
Natural Resources and International Affairs

The fall of 2008 was a banner time for observers who argue that oil exporter status, and high oil prices, encourage oil exporters to adopt more provocative foreign policies. Russia's invasion of neighboring Georgia—ostensibly in response to Georgian aggression against the breakaway region of South Ossetia—occurred in August of that year, just one month after crude oil prices hit their highest point since 1980. A month later, Bolivia's Evo Morales and Venezuela's Hugo Chávez—both part of the left-leaning pink tide—expelled their US ambassadors as punishment for the United States' purportedly fomenting unrest (violent riots in Bolivia, a coup attempt in Venezuela). Venezuela threatened to cut oil exports to the United States—after earlier expropriating the ExxonMobil's Cerro Negro project. Earlier in the year, Venezuela's *Petróleos de Venezuela, SA* (PDVSA) suspended oil shipments to ExxonMobil in response to ExxonMobil's legal challenge of Venezuela's nationalization of the Cerro Negro project in the Orinoco belt. War raged between Israel and Hamas in the Gaza Strip. With Iranian backing, Hamas was able to launch rocket attacks on Bersheeba and Gedera. Khaled Mashaal, the chairman of the Damascus-based Hamas Political Bureau, would later say that Iran had played a “big role,” providing money and moral support.¹

Does resource wealth embolden aggressive behavior by exporting states, or are these prominent examples misleading with respect to broader trends? This chapter examines the systematic effects of natural resource dependence on exporting states' foreign affairs in two key arenas: participation in inter-

1. “Hamas Leader: Iran Played ‘Big Role’ in Helping the Gaza Fight,” Associated Press, February 2, 2009.

national institutions and conflict behavior. In doing so, it moves from well-trodden terrain into less well marked territory.

Research on the systematic effects of natural resource wealth on interstate behavior is still in its infancy, but some preliminary conclusions can be made. Mineral exporters, energy exporters in particular, are characterized by what Michael Ross and Erik Voeten (2011) call “unbalanced globalization”—a high degree of economic integration but comparatively poor integration in the international organizations in which global governance takes place. Unbalanced globalization has practical effects for both adherence to international norms, such as those governing human rights, and participation in global environmental governance. The empirical record regarding conflict is more nuanced than the standard “resource wars” hypothesis: Oil-exporting states behave more aggressively than nonexporting states, but this belligerence rarely intensifies into actual armed conflict. This dynamic is amplified by high prices. Generally, oil endows exporting countries with a freer hand with which to pursue their aims.

Exports of high-value mined commodities promote economic integration, in terms of both trade and finance. Figure 4.1 plots the natural log of mineral rents per capita—a measure of the relative “ease” of exploiting resources and their predominance in the economy—against the KOF Economic Globalization Index, which includes trade, foreign direct investment (FDI), and portfolio investment, as well as tariff restrictions and capital account controls (Dreher 2006; Dreher, Gaston, and Martens 2008).² Although the relationship is essentially flat for most values of mineral rents per capita, there is a strong, positive relationship between mineral rents and economic globalization above a relatively high threshold of about \$450, roughly the equivalent of Mexico’s average per capita mineral rents, from 2007 to 2009.

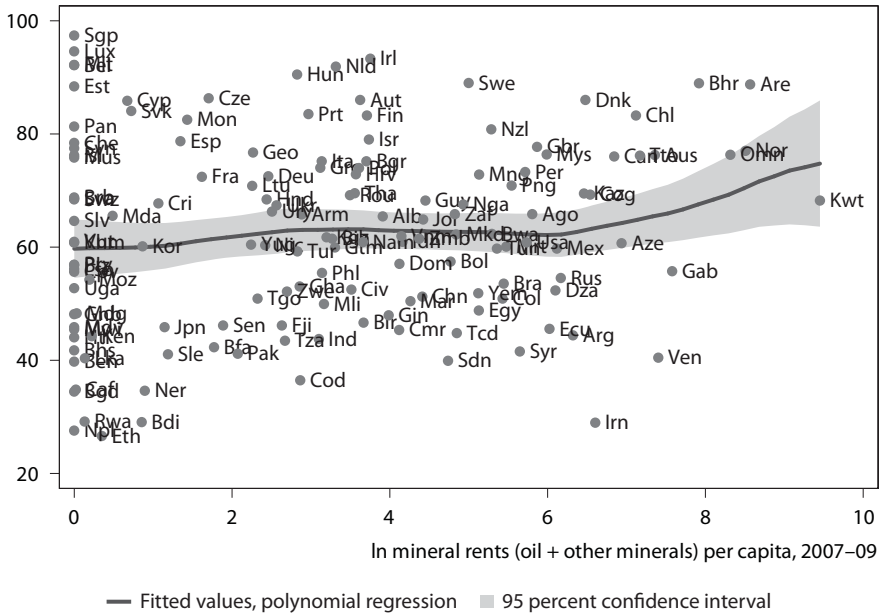
The mechanisms through which this process works are several. Because the location of minerals is geologically determined, countries have uneven endowments: Together, Saudi Arabia and Venezuela account for 34 percent of world crude oil reserves but less than 1 percent of population and 1.3 percent of world GDP; Morocco has 75 percent of world rock phosphate reserves but only 0.5 percent of the world’s arable land (BP 2012, FAO 2012, USGS 2012a). Thus, export is the only way to equilibrate global supply with global demand, given that most of the world’s economic output is dependent on fossil fuels and minerals as agricultural and industrial inputs. Most countries with large extractive sectors are major traders.

