

The Middle East and Fossil Capitalism: Oil, Militarism and the Global Order

The struggle against fossil capitalism is inseparable from struggles for justice in the Middle East.

28 Oct 2025 • [Adam Hanieh](#)

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Introduction

For more than a century, the Middle East has been central to the making of the contemporary world order. Today the region is the world's largest exporter of oil, and its vast reserves have shaped the rise of fossil capitalism and the unfolding climate emergency. The significance of the Middle East's oil, however, extends far beyond its role as an energy source. The wealth it generates is integral to the global arms trade and to the modern financial system. These dynamics have made the Middle East a permanent focus of Western power, above all that of the US. To understand why the struggle against fossil capitalism is inseparable from struggles for justice in the Middle East, it is necessary to trace how oil, militarism and empire have been intertwined over the past century.

European Fossil Empire

The roots of this order lie in the early twentieth century. With the collapse of the Ottoman Empire in the wake of the First World War, Britain and France divided the Middle East into zones of influence and control. Oil was an important factor in this: the region's oil reserves were abundant, inexpensive to extract and geographically close to Europe. The extraction of this oil was controlled by a handful of European firms who paid minimal royalties to local monarchs sustained by colonial rule. At this stage, American oil companies had little presence in the region.

Although coal remained the world's dominant fossil fuel in this early phase of colonial rule, oil was becoming increasingly important, especially for the waging of war. ¹ In 1914, for instance, Winston Churchill had declared Iran's oil reserves as essential to shifting the British navy from coal to oil-fired ships. Ships that ran on oil were much lighter, faster and did not need space for bulky coal-storage areas; they could thus carry extra weapons and crew. The strategic shift to oil for Britain's navy depended upon British colonial domination in the Middle East. At the time, oil extraction and refining in Iran was run by the Anglo-Persian Oil Company, a firm owned by the British government. ² Today we know that firm as BP.

Two Transitions: From Coal-to-Oil, and European-to-American Dominance

In the aftermath of the Second World War the global energy system shifted definitively from coal to oil as the primary fossil fuel (although this shift didn't mean a concomitant decline in coal consumption, which has continued to grow, reaching record levels in 2024). This energy transition was closely tied to the emergence of the US as the leading world power, supplanting Western European states that had been weakened by the war. Unlike most of Europe, the US possessed vast domestic oil reserves, and American oil companies dominated international production.

The Middle East was essential to the global shift in fossil fuel use. With oil demand growing rapidly, Washington sought to shield its domestic reserves from export pressures that might raise prices at home. The Marshall Plan therefore stipulated that Europe's energy needs be met primarily from abroad, and Middle Eastern oil was relatively cheap, abundant and easily transportable. More Marshall Plan aid was spent on oil than any other commodity — and most of this was from the Middle East. ³ As such, the postwar coal-to-oil transition in Western Europe was as much a Middle Eastern development as a European one.

The two interlinked transitions occurring in this period took place alongside the crumbling of the old European-controlled order in the Middle East. ⁴ Anti-colonial and Arab nationalist movements were erupting across the region, especially in Egypt, where a British-backed monarch, King Farouk I, was toppled by a coup led by the popular military officer, Gamal Abdel Nasser, in

1952. Nasser's victory inspired a range of social struggles across the region, with widespread calls by political movements to nationalise oil resources and use this wealth to reverse the effects of colonial domination.

As the political grip of Britain and France weakened in the Middle East, the United States moved to establish itself as the region's dominant external force. Washington's advance rested upon two major alliances. The first of these was with Saudi Arabia. Through the 1940s and 1950s, American oil firms had come to fully control Saudi oil production. Saudi Arabia, however, was not immune from radical, left-wing movements and labour agitation, and there was even a Nasserist current within the Saudi ruling family. Faced with these challenges, the US gave unqualified support to a conservative faction of the Saudi monarchy, supplying arms, training the Saudi National Guard and backing them against both internal rivals and regional nationalist currents. In this manner, Saudi Arabia was incorporated into a US-centred regional and global order.

The second pillar of American power was Israel — especially after the 1967 war, in which Israel defeated Egypt and a coalition of other Arab states, dealing a major blow to Nasserism and radical political currents in the region.⁵ From that moment on, the US began to supply Israel with billions of dollars' worth of military hardware and financial support each year, as it continues to do today. Much like Apartheid South Africa, the US alliance with Israel rests upon the fact that Israel is a settler-colony: a country founded upon the dispossession of the original Palestinian population, and the ongoing racist exclusion of Palestinians who remained on the land (either under military occupation in the West Bank and Gaza Strip, or as Palestinian citizens of Israel). A substantial proportion of Israeli society benefits from this dispossession and violence against the Palestinian population, and they have come to see these privileges in racialised and messianic terms. With this distinct social structure and reliance upon external support for its survival, Israel is a much more dependable ally of the US than a normal "client" state (like Egypt or Jordan, which must always respond to social and political pressures from below).

