could afford to buy, an initiative that was made before the 1973-1978 rise in prices of crude oil to a level high enough to make the Shah's regime the largest arms purchaser in the world by the U.S. lifting all normal restraints on the transfer of weapons to third world countries (Paolucci 1991, p. 124). J.C. Hurewitz, professor of government and director of the Middle East Institute at Columbia University wrote an article entitled *The Persian Gulf: After Iran's Revolution* (New York, 1979) that states,

> Between 1945 and 1972 Iran had spent a total of $1.2 billion on arms imports. Over the next half-dozen years, the Shah entered into commitments for the purchase of more than $18 billion worth of weapons, among them some of the most sophisticated systems in the inventories of the United States. (Hurewitz in Paolucci 1991, p. 124)

Since high crude oil prices are useless or even antithetical to American economic interests, the sale of arms in mass numbers during this period was a way to get

Iran's petrodollars to flow back to the U.S. economy via U.S. arms production corporations.

Iran, under the Shah, was America's number one arms customer, accounting for 25 per cent of the $71 billion in military orders placed by foreign governments under the Foreign Military Sales program between FY 1950 and FY 1977.[3] During a May 1972 visit to Iran by President Nixon, as part of the Nixon-Kissinger policy of relying on 'friendly' Third World powers to maintain regional stability in strategic areas, the Shah was given a virtual carte blanche to purchase anything in the U.S. arsenal except nuclear weapons.

U.S. support of the Shah in Iran was part of Cold War policy to maintain stability in the Middle East, as well

[3] "In the twelve years following the 1953 military coup, the United States poured over $1.2 billion in aid into Iran, almost half of which went to the Iranian Army, the Shah's evolving power base. Between Fiscal Year (FY) 1950 and FY 1977, the United States supplied Iran with over $20 billion worth of arms, ammunition, training, and technical assistance under the Military Assistance Program (MAP) and the Foreign Military Sales Program (FMS)."[3] Between 1970 and 1978, Iran spent $18 billion on U.S. arms under the FMS cash sales program. Iranian orders for new hardware were being placed faster than the weapons could be produced and delivered; therefore at the end of 1978 there was an outstanding balance of $12 billion worth of undelivered arms destined for Iran.(*IranSource.* Institute for Policy Studies. 1979. Washington. Nov. 1, 2006. http://www.irvl.net/USMI.htm.)

keep a western-friendly power in place in an oil rich nation to prevent the Soviet Union from gaining control of Iranian oil. Since the Shah in Iran was overthrown by the 1979 Revolution, leading to a new Islamic government, U.S. policies towards Iran have not been favorable to Iranian interests because Iran was no longer willing to cater to western imperialist interests. Both the U.S. government and U.S. firms incurred indirect costs as a result of the Iranian cancellations. When student militants in Tehran seized hostages at the US Embassy that year, Washington cut off diplomatic and economic relations with Iran, imposing comprehensive sanctions. U.S. oil companies have not been able to return to the country since then, but European and Asian companies have large and growing operations in Iran, especially in the oil and gas sector, leading to new and potentially explosive international rivalries. Iran continues to be a source of imperial rivalry over competition for investments. The case of Iran is an example of how the policies of the U.S. towards Iran are preventing growth for U.S. companies and are in conflict with other capitalist nations.

During the 1980's, the U.S. pursued a policy of "balance of power" with Iran and Iraq so as not to allow one or the other to gain the position of the dominant power in the region or exert too much influence over the region, especially in terms of control over oil resources. The Reagan administration announced its intention to continue defending the free flow of Middle East oil, by whatever means necessary. During the Iran-Iraq war (1980-1988), the U.S. sold weapons and gave support in the form of intelligence and aid to both sides so that neither Iran nor Iraq could achieve a clear victory in the conflict, as well as to discourage both sides from accepting aid or support from the Soviet Union. Between 1985 and 1986 the U.S. was secretly providing arms and intelligence to Iran, via Israel transferring vast quantities of U.S.-origin weapons to Iran, resulting in the Iran-Contra Scandal (Shalom 1993, p. 3).

Under the Carter Administration, the U.S. removed Iraq from its list of countries supporting terrorism and began to provide $500 million in annual commodity credits, and another $500 million in Export-Import Bank guarantees for an oil pipeline (Richman 1991, p. 7). The Reagan Administration continued to encourage Arab financial assistance to Iraq and urged American allies not to sell weapons to Iran. In 1984, Reagan resumed diplomatic relations with Iraq.

That same year Iran was declared a supporter of international terrorism, thus making them ineligible for various forms of U.S. foreign assistance. On October 29, 1987 President Reagan signed Executive Order 12613, which banned U.S. imports of Iranian crude oil and all other Iranian imports because of Iran's support for terrorism and its threat to maritime traffic in the Persian Gulf.

Iraq emerged from the Iran-Iraq war with a narrow victory on August 20, 1988. The various forms of aid via the U.S. had a direct effect on Iraq's ability to hold out against Iran's offensive. At the end of the war, Iraq had a huge military establishment which led Sadaam Hussein to believe he was the leader of the Arab world.

The U.S. intervened in Iraq as the leader of the coalition to protect Kuwaiti oil during Operation Desert Storm, which began with an allied attack on January 17, 1991. During the first Gulf War, the invasion of Kuwait, and the possibility of defeating Iraq, offered the U.S. the perfect opportunity to establish its dominance over the oil-rich Middle East. It was to become the moment of assertion by President George H. W. Bush of a New World

Order based on U.S. leadership. As the single world power in the post-Cold War, the U.S. would assert its dominance by organizing a multilateral military and political coalition to expel Iraq from Kuwait. The gain for the U.S. was immense; its dominance over the Middle East and its petroleum resources was now incontestable. Likewise, its post-Cold War role as a global hegemon was also confirmed (Heller 2006, p. 283).

Under the Clinton administration, the U.S. pursued a new policy towards Iraq and Iran known as "dual containment". Under this policy sanctions were implemented in an attempt to isolate Iran economically and diplomatically in order to force a regime change, in hopes that a more pro-U.S. regime sympathetic to U.S. strategic interests in the region would be installed. On March 5, 1995, the U.S. oil company Conoco signed a $1 billion deal to develop Iranian oil fields, the first such contract since the 1979 revolution, but Conoco backed out of the deal after Washington voiced objections. On March 15, 1995, President Clinton issued Executive Order 12957, banning U.S. investment in Iran's energy sector. On May 6, 1995 President Clinton issued Executive Order 12959, banning U.S. trade and investment in Iran. On August 4, 1996 President Clinton signed the Iran-Libya Sanctions Act (ILSA) into law, which imposes at least two of six sanctions on foreign companies that make an investment of more than $20 million in one year in Iran's energy sector.