Mineral wealth also encourages capital inflows and outflows, particularly in low-income countries, which lack domestic capital to invest in developing extractive capacity and, once the resources start flowing, the absorptive

2. Mineral rents are defined as the difference between the value of production for a stock of minerals at world prices and their total cost of production. Minerals included in the calculation are tin, gold, lead, zinc, iron, copper, nickel, silver, bauxite, phosphate, and crude oil. Estimates are described in World Bank (2011b).

Figure 4.1 Relationship between natural resource rents and economic globalization

KOF Economic Globalization Index, 2009



Note: The positive effect of resource rents on globalization does not appear in earnest until a relatively high threshold, equivalent to US\$450 per capita. See key to country abbreviations on page 50.

Sources: Dreher (2006); Dreher, Gaston, and Martens (2008); World Bank (2013).

capacity with which to deal with the resulting resource rents. Net FDI inflows in Uganda averaged \$252 million (in constant 2005 US dollars) between 2000 and 2005; late in 2005, Tullow Oil PLC and Energy Africa announced significant oil discoveries in the Albertine basin, followed by additional discoveries in 2006. By 2010, net FDI inflows in Uganda had tripled to more than \$735 million.³ Ghana’s oil-fueled investment takeoff has been even more dramatic: Net FDI inflows in 2010 (\$2.27 billion) were 19 times their average level between 2000 and 2005. Although FDI in resource-dependent economies faces greater threats of expropriation (Jensen and Johnston 2011), the massive rents that accrue to the extractive sector ensure that, in most circumstances, investment capital will be forthcoming.

Once resources begin to flow, countries become even more integrated, thanks to increased demand for imports—as a function of rising incomes—and a move toward capital outflows. Public and private capital outflows may be desirable, at least from the perspective of the resource-exporting country, for

3. UNCTADStat Database, 2013, <http://unctadstat.unctad.org>.

three reasons. First, they can help prevent real appreciation of the exchange rate (Dutch disease). Second, they can check inflationary pressures in the domestic economy. Third, capital outflows—particularly under the auspices of sovereign wealth funds—can provide additional income for developing countries, putting otherwise underutilized foreign exchange reserves to good—or at least potentially productive—use.

Very rarely, however, do policy discussions surrounding natural resource exporters focus on economic integration; rather, there is considerably more concern for the way resource wealth shapes their participation in global governance institutions, efforts to address global climate change, and propensity for armed conflict. In these discussions, Iran, Russia, and Venezuela have received the most scrutiny. Iran's pursuit of nuclear weapons, which flouts international law, is widely believed to be emboldened by its massive oil reserves and concerns stemming from the potential energy market effects of a preemptive strike against its nuclear facilities (Posen et al. 2010, Downs and Maloney 2011).⁴ Russia's decisive 2008 invasion of neighboring Georgia was attributed to both the temporary emboldening effect of then near-record oil prices and Russia's longer-term interest in exerting influence over oil transport through the Caucasus.⁵ Venezuela's Hugo Chávez used subsidized oil and resource-backed foreign aid to extend Venezuelan influence over other "pink tide" countries in Latin America. Once-secret documents implicate his regime in supporting the Fuerzas Armadas Revolucionarias de Colombia (FARC) against a more right-leaning and pro-US Colombian government (IISS 2011).

In each of these cases, mineral wealth is seen as empowering illiberal leaders to ignore international norms and complicate attempts by Western powers to impose consequences for "bad" behavior by curtailing market access for so-called rogue states. Commodities are, by definition, undifferentiated products. Just as the taste of wheat varies not according to whether it was harvested by "a Russian serf, a French peasant, or an English capitalist" (Marx 1859), the original sourcing of mined commodities, once refined for export and sale, is often impossible (or nearly impossible) to distinguish and of little interest to most end consumers. Moreover, intentional mislabeling of the source is common.⁶

Under these circumstances, attempts to freeze producers out of markets in order to punish bad behavior are difficult to implement in the absence of truly global collective action. The sanctions imposed by the UN Security Council against Iraq between 1990 and 2003 were effective at crippling the

4. George Friedman, chief intelligence officer of Stratfor, a private US intelligence firm based in Austin, Texas, opined that an Israeli strike on Iranian nuclear facilities could drive spot oil prices to \$300 ("What Happens If Israel Attacks Iran," *Barron's*, February 11, 2012).

5. "Conflict Narrows Oil Options for West," *New York Times*, August 13, 2008; "Russian Offensive Imperils U.S. Aims on Iran, Energy," *Bloomberg News*, August 12, 2008; "Trigger Happy and Oil Mad," *Sydney Morning Herald*, August 16, 2008.

6. For a notable exception—diamonds—see chapter 6.

Iraqi economy because they were enacted and enforced by an essentially global coalition.⁷ Unilateral sanctions on particular producing states, even if pursued in concert by major Western powers and Japan, are less likely to damage embargoed countries because of structural changes in the import market—particularly, the rise of non-Western countries as significant import destinations. Given that demand is growing significantly faster in non-Western economies than in the West, disciplining resource-rich states will only become more difficult as the number of key consumers in international markets expands. Moreover, short-run demand for most mined commodities—especially oil—is relatively price inelastic, meaning embargoes entail significant costs for imposing states as well. In contrast, mineral exporters can embargo their own production and shipment in order to impose costs on importers, as in the 1973 Arab oil embargo.

