Oil Prices and Violent Conflict: Is There a Connection?

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Abstract

"Resource curse" literature has neglected to directly seek a connection between movements in oil prices and violent conflict. This study finds, using a pooled cross-sectional time series design, from 1970-2006, covering 25 oil-dependent countries, that these countries tend to experience an increase in the likelihood of the onset of domestic armed conflict when oil prices are increasing and a lower likelihood of conflict when oil prices are decreasing. It is also found, contrary to recent literature, that the level of oil dependence may not be an indicator for the likelihood of conflict.

1. Introduction and Literature Review

Resource curse literature generally tends to examine how resource dependence affects the likelihood of conflict, often along with an ancillary argument examining how fluctuations in resource prices affect democratization. An area that this literature has neglected to address is the connection between movements in oil prices and violent conflict. Although the United States imports much of its oil from both Mexico and Canada, it is also heavily dependent on foreign oil in many politically unstable countries, including Venezuela, Nigeria, and Saudi Arabia. When oil prices increase, due to a greater global demand, states that depend on the export of oil will accrue greater revenues, allowing those in power to both co-opt, through patronage, those who can help maintain the power of the state and repress opponents of the regime, likely to rebel. This, in effect, should decrease the likelihood of civil conflict and heighten the state's desire for higher oil prices in oil-producing areas. Because the United States depends on the import of oil from many of these oil-producing states, consumers must pay the higher prices. This study presents empirical evidence suggesting, in fact, that oil-dependent countries (those dependent on the export of oil), tend to experience an increase in the likelihood of the onset of domestic armed conflict when oil prices are increasing and a lower likelihood of conflict when oil prices are decreasing. Contrary to recent literature, this study also suggests that the level of oil dependence may not be an indicator for the likelihood of conflict. To more effectively approach the question of how movements in oil prices affect the onset of conflict, it is appropriate to examine the current resource curse literature that allowed this question to arise: How resource dependence affects the

likelihood of violent conflict along with an additional argument often discussed in this body of literature, claiming that fluctuations in resource prices affect democratization.

Many scholars claim that resource dependence affects the likelihood of violent conflict (Ross, Hegre, de Soysa). This claim is also known to be part of the larger paradox of the "resource curse," adding to the many potential downfalls of resource wealth. Collier & Hoeffner (2002a), using 52 civil wars between 1960 and 1999 and measuring natural resource dependence as the ratio of primary commodity exports to GDP, suggest that primary commodity exports tend to increase the likelihood of civil war but only up to a ratio of 32%. Levels of export beyond this tend to lessen the likelihood of conflict because government control over the natural resources tends to curb rebels' financial opportunities, raising the cost of a rebellion. When a resource is more available (past 32% of GDP) the government is able to surpass rebel manpower, gaining greater control over the resource. Although employing a different set of control variables, Hegre (2002) finds similar results, though cautioning that primary commodity exports may be somewhat less important than previously suggested. Intriguingly, with very limited deviation, scholars generally agree that oil is most highly associated with the onset of conflict (Ross, 2004). Collier & Hoeffner (2004), de Soysa (2007), as well as Fearon & Laitin (2003) all find that oil is significantly linked to civil war, particularly secessionist war, and that countries deriving at least 1/3 of their exports from oil double the risk of conflict. This effect could be due to the economic downfall of "Dutch disease," where currency values rise because of increased resource exports, making manufactured and agricultural exports less assertive. This causes the country to be significantly more dependent on its resource sector, becoming even more susceptible to the inconsistency of the international market (Lam & Wantchekon, 2003). Rogoski's conflict coalition model may provide a demonstration of this effect where land is substituted by commodities: When trade is expanding, a government in a country relatively abundant in land (commodities), will benefit from trade, maintaining a more dominant position. This could potentially diminish the assertiveness of other sectors in the economy (manufacturing), causing slower economic growth. Ross (2001b) finds a significant correlation between oil dependence and higher child mortality rates, which may also make a country more susceptible to internal conflict. When governments provide poor education and healthcare, people are more likely to be recruited by rebel groups and thus, rise up against the state.

Regime type also plays a role in civil conflict. Because of the conflicting views as to whether democratization leads to civil peace (Hegre et al, 2001; Fearon, 2003), Hegre conducts a study arguing that there is a curvilinear relationship between regime type and likelihood of civil conflict, resembling an inverted U-shaped curve (Hegre, 2001). This relationship is formed using a scale ranging from an extreme autocracy to a fully liberal democracy, which at both ends are expected to have relatively low levels of civil conflict. Regimes in between the two extremes, "anocracies," are expected to have far greater levels of civil conflict. Regimes in transition are also expected to have higher levels of conflict (Hegre, 2001). There seems to be much empirical evidence within the resource curse literature suggesting that countries dependent on natural resources experience a higher likelihood of conflict, and an ancillary argument, claiming that fluctuations in resource prices affect democratization, adds to the complexity of this paradox.

