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THE ECONOMIC ORIGINS OF THE "WAR ON TERROR"

> These terrorists kill not merely to end lives but to disrupt and end a way of life. With every atrocity, they hope that America grows fearful, retreating from the world and forsaking our friends. They stand against us, because we stand in their way. We are not deceived by their pretenses to piety. We have seen their kind before. They are the heirs of all the murderous ideologies of the twentieth century. By sacrificing human life to serve their radical visions, by abandoning every value except the will to power, they follow in the path of fascism and Nazism and totalitarianism. And they will follow that path all the way, to where it ends, in history's unmarked grave of discarded lies.
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> —President George W. Bush
> September 20, 2001, speech to joint session of Congress

George W. Bush's speech before the joint session of Congress likened the new war on terror to both World War II and the Cold War. Given the trauma of 9/11, it is easy to understand how so many Americans believed that al Qaeda posed such a significant threat. However, as previously established, Americans are more likely to die from motor

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vehicle accidents, drowning, or choking than from terrorist attacks.[1] Additionally, as frightening as groups such as al Qaeda and ISIS appear, terrorists tend to be terribly ineffective at accomplishing their strategic objectives and often fail due to their own dysfunction.[2] This demonstrates that while each death due to terrorism is tragic, terrorist groups do not pose anything close to existential threats.

Since the risk of terrorism is so low, the simplest explanation for American behavior is that the U.S. overreacted to the trauma of 9/11. However, nearly two decades after the attacks, terrorism remains at the forefront of American policy, and American policymakers still use much of the rhetoric and the "lessons" of 9/11 continue to guide their decision-making. This suggests that we may not be observing an overreaction that will ameliorate itself with time, and it raises the question: if terrorism does not pose a significant risk to the lives of Americans, how exactly does terrorism threaten U.S. security?

This chapter argues that the root causes of the war on terror are economic. The 9/11 attacks provided an opportunity for the U.S. to expand its control over global energy markets, which in turn would cement the U.S. dollar as the world's foremost reserve currency. Since the early 1970s, the states of OPEC (Organization of the Petroleum Exporting Countries) have agreed to denominate sales of oil and energy products in U.S. dollars in exchange for American military protection. These states subsequently recycled their dollars back into American bonds and commercial banks, which allowed the U.S. to borrow at low interest rates while running substantial budget deficits. The war on terror was an effort to preserve these benefits by destroying al Qaeda, the Taliban, and Saddam Hussein's government in Iraq. These actions gave the U.S. control over both the bulk of Middle Eastern oil reserves and the key transit routes needed to exploit new energy sources in Central Asia. These victories seemingly guaranteed that energy sales would be settled permanently in U.S. dollars, so long as the U.S. provided security for the host states that were critical to the extraction, sale, and transportation of energy to global markets. Politically, the U.S. justified its forward presence by invoking the specter of another 9/11 attack. This threat gave the U.S. cover to provide permanent military protection to the host states that served as energy suppliers and provided critical infrastructure and transit routes. To make this argument, let us first examine how the U.S. became the pivotal player in the international system following World War II, and how American financial hegemony became linked to the global energy markets.

THE BEGINNING OF AMERICAN HEGEMONY: BRETTON WOODS 1944–1971

The end of World War II is often seen as the beginning of the period of American hegemony.[3] Hegemony is defined as a situation where one state dominates the international system in terms of its economic and military power. This preponderance of power enables the hegemonic state to structure and govern the world's political and economic relationships by codifying the rules of conduct in international institutions. This hegemon designs the rules of international institutions in a way that reflects its own values and preferences, and is likely to produce its preferred outcomes.[4] These rules govern economic relationships and provide a mechanism for adjudicating security disputes between states. Other states are compelled to accept the legitimacy of the hegemon's rules due to its disproportionate power. If the rules of the institutions are followed over time, these rules will eventually become socialized and perceived as "normal," "just," and the "correct" way to run international affairs.[5]

The U.S. found itself in this position of hegemony at the end of World War II. In 1945, the U.S. generated roughly 40% of the world's total economic output and maintained 60% of the world's gold reserves.[6] The U.S. further had military forces in both Europe and Asia and maintained near total control of the Atlantic and Pacific oceans. The U.S. also maintained sole possession of the atom bomb. American factories were still operating at peak production for the war effort and the economic infrastructure of the U.S. remained intact. By contrast, the war completely devastated the major European and Asian powers, along with the Soviet Union.[7] World War II represented a total war, with attacks occurring within civilian centers in addition to the battlefield. The damage from the war therefore destroyed these states' human and economic capital as well as the infrastructure needed to rebuild from the war. Since the U.S. was the only country with a functioning economy and manufacturing base, American capital was essential to begin the rebuilding process in the combatant countries. With this remarkable power, the U.S. was in position to shape the rules and norms of the international system in a way that reflected its own interests and values.

The central objective of U.S. policymakers was to prevent the outbreak of another global conflict. These policymakers concluded that the Great Depression and the instability in the value of currencies and exchange rates had led to the onset of World War II. Prior to this conflict, the world tacitly accepted the system known as the British gold standard to shape the rules of global finance.[8] This system emerged with the passage of the Bank Charter Act in 1844, which had declared that the British pound was convertible into gold bullion. The claim appeared credible due to the substantial amount of gold held by British colonial possessions. Since global merchants knew that the British held sufficient gold reserves to convert their pounds into gold, and since gold was a commodity in high demand, countries accepted pounds in exchange for goods and services. This system made the British pound the anchor for world commerce. To obtain pounds, countries devalued their own currencies to lower the price of their commodities relative to goods produced within Britain. This allowed imports to become more competitive in the British market, which in turn allowed other countries to exchange real goods for pounds, which would then be converted into other real necessary imports. Although this created a substantial trade deficit, Britain obtained the seigniorage privilege in that it could create pounds and exchange them for real goods and services. This monetary advantage cannot be overstated: *Britain could essentially generate money for almost no cost and exchange it with the rest of the world for real goods.* This system held together so long as Britain could redeem pounds (or IOUs) into gold, which required the British to maintain an empire to protect their supplies of gold to maintain this convertibility.

While the gold standard remained somewhat functional for the latter half of the nineteenth century, the onset of World War I plunged the system into crisis. To finance the war, Britain and the other combatant states removed themselves from the gold standard and began creating large amounts of currency. This increase in the supply of pounds soon appeared to exceed British holdings of gold. This perception that the British pound lost convertibility caused other states in the system to cease accepting British pounds, which in turn caused the currency to lose value. Hyperinflation swept through the continent, and Europeans found themselves poorer as their currencies lost value. These declining economic conditions hurt the ability of the Europeans to purchase imports, which soon caused the crisis to spread to the U.S. economy. Although the U.S. economy boomed in the 1920s, demand for American goods within the U.S. market ultimately hit a plateau, which required U.S. firms to export their surplus production. The collapse of the European economies gave U.S. factories nowhere to export. American firms were forced to begin layoffs, which in turn decreased the disposable income of American families, leading to a collapse in demand. The inability to sell goods led to multiple bankruptcies, culminating in the 1929 crashing of both the London and New York stock exchanges. States such as Fascist Italy and Nazi Germany responded to the depression by adopting command economic policies and stimulating their economies through military buildups. With these large militaries, these states and Imperial Japan initiated wars of conquest, which led to World War II.