The remainder of this chapter addresses the role of natural resource exporters in global governance institutions and the effects of natural resource dependence for conflict behavior, with a particular focus on oil. It shows that oil exporters tend to be less integrated into international institutions, less supportive of global efforts to address climate change, and more inclined to adopt more confrontational foreign policies than nonexporting states. The chapter closes by addressing the question of whether the “illiberal exporters” singled out above—Iran, Russia, and Venezuela—are emblematic of a more general relationship between oil exports and global citizenship.

Institutional Integration

The proliferation of international institutions is one of the defining characteristics of the post-World War II international order. Political globalization has deepened even faster than economic globalization since the end of the Cold War.

States join international institutions for three reasons: to resolve basic coordination and bargaining problems, particularly problems involving trade, environmental issues, and collective security (Axelrod and Keohane 1985); to increase bargaining influence over third parties, especially in the realm of collective punishment (Martin 1992, 1993); and to enhance the cred-

7. New US and EU sanctions on Iran imposed in 2012 were a source of concern among trading partners like China, South Korea, and Turkey (Verleger 2012), but they did not lead to significant short-term disruption of global crude oil markets. They did lead to a significant short-term decline in Iranian oil exports: Shipments were down 40 percent and revenues down 27 percent (authors' calculations, based on USEIA 2013). Although sanctions targeted at the oil sector were significant, banking restrictions may have been more influential. In contrast to commodity markets, the United States and the European Union still have dominant positions in global banking, thus making collective action in this arena both more likely (given the smaller number of players and concordant preferences among them) and more effective. As of November 2013, US and EU sanctions—and the ability to lift said sanctions—appear to have provided the necessary leverage to produce a joint plan of action on Iran's nuclear program, the first such breakthrough in 30 years.

ibility of domestic policies, particularly those that affect international investors (Mansfield and Pevehouse 2008, Kerner and Lawrence 2014). Whatever the motive for joining these organizations, membership in international organizations and political globalization—hosting embassies, participating in UN Security Council missions, engaging in international treaties—have powerful implications for reducing international conflict behavior (Russett, Oneal, and Davis 1998; Shannon 2009; Choi 2010) and increasing respect for human rights (Hafner-Burton 2009; de Soysa and Vadlamannati 2011; Dreher, Gassebner, and Siemers 2012). Despite being characterized by the same type of horse-trading and power politics as other deliberative forums, international institutions can be important shapers and transmitters of international norms (Risse and Sikink 1999, Checkel 2005). Active global citizenship is a stabilizing, peace-promoting force in international affairs.

For a variety of reasons, oil exporters may not “need” to join international institutions in the same ways as nonexporting countries. To the extent that international institutions—be they large, omnibus institutions like the United Nations or the European Union or bilateral agreements—constrain or at least change state behavior, they represent a loss of sovereign authority. That loss of authority is palatable only if it is offset by efficiency gains or facilitates outcomes that would be significantly more difficult to achieve in the absence of such institutions. For most states, the main impetus for integration is stabilizing trade and investment relationships—making sure their goods gain access to markets and investment capital is forthcoming—and bringing influence to bear on third parties, particularly in matters of collective security. Since the structural increase in prices after the 1970s, oil exporters have had little trouble finding markets for their main products. Because of Dutch disease dynamics, their agricultural and manufacturing sectors—the sectors where foreign competition is fiercest—seek protection, rather than integration, and this impulse is stronger the more oil exports predominate (Ross and Voeten 2011). Regarding investment capital, high prices and increasing global demand virtually ensure that investment capital will be forthcoming: Barclays Capital estimates that the energy industry will spend \$644 billion on oil and natural gas exploration in 2013, not counting North America, where the shale revolution continues.⁸

Moreover, investment capital is usually forthcoming, despite the fact that investment in the resource sector is risky because of the threat of expropriation. The example of Venezuela under Hugo Chávez is telling. Between 2002 and 2006, 15 companies were nationalized. Beginning in 2007, the Chávez administration began a much broader program of nationalization, including foreign real estate holdings and oil exploration and production facilities. Over the next five years, 1,147 firms were nationalized, including oil facilities

8. “Global Markets to Drive 2013 Oil and Gas Spending—Barclays,” Reuters, December 4, 2012.

belonging to ExxonMobil and ConocoPhillips.⁹ Despite this wave of expropriations, and fiery anti-Western, anticapitalist rhetoric, Venezuela still saw annual FDI inflows of more than \$1 billion a year (in constant 2005 dollars) between 2007 and 2011.¹⁰

Very little systematic work empirically assesses the relationship between natural resource exports and political globalization. To date, the only broadly cross-national analysis is that of Ross and Voeten (2011), who estimate the impact of oil revenue—operationalized as oil exports per capita—on four measures of political globalization:

- the KOF Index, which includes the number of embassies hosted, membership in international organizations, and participation in UN Security Council missions and international treaties;
- participation in standard-setting international organizations, which set benchmarks for behavior in human rights, the environment, or international business;
- economic international organizations, such as preferential trade agreements, currency unions, and development banks; and
- political international organizations, which have broad mandates to develop and coordinate policy across a range of issue areas (examples include the Organization of American States, the African Union, and the League of Arab States).

