

# FIGHTING MIDDLE EASTERN WARS WITH PEGS AND DRONES

I'm reading Currency Wars right now, which may be one of the reasons I suspect that the decision to launch signature strikes in Yemen was not requested by CIA and JSOC but instead dictated by Saudi Arabia. But I've also recently read the WikiLeaks cables that show how nervous recent discussions of the Saudi peg of the riyal to the dollar have been.

For example, one of the most recent cables released, describing a mid-February 2010 meeting between Deputy Treasury Secretary Neal Wolin and Saudi Monetary Agency Governor Muhammad Al Jasser and Minister of Finance Ibrahim Al Assaf, records Jasser invoking Chinese calls for an alternative to the dollar.

(C) Jasser reaffirmed Saudi Arabia's support for the riyal-dollar peg, noting that the peg is in Saudi Arabia's "cold-blooded self interest," though he noted it sometimes felt like "we are alone." Referencing past calls by China and others in the G-20 for an alternative to the U.S. dollar as the world's reserve currency, Jasser said some have asked him why he does not give up on the U.S. dollar. He turned to a response he gave to a European newspaper that asked why Saudi Arabia hadn't switched its peg to the Euro, "When oil is denominated in Euros, we'll research it."

In the same meeting, Jasser reminded Wolin that Saudi Arabia had far more ability to "undermine and safeguard" the world economy than its GDP might suggest.

Jasser stated that, as an oil economy, Saudi Arabia has the ability to both undermine and safeguard the world's

economy. He noted that Saudi Arabia was able and willing to support reform efforts at the IMF and World Bank, but that the ability to harm or help the global economy is a better measure of a nation's relative economic importance than GDP.

The Saudi peg to the dollar came up again in a cable reporting a June 2009 meeting between our Chargé d'Affaires to Saudi Arabia Richard Erdman and what he calls a "key contact," Saudi British Bank chief economist Dr. John Sfakianakis who also serves as an advisor to Saudi's Commerce Ministry. The cable's description of Sfakianakis as being "adamant" that the Saudis would retain the dollar peg suggests Erdman pushed him on the issue, and perhaps didn't believe him.

(C/NF) Sfakianakis was adamant that the Saudis are supporting the dollar, both through the public comments of central bank governor Mohammed Al-Jasser and the private efforts of Finance Minister Ibrahim Al-Assaf. Apparently last summer, then-central bank governor Hamid Al-Sayari told the Emirati central bank governor to "stop talking about" de-pegging from the dollar because it was counterproductive and was harming the Gulf economies. Nevertheless, if the dollar weakens too much and, as a result, the Kingdom imports double-digit (or greater) inflation, the SAG's hands will be tied politically and they will have no choice but to float their currency. Sfakianakis pointedly added that all the Kingdom's anti-inflationary measures failed last summer, with prices eventually stabilizing due to extraneous factors. (Note: During 2008, despite inflation in the Kingdom reaching 11 percent, the SAG remained firmly committed to the dollar peg, both in policy actions and in public comments. Since then, the central bank governor

and other officials have been unequivocal in their support for the dollar peg. End note.)

And in a mid-July 2009 meeting between Turbo-Tax Timmeh Geithner and Saudi Finance Minister Ibrahim al Assaf, Geithner was heavily pitching the dollar (and falsely promising that we'd maintain a commitment to a strong dollar).

(S) Assaf said "we still believe that the dollar will be the dominant reserve currency and trading currency for a long time to come." Our policy, he continued, is to support this and maintain the riyal-dollar peg. The Secretary said the U.S. appreciated Saudi Arabia's continued support. He noted that, despite some political talk of moving away from the dollar, China has in fact increased its dollar holdings and had confirmed that shifting from the dollar was not its policy. Assaf said the Kingdom encouraged foreign investment on both sides – U.S. investment in Saudi Arabia and vice versa. We needed to work on this in Saudi Arabia, he said, establishing principles and legal framework, and were organizing a conference toward this end. Geithner said we share a commitment to open investment.

(S) On the dollar, the Secretary indicated it was benefitting from the flight to quality and emphasized the U.S. commitment to a strong dollar.

None of these conversations are surprising. The Saudi decision to sustain the dollar peg is regularly covered in the financial press. And it is a big source of stability for us, both in terms of letting us buy oil affordably and maintaining the hegemony of the dollar. It's a big deal that should come up in such high level conversations.

But the role of the dollar in the global economy—with Saudi oil backing it—comes with implicit guarantees that the US will ensure the security of those sustaining this relationship. The Saudis have not only been pushing us to limit Iran’s bid for hegemony in the region, but also to tamp down the threat the Arab Spring posed to dictators like themselves. While the Saudis were able to buy off their own subjects, Ali Abdullah Saleh was not so lucky and—as the WSJ story on Obama’s signature strike decision describes it—Arab Spring protests against Saleh “created a security vacuum” (as Jeremy Scahill described it, Saleh dedicated the counterterrorism resources we had given him to his own defense) the drones are now set to fill.

Advocates of expanding the scope of U.S. drone strikes in Yemen say the latest U.S. intelligence shows that AQAP has grown stronger since one of its prominent leaders, American-born Muslim cleric Anwar al-Awlaki, was killed in a U.S. strike in September.

The Islamists capitalized on last year’s civil unrest, which helped force out longtime Yemeni President Ali Abdullah Saleh and also created a security vacuum, U.S. intelligence agencies believe. Islamists allied with AQAP operate freely in all or parts of three southern provinces, creating the potential for a regional haven, the officials said. “AQAP’s antigovernment insurgency and its terrorist plotting against the West are two sides of the same coin,” said a U.S. official.

The rationale behind these drones—both the purported threats to US interests and the plan to use drone strikes to give time to the Yemeni military to reassert control over the country—all seem directed at Saudi Arabia’s safety as much as, if not more than, our own.

U.S. counterterrorism officials said

they are currently tracking several direct threats to the U.S. connected to AQAP. The officials wouldn't provide further details because that information is classified.

[snip]

The expansion reflects a U.S. assessment that it will take time for Yemen's military to reassert authority across the country. Administration officials say they are encouraged by the commitment of Yemen's post-Saleh government to fight AQAP, but it will take time to better train, equip and reorganize the Yemeni military.

We may have no direct interest in the Yemeni civil war(s). But the Saudis do.

We are, frankly, captive to our need for Saudi help in shoring up our fragile economy. That changes the entire notion of national interest when it comes to Saudi Arabia's immediate neighbors. Which, I suspect, is why Obama just green-lighted the use of drones in what could easily expand beyond counterterrorism uses.