The United States in the 1990's was pursuing the oil and gas reserves of the area of the Caspian Sea and the regions to the east in Central Asia and further into the Middle East. While they do not quite match those of the Persian Gulf and Saudi Arabia to the south, they are enormous nonetheless. Possible oil reserves in the Caspian basin and the region to its east are calculated in excess of 200 billion barrels. The area has in addition 40 percent of the world's proven natural gas reserves. With the breakup of the Soviet Union, the region was split into the independent states of Azerbaijan, Turkmenistan, Uzbekistan, Kyrgyzstan, and Kazakhstan (Heller 2006, p. 311). The big American oil companies interested in the region- Chevron, Union Oil of California, Amoco, and Exxon- tried to acquire concessions and to make pipeline deals in the region immediately following the collapse of the Soviet Union, but they were initially refused. In 1997, the Clinton administration began to deploy troops and establish bases in several of the ex-Soviet republics. The Russian government consented to the American intrusion, despite deep misgivings (Heller 2006, p. 311). The U.S. military presence then facilitated the closing of several important oil and pipeline deals.[4]

The American intervention in Central Asia was part of an overall strategy to assure control over the oil-rich Middle East. The new military bases in the ex-Soviet republics were not as large, however, as the growing military capacity of CENTCOM in the Persian Gulf. At the end of the Gulf War, American military bases in Saudi Arabia and Kuwait, adjacent to Iraq, were reinforced. In the course of the 1990's, American bases were established in the United Arab Emirates, Oman, Djibouti, Egypt, Israel, and Turkey. The Americans pre-positioned enormous

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[4] Pipeline agreements included one by Chevron running from Kazakhstan to Baku to the Russian Black Sea port of Novorossiisk. The project was linked to the American acquisition of landing and basing rights in Romania, Bulgaria, and especially, Kosovo in the ex-Yugoslavia. Since 1999, the Americans had created an enormous base in Kosovo called Camp Bondsteel. Another pipeline from Baku through Georgia and Armenia to Turkey's deep water Mediterranean port of Batumi took form. A third still unrealized oil and gas pipeline would run from Turkmenistan through Afghanistan to Pakistan, serving the burgeoning South and East Asian energy markets. None of these pipelines were secure. The initial American military buildup in the former Soviet republics could only be regarded as preliminary to a much larger operation. (Heller 2006, p. 312)

quantities of military equipment in the installations, and large numbers of U.S. warships operated in the Persian Gulf, Arabia Sea, and Red Sea (Heller 2006, p. 312).

With the dawn of a new administration, the U.S. presence in the Middle East continues to grow. The current Bush administration has succeeded in overthrowing the Iraqi government through the Iraq War beginning in 2003. Several reasons for the invasion of Iraq have direct connections to imperialism as defined by the classical Marxist theorists. The first being that the interests of U.S. corporations are the interests of the U.S. government, because under the stage of monopoly capital, state and corporate interests are one in the same. The invasion of Iraq with subsequent overthrow of Sadaam Hussein was related to control of petroleum resources and pipeline routes. The installation of military bases throughout the region, including Iraq as well as several areas in central Asia, will ensure the protection of U.S. corporations desiring to build an oil pipeline that would circumvent any passage of the pipeline through Iran, since U.S. corporations are banned from investing in the Iranian energy sector by ILSA, which on August 3, 2001, President G.W. Bush signed the ILSA Extension Act into law. The occupation of Iraq also has direct benefits for U.S. corporations in the fields of armaments, oil, engineering, and the financial industry.

After World War II, the U.S. emerged as the dominant capitalist economic power and recognized that in order to maximize its interests, the existing system had to change in order for its own economy to continue to grow and develop in the changed economic and political conditions of the world after the war. U.S. President Franklin Roosevelt argued, 'the structure of peace demands and will get equality of all people. Equality of peoples involves the utmost freedom of competitive trade.' This definition of equality meant that countries (that is, industrial ones) should have "access, without discrimination and on equal terms, to the markets and to the raw materials of the world…needed for their economic prosperity" (Biel 2000, p. 58). During the Cold War these changes for capitalist growth were framed in discussions and arguments in favor of security. "International politics tends to speak of security as if it were economically neutral, but in the real world security always creates conditions for the elites to enjoy their wealth" (Biel 2000, p. 57). The underlying purpose of the international system was not solely security, as in defense of sovereignty and interests from aggressor nations itself, but security for capitalist exploitation.

For the United States, free markets and free trade are key priorities for national security. The economic policies of other countries, including their legal and regulatory policies, tax policies, financial systems, fiscal policies, and what the U.S. refers to as 'free trade' is all considered part of the U.S. national security concerns. Free trade, however, refers to other nations opening their markets to the U.S. One long term objective of U.S. foreign policy is a world, "in which all countries have investment-grade credit ratings that allow them access to international capital markets and to invest in their future" (Research Unit for Political Economy 2003, p. 72) Once way the U.S. is attempting to achieve this is by influencing multilateral institutions such as the IMF and World Bank to streamline their policies and conditions for lending, insisting that their development assistance be tied to measurable goals and benchmarks, and that nations receiving development aid from them have their development be predicated to openness of the inflows and outflows of capital (Research Unit for Political Economy 2003, p. 72). This is currently the case in Iraq, where Iraq's ability to obtain assistance from the IMF in the form of debt reduction and loans has been directly tied to the IMF pressing legislators in Iraq to pass a petroleum law privatizing their oil industry.

One of the long term goals for the U.S. in the Middle East is to reconstruct not only Iraq, but the other nations of the region into stable capitalist democracies friendly to both the United States and Israel. "This audacious U.S. plan was born out of overwhelming military strength combined with a growing sense of economic vulnerability" (Heller 2006, p. 321). American military power and control of Middle East oil would enable the U.S. to reassert its declining economic supremacy while bolstering the dollar. Massive increases in military and reconstruction expenditure in the form of contracts to American companies would help to reawaken the U.S. economy out of a recession (Heller 2006, p. 321).