The findings of Ross and Voeten (2011) indicate that high levels of oil exports suppress political globalization and are associated with fewer memberships in standards-based and political international organizations. But oil exporters, in keeping with their economically globalized status, are no less prone to joining economic international organizations, including bilateral investment treaties. Bilateral investment treaties (BITs) establish terms for private investment by foreign nationals and companies. They are distinguished by provisions for channeling disputes through international arbitration rather than the host state's legal system. BITs are particularly relevant for investment in extractive industries, because the underlying assets are immobile, eliminating the possibility of using capital flight as a mechanism to keep host governments honest, and because the corrosive effect of mineral dependence on legal and bureaucratic institutions means that host-state legal institutions may not inspire investor confidence (Kerner and Lawrence 2014). Yet even when oil-exporting countries establish BITs, they are systematically less likely to delegate dispute resolution authority to a third party, such as the World Bank's International Centre for the Settlement

9. "Expropriations Stir Controversy in Venezuela," *Al-Jazeera*, October 6, 2012.

10. Following the expulsion of the US ambassador and threats to embargo exports to the United States in 2008, 2009 saw FDI repatriations of more than \$2.7 billion. If this year is excluded, Venezuelan FDI inflows over 2007–11 averaged \$1.64 billion.

of Investment Disputes, preserving for themselves more latitude (Ross and Voeten 2011).

Ross and Voeten call this situation “unbalanced globalization.” Oil exporters are systematically more economically globalized than nonexporters but less politically globalized and integrated into international governance regimes. This circumstance has several important implications.

First, oil-exporting countries have more latitude in setting policy and face fewer formal, institutionally specified consequences for bad behavior. Although not all oil-exporting states flout international norms, they are systematically less likely to have precommitted themselves to not doing so. The relative paucity of institutional checks on their actions may help contextualize the heterodox behavior of some oil-exporting states.

Second, their lagging political integration complicates efforts to address issues that require global collective action, particularly regarding the environment. This dynamic is clearly at play in negotiations over how to address climate change, where oil-exporting countries’ material interests are at stake. Carbon emissions reductions will be a necessary component of any climate change mitigation protocol; although emissions cuts will impose some costs on all economies, they will be greater for energy-intensive economies, particularly those with significant hydrocarbon reserves (Buys et al. 2009). Any global protocol on emissions reduction would have some negative economic effects for countries that produce hydrocarbons, but the proportional welfare effects would be particularly large for countries that export energy. Saudi Arabia and other members of the Organization of Petroleum Exporting Countries (OPEC) have long pushed for compensation, under the guise of aid for economic diversification, for reductions in carbon dioxide emissions that would lead to a decrease in fossil fuel prices and a devaluation of OPEC members’ significant hydrocarbon reserves.¹¹ Following the partial successes of the REDD (Reducing Emissions from Deforestation and Degradation) scheme, which essentially pays rainforest countries to preserve forested areas, Ecuador has sought international funding not to develop the Ishpingo-Tambococha-Tiputini oil field, which is located in a national forest. This initiative ultimately proved unsuccessful, with the Ecuadorian government raising only \$13 million for its UN-administered trust fund, well short of the \$3.6 billion target.¹² Absent some sort of pecuniary offset, developing countries will find it almost impossible to leave valuable resources in the ground, and will likely push back against schemes to limit emissions.

11. “OPEC States Want to Be Paid if Pollution Curbs Cut Oil Sales,” *New York Times*, September 16, 2000; “Saudis Seek Payments for Any Drop in Oil Revenues,” *New York Times*, October 13, 2009.

12. “With \$116 Million Pledged, Ecuador Moves Forward with Plan to Protect Rainforest,” *Science Insider*, January 13, 2012; Rhett Butler, “As Rain Forests Disappear, A Market Solution Emerges,” *Yale Environment* 360, http://e360.yale.edu/feature/as_rain_forests_disappear_a_market_solution_emerges/2097 (accessed on February 8, 2013); Jonathan Watts, “Ecuador Approves Yasuni National Park Oil Drilling in Amazon Rainforest,” *Guardian*, August 16, 2013.

Material interests put oil producers at odds with many schemes for mitigating climate change, but their political isolation does not help, and it extends beyond issue areas where carbon emissions are of primary concern. Thomas Bernauer et al. (2010) find that membership in international organizations increased the probability that countries ratified multilateral environmental treaties such as the Montreal and Helsinki Protocols, which govern chlorofluorocarbon and sulfur emissions, respectively. Moreover, they find that economic integration—measured as trade intensity—decreased the probability of ratification. Thus, the unbalanced globalization of oil exporters decreases their propensity to participate in global environmental governance institutions via both mechanisms.

Third, because oil-exporting states participate in fewer international institutions, they are less likely to adhere to international norms regarding the use of force, both at home and abroad. Membership in international institutions can have powerful effects for state behavior even when the institutions in question have nothing to do with the specific issue at hand. Brian Greenhill (2010) finds that membership in institutions that do not focus on human rights has a positive effect on a state's respect for human rights.

Fourth, fewer institutional linkages mean that oil-exporting states have fewer forums in which tensions with other states can be moderated via socialization and routinized interaction, which may help explain why oil-exporting countries are also outliers with respect to conflict behavior, the subject of the next section.

Conflict Behavior

Both general trends and more careful econometric analysis indicate that oil exporters have more aggressive foreign policies and engage in interstate disputes more frequently. Moreover, higher prices further embolden exporters, increasing the frequency of dispute occurrence.