Commodity prices, particularly oil prices, have risen significantly over the past two years and have been increasing since the 1990s. *New York Times* correspondent Thomas Friedman, in his 2006 *Foreign Policy* article, "The First Law of Petropolitics" brought attention to a relationship between oil price movements and democratization. More specifically, he argues that the price of oil and democratization move in opposite directions. In other words, the higher the price of oil, the more that democratic trends are eroded. Conversely, the lower the price of oil, the more democracy is strengthened. Friedman's article offered a new twist on the long established "resource curse" argument, which claims that countries heavily dependent on the export of natural resources tend to suffer from slow economic growth, high poverty rates, corruption, and authoritarian governance (Ross, 2004). The case of Nigeria is an excellent example. When the price of oil was roughly $25 per barrel in 1999, Nigerian President Olusegun Obasanjo came to office with the People's Democratic Party and ended decades of military rule. He released political prisoners, spoke out against human rights, decreased the national debt, and was taking the country in the direction of tremendous democratic reform (Friedman, 2006; Isaacs, 2002). Though, as oil prices surged toward $60 per barrel, democratic institutions began deteriorating, political opponents were killed, and legal and educational structures became entrenched with corruption. This is a common trend, though the mechanisms connecting this relationship vary (Friedman, 2008).

Ross (2001) uses the "rentier effect" argument to show how, in three ways, governments use the rents they generate from oil to relieve social pressures for greater accountability. First is the "taxation effect." When there is a greater demand for oil in the international community, oil prices rise and oil-producing states accrue a greater stream of revenue. Due to a greater influx of cash, governments are less likely to tax their citizens, creating less of a public demand for accountability from and representation in the government. Second is the "spending effect." In authoritarian regimes, the dictator lives in constant fear of losing office. In order to stay in office, the ruler must maintain the support of the people who can contribute in perpetuating his current office—the winning coalition, in effect, buying their loyalty. When a government accrues greater revenues due to higher resource prices, they will disperse those rents as private benefits only to the winning coalition. Because this income is so heavily spent on patronage, very little money is spent on public goods of infrastructure and education, and average incomes tend to be very low, further impeding pressure for democratization. Third is the "group formation" effect. The government may use its bounty from oil revenues to deter the formation of political or social groups, create institutions that support the political goals of the state, and depending on the state, will do so in a direct or allusive manner. In agreement with Ross, Jenson and Wantchkon state that what links authoritarian governance and resource dependence (and more so with a greater demand of the resource) is the incumbent's discretion of the rents. Using Dahl's diffusion of power to explain Ross's mechanisms, Hegre (2003) states that there are generally very few people involved in extracting the resource rents and power is disproportionately distributed to the state. This creates a poor condition for democracy. Because resource wealth is often mismanaged by the ruling elite, economic problems generally arise, creating another link between resource prices and democratization.

Many scholars attribute economic development to the outcome of democracy (Lipset, 1959; Dahl, 1989). Lipset (1959) stated, "the more well-to-do a nation, the

greater the chances it will sustain democracy." This may include levels of education and average income, amongst other indicators. Dahl (1989) argues that a 'modern dynamic pluralistic society is important for establishing a stable democracy because it allows for a dispersion of political resources, strategic locations, and bargaining positions. Ross (2001) posits another mechanism from a development standpoint in which he terms the "modernization effect." This argues that occupational specialization, urbanization, and higher levels of education within a country are key factors in impacting the likelihood of democratization. Resource-led growth, ironically, does not lead to these factors. Lipset (1959) argues that higher levels of income and education would lead to a more rational, "compromise-oriented" view of politics and would produce a more articulate and autonomous public, making it more difficult for elites to exploit the political system. It would not make a difference if a free press is vital to a democracy if the majority of the population is illiterate. When there is an increase in literacy rates, income levels, and other developmental indicators, there ultimately becomes a greater pressure for democratization.

The oil booms of the 1970s brought oil-rich countries tremendous wealth but over the following decades, countries with what was thought to be remarkable promise, remained in completely depressed and stagnant economies (Ross, 2008). Again, it is not the simple presence of a resource that may lead to political and economic downfalls, it is how the resource is managed. Very few oil-rich countries have the financial knowledge to properly manage a sudden glut of revenues. This can be seen in both Kazakhstan and Nigeria, where instead of providing basic needs to villages throughout the countries, the central governments spent the rents on building new capital cities (Ross, 2008). This wealth of literature shows that there is clearly a relationship between the price of oil and democratization, though there are various factors that link this connection. Another body of research, further expanding on the already established "resource curse" literature examines how countries heavily dependent on natural resources, particularly oil, may be more susceptible to the risk of conflict.

