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**Sovereignty and international political economy: The Middle East’s role in the uneven geography of money**

*Hannes Baumann*

Sovereignty concerns not just security but also economy. One of the essential sovereign functions of a state is to mint its “national” currency. As Benjamin Cohen (Cohen, 1998) has noted, the supposed equality of currencies in the international arena is a myth: While the US dollar is widely accepted for payment across the world, there are other states where even their own citizens no longer trust their domestic currency enough to use it for day-to-day transactions. Meanwhile, most states’ currencies will be placed somewhere along this continuum.

The states of the Middle East are deeply implicated in this “uneven geography of money” (Cohen, 1998). Since the 1970s, Gulf oil states have emerged as key players in the making of the global currency hierarchies. The recycling of petrodollar surpluses played a crucial role in cementing US dollar hegemony after the abandonment of the gold standard in the 1970s. The Middle East is also an arena for the exercise of coercive “monetary power” (Kirshner, 1995): US sanctions have curtailed Iranian access to the global financial system, a feat made possible by the dominance of the US dollar. Meanwhile, many regional countries are struggling to maintain the values of their currencies. A drop in value erodes citizens’ power to purchase the imported goods the country depends on – and is thus a threat to political stability. Since the start of the Arab uprisings in 2011, “monetary power” has therefore become an important part of the toolbox of counter-revolutionary statecraft by Gulf Arab monarchies: In moments of economic and political peril, they bolster allies through timely injections of US dollars, propping up their clients’ failing currencies.

**Gulf petro-dollar recycling and the making of US dollar hegemony**

After World War II, the US dollar cemented its role as the world’s preferred reserve currency, having replaced sterling. The dollar’s “exorbitant privilege” (Eichengreen, 2011) seemed momentarily imperilled in the early 1970s, when Washington was forced to abandon the gold standard. The world entered the post-gold era of floating currencies and Washington was keen to assert the dollar’s status as the world’s favourite money.

The transformation of the global monetary system coincided with a shift in the balance of power from great-power oil consumers to oil producers in the Global South – including Iran and Saudi Arabia. The Organisation of Petroleum Exporting Countries (OPEC) became the institutional expression of this newfound power. David Spiro (Spiro, 1999) traced how the way petrodollars were recycled supported the making of US dollar hegemony. Tacit agreements between the US and Saudi Arabia channelled the kingdom’s petrodollars into American treasury bonds. Saudi oil income thus helped finance American deficits. Furthermore, Saudi Arabia agreed to lobby OPEC to keep oil priced in US dollars. Spiro (1999, p. 121-122) describes the advantage of this for the US as a “double loan”. Firstly, the US “government could print dollars to pay for oil, and the American economy did not have to produce foods and services in exchange for the oil until OPEC used the dollars for goods and services” – a strategy which would not work if oil were priced in a currency other than the dollar. Secondly, all other countries “had to pay dollars for oil but could not print currency”, forcing them to trade their goods and services for dollar before being able to buy oil. Saudi Arabia thus influenced quite fundamental functions of the American state, including raising debt and maintaining the global predominance of its currency.

The oil boom of from 2001 until 2014 revived an interest in the role of Gulf oil monarchies’ surpluses propping up the US dollar. Momani (Momani, 2008) argues Gulf influence has dissipated somewhat, as global oil markets are unlikely to simply switch their pricing into currencies other than the US dollar and Gulf investment has diversified away from “conservative” investments such as US treasury bonds. Interviewing financial elites in the Gulf Cooperation Council (GCC) states, Otero-Iglesias and Steinberg found that they remained inclined to keep their foreign currency reserves in US dollars, not least due to continued American security guarantees for the Gulf monarchies (Otero-Iglesias & Steinberg, 2013).

And yet US policy makers and pundits experience recurring bouts of anxiety about “America’s superpower” to print a currency the rest of the world economy is happy to soak up (Zakaria, 2023). Others find these threats to the dollar’s role overblown, not least because China’s yuan remains a less attractive alternative while capital controls are in place and Chinese capital markets remain under-developed (FT editorial board, 2023). Again, the Gulf states feature heavily in this discussion about the future of dollar hegemony. Saudi Arabia under Crown Prince Mohammed bin Salman has been displaying greater independence from United States foreign policy than has traditionally be the case. The kingdom not only defied American wishes on issues such as the Ukraine war and oil policy, but also flirted with increasing the use of “petroyuan” – settling oil bills in Chinese currency (Said & Kalin, 2022).

**Iran sanctions as coercive monetary power**

The Middle East has become a site for the exercise of American “monetary power”, the use of international monetary relations as an instrument of coercive power (Kirshner, 1995). A classic example of the use of monetary power was the Suez war of 1956. The British collusion with France and Israel did not fail because of military defeat but because the United States refused to prop up the value of the pound, which had come under sustained pressure. America’s ability to coerce states through monetary relations includes its ability to curtail a foe’s access to the dollar, the lifeblood of global economic transactions. More recently, the efficacy of American-led sanctions to punish Russia’s invasion of Ukraine relied in no small part on the ability to deny Moscow access to US dollars (Wolf, 2022).