As the war drew to a close, the U.S. and the British sought to create a system that would prevent something like the Great Depression from occurring again. The key task was to stabilize exchange rates by ensuring the convertibility of world currencies into something tangible. The solution was the system of exchange known as the Bretton Woods system in 1944.[9] This system established a stable exchange rate system with currencies pegged to the U.S. dollar. The U.S. dollar maintained fixed convertibility into gold at $35 per ounce. Since all currencies became tied to the dollar, and the dollar was guaranteed to convert into gold, each of the world's currencies could retain value. Bretton Woods would therefore prevent inflation and stabilize the value of global currencies. However, Bretton Woods also established the U.S. as the world's critical economic player and central banker. The U.S. dollar became the world's most important currency with unmatched value.

To encourage global trade, the U.S. pushed for the Generalized Agreement on Tariffs and Trade (GATT) to encourage international trade by lowering tariffs between countries and establishing norms of tariff reciprocity. The U.S. also developed the International Monetary Fund (IMF) to assist countries that maintained temporary balance-of-payment problems. This would enable states in the economic system to continue their economic policies at home while keeping a stable exchange rate by borrowing from the IMF. The U.S. further pushed for the decolonization of empires, which were viewed as protectionist regional trading blocs that hampered the free flow of goods and services. Although the move to end colonial empires is often interpreted as an expression of American idealism, we must remember that colonies were the exclusive economic blocs of the European powers, and they prevented U.S. trade and investment from entering these markets.[10] The dissolution of the empires opened numerous markets for American goods and services. This was particularly advantageous at the time, given that the U.S. manufacturing base was fully operational while its competitors were digging themselves out of the war. To assist the newly independent countries in their economic development, the U.S. established the World Bank to provide capital to these states, which in turn would enable governments to rebuild their societies and invest.

The problem, however, was that most of the world's states lacked the capital to participate in the system of global trade. To solve this problem, the U.S. created the Marshall Plan, which agreed to loan money to the European and Asian states recovering from the war to finance their reconstruction. In a speech at Harvard University in June 1947, Secretary of State George Marshall argued:

> Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States

> should do whatever it is able to do to assist in the return of normal economic health to the world, without which there can be no political stability and no assured peace. Our policy is not directed against any country, but against hunger, poverty, desperation and chaos. Any government that is willing to assist in recovery will find full co-operation on the part of the U.S.A.[11]

It is worth noting that while the plan was justified as necessary to restart European economic growth, stabilize the governments, and prevent mass starvation, these reasons appear secondary to the health of the U.S. economy. President Harry Truman and Secretary Marshall appeared far more concerned with the breakdown of the new world economic system centered on the dollar. For trade to commence, and for the U.S. to begin employing the massive number of G.I.s returning from the war, the U.S. needed export markets for its surplus production. The Marshall Plan loaned European states dollars to purchase the surplus production of American goods, which in turn would be used to rebuild the European economy. The Europeans would further be responsible for paying the loans back to the U.S. with interest. If the European states retained any surplus dollars, these dollars would then also be loaned back to the U.S. by purchasing American securities. These securities could then finance the provision of American military support to defend the European and Asian states from conventional threats from the Soviet Union and from Communist insurrections within their territories. The Marshall Plan provided a boon for American business, while simultaneously pushing the cost for maintaining the American forward defense position onto the U.S. allies.

This system was sustainable so long as American dollars could be redeemed into gold. The U.S. held roughly 60% of the world's gold reserves by 1947, which made it easy to continue issuing dollars.[12] Since dollars were guaranteed to be converted into gold at $35 per ounce, and since the U.S. controlled most of the world's gold, the U.S. could create money, exchange it for goods and services, and induce countries to send their capital back to the U.S. so the pattern could be repeated. Other states faced little alternative but to accept this system. Without American support, these states could potentially face insurrections within their territory, as many of the European states did following World War I.[13] This was particularly concerning given the increased power and influence of the Soviet Union. It appeared, based on his behavior in Eastern Europe, that Joseph Stalin sought to expand Soviet influence through Europe by supporting Communist parties in each of the states. The Asian states faced similar pressures following Mao Zedong's victory over Chiang Kai-Shek in China in 1950. These states therefore needed the American security guarantee to both finance their economic recoveries and fend off Communist insurrections.

The period 1950–1971 is often referred to as the "golden age" of the Bretton Woods system. The U.S. expanded its portfolio of allies throughout Europe and the developing world based on its willingness to defend these new states from Communist destabilization. The economies of countries allied with the U.S. grew much faster relative to the states in the Communist bloc, world trade increased substantially, and the American economy expanded at an impressive pace. Domestically, the U.S. experienced what became known as the Great Compression, when income inequality fell by 7.4%.[14] The U.S. workforce gained large access to higher education due to the financial support from the G.I. Bill. As a result, both productivity and wage growth in the U.S. markedly increased. During the 1960s, the Lyndon Johnson administration expanded on Franklin D. Roosevelt's Social Security programs with the creation of Medicare and Medicaid to provide health insurance for the elderly and disabled. These Great Society programs were very popular and quickly became integral parts of the American social order.

At the same time, the U.S. faced increasing budgetary pressures from financing these new programs and from the escalating Vietnam War. The U.S. was unable to quickly subdue the insurgency led by the Communist Vietminh in Southeast Asia and needed substantial resources to continue to fight on behalf of the fledgling South Vietnamese government. Simultaneously, the U.S. needed to finance the popular Great Society programs. Since cutting the new programs would be politically difficult, and rapidly ending the war in Vietnam would be an international humiliation, the U.S. continued creating more dollars. A problem emerged when President Charles de Gaulle of France began to question if the U.S. could convert the dollars it issued into gold at $35 per ounce. De Gaulle demanded that the U.S. redeem French holdings of $884 million in dollars for gold in 1965, followed by a further demand of $601 million in gold the following year. This led to a rush by several other states to redeem their own dollars into gold. While the U.S. could meet the demand initially, it lost the ability to do so by the early 1970s. President Richard M. Nixon announced on August 11, 1971, that the U.S. would no longer redeem dollars for gold and would instead allow the dollar to float against international currencies.[15] This decision, known as the "Nixon shock," effectively broke and ended the Bretton Woods system.

DECLINING HEGEMONY: THE END OF BRETTON WOODS AND THE OIL SHOCKS

Following the Nixon shock, the U.S. dollar began to depreciate against gold. Americans therefore found themselves becoming much poorer as the dollar devalued against other currencies. To stem the loss in the dollar's value, the U.S. raised interest rates, which in turn increased borrowing costs. To make matters worse, the U.S. was also entering the process of deindustrialization due to the flood of cheap imports that had begun in the previous decade, a situation that was increasing layoffs and beginning to push the U.S. into a recession. The U.S. was in a position that was previously unthinkable: unemployment and inflation were simultaneously rising. This meant that as numerous Americans were losing their jobs to deindustrialization, they also found that their ability to purchase goods and services was eroding due to inflation.