Jeff Colgan (2010) finds that “petrostates”—states in which revenues from net oil exports constitute at least 10 percent of GDP—have engaged in militarized disputes 50 percent more frequently than nonpetrostates in the post-World War II era.¹³ Natural resource exporters—particularly oil exporters—engage in militarized disputes more often than nonresource exporters, though these disputes rarely escalate into full-blown wars. Indra de Soysa, Erik Gartzke and Tove Grete Lie (2011) note that oil is a highly contestable resource (see chapter 3). Because of its contestability, oil should make a state a more appealing target

13. “Militarized interstate disputes are united historical cases of conflict in which the threat, display or use of military force short of war by one member state is explicitly directed towards the government, official representatives, official forces, property, or territory of another state. Disputes are composed of incidents that range in intensity from threats to use force to actual combat short of war” (Jones, Bremer, and Singer 1996, 163). They are a commonly used measure of conflictual behavior between states that does escalate to actual warfare.

for conquest. Fighting over oil may ultimately be less attractive, however, than either purchasing it or cultivating close ties with governments in producing countries. As the United States learned firsthand in Iraq, it is easy to underestimate the costs associated with occupying and directly governing foreign territory (Wimberley 2007). Stability in oil-producing countries is often based on complex, dense networks of patronage that are much easier to destroy than to rebuild. The presence of oil veritably ensures that insurgents will have little trouble arming and equipping themselves, either through extortion—or “revolutionary taxation,” depending on one’s point of view—or direct third-party support.

The rents generated from oil export help finance large, technologically sophisticated militaries in exporting countries (Hendrix 2010). Table 4.1 shows the top 10 countries in military expenditures per capita from 2000 to 2011. Six are major oil exporters. Moreover, because oil is a strategic resource, major powers invest significant resources in securing global supply lines and have incentives to prevent large-scale conflict in oil-producing countries that might result in global price spikes. The US Fifth and Sixth Fleets have the smallest areas of responsibility of the Navy’s numbered fleets, covering the Arabian Gulf and the Indian Ocean and the Mediterranean Sea, respectively, but they are among its most important assets for ensuring a steady supply of oil from and through the region. Given that all the members of the UN Security Council except Russia are major oil importers, maintaining stability in oil-producing states and deterring oil-seeking territorial aggression approaches an international norm. The 1991 Gulf War, in which a US-led coalition responded to Iraq’s invasion of neighboring Kuwait, was waged under the auspices of a UN Security Council binding resolution. According to de Soysa, Gartzke, and Lie (2011), as a result of both domestic spending on defense in energy-exporting countries and their strategic significance for major powers, oil producers are less likely to experience wars and less likely to be perceived as rivals by major powers than nonexporting countries, even when their policy preferences, as expressed in voting patterns in the United Nations and military alliances, are opposed to those of the major power.¹⁴

Although energy exporters are, in the main, less likely to be involved in wars, they can still be irritants and instigators. de Soysa, Gartzke, and Lie (2011) argue that the implicit security guarantees perceived by energy exporters induce a form of moral hazard: Because they are essentially indemnified against large battlefield and territorial losses, they may be more casual

14. “Actors categorize other actors in their environments. Some are friends, others are enemies. Threatening enemies who are also adjudged to be competitors in some sense, as opposed to irritants or simply problems, are branded as rivals. This categorization is very much a social-psychological process. Actors interpret the intentions of others based on earlier behavior and forecasts about the future behavior of these other actors. The interpretation of these intentions leads to expectations about the likelihood of conflicts escalating to physical attacks.... Both sides expect hostile behavior from the other side and proceed to deal with the adversary with that expectation in mind” (Thompson 2001, 561–62).

Table 4.1 Top 10 countries in military spending per capita, 2000–11

Country	US dollars
United Arab Emirates	2,725
Israel	2,138
Kuwait	1,952
Qatar	1,883
United States	1,854
Oman	1,681
Singapore	1,671
Saudi Arabia	1,429
Norway	1,299
France	951

Source: SIPRI (2013).

about the use of force—or threats of force—in their dealings with other countries, especially countries that are not energy exporters and are thus not similarly insured themselves. They find that oil exporters tend to initiate more low-level disputes (militarized interstate disputes [MIDs]) with nonoil exporters, although the effect is small. These low-level disputes rarely escalate to actual war, but given the importance of oil for the world economy, they make headlines, contributing to the perception that resource-backed violence is a persistent feature of international affairs, even if actual oil wars are rare.

This moral hazard may embolden some leaders more than others. Colgan (2010, 2011, 2013) attributes the increased dispute propensity of oil producers to a confluence of two factors: resource rents and revolutionary leadership. Because state authorities can easily appropriate oil revenues, they provide rulers with greater resources with which to buy off opposition and spend on their militaries, reducing the domestic costs associated with more risky foreign policy behavior.

Although this logic establishes means, it does not establish motive. Leaders of many oil-rich states—Saudi Arabia, the United Arab Emirates, Nigeria, Gabon—are satisfied with their position in the status quo and lack revisionist ambitions: dissatisfaction born of a belief that they are not “receiving their due from the international order” (Kugler and Organski 1989). In contrast, revolutionary leaders—leaders who come to power by force and attempt to transform preexisting political and economic relationships, both domestically and abroad—often have revisionist ambitions and are less hesitant about using force to resolve international disputes. Revolutionary governments with oil wealth have both motive and means to

initiate militarized disputes, a finding Colgan confirms with careful empirical analysis.¹⁵

Colgan also finds that the relationship between resources, revolutionary governments, and conflict does not hold for other extractives (bauxite, copper, iron, lead, nickel, phosphate, tin, zinc, gold, and silver). Oil is unique in its effect of emboldening revolutionary leaders. Whether this effect reflects its easy monopolization by state actors, the comparatively massive rents it generates, or its strategic significance cannot be determined conclusively, but the discussion of state revenue and state capacity in chapter 3 suggests that one can rule out the first mechanism: most other mineral resource rents are easily appropriable.