This extreme form of financial sanctions had previously been trialled in the Middle East. The United States put Iran under sanctions soon after the 1979 revolution. The administration of George W. Bush then stepped up sanctions with a campaign aimed at isolating Iran from the global financial system (Arnold, 2016). In 2006 the Treasury lobbied private banks, making it clear that dealing with Iranian financial entities would represent a reputational risk. They also started blacklisting Iranian banks. In 2008, it closed a loophole that allowed US banks to act as intermediaries to facilitate transactions between foreign banks acting on behalf of Iranian clients.

The Obama administration further tightened the screws. This was the stick to entice Iran to accept the carrot of a nuclear agreement, which was eventually concluded between the P5+1 and Iran in 2015. In 2010, Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), which would freeze foreign banks out of the US financial system if found to be falling foul of financial sanctions against Iran. European Union sanctions were also tightened. In 2012 Iran was excluded from the SWIFT payment system, which cut the country out of the standard secure messaging system used in global financial transactions. These efforts to freeze Iran out of the global financial system worked. Iran lost access to many frozen overseas accounts, foreign currency reserves dwindled, the value of the rial dropped (Arnold, 2016, p. 87).

These financial sanctions could only succeed because of the role of the dollar in global trade and as a reserve currency. Not only American banks were facing the threat of falling foul of their own government’s rules, but European and other global banks were also fearful of incurring Washington’s wrath. The risk of dealing with Iran was simply too great.

The US lifted many of its sanctions on Iran after the signing of the nuclear accord in 2015. Donald Trump then reinstated sanctions when he withdrew from the agreement in 2018. These sanctions have had an effect beyond Iran’s borders, also affecting neighbouring countries. Dubai ‘s traders and banks feared that they would fall foul of American restrictions, given that the city had become an important commercial window to the world for Iran (Khalid & Torchia, 2018). Lebanon’s banks became nervous because Hizballah’s close links to Tehran were exposing this crucial economic sector to America’s wrath (Barrington & Francis, 2019). In Iraq, access to US dollars has been regulated by the US Federal Reserve, which supplies Baghdad’s central banks with US currency for daily “dollar auctions” (Jalabi, 2023). The arrangement is a remnant of the American-led invasion in 2003. After suspicion that some of this dollar flow was seeping into the hands of Iran and its local proxies, the US closed the spigot. Iraq is now suffering from a severe shortage of US dollars, hampering trade and commerce in a country that has come to rely on the greenback for a wide range of transactions.

**Protective currency manipulation: Gulf deposits to bolster allies’ currencies**

Financial globalisation gathered pace in the 1980s and was largely completed in the 1990s as states dismantled capital controls. The end of the “embedded liberalism” (Ruggie, 1982) of the Bretton Woods era meant states found it increasingly difficult to manage exchange rates. If “hot money” was free to flow in and out of the country unimpeded, then sudden outflows would see the value of a country’s currency plummet. The economic managers of states – particularly in the Global South – became extremely concerned with displaying macro-economic propriety in line with the “Washington Consensus”: fiscal prudence, trade and investment openness, and much-reduced state expenditure. One signal of such propriety, and a symbol of good macro-economic management, was currency stability itself. Currency stability also has a domestic political function. Many Middle Eastern countries remained dependent on imports of essential goods including food, and often also oil. A drop in the value of the domestic currency would immediately erode the purchasing power of populations already under economic stress from repeated bouts of neoliberal austerity policies.

Currency volatility and especially the plummeting value of a currency thus carry great political risk. The risk is relatively slight for the oil-rich Gulf Arab monarchies who manage to keep their currencies pegged to the US dollar.[[1]](#footnote-1) Resource-poor Arab states, meanwhile, fret over the possibility of sudden devaluations. The ability to prop up the currencies of their poorer Arab brethren has thus become a frequent instrument of Gulf states’ “economic statecraft” (Young, 2023) in the region.

One of the most prominent instances of Gulf states’ “monetary power” was Lebanon’s currency peg. Between 1997 and 2019 the dollar and the Lebanese lira were used interchangeably in everyday transactions at a fixed rate. Lebanon maintained the peg against the odds and in the face of persistent current account and budget deficits, leading to one of the highest debt-to-GDP ratios in the world (Baumann, 2021). Gulf “monetary power” was a crucial factor that allowed the Lebanese central bank to defy economic gravity for so long. The wealthy Lebanese diaspora and also other wealthy Arabs would deposit their wealth in Lebanese banks, earning high interest rates and thus financing the country’s current account deficit. The banks were lending to the government, which in turn paid eye-watering interest rates. Any profits made in Lebanese currency were convertible into US dollars at a fixed rate. How was confidence maintained in the face of ballooning debt? An International Monetary Fund (IMF) working paper from 2008 tried to solve the mystery by asking investors in Lebanese debt (Schimmelpfennig & Gardner, 2008). Firstly, Lebanon had never defaulted. Secondly, the government was borrowing from local banks rather than having to rely on international lenders, who might go cold on them. The banks, meanwhile, relied on Lebanon’s wealthy diaspora as a “dedicated” investor base.