The increased economic vulnerability of the U.S. was put on display during the October War between Egypt, Syria, and Israel. On October 6, 1973, the Israeli holy day of Yom Kippur, the Egyptian military crossed the Suez Canal and attacked the Israeli Defense Force (IDF) positions in the Sinai Peninsula. Simultaneously, the Syrians attacked the IDF on the Golan Heights. The two Arab states were armed with Soviet weaponry and, to the surprise of both the Israelis and the U.S., performed well in the initial phases of the war. However, the war soon stalemated as the Israelis mobilized their reserves and repelled the Syrian advance. After intelligence reports suggested that the Soviets were considering a military intervention to preserve their Egyptian and Syrian clients, the U.S. began an airlift of supplies to the Israelis known as Operation Nickel Grass. In response, the OPEC states led by Saudi Arabia announced on October 19 that they would impose a punitive embargo on oil sales to all states that were supporting Israel, including the U.S.

Although the U.S. continued to supply Israel, and the war ended in a defeat for the Arab states, the OPEC producers announced in early November that they would reduce oil production by 25%, which resulted in a nearly threefold increase in the price of oil. The OPEC embargo was particularly harmful to the U.S. for three reasons. First, the U.S. was already suffering from currency depreciation due to the abandonment of the gold standard. Second, although the U.S. had long been an oil producer itself, it had exhausted much of its domestic supply by the early 1970s.[16] Since the U.S. could not meet its oil needs from domestic sources, the increases in the price of oil produced a large outflow of dollars from the U.S. to the OPEC states. These states could not spend these dollars quickly enough, which meant that the dollars were not coming back to the U.S. In 1974, Treasury Secretary William Simon described this situation bleakly in a conversation with President Nixon:"With all the states with money and nowhere to spend it, the banks and financial markets are in trouble. Oil prices have created great instability in the international financial markets."[17]

During the golden age, the U.S. could simply borrow money to push through this difficult period based on its gold reserves. However, this was not possible with the removal of the gold standard. Interest rates on loans began to rise, and the U.S. found its budget deficit rapidly widening.

The third reason why the OPEC embargo was so painful was that the U.S. began experiencing a serious drought, which coupled with rising energy prices led to a stunning 20% increase in food prices in 1973 and a subsequent 12% increase in 1974.[18] These increases in the price of food and oil in the middle of a recession, along with increasing obligations to pay for the social safety net and war in Indochina, put the U.S. government under incredible strain. In a stark illustration of the times, New York City came to the brink of bankruptcy by 1975. Many other major cities found their tax bases dwindling as the effects of inflation became widespread. However, the pain of the oil embargo was felt most by American families, who were seeing their jobs lost and their savings depleted, while simultaneously suffering from the rising cost of basic living necessities.

The weakening U.S. economy created significant problems for American foreign policy. The ability of the U.S. to project power through the international system is a function of its economic base, which translates into resources to finance American defense positions throughout the world.[19] These resources allowed the U.S. to finance the army, navy, air force, marines, and the nation's vast intelligence-gathering establishment. However, if the value of the dollars that comprised the U.S. economy were to depreciate, this would decrease the overall strength of the U.S. economy. In other words, while the U.S. maintained a powerful military to project power during the early 1970s, the continuation of the embargo would render the U.S. unable to support this military in the coming years.

This situation is known as a "dynamic commitment problem" in studies of international relations, and it is a key cause of international conflict.[20] If a hegemon such as the U.S. precipitously weakens, rival states may opportunistically take advantage of this weakness to expand their power at the weakening hegemon's expense. With the U.S. facing economic decline in the early 1970s, the Soviet Union was in position to expand its own power in Southeast Asia and the Middle East. The Soviets maintained their own energy reserves and were less dependent on the Middle East.[21] Soviet surrogates such as Egypt and Iraq could now begin to destabilize the valuable territories of American clients, such as Iran and Saudi Arabia. Any gains made at the expense of American clients would only serve to further weaken the U.S., which in turn would allow greater Soviet advances elsewhere, perhaps even in Europe. The Nixon administration realized clearly that inflation was significantly weakening the U.S. security position.

SAVING AMERICAN HEGEMONY

The administration's solution to the problem of rapidly rising oil prices was to push Iran and Saudi Arabia to increase their oil production to slow the rising price of oil. The U.S. maintained long ties with both regimes. American ties with Iran were an extension of the relationship between the British and Shah Mohammad Reza Pahlavi. During World War II, the Shah was removed from power due to his alleged Nazi sympathies. However, in the early 1950s, the new Iranian prime minister, Mohammad Mossadeq, initiated a plan to nationalize Iranian oil assets and limit the ability of Western oil companies to operate within the country. The Dwight D. Eisenhower administration responded by initiating Operation Ajax, which fomented a military coup in Iran using American and British intelligence services. The coup returned the Shah to power and promptly restored the ability of American and Anglo oil companies to operate. The Shah was seen by the Americans to be a staunch and progressive ally against the forces of upheaval, particularly potential nationalist and Communist impulses in the Middle East. The U.S. hoped to use its long ties with the Shah to encourage him to increase production and decrease the price of oil. However, he refused to cooperate, and instead sought to use the high price of oil and flow of dollars to invest in public goods, infrastructure, and other projects.

Saudi Arabia, on the other hand, was much more willing to assist the U.S. The U.S. enjoyed a long and friendly relationship with the House of Saud, who assumed complete control of the territory comprising their state in 1926. The U.S. soon recognized Saudi Arabia in 1933 and established the Arabian American Oil Company (Aramco) to explore for oil in the eastern part of the territory. These oil discoveries became critically important during World War II. In 1945, President Roosevelt signed a security agreement with King Abdel Aziz aboard the U.S.S. *Quincy* in the Suez Canal, cementing a relationship of friendship between the two states. However, despite the long American-Saudi friendship, the practices of the Wahhabi monarchy stood in stark contrast to Iran. The Wahhabis practiced a near Puritanical interpretation of Sunni Islam, whereas the Shah appeared far more socially progressive and secular. Although this made the Shah a more favorable ally to the

U.S., both regimes were critical in that they both possessed vast oil reserves, and both were staunchly anti-Communist.

The Saudis' enthusiasm for deepening their economic and security ties with the U.S. stemmed from their vulnerable security situation. The Soviets recognized that Saudi Arabia maintained the largest oil reserves in the world and that falling American production made the West critically dependent on the kingdom's oil. The Soviets could therefore deal a critical blow to the U.S. by seizing Saudi territory. To this end, the Soviets agreed to a fifteen-year Treaty of Friendship and Cooperation with Saddam Hussein's Iraq and began bolstering his military with their advanced weaponry. The Saudis faced another threat from instability in Yemen, where Egypt had previously intervened with the support of the Soviet Union. In addition to the threat of Communism, Saudi Arabia appeared very concerned about the possibility of Iranian aggression, given Pahlavi's open disdain for Wahhabism. Pahlavi modernized his military forces and encroached on the islands of Big Tunb, Little Tunb, and Abu Moussa, all of which were held by the United Arab Emirates (UAE), a Saudi ally. Despite these threats, Saudi Arabia could not field a military to compete with Egypt, Iraq, or Iran due to its very small population. The monarchy saw the U.S. as a solution to its security problems.