This is why Israel, despite having a higher GDP per capita than the UK, Germany and France, has received more cumulative US foreign aid than any other country in the world. Former US Secretary of State Alexander Haig once described Israel as "the largest American aircraft carrier in the world." Joe Biden, speaking in 1986, called Israel "the best \$3 billion investment we make", arguing "were there not an Israel, the United States of America would have to

invent an Israel to protect her interests in the region.” Alongside this military and economic support, the US state has also continually worked to block any international censure of Israel. Since 1945, more than half of all UN Security Council resolutions that the US has vetoed have been those critical of Israel. This US support for Israel is not tied to one particular president or party — it is bipartisan and has not wavered for more than six decades.

Oil, OPEC and Petrodollar Wealth

A major change in the world oil industry took place in 1960 with the establishment of the Organization of the Petroleum Exporting Countries (OPEC) by five major oil producing countries: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.⁶ At the time of OPEC’s establishment, its founding states did not fully control the huge oil reserves that lay within their own borders. Instead, the extraction, refining and marketing of almost all the world’s oil was dominated by seven American and European oil companies, popularly known as the “Seven Sisters.” These firms were the forerunners of today’s Western oil giants, such as ExxonMobil, Chevron, Shell and BP. From the oil field to the petrol pump, the Seven Sisters controlled the global extraction of oil — including in OPEC member states — which they shipped and turned into refined products that were sold to the final consumer (overwhelmingly located in Western markets). Crucially, the Seven Sisters also set the price of crude oil, paying minimal royalties to OPEC governments for the right to access and extract their oil.

With the establishment of OPEC, however, major oil producing countries began to assert control over the extraction and production of crude reserves within their own countries. At a global level, the gradual nationalisation of oil by these countries weakened the power of Western firms over the oil industry and helped support the rise of state-owned National Oil Companies (NOCs) in places like Saudi Arabia. In 1970, Western oil companies had held more than 90 per cent of oil reserves outside the US and Soviet Union; a decade later, their share would fall to less than a third.⁷

Oil nationalisation also meant that Western oil firms lost their ability to set the price of oil, which led to a series of major price spikes in the 1970s. With oil now the world’s leading fossil fuel, these price rises meant that oil producing states began to amass huge levels of financial wealth from exports. Between 1965 and

1986, Middle East OPEC members alone would make around \$1.7 trillion from the sale of oil, with Saudi Arabia earning over 40 per cent of this total. ⁸ These enormous financial surpluses — dubbed “petrodollars” by observers at that time — formed a crucial part of the global financial architecture as it developed from the 1970s onwards. Most importantly, they helped to strengthen the position of the US — at the apex of an international financial system centred around the dollar — American financial markets, and Euro-American financial institutions.

The US relationship with Saudi Arabia and the other Gulf monarchies was key to how this financial system developed. US support for the Saudi monarchy guaranteed that the control of oil would not be used to radically upset the global political system. Crucially, the Saudis also agreed that oil would be priced in US dollars (up until the mid-1970s, around 20 per cent of international oil transactions were conducted in British Sterling). This helped cement the US dollar as the international reserve currency, because all countries were forced to hold large quantities of dollars to fund their imports of the world’s most important commodity. ⁹ For the US, it also meant that the international demand for dollars exceeded any domestic needs, so the US could spend more abroad than it earned with less concern for the inflationary or exchange rate worries that constrained other countries. With the dollar functioning as the global reserve currency, the US gained huge leverage over other states through the threat of sanctions or exclusion from the US banking system. We can see these realities today.

An important part of this financial structure involved the recirculation of the Gulf’s petrodollar wealth into US financial markets. ¹⁰ One side of this was through the purchase of US Treasury bonds and other US securities. A range of secret agreements were negotiated between the US government and the Saudi monarchy to channel oil revenue into US markets, and by the end of the 1970s, Saudi Arabia would hold a fifth of all Treasury notes and bonds owned by governments outside of the US. The Gulf also emerged as one of the largest purchasers of US-made arms and military hardware, a relationship that continues through to today.

East-East Linkages

For most of the twentieth century, the Gulf's oil exports flowed largely towards Western Europe and North America, with petrodollar wealth recirculating into Western financial markets through the various routes described above.

Beginning in the early 2000s, however, the geography of the oil industry began to shift dramatically alongside the emergence of China as the new “workshop of the world.” China's rise as a centre of global manufacturing and industry drove a rapid growth in the country's energy needs and most of this was met by imports.

In 2000, China accounted for just 6 per cent of world oil demand; by 2024, the country was consuming around 16 per cent of the world's oil, more than all of Europe combined. Today, nearly half of the world's oil exports go to East Asia, mostly to China. A majority of Chinese oil imports come from the Middle East, particularly from the Gulf monarchies and Iraq. China has also driven a huge increase in the demand for natural gas — in 2024, just under one-fifth of the world's Liquefied Natural Gas (LNG) exports were going to China, with the Gulf ranking as the second largest provider of these exports (after Australia).