2. Theoretical Argument

Resource curse literature, examining the connection between resource dependence and the likelihood of violent conflict, as well as a supporting argument showing the apparent trend between fluctuating resource prices and democratization have become more important in recent decades due to a growing demand. Though, what has been hinted towards but not directly mentioned is how fluctuations in resource prices affect the likelihood of conflict. It is not the simple presence of the resource that raises the risk of conflict, rather, it is how the resource is managed. An example of this relationship can be seen in the rational peasant argument where there is a dyadic tie between patron (ruling elite) and the client (peasant) in corporate villages. The patron often prevents the spread of literacy and peasants' involvement in expanding markets, reducing the potential decrease in peasant dependence. Although the patron may be accruing greater rents due to price increases, to lessen the bargaining power of the peasant, the subsistence floor price (that which the peasant receives) will remain the same, giving the peasant a greater incentive to rebel (Popkin, 34).

The rentier state literature may also explain this relationship. To the extent that there is an expansion in trade, due to a greater demand in particular resources, the price of those resources will rise. States that depend on the export of these resources will generate greater revenues, allowing more money for the state to both co-opt, through patronage, those who could potentially maintain the power of the state (winning coalition), and repress the opponents of the regime (others within the selectorate). In a democracy, there is a much larger winning coalition within the selectorate, providing public goods in which nearly everyone benefits. In an autocracy, there is a smaller winning coalition, providing only private goods, creating greater antagonism between this winning coalition and the masses because only the elite are benefiting. Potentially, this could mean that lower resource prices would raise the likelihood of conflict and higher resource prices would lessen the likelihood of conflict. When prices decrease, there is less money for the state to co-opt members of the winning coalition, making them more susceptible to support the political challenger because they would not be receiving as many private goods. There will also be less money to repress the opponents of the regime, allowing them to more easily rise up and rebel (Bueno de Mesquita et al, 37-73).

Haber (forthcoming), in line with this theoretical framework further expands on the rentier state argument, claiming that natural resource wealth where the government is generating greater rents in an already authoritarian regime may, in fact, further fuel that autocracy, preventing democratization. Dictators are inherently insecure because not only do they face potential regime challenging rebel groups, but they also constantly face political challengers and political entrepreneurs who lead organized groups. Dictators cannot simply push out these organizations because first, an organized group is often needed in order to take power, and second, the launching organization is needed to run the country, so it is integrated into the state. Though, the dictator still lives in fear that the launching organization's self-interested leaders will use it to launch their own bids for power. Because the ultimate goal for a dictator is to stay in power, he will both terrorize the leadership of the launching organization (mostly members of the winning coalition), as well as co-opt this leadership, as mentioned previously.

The dictator may terrorize through murder, torture, and purges. Organization members have an incentive to denounce one another to save themselves, making it difficult to cooperate and act against the ruling party. Because of this the dictator may not know whether the denunciations are accurate so he purges indiscriminately. This, tactic is, of course, a way to prevent anyone from challenging and attempting to overthrow the regime. A more common strategy is co-opting the leadership by buying their loyalty. Similar to the "spending effect" identified by Ross, there must be a source of steady rents. These rents are paid to the winning coalition, convincing them that they are better off cooperating than challenging the regime, or lending their support to other incumbent challengers. Haber states that the organization "will only join a coup attempt if they believe that the stream of rents they will earn post coup, multiplied by the probability of the coup's success, minus the cost of losing their heads if the coup fails, exceeds the stream of rents they already earn." When oil prices increase, the state has more money to keep the winning coalition happy and to continue repressing opponents of the regime, making conflict less likely. Though, when oil prices fall, there is less money to disperse, allowing members of the winning coalition to question whether they should

support a political opponent and less money to repress regime challenging groups, raising the likelihood of conflict.

More states depend on oil than any other commodity and this demand will only continue to rise. The "resource curse" literature shows both an inverse relationship between oil prices and democratization as well as how a greater dependence on oil seems to raise the risk of conflict. The goal of this study is to examine the gap: how movements in oil prices may affect the likelihood of the onset of domestic armed conflict.

H$_1$: When oil prices decrease, I expect an increase in the likelihood of the onset of domestic armed conflict.
H$_2$: When oil prices increase, I expect a decrease in the likelihood of the onset of domestic armed conflict.

3. Research Design

The hypotheses are tested using a pooled cross-sectional time series regression model covering 24 oil-dependent countries during the 1970-2006 period. Testing for the onset of domestic armed conflict, this study utilized the CSP-Major Episodes of Political Violence dataset which identifies all major conflicts with a total of 25 or more battles deaths over the course of a single year during the post-World War II era, 1946-2007 (Marshall, 2008). Oil prices were taken from the economic time series section of economagic.com. The prices were measured as global yearly averages and were inflation adjusted through a GDP deflator set to represent constant 2006 US dollars. Because global oil prices were relatively flat prior to 1970, this particular 37 year time span was used to more closely examine the more varying fluctuations in prices. The log of oil prices was used as the independent variable to measure the movement, upswing, or downswing of the averages year to year, as opposed to measuring the prices themselves.