The eagerness of the Saudis to gain the backing of the U.S. military led to a remarkable agreement of cooperation. Saudi Arabia would continue to price oil exclusively in dollars and would use its power in OPEC to convince the other oil producers to do the same. In exchange, the U.S. would guarantee to defend the Saudi kingdom in perpetuity from all internal and external threats. Saudi Arabia was further given a promise that the U.S. would support the continuation of the monarchy and protect it from any internal challengers. While the deal therefore seemed quite favorable for the kingdom, it also served to halt the dollar's depreciation. If the world needed U.S. currency to purchase oil, the value of the dollar would stabilize.

For the system to work, the Saudis would have to be able to convert U.S. dollars into a commodity that would generate a return for the Saudis. Treasury Secretary Simon therefore proposed that the Saudis and other OPEC states reinvest the surplus dollars they acquired into U.S. securities and commercial banks. In his discussions with President Nixon, Simon stated, "I would like to get some commitment from them to purchase long- and short-term securities. That would be very helpful for our money markets."[22] The U.S. had a long history of meeting its obligations with respect to its securities, and it consistently delivered stable and positive rates of return. Additionally, the Federal Reserve began raising interest rates to very high levels to fight inflation in the U.S. This meant that the interest returns to the Saudis would become even greater, and their wealth would increase even more, so long as they maintained the system where oil could only be purchased with dollars. To the surprise of the administration, the Saudis were overwhelmingly enthusiastic about the proposal. Secretary Simon reported that it was received "Outstandingly. Even where I shouldn't have been." Simon further reported that other states were willing to cooperate; he told the president, "Two things will happen. We will get Arab investment in the U.S. Treasury certainly . . . They know we have the best credit and they can invest with us directly and not drive the market price up."[23]

To facilitate the recycling of the vast quantities of petrodollars from Saudi Arabia, Simon allowed for special offerings of securities beyond the normal amount the U.S. government offered publicly. Additionally, given U.S. support for Israel and the precarious security position of the monarchy, King Faisal asked the U.S. to keep the purchases of U.S. treasuries "discreet."[24] The Saudis did not want to appear to be assisting Israel's top benefactor in the region for fear of stirring internal and regional unrest against them. From the American perspective, there were also reasons to keep the arrangement quiet. First, if it became clear that the U.S. depended on Saudi Arabia to this extent, it would encourage the Soviets to use their proxies in the Middle East to attack and destabilize the kingdom. Second, the revelation that the dollar needed Arab support to prevent depreciation might cause speculators to attack by selling their dollars in exchange for gold while the dollar held some value. This in turn would exacerbate the problem of depreciation and defeat the purpose of the entire arrangement with the Saudis. In addition to these strategic reasons, the overwhelming reason to keep the arrangement quiet was the need for the Nixon and subsequent Ford administrations to avoid admitting to the American public that the U.S. economy was now more vulnerable than it had been in the past. Interestingly, some in the Nixon and then the Ford administrations advocating having open discussions with the U.S. public about these seismic changes in the global economy. For example, Ford's chairman of the Council of Economic Advisors and future chairman of the Federal Reserve, Alan Greenspan, stated that the administration should inform the public that the days where the U.S. could inoculate itself from the world were over and that oil was a key economic problem.[25] However, President Gerald R. Ford was up for reelection in 1976 and had presided over the U.S. defeat in Vietnam, the damage of the oil shocks, and the shadow of Nixon's impeachment. With all of this baggage, admitting to the American public that the government was now dependent on foreign states, particularly Arab states, would likely pose significant damage to his efforts to keep power.[26] Congressional leaders were already expressing some concern that U.S. foreign policy interests would now be held captive by the Arab states. This was especially concerning since nearly all of these states were openly hostile to Israel. Admitting that the U.S. needed the Arabs, and would in fact depend on them, would all but doom Ford's reelection effort. Since Ford preferred to hold onto power, and since the Saudis preferred to remain discreet about the arrangement, the deal to protect the kingdom in perpetuity in exchange for the oil peg remained secret.

The Shah of Iran was left out of the deal due to his unwillingness to cooperate, though President Nixon and Secretary of State Henry Kissinger, and later President Ford, all preferred working with him as opposed to the Saudis.[27] Treasury Secretary Simon pushed hard for making the Saudis the critical partner in the relationship rather than Iran. Simon argued, "Saudi Arabia has probably 150 years of production left, whereas Iran has only 15 years."[28] While the Nixon administration promised the Saudis perpetual security, the Ford administration signaled to Pahlavi that the U.S. was preparing contingency plans to invade and depose the monarchy in the event of instability in the kingdom.[29] The instability referred to a hostile takeover of the monarchy following the assassination of King Faisal in March 1975. However, despite these overtures, Pahlavi announced at his departure that he would continue to seek increases in the price of oil. Simon's argument in favor of Saudi Arabia strengthened in 1976 when the Saudis held off increases in the price of oil at the December OPEC meetings. The meetings pitted the Saudis against the Iranians in an argument over price increases. When the Saudis won over the Shah, it became clear that they would be America's key partner in the Middle East. The fall in the price of oil in the following year began accelerating the collapse of Pahlavi's regime, which culminated in 1979 during the Iranian Revolution.

Although inflation continued to plague the U.S. through the end of the decade, particularly after the Iranian Revolution of 1979, the agreement with the Saudis soon began to bear fruit. Shortly after Saudi Arabia agreed to maintain its oil sales in dollars, and the kingdom began acquiring large amounts of U.S. dollars, other states in OPEC quickly followed suit. Other commodities soon followed the lead of oil and remained exclusively priced in American dollars as well. International demand for U.S. dollars again increased. However, this time, the arrangement was far more lucrative. While the amount of gold is finite, oil production was consistently increasing. This allowed the U.S. to create more dollars to bolster its wealth. Additionally, since the dollars traded for oil were subsequently reinvested in American treasuries, the U.S. could again run budget deficits to finance large defense budgets and domestic spending with low tax rates.

From the Saudi perspective, the kingdom gained a security guarantee from a very powerful ally that could stabilize the monarchy in perpetuity. Moreover, the monarchy saw the system as a way to vastly improve its riches. The Saudis could collect steady rates of interest on their American treasuries, allowing them to further profit from their oil sales. The U.S. further accelerated Saudi monetary gains by relaxing the rules on capital controls and on the divisions between commercial and investment banking. This deregulation allowed American financial institutions to take greater risks and realize greater profits. Additionally, the price of oil soon began to fall as the Saudis and their allies in OPEC agreed to increase production. This increase in supply, the end of the embargo, and U.S. Federal Reserve Chairman Paul Volcker's decision to raise interest rates, successfully tamed inflation in the U.S.

