

Currencies, Oil Could Feel the Biggest Impact of the U.S. Pivot from Afghanistan to China and Iran

By Randall W. Forsyth

Updated Aug. 18, 2021 6:37 pm ET / Original Aug. 18, 2021 12:43 pm ET



U.S. President Joe Biden speaks about the Taliban's takeover of Afghanistan.
Brendan Smialowski/AFP/Getty Images

Bad news first, good news later. That's how Matt Gertken, BCA Research's head of geopolitical strategy, sees the effects of the Taliban's takeover of Afghanistan.

After the depressing images of the chaos in Kabul fade, U.S. foreign policy will be able to proceed to theaters of greater strategic importance. "We're at a critical juncture with Iran," Gertken said in a recent telephone interview with *Barron's*.

The U.S. will also gain "greater maneuverability" in [dealing with China](#), its main geopolitical and economic rival, he added.

These are key points to emphasize in looking ahead, he said, rather than dwelling on comparisons of the U.S. retreat from Kabul with our exit from Saigon in 1975 at the end of the Vietnam war, or playing the blame game about the stunningly swift collapse of the U.S.-backed Afghan government.

Ending U.S. involvement in Afghanistan after 20 years reflected voter attitudes, so [President Joe Biden's decision](#) to remove American troops was in line with popular opinion. After all, President Donald Trump was an antiwar Republican who defeated Democrat Hillary Clinton, a stronger proponent of military offensives, in 2016, Gertken noted. "I don't see the withdrawal in itself being a lasting problem for Biden," he said.

More important are negotiations with Iran. "It is possible for the U.S. and Iran to somewhat normalize relations, and that would be a gigantic event in geopolitics," he said, although he noted that the window for detente is narrowing in the intermediate term.

With Iran no longer subject to a "pincer movement" by U.S. troops in Iraq and Afghanistan, Tehran could feel emboldened to pursue more rapid uranium enrichment, moving toward an eventual capability to produce nuclear weapons. "If that happens on Biden's watch, we will look back and say, not only did we have a 'Saigon moment,' but it became even worse because it exacerbated the conflict with Iran," Gertken said. "And Biden will look like he has mismanaged U.S. foreign policy dramatically."

But the odds favor a less dire outcome.

Much will depend on the decision of Iran's supreme leader, Ayatollah Ali Khamenei, not the recently elected hawkish president, Ebrahim Raisi, Gertken says. Khamenei, 82, was behind the 2015 nuclear agreement but faces a number of pressures, from U.S. economic sanctions to incipient social unrest and questions about his succession. Having a deal with the Americans during the succession would enhance the life of the regime, the BCA strategist observes. "And remember, they don't have to give up their nuclear program just to rejoin the old deal, which has a time limit," Gertken said.

No longer being "bogged down in the Himalayas" also increases U.S. maneuverability with China, in Gertken's view. Some in China's leadership might view the U.S. as ineffective, self-doubting, and incapable after the events in Afghanistan, and may want to exploit America's perceived weakness. More likely, he said, the U.S. would gain capability to counter a foreign threat.

The Chinese are likely to "double down on their Eurasian strategy because they know they can't defeat the U.S. Navy," Gertken said. Instead, China will try to further increase its links and influence in Pakistan, Afghanistan and central Asia, he said.

China is dependent on Middle East oil, which gives the U.S. enormous leverage. “That again is why the negotiations with Iran and the Persian Gulf will remain the central focus for the economy globally, rather than Afghanistan,” Gertken said.

The market impact of these developments will likely be felt in currencies and crude oil. While America’s twin deficits in the federal budget and trade would normally be negative for the currency, geopolitical tensions are likely to make the greenback more resilient. [China’s slowing economic growth](#) also will provide a base of support for the dollar during a period of geopolitical uncertainty.

As for oil, tensions in the Middle East have [the potential to lift prices](#). But Gertken says OPEC 2.0 has regained discipline after last year’s market-share wars. The group won’t want prices to rise too high, which would accelerate global green efforts. The most likely outcome is increased volatility in oil prices.

Nothing can change the events that have transpired in Afghanistan in the past few days. Now, at least, U.S. foreign policy can be fully focused on what matters more for the future.

Write to randall.forsyth@barrons.com