One way the U.S. has been able to restrict the development of nations with coveted natural resources greatly needed by the U.S for its own continued economic growth is to impose economic sanctions on them when they are unwilling to bend to the demands of the U.S. foreign policy agenda. Economic sanctions were imposed on Iraq by

UN Security Council Resolution 661, passed in August 1990. As long as sanctions remained in place, no foreign investment could take place in Iraq, nor could rehabilitation of Iraq's oil industry. However, as long as the sanctions were in place, it also meant that the expansion of Iraqi oil production was impossible. The United States Department of Energy said:

> As of early January 2002, the head of the UN Iraq program, Benon Sevan, expressed 'grave concern' at the volume of 'holds' put on contracts for oil field development, and stated the entire program was threatened with paralysis. According to Sevan, those holds amounted to nearly 2000 contracts worth about $5 billion, about 80% of which were 'held', by the United States. (Research Unit for Political Economy 2003, p. 50)

So while the U.S. sees access to Iraq's oil supplies as vital to its own economic and security interests, only through the direct benefit to U.S. corporations via contracts and concessions in the oil industry that the U.S. wants this access to take place.

Sanctions were imposed on Iran in October of 1987, when President Reagan signed Executive Order 12613, which banned U.S. imports of Iranian crude oil and all other Iranian imports. Sanctions on Iran were extended by President Clinton when he signed Executive Order 12957 on March 15, 1995, banning all U.S. investments in Iran's energy sector, Executive Order 12959 on May 6, 1995 banning U.S. trade and investment in Iran, and by signing into law the Iran-Libya Sanctions Act on August 4, 1996, which also sanctions foreign companies if they are to invest in Iran's energy sector. President Bush extended the ILSA on August 3, 2001 and renewed EO 12959 in March 2004. As long as the sanctions remain in place, U.S. corporations cannot invest in Iran.

In the post war era, the endemic violence capitalism generates as a system, with inherent conflicts, tended to be borne by those poorer nations who are excluded from the security that the rich enjoy. Because Iraq and Iran have been denied the security provided by economic dominance due to the poor state of their economy resultant of years of war and sanctions, they are targets for the core nations to exploit them economically. This is done by the core nations, primarily by the United States, but other nations with economic clout as well, such as the nations of Western Europe, Japan, China, Russia and India to a growing extent, participating in a structural dominance of the world economy, having a commitment to dismantling the protectionist tools which developing nations employ to promote their industry, and a demand that nations of the periphery, such as Iraq and Iran, make available their raw materials and that they allow corporations from core nations the freedom to invest in their economies and repatriate the profits (Biel 2000, p. 58). Under these new economic demands of the capitalist powers, security is put forward as a valid reason for military involvement in many nations of the periphery.

CHAPTER FOUR

WESTERN INVOLVEMENT IN THE OIL INDUSTRY OF THE MIDDLE EAST

On May 28, 1901 William Knox D'Arcy, with the backing of the British government, signed the first oil concession in the Middle East with Iranian Shah Muzaffar al-Din. The Shah received twenty thousand pounds in cash, another twenty thousand pounds worth of shares, as well as 16 percent of annual net profits, a term which was to be defined. In return, D'Arcy received a concession good for sixty years, covering three-quarters of the country (Yergin 1991, p. 137). In 1905, D'Arcy partnered with Burmah Oil who created the Anglo-Persian Oil Company (APOC) in 1909 as a subsidiary, in an agreement called the Concession Syndicate, inextricably linking British "profit and politics" in Persia (Yergin 1991, p. 142). This concession deal essentially gave away control of the oil reserves in Iran to Britain for the next 60 years. Britain at this time was changing its fuel source for the royal navy from coal to oil, and needed to ensure a cheap and sufficient supply of the new energy source. As oil discovery increased in the Middle East more concessions were to follow. Concession deals were basically agreements that allowed foreign companies exploration and production rights for oil in a sovereign nation in exchange for royalty payments to the host nation. These concessions came to be viewed as a loss of sovereignty to many people in the host nations of the Middle East.

The Anglo-Persian Oil Company, renamed the Anglo-Iranian Oil Company (AIOC) in 1935 (and eventually the British Petroleum Company (BP) in 1954) signed a new concession agreement with the Iranian government in 1933, which was a renegotiation of the terms of the D'Arcy concession of 1901. This new concession deal provided Iran with a modest increase in annual royalty payments from 16 percent to 20 percent of the company's worldwide profits, and a guarantee of a minimum annual payment of £750,000. In return, Iran agreed to extend the concession to 1993 from its scheduled expiration date of 1961. This agreement did little to improve Iran's economic gain from its oil resources or to advance its claims to sovereignty over them (Cleveland 2004, p. 190).

Although Iran was never a formal colony, Iranian economic development had largely been controlled by European companies. Economic domination and imperial manipulation characterized Britain's relationship with Iran up until 1950. The Iranian government was so displeased with the terms of the 1933 concession that they began to renegotiate revisions in the late 1940's. In 1950, the revisions were submitted to the Majlis and opposed by Muhammad Mosaddiq and the National Front, who called for the cancellation of the concession and the nationalization of the Iranian oil industry. In 1951, the Majlis passed the legislation nationalizing the oil industry and it invited Mosaddiq to become prime minister. In response to the passage of the oil nationalization law, the AIOC called for a worldwide boycott of Iranian oil. The British government endorsed the boycott, reinforced its naval forces in the Persian Gulf, and imposed economic sanctions on Iran. The United Stated joined the boycott in 1952, essentially preventing Iran from selling its oil on the international market and plunged the country into economic crisis by the almost total loss of oil revenues. Mosaddiq refused to compromise on the nationalization issue and severed diplomatic ties with Britain in October 1952. As the Iranian economy continued to plummet, the Tudeh Party, a leftist organization, was gaining strength. This gave a group of Iranian military conspirators a motivation to overthrow Mosaddiq, which coincided with the goals of the U.S. and British governments to contain Soviet influence, and Mosaddiq was overthrown in a coup in 1953. The coup brought the return of the royal dictatorship, and a new oil arrangement which gave Iran a 50 percent share of the profits from petroleum. Diplomatic relations with Britain were restored in 1954, and the beginning of a close relationship with the U.S. as a provider of military and economic aid emerged. The Iranian government and the Western powers established an eight-company consortium from four nations (Britain, America, the Netherlands, and France) which succeeded in getting Iranian oil flowing once again under the National Iranian Oil Company.