The increase in oil production further created a financial attack on the Soviet economy, which was highly dependent on oil and other natural resources. The collapse in world energy prices, coupled with enormous defense expenditures and the disastrous war in Afghanistan, led to the dissolution of the Soviet Union and the end of its Eastern European empire in the late 1980s and early 1990s. The revolutions in Eastern Europe opened these states to multinational investment and created new trading partners for American firms. As with the Marshall Plan, these governments accepted loans to make the transition from command to market economies, which were then used to purchase goods from the U.S. that could be paid back with interest. The U.S. once again found itself with a booming economy. The U.S. continued to create dollars and exchange them for oil; the money from the oil revenues would be reinvested in the U.S. market, and American firms would consistently deliver excellent returns due to demand from the transitioning countries and increasing multinational investment in countries that were adopting market reforms. Domination of the world's energy market not only saved U.S. hegemony, it exponentially increased American economic power.

THE BENEFITS OF HEGEMONY AND THE PETRODOLLAR SYSTEM

Let us consider the benefits this international order provides to most Americans. Americans represent about 5% of the world's population. Yet, at the end of the Cold War in 1990, the U.S. economy generated about 26.6% of the world's gross domestic product.[30] By 1998, 86.8% of all global foreign transactions in were conducted in dollars.[31] This position allowed all Americans to benefit from the large international demand for dollars that American economic and military hegemony provides. This demand enabled Americans to enjoy low interest rates, which in turn increased consumer spending. Lower-income Americans could not only afford luxury items at cheaper prices from imports due to the strength of the dollar and but could also simultaneously purchase automobiles and homes on credit. Additionally, all Americans enjoyed the benefits of low taxation while funding Social Security, Medicare, defense, public schools, and a police force on credit. While the benefits were fewer for the less affluent and the poor, these groups still gained a relatively higher quality of life in comparison to their counterparts overseas.

Given these benefits, a central goal of U.S. foreign policy was to maintain this financial dominance, which rested on three pillars. First, the dollar needed to remain in high demand. This demand could be supported by keeping sales of oil and all other energy products pegged to U.S. dollars. While there was some concern that Saudi Arabia would no longer need the protection of the U.S. military after the Cold War, the Iraqi invasion of Kuwait in 1990 and the increased assertiveness of Iran both reinforced the need for American protection. Saudi Arabia maintained the incentive to use its power in OPEC to keep oil sales pegged to dollars. Second, the system required dollars from abroad to be recycled into American financial institutions and securities. American multinationals therefore required profits in the domestic market as well as the stability of investments abroad. The U.S. therefore preferred supporting regimes that are willing to continue paying back loans to American financial institutions and staying in the international economic system as opposed to supporting leaders who threaten to withdraw from the system and default on their payments. As with the pricing of dollars, this situation appeared to be relatively stable.[32] These investments enabled the U.S. to make credit readily available to consumers and firms, which in turn allowed demand in the U.S. to stay high and profits to continue.[33]

The third and most often overlooked pillar of American economic success was the ability of the U.S. to project military force abroad.[34] The privileged position of the U.S. stemmed from its superiority in ground, naval, air, and space weapons and its ability to use these weapons in response to any threat. Having this power enabled the U.S. to contain any disruptions to the international economic system, such as Saddam Hussein's adventurism in Kuwait or North Korea's desire to absorb the

South. American naval power further ensured stability of the seas and the ability of commerce to flow uninterrupted. In many ways, preserving this dominance was also in the interest of many of America's financial competitors, such as the European Union and Japan, which both contended with potential threats from Russia and China, respectively. Both benefited from the U.S.'s ability to maintain hegemony over the Middle East, Asia, and Africa and secure the flow of energy supplies from these regions to the world. To maintain the ability to serve as the guarantor of the economic system, the U.S. constructed numerous forward bases throughout the world that allowed for rapid power projection in response to threats and to minimize disruptions throughout the world.[35] In other words, the international economic system depended on "stability," or the lack of any challengers to the current order.

RISING THREATS TO AMERICAN HEGEMONY IN THE NEW CENTURY

By the end of the Cold War, the U.S. was the unchallenged military hegemon of the global system, with unrivaled power. The dollar accounted for 89.9% of the world's economic transactions,[36] the U.S. economy was booming on the strength of the Internet revolution, and the U.S. enjoyed a budget surplus. American military power was unrivaled; the U.S. could fight major military engagements while typically losing few soldiers in battle. In his final State of the Union address, President Bill Clinton declared, "The state of our union is the strongest it has ever been."[37] However, the U.S. faced three interrelated challenges over the horizon: Saddam Hussein's Iraq, the emergence of al Qaeda, and the creation of the euro.[38]

The first challenge came from Iraqi president Saddam Hussein's invasion of neighboring Kuwait in August 1990. Saddam alleged that Kuwait was exceeding oil production quotas and driving the price down, making it difficult to repay Iraqi debts from its war with Iran. Saddam believed that the Iranian war was waged on behalf of all Arabs, but he was now being squeezed economically by those states that benefited the most from it. Saddam voiced these complaints in a now-famous meeting with U.S. Ambassador April Glaspie, where he asked if the U.S. was prepared to defend Kuwait in the event of a military conflict. Glaspie replied that the U.S. did not get involved in Arab-Arab conflicts but that any dispute should be resolved peacefully. Many historians believed that this meeting encouraged Saddam to proceed with his invasion of Kuwait. The problem, however, stemmed from a combination of the Bush administration's distrust of Saddam and the American commitment to defend the security of the cooperative OPEC states. The administration looked suspiciously on Saddam's prior ties to the Soviet Union, his anti-Israeli rhetoric, and his willingness to use chemical weaponry to suppress internal revolts. Given this history, Bush appeared deeply skeptical of allowing Saddam to move from controlling 9% of the world's oil reserves to 15.1%, which would rival Saudi Arabia's 15.9%.[39] Saddam's unpredictability might have led to a destabilization of financial markets if he were to threaten a move away from the petrodollar agreements. Additionally, however, the U.S. commitment to its allies in OPEC specified that it would protect the security of each of these states. Kuwait was a key part of the petrodollar system. The Iraqi invasion therefore needed to be turned back not only because of the oil now under Saddam's control but also to affirm the credibility of the American defense guarantee. The U.S. was therefore compelled to act. The full power of the U.S. military came on display with a stunningly rapid defeat of Iraq in five weeks from January to February 1991. The U.S. overwhelmed the fourth-largest army in the world armed with Soviet weapons, all while suffering only 376 battle deaths.[40]

The second challenge to American dominance came from Osama bin Laden, a former Afghan mujahideen fighter who began organizing his former veterans into a group known as al Qaeda, or "the base." Bin Laden challenged the decision by Saudi Arabia to allow the American military to maintain a base within its territory. Bin Laden proposed initially to lead a guerrilla war to liberate the territory from Saddam. The monarchy respectfully dismissed his plan and instead chose to authorize the deployment of American forces into the kingdom. The decision created substantial unrest as numerous religious scholars protested the presence of U.S. forces in Saudi Arabia, which was home to Mecca and

Medina, the holiest sites in Islam. In response, the kingdom initiated a program of mass arrests and suppression, and soon made the decision to expel bin Laden himself for agitating propaganda against the regime. The interesting facet of this decision was that bin Laden was part of the Saudi elite and supportive of King Fahd. The regime was also a considerable benefactor to numerous religious radical groups, including bin Laden's. Yet, bin Laden publicly denounced the regime and its decision.