Oil and gas exports from the Gulf are largely controlled by the region's National Oil Companies (NOC) — such as Saudi Aramco, now the largest oil company in the world. Unlike in the 1970s, Gulf NOCs are no longer simply involved in the extraction of crude oil, as they have expanded down the value chain into refining, petrochemicals (such as plastics and fertilisers), as well as marketing, shipping and logistics. Companies like Aramco have also launched a range of joint ventures in China, South Korea and Japan, deepening the interdependencies between the Gulf and East Asia markets. This “East-East” hydrocarbon circuit is now a major axis of global fossil fuel production and consumption, and is largely dominated by Gulf and Chinese NOCs rather than the traditional Western oil firms.

The growth in global demand for oil and gas connected to the rise of China has been associated with two decades of relatively high oil prices. For the Gulf monarchies, this has produced a new petrodollar boom, with trillions of dollars in oil wealth flowing into their central banks and Sovereign Wealth Funds (SWFs). The scale of this wealth is partly indicated in the Gulf's foreign reserve holdings, which reached \$800 billion in 2024, the fourth largest in the world behind China, Japan, and Switzerland. Alongside these central bank reserves, nearly \$5 trillion in assets is controlled by Gulf-based SWFs — roughly 40 per cent of global SWF wealth.

Despite the eastward shift in the Gulf's energy exports, the region's petrodollar wealth remains largely focused on US and West European financial markets. The Gulf's investments in US stock markets, for instance, have nearly tripled since 2017, and now account for around 5 per cent of all foreign investment in American companies. Continuing historical patterns, the export of Western military hardware to the Gulf has also skyrocketed over the last decade. More than one-fifth of world arms exports went to the Gulf between 2019 and 2023, surpassing any other region worldwide. These include aircraft, ships, and missiles, with an overwhelming majority supplied by the US — alongside Italy, France and the UK. Indeed, about one-quarter of US arms exports went to Saudi Arabia alone during 2016–20, and Saudi Arabia remained the largest single recipient of US arms in 2020–24. Through these purchases, Gulf military spending provides a key revenue stream for American military firms while simultaneously reinforcing the broader strategic ties between the Gulf monarchies and the US state.

Arms deals with Saudi Arabia and the UAE have also underpinned the survival of allied industries in countries such as Britain, where sales of fighter jets to Riyadh have proven vital to sustaining the UK's domestic aerospace sector. These weapons, in turn, have been deployed by Gulf states to pursue increasingly assertive foreign policies, most destructively in Yemen and Libya, but also in efforts to shape political trajectories across the wider Middle East and Horn of Africa.

Why Palestine is a Climate Issue

These energy and petrodollar flows must be understood against the backdrop of the broader geopolitics of the Middle East. Central here is the relative weakening of US power in the region over the last two decades, a trend that accelerated after the 2003 invasion of Iraq. While Washington remains the dominant external actor, its position is increasingly contested by other states, including China and Russia. Regional powers — such as Turkey, Saudi Arabia, Qatar and the United Arab Emirates — continue to expand their influence, even as they remain deeply tied to American military and financial structures. Iran, standing outside this US-anchored alliance system since the 1979 revolution, also pursues its own regional networks and strategies that often bring it into confrontation with Washington. These dynamics form a critical part of the

broadening of American global hegemony, and unfold amidst the overlapping social, political and ecological crises of our contemporary world.

Confronted with these challenges, the US has sought to reassert its primacy in the Middle East. Key to this is a longstanding attempt to tie together the two major pillars of American power in the region — the Gulf monarchies and Israel — within a single bloc aligned with US interests. ¹¹ A clear indication of this strategic orientation came with the Trump-backed 2020 Abraham Accords, which saw the UAE and Bahrain formally normalise relations with Israel. This agreement, driven by significant American incentives, paved the way for a UAE-Israel free trade agreement in 2022 — the first of its kind between Israel and an Arab state. Sudan and Morocco soon followed, giving Israel formal diplomatic relationships with four Arab states. Today, Israel has formal relations with countries representing around 40 per cent of the Arab region's population, including some of its biggest political and economic powers.

Support for Israel and its genocidal war in Gaza forms an integral part of this US strategy. Israel's military expansion since 2023 — from Gaza, to Lebanon, to Iran — has been an attempt to rewrite the politics of the region and open the way for some kind of normalisation with the Gulf (especially Saudi Arabia) as part of any post-war agreement. By binding Israel's military power together with the Gulf's hydrocarbon reserves, vast financial surpluses, and the dollar-based oil trade, Washington aims to push back against its weakened regional and global position. Success would not only secure US influence in the Middle East but also provide decisive leverage in any wider confrontation with China (especially given China's dependence on Gulf oil imports).

Ultimately, these dynamics cannot be separated from the crucial position of the Middle East in our fossil-fuel centred world. The Gulf states and their NOCs are doubling down on hydrocarbon production, locking the planet into a trajectory of certain climate catastrophe. For the US, this deepening fossil fuel expansion — tied to its strategic alliance with the Gulf monarchies and their normalisation with Israel — is a crucial source of power at a time when American global dominance faces mounting challenges. There can be no dismantling of the fossil order, nor any genuine Palestinian liberation, without breaking apart these alliances. This is why Palestine is at its core a struggle against fossil capitalism — and why the extraordinary battle for survival waged by Palestinians today, in Gaza and beyond, is inseparable from the fight for the future of the planet. ¹²

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