In Saudi Arabia, the first oil concession was granted by Ibn Sa'ud in 1933 to the Standard Oil Company of California (later reorganized as the Arabian American Oil Company, ARAMCO), which acquired the right to extract and transport whatever petroleum was found within its concession in exchange for the construction of a refinery and the payments of royalties amounting to four gold shillings per ton of crude oil. The terms of the concession were extremely favorable to ARAMCO. During the 1950's, the concession agreements were modified so that

Saudi Arabia, and most other Middle Eastern oil producing nations, received 50% of the profits from foreign companies. ARAMCO emerged as a giant multi-national corporation that controlled not only the exploration and extraction of Saudi oil, but also its refining, marketing, and pricing. The oil-producing countries had little say in the determining of prices or production levels of oil.

In 1934, Kuwait signed a concession agreement with Gulf Oil and AIOC, authorizing them to become equal owners in the concession known as the Kuwait Oil Company. Commercial oil exports began in 1946 generating an income in that year of $760,000. By 1953, oil revenues were $169 million, and rose to $21.7 billion in 1980. Kuwait was dependent upon a foreign workforce to develop its petroleum industry and supporting infrastructure, as well as a source of technology and equipment that was used to extract the oil.

In 1925, Iraq, under Faysal's government, signed a seventy-five year concession with the firm that became the Iraq Petroleum Company. The agreement provided for Iraq to receive modest royalties at a specified sum per ton of oil, but excluded Iraq from having any ownership in the company. The Turkish Petroleum Company formed by British, French, and Dutch interests discovered oil in Iraq near Kirkuk in 1927. In 1928, the U.S entered the Middle East oil race when the Near East Development Corporation (NEDC) obtained an equity interest in Turkish Petroleum and renamed it the Iraq Petroleum Company (IPC) in 1929. On July 31, 1928, nine months after the original discovery, a contract was signed giving Royal Dutch/Shell, Anglo-Persian, the French, and NEDC each 23.75 percent of the oil. The NEDC originally was made up of 5 companies, but later was equally divided between Standard of New Jersey (now Exxon) and Socony Vacuum (later Mobil, which merged with Exxon in 1999). This far-reaching oil settlement was called the "Red Line Agreement" because the partners bound themselves through a "self-denying" clause not to engage in any oil operations with the territory of what used to be the Ottoman Empire (excluding the areas of Kuwait and Persia) except in cooperation with the other members of the Turkish Petroleum Company (Yergin 1991, p. 205).

The total control that Western-owned companies maintained over the production, marketing, and pricing of Middle Eastern oil was a constant reminder of the region's continuing dependence on the West. Arab nationalists increasingly argued against the imperialist nature of the oil concessions in the region. Then in 1972, U.S. and Britain were excluded from the oil industry in Iraq by nationalization of the oil industry there. Companies from France, Russia, and China had obtained major contracts with the Iraqi government, but UN sanctions kept the contracts inoperable.

In order to gain a greater measure of control over pricing policies, representatives from five of the major oil producing countries- Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela- founded the Organization of Petroleum Exporting Countries (OPEC) in 1960. A parallel group, the Organization of Arab Petroleum Exporting Countries (OAPEC), composed solely of Arab oil exporting nations was created in 1968. OPEC was founded in the Nasser era, and one of the principle goals of Nasserism was to break out of the constraints of postwar neocolonialism that was allowing Western powers to still manipulate the diplomatic and economic affairs of the Arab world. OPEC's immediate objective was to utilize the collective bargaining power of its member states to pressure Western oil companies to increase oil prices. As long as the world supply of oil was plentiful, OPEC had limited success in its efforts to change the policies and thinking of the oil companies (Cleveland 2004, p. 456).

Abundant low cost oil was the energy source that fueled the post World War II recovery of Europe and Japan, and assured the economic prominence of the United States. Western industrial economies depended upon oil based on the assumption that oil would always readily available and moderately priced. In 1972, Saudi Arabia was supplying 21.6% of Europe's oil, and 13% of the world's total production of crude oil in 1973. Saudi Arabia's share of U.S. oil imports in 1973 was 8.1% (Cleveland 2004, p. 456). OPEC used the "oil weapon" to boycott oil sales to western nations and drive up prices during the October War in 1973 by cutting back production. This led to increased participation by OPEC countries in the ownership of oil, including production operations, and involvement in refining, distributing, and marketing. Foreign oil companies continued to provide the technology and expertise on which producers still depended and their services were retained though lease-back arrangements and joint ventures with the national oil companies.

Concession deals between western corporations and the governments of oil-producing nations were the dominant form of investment contracts used to develop the Middle Eastern oil industry during the greater part of the 20th century, until many nations began to nationalize oil production and move toward more state control of the oil industry. Today, the top six OPEC countries use service contracts instead, which allow the state to retain full authority over all production decisions and relegate the investing company to the role of contractor. No oil-producing nation in the Middle East has privatized its oil industry, and nations such as Saudi Arabia, Kuwait, Bahrain, and Iran give only limited usage contracts to international oil companies for one or two years. However, Iraq under pressure from the international community including the United States government, the British government, the IMF, the U.S. oil lobby, and International Oil Companies (IOCs) are being asked to privatize their oil industry through the passage of a Hydrocarbon Law, which was delivered to the Iraqi Parliament on February 18, 2007.

The major component of the privatization law is the use of production-sharing agreements (PSAs), which are exclusive long-term deals that Iraq's unions compare to earlier concession agreements. While Iraqi leaders, such as Hassan Jumaa Awad, the Iraqi Federation of Oil Unions

President, believe that Iraqi manpower and international technology and expertise make a good match for developing the oil sector, but only on terms advantageous to Iraq. Awad stated, "It is possible to co-operate with oil companies through a service contract, for the development of the oil industry in the service of the Iraqi economy" (Jasiewicz 2007). The law under consideration now is the blueprint for foreign companies to explore, develop, produce, and sell Iraqi oil under exclusive contracts lasting up to 30 years. Most Iraqis favor continued control by a national company and the powerful oil workers union there strongly opposes de-nationalization. A recent poll commissioned by U.S. and British human rights groups found that 63 percent of Iraqis believed their oil industry should be developed by state companies and another 32 percent indicated a strong preference for state control (Jasiewicz 2007). However, the Iraqi constitution of 2005, greatly influenced by U.S. advisors, contains language that guarantees a major role for foreign companies.