Bin Laden first moved to Sudan but was quickly expelled. With his organization on its knees, bin Laden was given sanctuary by the Taliban, a Pakistani-supported group that controlled a large portion of Afghanistan's territory. The Taliban saw bin Laden as someone who might provide some financial assistance in their wars against other parts of the mujahideen. From his bases in Afghanistan, bin Laden continued to wage a propaganda war against Saudi Arabia to further destabilize the monarchy. In 1998, al Qaeda staged two high-profile attacks against U.S. embassies in Kenya and Tanzania. These attacks elevated bin Laden to one of America's most wanted fugitives. American policymakers warned that bin Laden's organization was a significant threat to the U.S. and to the stability of the Saudi regime. In response, the U.S. ordered airstrikes against al Qaeda targets in both Sudan and Afghanistan. The failure of these strikes to kill bin Laden only elevated his status further. This image continued in 2000 with the suicide attack on the U.S.S. *Cole* in the Gulf of Aden. Bin Laden assumed the role of the leader of the resistance against American policies and its apostate puppet regimes in the Middle East, and became spiritual guardian of the true believers.[41]

Although bin Laden could be considered just another fanatical terrorist, his public statements and rhetoric were quite concerning to analysts in the United States. Bin Laden's stated goal was to expel the U.S. from the Middle East and destabilize the apostate regimes supporting U.S. interests. A closer examination also reveals that Bin Laden's original letter voicing his dispute with the Saudi monarchy listed almost entirely economic grievances.[42] One of them cites that the increase in Saudi oil production only benefited U.S. interests. He further argued that the system benefited American and Western citizens at the expense of the Saudi population as well as the larger Arab population in the Middle East. Additionally, bin Laden charged the monarchy with stashing its resources abroad and depleting the kingdom's real resources. These attacks indicate that bin Laden seemed to have some understanding of the economic impact of the kingdom's security arrangement with the U.S.

Even more concerning, however, was that there appeared to be some sympathy for these viewpoints within the monarchy. The royal family encouraged and cultivated numerous radical religious groups in an effort to regulate Islamist forces within the kingdom. This behavior continued into the 1990s as several members of the royal family openly gave to charities associated with these groups, including numerous affiliates of al Qaeda.[43] Since Saudi Arabia adopted this "softer" policy toward Islamic radicals, and these radicals were now demanding a severance of the cooperative relationship between the U.S. and the kingdom, American officials were concerned about Saudi cooperation with these Islamists. With the Cold War over, Saddam Hussein defeated, and the Arab-Israeli peace process underway, the Saudis could potentially view cooperation with the U.S. as more of a security liability than an asset. This could potentially jeopardize the very foundations of the security agreement supporting American hegemony.

The third threat to U.S. dominance came from the birth of the euro in 1999. The euro was a common currency that would be shared by the member states of the European Union. The combined economy of the European states was roughly equal to that of the U.S. The creation of this alternative currency posed a potential challenge to the supremacy of the dollar on the world market. Previously, there was no more attractive financial market than the U.S., giving each one of the producers in OPEC a reason to accept dollars for energy. However, with the euro forming a common market rivaling that of the U.S., OPEC could potentially price in both dollars and euros.

Despite this threat, the U.S. maintained three key advantages over the euro. First, the clear majority of the world's transactions were conducted in dollars, making the dollar the status quo. Second, states such as Saudi Arabia held investments in dollars, and seemingly had no reason to allow these holdings to lose value by weakening the dollar relative to the euro. The third, and most important, reason was that the U.S. possessed the military power to provide security to anyone whereas the Europeans did not. So long as the Saudis needed American security, the Saudis would have even less of a reason to move away from pricing oil exclusively in dollars. The Saudis faced challenges from al Qaeda, Saddam Hussein's Iraq, and Iran, all of which justified a forward U.S. presence. These threats provided ample reason for the Saudis to continue the system of dollars for oil.

A different situation existed for Saddam Hussein's Iraq. Since the first Gulf War in the early 1990s, Iraq faced crippling U.N. sanctions that prohibited trade with the major oil consumers of the world. The only exception to the sanctions came from a program known as "Oil for Food," which permitted Iraq to trade oil on a limited basis. The U.N. claimed that if weapons inspectors could certify that Saddam Hussein eliminated his arsenals of chemical and biological weapons, the U.N. would consider removing the sanctions. However, despite Saddam's declaration that he was cooperating with the effort, U.N. weapons inspectors consistently argued that Iraq was obstructing their efforts. Additionally, tensions between the U.S. and Iraq remained high. The U.S. saw several of Iraq's military maneuvers as provocative and threatening to American positions in Saudi Arabia. These tensions came to a head in late 1998. The U.S. charged that Saddam was not complying with U.N. weapons inspections, and it initiated a punitive bombing campaign known as Operation Desert Fox. Saddam responded by announcing that he would no longer cooperate with the U.N. and expelling all inspectors from his territory. This expulsion effectively guaranteed that sanctions against Iraq would remain in place and Saddam's ability to trade oil would be constrained.

Saddam responded in the fall of 2000 by announcing that he would transition from accepting dollars for oil to exclusively trading his oil in euros.[44] American companies that were importing Iraqi oil would therefore need to convert their dollars into euros to purchase Iraqi oil. This decision challenged the fundamental bedrock of American hegemony. Iraq was estimated to have approximately 10–11% of the world's proven oil reserves in 2002.[45] Additionally, a significant percentage of Iraq's oil fields were either unexplored or undiscovered. If Saddam would now sell his oil for euro instead of dollars, the European states would have an incentive to open trading to strengthen the value of their currency. If this happened, other OPEC states would face pressure to follow suit. The value of the dollar would fall, and Americans might face the possibility of rising interest rates and a weaker currency. In short, Saddam's decision posed the first serious threat to American hegemony since the end of the Cold War.

9/11 AND THE WAR FOR PERMANENT AMERICAN HEGEMONY

The 9/11 terrorist attacks provided the U.S. with the opportunity to deal with each of these security threats. Speaking in an interview in May 1998, prior to the attacks, bin Laden seemed to express belief that the violence in the U.S. homeland would compel the Americans to abandon their positions in the Middle East. His argument was based on (1) his observations of the U.S. withdrawal from Lebanon following the October 1983 barracks bombing and (2) the American withdrawal from Somalia following the perceived failure of Operation Gothic Serpent, otherwise known as "Black Hawk Down," in May 1993. In the interview, when discussing the withdrawal from Somalia, bin Laden stated,

> Our boys were shocked by the low morale of the American soldier and they realized that the American soldier was just a paper tiger. He was unable to endure the strikes that were dealt to his army, so he fled, and America had to stop all its bragging and all that noise it was making in the press after the Gulf War."[46]

While these arguments are directly from bin Laden, an alternative theory is that the terrorist leader was not speaking sincerely. Instead, his purpose behind the attack may have been to strategically provoke the U.S. into a larger confrontation in the Middle East. As part of this process, al Qaeda would decentralize and spread into various civilian populations within multiple states throughout the region. In doing so, al Qaeda hoped to provoke the U.S. into attacking these civilian populations indiscriminately. While this would certainly result in casualties for the terrorist group, it is a common practice for insurgencies to push their target governments into indiscriminate violence.[47] Doing so may compel civilian populations to turn to the terrorists for protection, even if the civilian population is not sympathetic to the terrorists' cause and does not necessarily share the terrorists' ideology. By triggering a violent American reaction, bin Laden's call to all Muslims to rise up against the apostate governments would be realized, which in turn would start a large revolution throughout the region that could bring about the second coming of the caliphate.