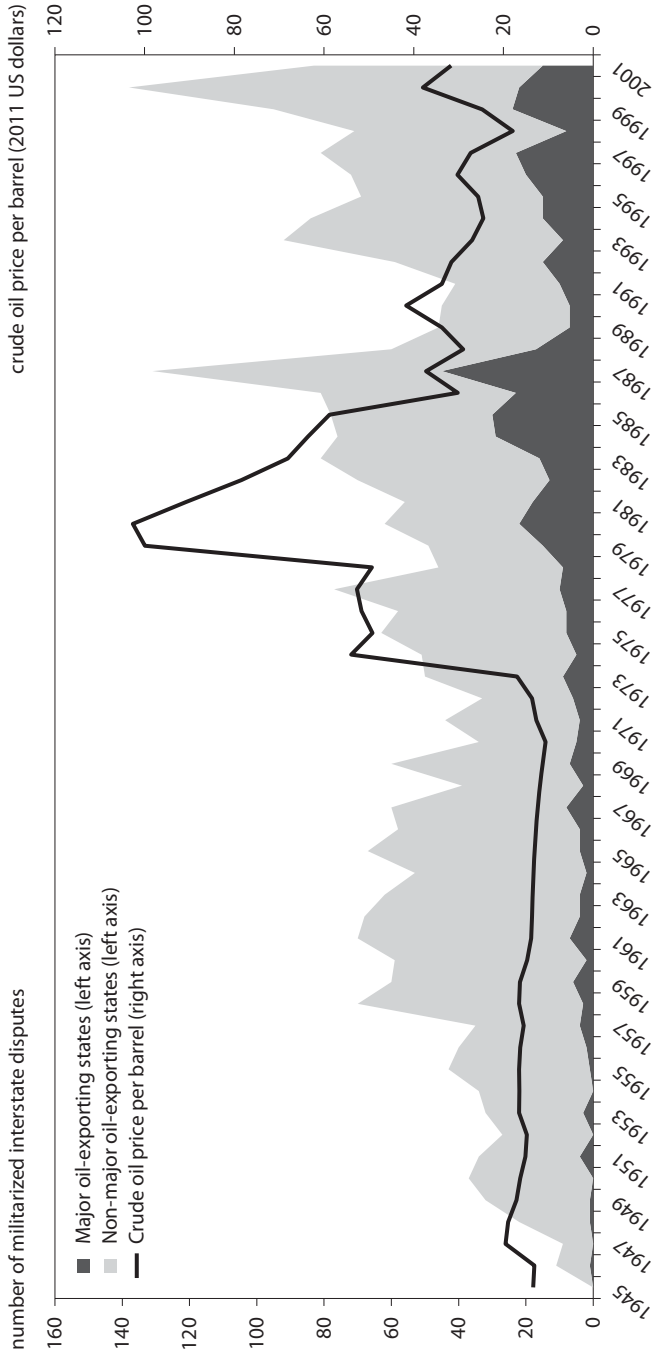
What about price effects? Although primarily focused on domestic politics in exporting countries, Thomas Friedman's First Law of Petropolitics suggests that high oil prices embolden producers to adopt more confrontational foreign policies.¹⁶ Higher prices make strategic relationships between powerful importers and exporting states more valuable. If oil exporter status effectively insures leaders from retaliation for saber-rattling behavior, higher prices should further embolden oil-exporting countries and correlate with more bellicose behavior. If oil revenue is particularly emboldening to revolutionary leaders, then the price effect should be amplified for revolutionary-led petrostates.

Econometric evidence provides support for a general link between higher prices and more aggressive foreign policies in oil states; there is less support connecting higher prices to aggressive behavior by revolutionary-led oil states (Hendrix 2014). An increase in world oil prices from \$23 per barrel (the price in mid-2002) to \$73 (the price in the second quarter of 2007) in constant 2005 dollars increases the frequency with which oil-exporting states experience militarized disputes by roughly one quarter; oil prices are uncorrelated with dispute propensity in nonexporting states (see figure 4.2). A similar increase in oil prices

15. Colgan's definition of a revolutionary leader has two components. The first involves the means by which the ruler comes in to office: "First, has the individual leader used armed force against his own state at any time prior to coming to office as an integral part of coming to national influence, and ultimately, state leadership? Second, were there mass demonstrations or uprisings, violent or nonviolent, that were instrumental in deciding the outcome of the transition?" (Colgan 2012, 444–45). The second refers to the types of policies the leader implemented while in office: "Did the leader usher in a major change to the constitution? Did the leader adopt communism or fascism as the official ideology of the state/ruling party? Did the leader overhaul rules governing property ownership?" For a complete list, see Colgan (2012).

16. Friedman (2006) cites Hugo Chávez as "telling British Prime Minister Tony Blair to 'go right to hell' and telling supporters that the US-sponsored Free Trade Area of the Americas 'can go to hell'" in early 2006. Had he waited until September, he would have had even better copy. On September 20, Chávez addressed the UN General Assembly, one day after President George W. Bush. Chávez began his speech with a pitch for Noam Chomsky's *Hegemony or Survival* and followed with some choice remarks about the US president: "Yesterday, the devil came here. Right here. Right here. And it smells of sulfur still today, this table that I am now standing in front of. Yesterday, ladies and gentlemen, from this rostrum, the president of the United States, the gentleman to whom I refer as the devil, came here, talking as if he owned the world" (CQ Transcripts Wire, 2006).

