



# drishti

## Bigger Picture of USA's Action Against Iran

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This article appeared on 18<sup>th</sup> May 2019 in Indian Express, *By destabilising regions that supply oil and gas, US is keeping Rising Asia off-balance*, which talks about how USA's policy in West Asia will impact geo-economics of Asia.

All the political dimensions like geography, politics, security and stability of West Asia over the past century have been centred on **Black Gold** i.e. **oil and petroleum**. It started with First World War (1914-1919) to Second Gulf War 2003 and in contemporary times all this West Asia influx whether it was Arab spring, Syria's civil war, sanctions on Iran etc, all the events and chaos was about USA's pursuit to maintain dominance of petrodollar.

But this not only impacts West Asia alone rather it impedes or checks the Rising Asia.

## What is USA's Foreign Policy in Regard to Context of Oil?

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### What is Petrodollar?

- **The petrodollar is any U.S. dollar paid to oil-exporting countries in exchange.**
- The **1944 Bretton Woods** conference established the U.S. dollar as the world's reserve currency as After World War II, the United States held most of the world's supply of gold.
- U.S. dollar is pegged in gold and all other currencies were pegged in dollar.
- In 1971, U.S. stagflation prompted the United Kingdom to redeem most of its U.S. dollars for gold.
- Than President Nixon removed the dollar from the gold standard to protect the remaining U.S. gold reserves.

- This gave rise to the concept of **Petrodollar Recycling**.
  - In 1973 by US- Saudi deal, Saudi Arabia (largest supplier of oil) agreed to use U.S. dollars for oil contracts.
  - The U.S. dollars would be recycled back to America through contracts with the U.S. companies.
  - Thus whole US foreign policy vis-a vis west Asia envisaged to maintain dominance of petrodollar.
  - That's why US seeks to have a say in supply of oil.

## What is the Rationale of US Action vis-a-vis Iran?

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- Over the past decade, with the US becoming self-reliant on the energy front due to structural changes in the market for energy like:
  - Shale gas revolution,
  - Renewable energy revolution,
  - USA starting oil production again under Trump regime
- This has reduced US dependence on imported oil. The focus of US policy has now shifted to **retaining control over the sources of supply** and not just ensuring its supply.
- Renewed tension in the Persian Gulf is not about overpowering Iran-sponsored terrorism. It is about securing control over Iran-produced oil.
- USA's **hostility towards Venezuela** is under same narrative as that of Iran.

## How Other Regions Will Get Affected?

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- The trans-Atlantic nations, especially the US, no longer depend on Gulf oil. But **Asian economies**, including China, Japan, South Korea and India, depend critically on Gulf oil.
- All these countries are facing pressure of restricting import of Iranian oil to zero under USA's CAATSA (**Countering America's Adversaries Through Sanctions Act**).

### **NOTE: What is CAATSA?**

- Countering America's Adversaries through Sanctions Act (CAATSA) is a legislation introduced in the United States that aims to counter anti-US aggression displayed by countries like Iran, North Korea and Russia through a series of punitive measures.
- Among the provisions of CAATSA are secondary sanctions on countries that are found to be dealing with the Russian defence and intelligence sectors.
- For instance, India's dependence on imported oil has risen sharply over the past decade, it is nearly 85% per cent of its domestic consumption.

- By destabilizing regions of the world that supply oil and gas, the US is trying to check economic engine of Asia i.e. China.
  - Harvard scholar Edward Luttwak, in his book **“The Rise of China versus the Logic of Strategy”** says- the only way the US could deal with a rising China is through its **geo-economic containment**.
  - This **geo-economic containment** can be achieved by:
    - Restricting Chinese exports into (US) markets.
    - Stopping whatever technology transfers China would still need for the future.
    - Above measures US seeks to implement through **Trade war**.
    - Restricting raw materials to China, i.e. oil, through destabilization of West Asia is part of geo-economic containment of China.
  - Luttwak suggested that US policy goal ought to be to slow down China’s economic growth so as to lower the strategic weight of China in dealing with western Asia.
- This USA's strategy of wrapping strategic concerns in some other issue like human rights etc is nothing new, as western countries use restrictions of access to energy as a Neo-imperialist tool to restrict the rise of emerging economies under the name of climate change.
 

This has also been highlighted by former NITI Aayog chief Arvind Subramanian under narrative of **"Carbon Imperialism"** — the strategy of denying access to coal and other hydrocarbons in the name of climate change and thereby, hurting developing country growth prospects.

## Conclusion: What Would be Impact on India and What India Should Do?

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- India could suffer collateral damage due to this US policy of the geo-economic containment of China.
- Hence, India has a stake in ensuring peace and stability in the Persian Gulf.
- So if USA is insensitive to India’s concerns, India will have to seriously rethink its foreign policy options since sustaining high economic growth with low inflation is a fundamental developmental priority and a key strategic objective also.

### ***Drishti Input:***

US's actions against Iran have significant deeper underpinnings rather than just breaking down Iranian hegemony in region, which are also against India's economic interest. In light of this, should India seriously need to rethink its foreign policy? Comment.