Regardless of bin Laden's true intentions, the terrorist attack did provoke a violent American response. The U.S. first sought to use its military power to dismantle al Qaeda in Afghanistan. This effort expanded contacts with many of the neighboring states, including Kazakhstan, Uzbekistan, and Tajikistan, which all provided a way for the U.S. to secure vital energy supplies from Central Asia and ensure that these commodities would continue to be traded in dollars. Further, Afghanistan contained vast deposits of minerals and rare earths. The invasion of Afghanistan therefore gave the U.S. an opportunity to both eliminate the threat to Saudi Arabia and denominate sales of Afghanistan's primary commodities in dollars.

Most importantly, while the U.S. sought to dismantle al Qaeda and sympathetic terrorist organizations, the 9/11 attacks also gave the U.S. the pretext to depose Saddam Hussein and remove the threat of the oil sales in euros as opposed to dollars. Immediately after the attack, American policymakers seemed to search for any reason to link the attacks to Saddam Hussein. Though very little evidence existed of a cooperative relationship between Saddam and al Qaeda, American officials openly suggested that Saddam could provide al Qaeda, or a group like al Qaeda, with nuclear material that might be used against American cities. Numerous administration officials claimed that the U.S. needed to wage preemptive war before it was too late.[48] Two years after 9/11, the U.S. initiated Operation Enduring Freedom to depose Saddam Hussein.

By the end of April 2003, with the fall of Baghdad, the U.S. had seemingly neutralized each of the threats to its dominance. The U.S. quickly deposed the Taliban, Saddam Hussein, and put Osama bin Laden on the run. The U.S. installed new regimes in both Afghanistan and Iraq that would reflect and protect American strategic interests. Most significantly, both states would now become critical partners in sustaining American domination over the world's energy market. However, in the new world where the dollar would have to compete with the euro, or possible other future currencies, the U.S. needed to cement the link between energy and dollars by gaining the cooperation of other key states with energy supplies and those states along the world's energy trading routes. Prior to the start of the Iraq war, the position of most states participating in the energy market was to default to the U.S.-led system of trading energy for dollars. With Saddam's adoption of the euro, and with bin Laden's rise, the willingness of these states to cooperate in the petrodollar system was no longer guaranteed, nor could it be taken for granted by the U.S. Consolidating the energy market under American control would therefore require the U.S. to both contain threats against cooperative suppliers and transit states, secure the westward and eastern trade routes from the Middle East, and deter any external challengers to the energy market.

To protect this infrastructure, the U.S. would need to cultivate its relationships with several of its old alliance partners, and many new ones, by extending its old deal with the Gulf states to many of its new partners. These states would agree to support the U.S.-created energy market by providing bases and free passage of American forces, and placing their surplus financial assets in U.S. treasuries, banks, and investment houses. In exchange, the U.S. would provide these states with permanent protection from all of their internal and external enemies, as it had done for the other members of OPEC. The U.S. justified this forward presence as necessary to fight terrorist groups that posed challenges to its new allies throughout the globe.

Figure 2.1 presents the U.S. State Department's intelligence assessment of al Qaeda's presence in November 2001 and illustrates how the threat of terrorism provided the U.S. with the opportunity

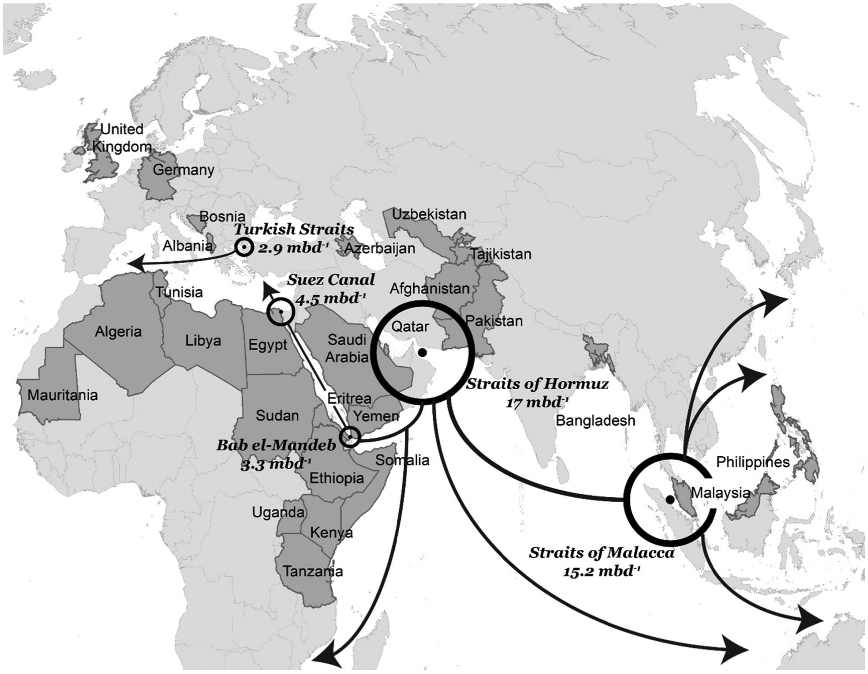

Figure 2.1. Trade Routes and Chokepoints for Global Energy and the Spread of al Qaeda.
Note. Shaded areas indicate declared al Qaeda presence. Data on energy trade routes and chokepoints are from U.S. Energy Information Administration (2017). Arrows represent sea routes for global energy sales. Circles represent chokepoints in the energy routes. Chokepoint names and volume passing through labeled in bold.

to permanently secure its hegemony over world energy markets. Following Operation Enduring Freedom, al Qaeda seemed to spread from Afghanistan throughout the former Soviet Republics and throughout North and East Africa. Notice the correlation between the states hosting al Qaeda and the routes of the energy trade. In the east, both Malaysia and Indonesia are identified as hosts of al Qaeda affiliates, including the Jemaah Islamiyah organization. Both states are at the gateway to the Strait of Malacca, where over 15% of the world's oil travels. This is the gateway to Asia for Middle Eastern oil. Dominating the energy market therefore requires cooperation from Malaysia, Indonesia, and the Philippines. Each of these states became willing partners in the war on terror. Malaysia's Mohammed Mahathir enthusiastically signed up for American initiatives to combat terror, despite years of anti-American rhetoric, creating the Southeast Asia

Regional Center for Counterterrorism (SEARCCT) to serve as a hub for the region's counterterror efforts. While Malaysia's al Qaeda cell did not appear terribly active, both Indonesia and the Philippines had active al Qaeda cells within their territory. Similarly, the government of Indonesia signed up to receive military aid to combat terrorist organizations within its territory. One possibility behind these developments is that both states felt a genuine sense of threat from terrorist groups. Indonesia suffered a terrorist attack in the resort city of Bali that killed over 200 tourists in October 2002; another attack targeted a Marriott hotel in Jakarta in August 2003. Including these high-profile incidents, Indonesia suffered 299 attacks resulting in 660 fatalities in the period 2000–2005.[49] For its part, the Philippines battled the Islamic separatist groups known as the Moro National Liberation Front (MNLF), the Moro Islamic Liberation Front (MILF), and the al Qaeda–linked Abu Sayyaf group. These conflicts in Mindanao resulted in 394 terrorist attacks and over one thousand deaths in the same period, 2000–2005.