Figure 4.2 Oil prices and militarized interstate disputes, 1945–2001



Note: Oil prices are strongly correlated with dispute behavior in oil states where net oil exports account for 10 percent or more of GDP ($r = 0.5, p = 0.01$). Oil prices are uncorrelated with dispute behavior in non-oil-exporting states ($r = 0.07, p = 0.59$).

Sources: Ghosn, Palmer, and Bremer (2004); Colgan (2010); BP (2012).

is associated with an increase in the frequency with which oil-exporting states clearly initiate these disputes; it has no effect on nonexporting states.

Evidence for price effects for revolutionary petrostates is less robust: Although there is some evidence that the relationship between prices and exporting state behavior is driven by revolutionary-led cases, this evidence does not hold up under the most rigorous specifications. Data availability limits the analysis to the period 1945–2001 and thus does not include the most recent commodities boom; it does include the oil shocks of the 1970s, which were of significantly larger magnitude than the shocks of the past decade.

This discussion highlights the unbalanced globalization—the high level of economic but comparatively low level of political integration—and more belligerent foreign policies of energy-exporting countries. How well do these findings illuminate the behavior of the “illiberal” producers that have received heightened scrutiny in the past decade (Iran, Russia, and Venezuela)?

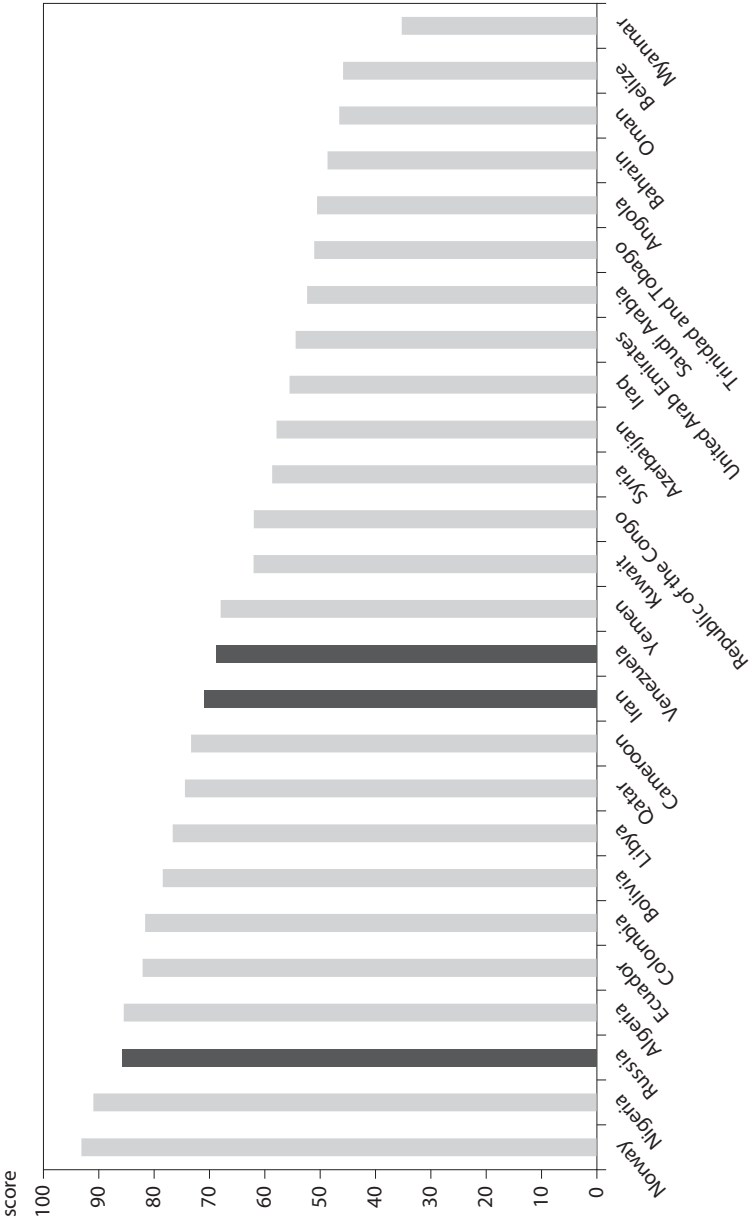
First, none of the three is as politically isolated as its major exporter status might suggest: All three are above the median on the KOF Political Globalization Index. Figure 4.3 ranks OPEC members and non-OPEC members with significant energy exports according to their score on the KOF Political Globalization Index. Perhaps because of its former superpower status, Russia is extremely highly integrated, trailing only Norway and Nigeria. Iran and Venezuela, considered pariah states by many, are significantly more politically integrated than many other OPEC members and energy exporters, including Saudi Arabia and Bahrain, the home port of the US Fifth Fleet.

Second, only one of these countries (Venezuela) was presided over by a “revolutionary” leader, at least according to Colgan’s definition. Hugo Chávez emerged on the Venezuelan political scene by attempting to violently overthrow the government in 1992. Once in office, he abrogated the constitution, abolished presidential term limits, and oversaw the reorientation of the Venezuelan economy via a program of nationalization and increased social spending based on socialist principles. Large swaths of Venezuelan society supported this program. Chávez came to power in elections no more problematic than those that brought Mohammed Khatami and Mahmoud Ahmadinejad to power in Iran or Vladimir Putin and Dmitry Medvedev in Russia. All four rose to power via conventional means, having been elected by questionable (at best) but nevertheless institutionalized electoral processes. In office, all four oversaw a continuation, rather than a complete overhaul, of the policies of their predecessors.