Production-sharing agreements are usually used by countries with reserves which are hard to gain access to, thus resulting in high extraction costs. The PSAs are generally applied in circumstances where there is a strong possibility that oil exploration will be extremely costly or even fail. To offset the huge amount of risk in these investments, the contracting company is guaranteed a portion of the profits, if and when oil is extracted and sold. Most commonly in these agreements the portion remains very high until all development costs are amortized, which allows the investing company to recoup its investment expenditures and then be rewarded with a larger-than-normal profit margin for the remainder of the contract, which could extend up to 25 years. This type of agreement may be fair or necessary in a country that cannot generate sufficient investment capital on its own, where the exploration is difficult (as in cases of it being underwater or deep underground), where the reserves may prove to be very small, or where the ongoing costs of extraction are very high. None of these conditions, however, exist in Iraq, where huge reserves of easily accessible oil have been proven to exist, and the discoveries of more fields are likely. This is why nations such as Saudi Arabia, Kuwait, Iran, and the United Arab Emirates do not use PSAs and instead pay the multinational corporations a fixed rate to explore and develop their fields, after which all of the profits become state revenues (Schwartz 2007).

The Iraqi view of the PSAs is they are turning over the oil fields to foreign companies, giving them control over setting royalties, deciding production levels, and determining whether Iraqis get to work on their own industry. To many Iraqis the PSAs are a reflection back to times of imperialism in the region when the oil industry was dominated by foreign companies through concessions. If privatization is to be implemented and PSAs were enacted, Iraq would lose control over the amount of oil the country produced with the potential to substantially weaken OPEC influence on the oil market. The law would allow oil companies to repatriate all profits from oil sales, which substantially decreases the possibility that those profits would be reinvested into the Iraqi economy. The Iraqi government would not have control over oil company operations inside Iraq, and any disputes would be referred to international arbitration panels. Additionally, no contracts would be public documents and contracting companies would not be obliged to hire Iraqi workers (Schwartz 2007).

Privatization of the Iraqi oil industry through the use of production-sharing agreements clearly serves the interests of foreign companies over those of Iraq, particularly those of American and British companies, as these two western powers hold the most influence over Iraqi governing decisions in their role as the leading occupying nations in Iraq. Western companies such as BP, Shell, Exxon, and Chevron, as well as smaller companies such as Addax Petroleum are in positions to gain the most from the passage of a law allowing production-sharing agreements. John Heavyside, business manager for BP in Iraq stated his support for PSAs saying,

> . . .We want to take risks and get incentivised to perform better; service contracts don't really allow us to do that. It's what we all want, all the international companies here. Production-sharing agreements offer a win-win situation. They are equitable and offer lucrative returns and benefits to both the state and investing companies. (Jasiewicz 2007)

To this Natiq al Bayati, director or reservoir and oil fields development in the Iraq oil ministry, replied, "International oil companies would prefer the PSC [production-sharing contract] but the political and economic culture and atmosphere in Iraq is not conducive to this contract" (Jasiewicz 2007). The political and economic culture in Iraq is not open to the PSAs most likely due to the years of sovereignty denied to them by western companies who had the backing of their governments during the era of concession contracts in the oil industry

Foreign oil companies see the potential for profits in Iraq since their production capacity has not been met for years due to the disruptive effects of the Iran-Iraq War in the 1980's, the years of UN economic sanctions following the Gulf War in 1991, and the infrastructure and political environment still needing to be rebuilt after the 2003 invasion. According to the U.S. Energy Information Administration, Iraq possesses 115 billion barrels of proven oil reserves, the third largest in the world after Saudi Arabia and Iran. Only about 10% of the country has actually been explored and there is reason to believe that with the introduction of more modern methods that have not been in effect in Iraq for many years, more oil could be discovered. A modest goal for Iraq's oil industry is 3.5 million barrels per day; however from 1990 until the 2003 invasion, Iraq averaged around 2.5 million barrels per day.

An increase to the 3.5 million barrels per day level at the $30 per barrel price oil was getting prior to the invasion, created projected revenues at $40 billion per year (Schwartz 2007). With the introduction of large foreign oil companies contributing to the exploration and production efforts in Iraqi oil, these numbers are projected to grow even more.

To attract the large amounts of finance capital needed to restore and increase Iraqi oil production (somewhere in the range of $20 billion has been estimated) will be difficult to do as long as the security and stability in Iraq remains precarious. Therefore, the advocates of the PSAs in Iraq have been able to make an argument to justify their use stating that favorable PSAs are the only way to attract this level of investment under the current dangerous conditions. Due to the current conditions, few companies are willing to invest in Iraq; however, some have argued that if order is restored Iraq would have no problem attracting large amounts of finance capital to develop reserves that could be in excess of $10 trillion, therefore nullifying the need for PSAs (Schwartz 2007). Based on leaked information to the media from the petrochemical law under consideration, journalists have reported that the law contains extremely favorable provisions for oil companies, in which they would be entitled to 70 percent of profits until development expenses were amortized and 20 percent thereafter. This would guarantee them at least twice the typical profit margin over the term of the contract (Schwartz 2007).

There is a lot of pressure being placed on the Iraqi government to pass this Hydrocarbon privatization law. That pressure is coming from several sources including international oil companies, studies and recommendations from the British government, the U.S. occupation, and IMF reform mandates. In 2004, BP, Chevron, Exxon, Total and ENI employed the services of Washington-based lobbyists the International Tax and Investment Centre. The ITIC produced a document which concluded that PSAs were the only investment option for Iraq (Jasiewicz 2007). The Foreign Office on behalf of the British government delivered the ITIC report to Iraqi officials. The British ambassador to Iraq formally sent the "road-map" study on the Iraqi oil industry to the then Iraqi minister of finance, which recommended the Iraqi government sign long-term production-sharing agreements with foreign oil companies (Webb 2007). Because Iraq is still under U.S. occupation, with the presence of U.S. and multinational troops and private security contractors as a reminder, pressure is placed on the Iraqi government to ensure the success of the Western backed oil plans. Because the U.S. military would be needed to protect U.S. corporate interests, especially in oilfields leased to U.S. companies by a compliant Iraqi government, troop presence in the form of permanent military bases would be the guardian of U.S. corporate interests in the Iraq for the life of the contracts, over the next twenty-five to thirty-years. Additionally, the International Monetary Fund is pressuring the Iraq to adopt the program when the IMF was made a key player in Iraqi oil policy.