The crucial point with regard to monetary power is the third reason for investor confidence: Investors were relying on an “implicit guarantee” from “donors”. Who these donors were becomes clear if we look at the moments when Lebanon’s financial position seemed most perilous. In 2006 Israel engaged in a month-long war with Lebanon after Hizballah had seized two Israeli soldiers. In order to reassure investors, Kuwait and Saudi Arabia deposited a combined $1.5 million in Lebanon’s central bank. The deposits were a very public display of support meant to reassure investors that Lebanon’s Gulf partners would dip into their deep pockets to support the country’s financial position. In the event, withdrawals stayed at a manageable level and the peg was maintained. This was not the only instance of Gulf deposits propping up the Lebanese currency: Saudi Arabia, Kuwait, and the United Arab Emirates had put a combined $800 million into Beirut’s central bank in 1998, followed by another $100 million from Kuwait in 2001.[[2]](#footnote-2)

The conspicuous depositing of US dollars in other Arab states’ central banks is part of the Gulf states “economic statecraft” (Young, 2023). While Lebanon had been an early testing ground for this use of “monetary power”, this way of propping up weak currencies of political allies exploded after the onset of the Arab uprisings in 2011. Gulf monarchies were expanding their aid, investment, but also dollar deposits into central banks in order to influence the politics of countries in uproar. The biggest recipient of deposits was Egypt, which became a battle ground of rival Gulf visions for the future of the region. Between 2012 and 2022, Kuwait, Qatar, UAE, and Saudi Arabia deposited a combined $27 billion into Cairo’s central bank.[[3]](#footnote-3) An initial Qatari deposit was paid in under the Muslim Brotherhood Muhammad Mursi’s presidency but was repaid after the 2013 coup against the Brotherhood, replaced by competing inflows from Saudi Arabia and the UAE (Saleh, 2013). While Doha had seen the Muslim Brotherhood as a welcome partner in its bid for regional influence, Riyadh and Abu Dhabi regarded the movement a threat to its regional control. Monetary power in the shape of deposits to central banks became a weapon in this tussle over the future of Arab politics.

Egypt was the largest recipient of central bank deposits from the Gulf but it was not alone. Other countries which received such support in the wake of the uprisings were Jordan, Sudan, Tunisia, and Yemen.[[4]](#footnote-4) The aim was to prop up friendly autocratic regimes such as Jordan or war-torn Yemen, or to curry favour with incoming governments in Sudan or Tunisia. Beyond the Arab world, Turkey has benefited from currency swaps with Qatar which helped it manage the weakening lira (Kucukgocmen & Coskun, 2020), while Pakistan has benefited from Saudi support (Al-Atrush & Bokhari, 2022). Monetary power has become a commonly used tool of post-Arab uprising Gulf statecraft.

**The future geography of money**

Sovereignty is always something of an illusion but it is particularly tenuous when it comes to currencies. The Middle East has been at the forefront of several different dynamics of uneven monetary geography – global dollar hegemony, the local effects of US sanctions, or the regional exercise of Gulf “monetary power” through conspicuous deposits in central banks.

The future dynamics of money are in flux. Gulf oil states’ commitment to dollar hegemony seems to be less assured. The declining dominance of the greenback would also undermine the efficacy of financial sanctions Washington may level against opponents in the Middle East, as it did towards Iran. The future influence of Gulf states on global currency dynamics is itself in doubt as the global economy is decarbonising and the monarchies need to adapt to a post-oil world. At a regional level, Gulf states’ use of monetary power through deposits to central banks is likely to remain a useful gauge of regional political dynamics.

The study of Middle Eastern currencies can also address the absence of the region in scholarship on international political economy (IPE) (Snider, 2017; Baumann, 2021; Baumann & Roccu, 2023). The use of monetary power as an instrument of Gulf countries’ economic statecraft is not only “bringing the Middle East” into IPE by expanding the universe of cases, but can also help theorise and refine the concept.

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1. With the exception of Kuwait, which pegs the dinar to a basket of currencies. [↑](#footnote-ref-1)
2. According to the Middle East Economic Survey, various issues. [↑](#footnote-ref-2)
3. According to the Middle East Economic Survey, various issues. [↑](#footnote-ref-3)
4. According to the Middle East Economic Survey, various issues. [↑](#footnote-ref-4)