At first glance, these numbers seem quite disturbing and signal that terrorism was indeed a security risk for these states, making it obvious that they would benefit from increased security cooperation with the U.S. However, let us put the damage caused by terrorism to each of these states in perspective. The Global Terrorism Database indicates that Malaysia suffered a grand total of two attacks in the period 2000–2005. While Indonesia and the Philippines suffered considerably more, the attacks in this entire period resulted in the death of .000003 of Indonesia's population, and .00001 of the Filipino population. Again, while each individual death is tragic in and of itself, and the optics of terror are very disturbing, it does not appear that terrorist groups in any of these countries posed a significant threat to the survival of these states. Yet, each of these states was very willing to cooperate with the U.S. in exchange for a security guarantee. An alternative interpretation is that both leaders accepted a security guarantee from the U.S. in exchange for cooperating with American energy initiatives, which would prove to be very lucrative for all the states involved. The states would agree to cooperate in keeping both the Strait of Malacca and sea lanes open so oil and gas could reach both China and Japan. This in turn would enable the U.S. to cement a critical role in the energy trade in the Pacific. While the resources from the U.S. could serve as a check against domestic enemies within both states, security ties with the U.S. would also be useful in guarding against the rising power of China in the future.

While the eastern routes from the Strait of Hormuz rely on transit through the Strait of Malacca, the westward routes from the Strait of Hormuz split in two directions. First, ships trading energy could enter the Red Sea using the opening at the Bab el-Mandeb Strait off the Yemeni coastline. This waterway is quite small: only about twenty miles between the city of Ras Menheli in Yemen to the city of Ras Siyyan in Djibouti. Yet, this waterway and the Suez Canal are the only links from the Indian Ocean to the Mediterranean Sea. The Red Sea route is critical to transporting Middle Eastern energy to Europe, given that the alternative route is to navigate around the African coast to the Cape of Good Hope, which would add substantial time and monetary cost. The protection of this entrance to the Red Sea is critical for maintaining the world's energy market and is why, despite the lack of resources within the country, the U.S. doubled down on its commitment to protecting the regime of Abdullah Saleh in Yemen. The Yemeni president faced multiple insurgencies against his regime in the early 2000s, including separatists in the south, opposition from the Shia Houthi sect, and al Qaeda–inspired militants. The U.S. viewed Yemen as a fractionalized society lacking both a national identity and a strong central government. To maintain security over Bab el-Mandeb, and to prevent the passageway from falling into the hands of either hostile militants or Iranian supported ones, the U.S. made Saleh a critical partner in the war on terror, a role the Yemeni president seemed to relish. The U.S. further doubled its efforts on the African side of Bab el-Mandeb. First, the U.S. gained permission from President Ismaïl Omar Guelleh to begin the Combined Joint Task Force–Horn of Africa program in Djibouti. As part of this effort, the U.S. built a military facility at Camp Lemonnier in Djibouti, giving the U.S. the ability to use its military power to protect the entrance to the Red Sea.

In addition to deepening its cooperation with Djibouti, the U.S. returned to Somalia, a country it had once abandoned. Although Somalia had seemingly long left the consciousness of American policymakers, the fact that Somalia bordered Bab el-Mandeb and had a growing presence of fighters sympathetic to al Qaeda raised alarms in Washington. Since intervention into Somalia was politically difficult, the U.S. relied on a strategy of providing military assistance to regional allies to combat Islamist groups in the Horn. These states included Ethiopia, Kenya, and Uganda. Together, these states would serve to contain any possibility of an Islamist group taking control of southern Somalia and would protect energy traffic through Bab el-Mandeb. In exchange, each of these states gained increased military assistance and cooperation from U.S. headquarters in Djibouti. The U.S. further ignored irregular democratic elections and human rights abuses of each of these countries in exchange for their cooperation. This effectively made cooperating with the U.S. a deal none of these states could refuse. With the cooperation of these countries, energy supplies could cross safely through Bab el-Mandeb to the Suez Canal, where Egypt's president Hosni Mubarak would guarantee their passage.

In addition to moving through the Red Sea, energy from the Middle East is also sent south down the African coast to the Cape of Good Hope. Securing these routes required the U.S. to cooperate with Kenya, Tanzania, and South Africa. Interestingly, each of these states had been a cooperative partner with the U.S. prior to 9/11. Al Qaeda famously attacked the American embassies in both Kenya and Tanzania in 1998, bringing it to global infamy. South Africa also remained a cooperative partner with the U.S., given its status as Africa's financial leader. Once around the Cape, energy supplies either travel west to Latin America or head northwest to the United States. An additional source of energy comes from Africa's west coast, where both Angola and Nigeria were becoming significant suppliers. The routes from these two suppliers transport energy north past Algeria to either the Mediterranean Sea or to northern Europe.

Taken together, these passages comprise the critical sea routes for the American-dominated energy market. Interestingly, although there were other large militant groups practicing terrorism elsewhere in the world, such as the Forces démocratiques de libération du Rwanda and the National Army for the Liberation of Uganda, as well as the Communist Party of Nepal, these groups were not on the State Department's 2002 list of designated foreign terrorist organizations.[50] The groups on the list were largely those in states that serve as key suppliers of global energy and those along the critical supply lines. The group of terrorists targeted by the U.S. would grow following the war on terror.

At the turn of the millennium, the future of governing world energy supplies was believed to be in Central Asia. The "Stans," or former Soviet republics, were becoming more prominent sources of oil, natural gas, and other rare earths key to powering the industry in the future. Further, numerous states dreamed of a "New Silk Road," or a land route connecting China and India with the European states. With the possibility of constructing such a critical land or pipeline route, along with seemingly limitless supplies in Central Asia, the supply of energy in the Stans represented a prize to whatever state could dominate it. After the invasion of Afghanistan, the U.S. found itself in a unique position to do reach for that prize. Despite some effort by Russia to resist the U.S. military's use of its former republics, the Stans were cooperative partners with U.S. efforts in Afghanistan. In exchange, the U.S. would guarantee the safety of these states, provide them with military aid, assist in developing their energy resources, and protect them from the possibility of Russian aggression. With the U.S. given the ability to exploit energy in these areas, and build the link between Central Asia and the East, the U.S. was in position to dominate the energy market in perpetuity. The war on terror compelled the U.S. to redouble its efforts to protect the current energy infrastructure, but it also gave the U.S. access to new supplies and partners both in the Middle East and Central Asia. Now, the task for the U.S. would be to guarantee the security of its new partners. This task would soon prove to be more difficult than the American policymakers originally expected.