> Through loans in the 1980s and reparations for his invasion of Kuwait in 1990, Saddam accumulated $120 billion in external debt, the largest per capita debt in the world and a potentially insurmountable obstacle to economic recovery, even in oil-rich Iraq. One option available to the new government was to declare this debt 'odious', a technical term in international law referring to debt accumulated

> by authoritarian rulers for their own personal or political aggrandizement. (Schwartz 2007)

The IMF made the approval of the oil law one of the main conditions for reducing the Iraqi international debts, as declared on December 1, 2005 in the Paris meeting between the IMF and representatives of the Iraqi government (Chalabi 2007). Shortly thereafter, the U.S. began to pressure the Iraqi government to draft the Hydrocarbon law that would conform to the IMF guidelines, including the use of Profit-Sharing Agreements and other provisions that would open the Iraqi economy, and the oil sector in particular, to investment by multinational corporations.

Prior to the introduction of the privatization law with the PSA provisions, Iraq had 45 competitive memoranda of understanding with oil companies, confirmed pre-contractual commitments to work together on particular projects. The oil ministry had also confirmed work on model deals and regulations, including more than 100 blocks up for exploration, 40 in the Kurdish region and 65 in the rest of Iraq. Abdul Ilah Qassim al-Amir, oil adviser to the Iraqi prime minister, also stated that contracts signed under the previous regime would be reviewed. In this category are the Al Ahdab field for the China Petroleum

Company; Exploration Block 8 for India's ONGC Videsh; the Amara field for Petro Vietnam; Block 3 for Indonesia's Petro-mina; and the Al Noor field for the Syrian government (Jasiewicz 2007). If oil companies from nations other than the U.S. and Britain are willing to contract with Iraq for development of their oil industry without the use of production-sharing agreements, this threatens the ability of western companies to obtain the more favorable PSA contracts in any legislation passed by the Iraqi government regarding oil, therefore losing their ability to dominate and influence the oil industry in the region once again.

Foreign corporations are threatening U.S. supremacy in Iran, as well, as they ignore U.S. sanctions rules which prohibit investment in the Iranian energy sector. Because U.S. corporations are banned by U.S. sanctions from investing in Iranian energy, the U.S. is threatened with the loss of supremacy in the region it is fighting to maintain. The United States has threatened to punish foreign firms that do business in Iran, under the Iran-Libya Sanctions Act of 1996, but this has not deterred many large foreign companies from seeking access to Iran's reserves. According to the Department of Energy (DoE), Iran supplied 14% of China's oil imports in 2003. In

October 2004, Iran signed a $100 billion, 25-year contract with Sinopec, a major Chinese energy firm, for joint development of one of its major gas fields and the subsequent delivery of LNG to China. In the year 2000, the French company TotalFina/Elf wrapped up a $2 billion deal to develop the South Pars oil and gas fields. In 2000, Royal Dutch/Shell signed an $800 million contract to develop the Soroush and Nowrooz offshore oilfield, In late 2001 and early 2002, Shell brought part of the $1.1 billion Soroush-Nowrooz development online, and a consortium of three Japanese companies bought a 20 percent share in the Soroush-Nowrooz project. ENI-Agip acquired a 38 percent share in the Balal fields. Norway's Statoil signed a series of agreements with the National Iranian Oil Company to explore for oil in the Strait of Hormuz. Russia's Lukoil indicated that it had received approval to prospect along the border with Iraq in September 2003.

From 1995 to mid-1999, Iran attracted about $5 billion of investment in the form of joint ventures and buyback contracts in the oil and gas companies, and according to the Middle East Economic Digest, the country is expected to lure an additional $20 billion to its petrochemicals industry by 2013 (Valibeigi 2004). As non-American oil companies penetrate the Iranian market, there are significant economic losses to the U.S. because of the lack of bilateral trade. The continuation of sanctions will ultimately serve to be a disadvantage to the U.S., in terms economic losses, and the weakening of relations with those nations who are choosing to move forward with investments and trade with Iran.

CHAPTER FIVE

COMPARING BRITISH AND UNITED STATES INVOLVEMENT IN THE MIDDLE EAST: RESULTING POLITICAL AND ECONOMIC STRUCTURES IN IRAQ

The British during the mandate period fought and the U.S. in its current occupation are fighting, desperately to retain influence in the Middle East, particularly in Iraq, for their own economic and security needs. The British during the mandate period from 1914 to 1932, due to a lack of finances, domestic support, and soldiers were forced to rely on high levels of violence and patronage to keep the population from rising up and unseating them and were forced to leave much sooner than originally anticipated. Resources were channeled through indigenous Iraqis the British believed to have social influence in the hope that they could guarantee social order at the lowest possible cost. These decisions by the British government resulted in an independent Iraqi state that was built on shallow social foundations. The United States faces similar issues in Congress presently about expenditure for the war and occupation, as well as the American public's growing concern and discontent with the occupation in Iraq. Now the post-Saddaam Iraqi government is struggling to rebuild a stable political and economic structure for themselves.

The British recognized that they could not afford to govern Iraq directly as a colony, and they found a less overt system by using English advisers behind an Arab façade, which was more economical. On October 21, 1920, the newly arrived civil commissioner, Sir Percy Cox, announced the formation of a provisional government under Arab ministers with British advisers. At Cairo, in March 1921, Winston Churchill met with senior British advisers and worked out the administrative arrangements that were to endure for the next forty years. Recognizing the need to cut expenditures, and the fact that the mandate was unpopular in Iraq, Churchill decided to negotiate a treaty with Iraq which would both end the mandate and give Iraq a degree of nominal independence. The British also recognized, however, that Britain's position in Iraq depended largely upon the ruler selected, and therefore they imported Sharif Faisal, the former king of Syria, and worked out a program to ensure his election in the forthcoming referendum. "Popular" support was mobilized and his only serious opponent was arrested and deported on vague charges of sedition. Faisal arrived in Iraq in June

1921 and was declared king on July 11, 1921 (Polk 1969, p. 126-127).