In terms of conflict behavior, Iran and Russia appear to have come by their petro-aggressive reputations honestly. Iran’s Ayatollah Khomeini is the single most belligerent leader of the 1,020 leaders analyzed by one of us (Hendrix 2014), with an expected MID count of 3.9 per year, not far ahead of Ayatollah Hashemi Rafsanjani (2.8, ranked sixth). Both Putin and Boris Yeltsin rank in the top 3 percent of all leaders for conflict propensity.¹⁷ The modeling indicates that

17. US presidents Dwight Eisenhower, John F. Kennedy, Lyndon Johnson, Richard Nixon, George H. W. Bush, Ronald Reagan, Gerald Ford, Bill Clinton, and George W. Bush do as well.

Figure 4.3 KOF Index of Political Globalization scores for major energy exporters, 2009



Note: The higher the score, the greater the globalization. Figure includes member states of the Organization of Petroleum Exporting Countries and all countries where energy exports accounted for more than 35 percent of merchandise exports in 2009.
 Sources: Dieher, Gaston, and Martens (2008); World Bank (2013).

Russia is the single most conflict-prone country, followed closely by China and the United States, two major oil importers. Iran is the only nonmember of the UN Security Council—whose members are able to project military power at a global scale—to crack the top five.

Will the United States' reemergence as an energy exporter fundamentally alter this picture? Imports as a share of total US energy consumption hit their post-1973 peak in 2005 at 30 percent, but by 2035, the International Energy Agency forecasts that the US energy trade deficit will shrink to less than 4 percent, thanks to both expanding production and increasing energy efficiency (IEA 2012). One of the purported benefits of increasing efficiency and expanding US production capacity is that they will make the United States much less dependent on energy imports, thereby diminishing incentives to intervene in the domestic and external affairs of energy-exporting countries. An energy-independent United States would be freed of its implicit commitment to stabilize oil producers; realizing that they no longer have this implicit security guarantee, producers would adjust their behavior accordingly.

The hydrocarbon boom in North America may also lead to lower global prices. Many medium-term forecasts for crude prices have spot prices either up slightly or in some cases doubling from recent prices by 2020.¹⁸ However, some industry experts believe these forecasts massively underestimate the potential impact of the ongoing shale revolution, which some believe may lead to a halving of prices.¹⁹ If oil prices were to stabilize at 50 percent of their present real value, the logic goes, it would rob petrostates of the vast resources with which to prosecute their aims. Of course, it would expose the United States to the same price shocks, although the proportional effects on US terms of trade would be much smaller than for oil exporters for which oil exports account for large shares of total exports.

Despite these projections, the rise of the United States as an energy exporter is unlikely to markedly diminish the importance of foreign oil producers for US foreign policy, for at least two reasons. First, key US allies—and lynchpins of the global economy—in Europe and Asia will remain import dependent for the foreseeable future. North Atlantic Treaty Organization (NATO) members Germany, the Netherlands, France, and Italy are all among the top 10 oil importers, as are Japan and South Korea (and China, for that matter). To the extent that the health of the US economy is contingent on the health of some of its largest trading partners and military allies, supply shocks in global markets will continue to have clear economic implications

18. Benes et al. (2012) and OECD StatExtracts (accessed on January 11, 2013).

19. These experts include John Llewellyn, former head of international forecasting at the Organization for Economic Cooperation and Development (OECD); Francisco Blanch, head of the commodities research department at Bank of America; and Joseph Petrowski, CEO of Gulf Oil. See “Shale Gas Revolution ‘Could Halve Oil Price,’” *The Times*, July 1, 2013; Benjamin Alter and Edward Fishman, “The Dark Side of Energy Independence,” *New York Times*, April 27, 2013; and “Expect \$50 Oil, but Not \$2 Gas, Gulf Oil CEO Says,” CNBC, July 15, 2013.

for an energy-independent United States, from which US security interests in these places necessarily follow.

Second, the security implications of the price effects that might accompany the United States' rise as an exporter are murky. On the one hand, lower prices should mean less bellicose behavior by producers in the international arena. On the other hand, lower prices would mean lower revenues for governments that have made large public expenditures a key pillar of domestic political stability. Consumer subsidies have long been part of the "authoritarian bargain" between the state and citizens in many authoritarian countries. Attempts to withdraw them have been met with upheaval, as during the bread *intifada* (uprising) after Egyptian President Anwar Sadat's decision in 1977 to roll back food subsidies. The resulting unrest killed 800 people, and the subsidies were quickly reinstated. The political logic of these subsidies is both straightforward and pernicious: They explicitly encouraged citizens across the region to evaluate government effectiveness based on its ability to maintain low consumer prices. When the government is flush, these large public expenditures are tenable. When revenues decline, governments find themselves in the uncomfortable position of having to roll back price supports, sparking unrest.²⁰ As current events suggest, it is unlikely that domestic unrest in oil-producing countries will lead to less attention from US policymakers.

Conclusion

This chapter discussed how energy exporter status affects state behavior, endowing these states with a freer hand, maintaining independence from international organizations, and pursuing more confrontational foreign policies. It established that high prices amplify these conflict effects. Thus, in addition to their direct economic effects, resource booms have demonstrable impacts for international security. Security concerns related to resource booms should consider not just what they allow exporters to get away with, however, but also what they may (or may not) compel major importers to do. The next chapter addresses the rise of China as a major mineral importer and investor in resource extraction and the extent to which its rise has shaped its foreign policy in the 21st century.

20. The resulting domestic instability in oil-exporting states would likely both push prices back up and result in significant price volatility, suggesting that the lowest projections for global oil prices would not be a stable equilibrium.