State building of the nature being attempted in Iraq by the U.S and its allies following the 2003 invasion, and formerly attempted by the British during the mandate period following World War I, is based upon the historic experience of Western Europe, "where state institutions evolved out of the societies they came to rule over in a violent competition for survival with their territorial rivals" (Dodge 2003, p. xxiv-xxv). State building in Iraq by the British in the 1920's and the U.S. presently, is very different from this model as, "it concerns the creation of state capacity by external powers, in coalition with a section of the indigenous population it has selected as its ally" (Dodge 2003, p. xxv). The Weberian model of the state foreign western powers have attempted to implement can be defined as being,

> . . . legitimized by its ability to deliver public goods to the population contained within its recognized borders through a differentiated set of centralized governmental institutions. Crucial to its ability to perform these tasks is the veracity of its claim to 'binding authority'

> over its citizenship and ultimately 'over all actions taking place in the area of its jurisdiction.' A state's capacity for rule is ultimately grounded in the extent to which its 'administrative staff successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order.' The degree to which a state has reached this ideal type can be judged by the ability of its institutions to impose and guarantee the rule of law, penetrate society, mobilize the population, and extract resources. Ultimately, the sustainability of state capacity is anchored into the extent to which its actions are judged to be legitimate in the eyes of its citizens." (Dodge 2003, p. xxiv)

Unfortunately, the Iraqi state does not so easily fit this model or ideal type. The state that was created in the aftermath of World War I that existed until the removal of Saddam Hussein has been dominated by four interlinked structural problems, as identified by Toby Dodge.

> These are: first, the deployment of extreme levels of organized violence by the state to

> dominate and shape society; second, the use of state resources- jobs, development aid, and patronage- to buy loyalty of sections of society; third, the use of oil revenue by the state to increase its autonomy from society; and, finally, the exacerbation and re-creation by the state of communal and ethnic divisions as strategy of rule. (Dodge 2003, p. 169)

All of these factors have contributed to the population's view of the state as being illegitimate as well as to the lack of democratic rule.

As industry and commodity export became more developed in the Middle East, a tendency that became more and more common was the creation of the "rentier state" and the consolidation of state structures after colonization in the regions where territorial boundaries had been drawn before internal state-building occurred. In a rentier state, the "state is reliant not on an extraction of the domestic population's surplus production but on externally generated revenues, or rents, such as those derived from oil" (Kuru 2002). The economy is dominated by incomes derived from rents, and the rentiers, or recipients of the rents, wield considerable political influence. The rentiers within the periphery nation live on the proceeds of capital export, thus the productive growth of the economy is limited because the income from the commodity export is distributed amongst the population in various ways. This serves to limit participation by the local population in the growth of the economy while allowing them to reap the benefits of the revenue. The core nations encourage the continuation of the rentier economy because they benefit from the dependency the rentier state has on a single commodity export, such as oil. The rentier state does not engage in large-scale industrial development because the revenues received from the oil are sufficient, therefore, they do not gain power as a capitalist competitor to core nations. The dependency of the core industrial nations on the oil resource results in demands and pressures being made on the rentier state by the core nation's firms and government to provide the oil at a desirable price. The rentier state financially depends on international capital inflow. The revenues received by the state eliminate the need for domestic taxation, as the wealth generated precludes the need to extract income from the citizenry. Since the people are not taxed they are therefore not given a say in the expenditure of the money, resulting in a lack of democracy. The less democratic a government, through the oppression of organized opposition, the more easily an imperial nation can manipulate the policies of the rentier state to its own economic and political agenda. This is common in the imperialism of recent times (Kuru 2002).

The existence of a rentier economy in Iraq, as well as several other Middle Eastern states including Iran, Saudi Arabia, United Arab Emirates, Kuwait, and Qatar, is one theory advanced to explain the predominance of authoritarian regimes and the apparent lack of democracy in the region. Iraq before the 2003 U.S. invasion, and to a large extent today, is experiencing the effects of the rentier economy through various government subsidies to the population for food products, oil, gasoline, fertilizers and pesticides. Fuel subsidies cost around $8 billion per year, with Iraq importing between $200 and $250 million worth of fuel per month (Herring and Rangwala 2006, p. 215). Many Iraqi citizens believe they are entitled to heavily subsidized fuel as citizens of an oil-rich country (Herring and Rangwala 2006, p. 223). Therefore, their dependence upon and loyalty to the providers of such subsidies outweighs their desire or ability to change the political structure through the democratic process. There is also little push for the development of a strong domestic productive sector therefore limiting employment opportunities or the ability for real economic growth to occur.

Paul Bremer during the period of the Coalition Provisional Authority (CPA) declared that "subsidy elimination was more important than privatization" because "liberalizing prices is a necessary measure on the way to marketization" (Herring and Rangwala 2006, p. 222). However, without first establishing a legitimate, sovereign, popularly elected government capable of making its own choices about the future of Iraq's economy, the U.S. led plans for Iraq was to open the Iraqi economy and transform it into the U.S. version of the neoliberal model. To do this, the initial focus of the CPA was to end the Iraqi state's protectionism and domination of the economy, essentially its role as the rentier. The CPA then imposed cuts in subsidies on food imports, fertilizers, and pesticides, which only served to reinforce Iraq's dependency on food imports and aggravated the already burgeoning problems of unemployment and poverty. "The food rationing system in Iraq costs about $5 billion per year, about 25% of Iraqi government revenue" (Herring and

Rangwala 2006, p. 222). And while this does undermine incentives for local food production, it also happens to be the primary source of nutrition for about 60% of the population, and 10% of the population need food supplies in addition to the ration (Herring and Rangwala 2006, p. 222). While there is a general agreement that Iraq needs to move away from the rationing and subsidy system in order to pursue real economic growth and become less of a rentier state, how to do this is the important question. To have the U.S. led policies defining the path for the Iraqi government to take while keeping its own interests ahead of those of the emerging Iraqi state will not ultimately lead to a citizenry participating more in its government, more democracy, stability, or economic growth for Iraq.

The U.S., as the leader of "the coalition" and the dominant economic and military power in the world today, is able to dictate the outcome of the state-building process in Iraq, and utilizes foreign policy and its military to maintain control over those areas it deems necessary for its own economic and security needs. The Coalition government was in a position of considerable political vulnerability within Iraq, given its status as a foreign occupying power. If a national political challenger to it were to have been allowed to emerge and win popular legitimacy, the Coalition's ability to maintain control would have been highly limited. Thus a considerable part of the Coalition's work within Iraq was to prevent the emergence of such a challenger, while at the same time retaining an approach that was seen to favor political progress (Herring and Rangwala 2006, p. 13-14). In doing so, this limits Iraq's ability to create a legitimate government entity and pursue economic growth on its own terms by eliminating any arguments from Iraqis for achieving national self-determination through the pursuit of a dialogue or objection to the Coalition's policies.

The U.S. policy for post-invasion Iraq has not been the unfolding of predetermined plan or the gradual achievement of specific goals.

> Instead, the very nature of that project has shifted rapidly and the way success has been defined has changed simultaneously: liberation, social and economic transformation, restoring Iraqi sovereignty, democratization, military self-sufficiency and avoiding sectarian conflict have all functioned as the major objective for the US at some point during the [five] years

> since the invasion, and the tensions between these goals have led to a stuttering, often incoherent, political strategy. (Herring and Rangwala 2006, p. 47)

Because the U.S. did not have a clear workable plan based on the realities of the situation in Iraq created in the post-invasion period, it has been forced to act in reaction to developments in Iraq, and in response to domestic political dynamics back in the U.S.

One of the major policy objectives for the U.S. in Iraq was to gain permanent military bases there as part of the overall expansion of military presence in the region in order to have better control over access to resources it desired, namely oil and pipeline routes. In a report entitled Rebuilding America's Defenses, published in September 2000, the PNAC emphasized the centrality to US strategic interests of developing US military bases in the Middle East regardless of any dispute with Iraq or Iran:

> [T]he US has for decades sought to play a more permanent role in the Gulf regional security. While the unresolved conflict with Iraq provides immediate justification, the need for a substantial American force presence in the Gulf

> transcends the issue of the regime of Saddam Hussein. . .[E]ven should the US-Iranian relations improve, retaining forward-based forces in the region would still be an essential element in US security strategy given the longstanding American interests in the region. (Herring and Rangwala 2006, p. 10)

If Iraq were able to develop and maintain a stable, democratic, legitimate form of government the need for and justification of a large U.S. military presence would be highly compromised.

For a legitimate political center to have developed in Iraq there would have to have been continual negotiation over and challenge to the Coalition's presence and its plans for Iraq during transition and afterwards. However, the Coalition needed to continue to hold the keys to political authority in order for the U.S. military to preserve their security as they saw fit, a feature that remains a key requirement of the U.S. armed forces for perceived political and strategic reasons (Herring and Rangwala 2006, p. 82). Therefore, the U.S. needed to manage and balance the competing Iraqi political processes in order to maintain its unofficial retention of state power, particularly give the hostility of most of Iraq's population to a continued role for the Coalition military inside Iraq. Thus, in order to retain its pre-eminence within Iraq, the Coalition had to forestall the creation of an autonomous rival center of political power. So while the U.S. knew that it must acknowledge the legitimacy of the Shi'a claim for power, through acceding to the demand for elections that would translate a numerical majority into political superiority, the U.S. also sought to ensure that this superiority would not seriously threaten U.S. autonomy in decision-making (Herring and Rangwala 2006, p. 83). The U.S. accomplished this through continued oversight by the U.S. on the IGC, the Coalition overruling and marginalizing Iraqi officials who sought to act as autonomous decision-makers, and the limiting of the authority of the central government through balancing its power with that of regional actors. The U.S. actions were not following a dispersal of power through an integrated hierarchy, but encouraging fragmented power.

> There was a significant turn towards the use of tribal shaykhs, who became an alternative power base of the Coalition. This was not a new strategy for Iraq: under the League of Nations

> mandate, the British administrators had used tribal leaders… as rivals to the monarch, as a method of limiting Faysal I's ability to campaign against the continuation of the mandate. (Herring and Rangwala 2006, p. 87-88)

Thus U.S. actions, just as British actions in a previous imperialist era, were driven by the desire to maintain control in Iraq.

> The U.S. has feared that even those actors who have been prepared to work with the occupation might take Iraq in directions inimical to perceived U.S. interests. In this context, the U.S. decided to try to retain possession of the key levers of state power and to limit the emergence of a coherent Iraqi state until it could ensure that the state would be safe for U.S. interests. (Herring and Rangwala 2006, p. 94)

Due to the policies pursued by western capitalist powers, namely Britain and the United States, in the Middle East since the early 20th Century because of the abundance of petroleum resources in the region and the profits to be gained via control of this industry, the states of the region have largely not developed into democratic free-market states. Most states in the Middle East do not have democratic governments, and continue to rely upon state revenues generated by the oil industry to support the majority of the population. The post-World War I mandate system, which was supposed to have guided the development of democratic states in the newly created countries following the breakup of the Ottoman Empire, instead had its policies dictated by British and other European powers, desire to maintain control over the oil industry there and to ensure optimal conditions for its oil companies to operate. The United States too has pursued policies in the region for similar ends. The U.S. today continues to seek favorable conditions in the economies of the Middle Eastern states for the profits of its oil companies and to maintain a presence there in order to create conditions optimal for the operation of these companies to maximize profits.

CHAPTER SIX

CONCLUSION

The history of western involvement in the Middle East shows that the nature of these relationships over the past century has been imperialist in nature, with the western nations being the primary beneficiaries of the relationships. There remains a class of people within the Middle Eastern nations that benefit too from the political and economic structure of the relationship and serve to perpetuate the continuation of relations with the core in a way that limits the growth of both a free market economy and more democratic political structures in the periphery nations. Iraq serves as a primary example of this through both its relations with Britain during the mandate period and the United States since 2003. The continuing dependence of the Iraqi people on the state for many of their basic needs in the absence of a fully democratic political environment shows this.

The British in the mandate period and the U.S. today both have similar economic motivations for their involvement in the Middle East, which is the desire to exercise control over the oil industry and benefit from oil revenues. The rhetoric of bringing democracy and stability to the region has served in both cases as a rationale for continued involvement in the region. However, should a truly democratic political structure become powerful enough to assert the interests of the Iraqi people they may actually enact policies antithetical to western interests, particularly with regards to the oil industry.

This paper shows that imperialism is still a relevant theory as defined by Marxist theorists, particularly Harry Magdoff. The similarities between British policies and actions in the Middle East during the mandate period and U.S. policies and actions following World War II leading up to the 2003 invasion of Iraq remind us that the continuation of policy making with similar political and economic motivations, essentially to benefit the economic and military interests of the West, will continue to evoke similar outcomes. The Middle Eastern nations will continue to lack the political structures able to experience real economic growth and lack democratic structures able to provide for a strong, stable society able to assert their own interests in relations with more powerful Western nations.

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