Control Variables

Oil Dependence: This oil dependence variable was taken from the World Development Indicators of the World Bank (2007) and was measured as total fuel exports as a percentage of merchandise exports. In line with Hegre (2003), is seemed more appropriate to divide by total merchandise exports as opposed to GDP because exports/GDP tends to be correlated with the size of the economy which varies in size. Dividing by merchandise exports provides the importance of oil relative to the state's economy.

Regime Type: The regime type variable was taken from the Polity IV Annual Time Series Regime Authority Characteristics and Transitions Dataset (Jaggers & Gurr). Each country in the study was given a polity score which captures the regime authority spectrum on a 21 point scale measured from -10 to 10. This spectrum spans from fully institutionalized autocracies through mixed or "anocracies" to fully institutionalized

democracies. Regime type as a variable in this study should be seen more as a proxy for stability, where the more stable a country (polity is close to either extreme), the lower likelihood of conflict.

Income: The income or GDP per capita variable was taken from the World Development Indicators of the World Bank (2007) and was measured in constant 2000 US dollars.

Infant Mortality Rate: The infant mortality variable was taken from the World Development Indicators of the World Bank (2007) and was measured as total number of deaths of children under 5 per 1,000. This variable is more generally used as an indicator for development. It would therefore be expected to see an inverse relationship between mortality rates and a conflict, where the more developed is a country (meaning lower infant mortality rates), the less of a likelihood of conflict. Literacy rate was originally used with preliminary regressions but was dropped from the study due to multi-collinearity.

4. Results

Table 1: Oil Prices and Domestic Armed Conflict, 1970-2006

Independent Variable	Model 1	Model 2
Oil Prices$_{Log}$	0.042**	0.933
	(.02998)	(.00154)
% Fuel/Exports	0.300	0.287
	(.00024)	(.00028)
Polity	0.012**	0.752
	(.00280)	**(-.00038)**
GDP per Capita	0.276	0.023**
	(1.75e-06)	(-3.96e-06)
Infant Mort. Rate	0.001*	___
	(.00041)	

P-Values with **, *, indicate significance at the .05 and .01 levels, respectively. Coefficients in parentheses suggest the direction of relationships.

Table 1 estimates the effects of fluctuating oil prices on the likelihood of the onset of domestic armed conflict over a thirty seven year time period. Both models include the P-Values and coefficient levels. The positive coefficients suggest a positive relationship between the independent variables and the dependent variable. Results in Model 1 used a basic multivariate regression. Results in Model 2 used a basic multivariate regression containing a three year lagged dependent variable and omitted the infant mortality rate.

Movements in oil prices seems to exert a positive effect on the likelihood of the onset of domestic armed conflict, which may support the hypotheses posited in the theoretical framework of this study, and a possible argument for this will be discussed. As previously suggested throughout earlier parts of the paper, total fuel exports as a percentage of merchandise exports (the measure for oil dependence) has no significant relationship in affecting the likelihood of the onset of conflict. Although many scholars in agreement with the common "resource curse" argument generally agree that oil dependence, among a variety of other natural resources dependencies and primary commodities, increase the likelihood of *civil war* up approximately 32 per cent, this study suggests that there is no relationship above or below the 32 percent threshold for raising or lessening the likelihood of conflict. This means that the level of oil dependency seems to have no real effect in the likelihood of conflict, which opposes much of the literature.

GDP per capita, used as an indicator for average income levels only shows a significant relationship when lagged by three years and with the omission of infant mortality rates. There is a negative relationship, meaning that when average income levels increase over a period of three years, the likelihood of the onset of domestic armed conflict lessens and when average income levels decrease over three years, there is a heightened likelihood of conflict initiating. Though, in Model 1 where no variables are lagged, there is no significant relationship between average incomes and conflict. This is in line with what would be expected. Once average incomes raise "enough" (in this case, three years) the effects will be seen. Otherwise it would not be expected that a same-year or one year change in income levels would have any significant effect on conflict.

The positive relationship between infant mortality rates and the onset of domestic armed conflict suggest that when infant mortality rates increase, so too does the likelihood of conflict. Because mortality rates are more of a general indicator for development, the relationship can better be seen as one where the onset of domestic armed conflict is more likely the less developed a country and less likely the more developed a country. This significant relationship is clearly in line with what is expected and serves more to validate the current literature.

A more interesting result concerns the relationship between regime type (polity level), which is, of course, used more as a proxy for stability, and the likelihood of the onset of domestic armed conflict. The results in Model 1, suggest that as the polity score increases (moving upwards on the scale from -10 to 10), the likelihood of conflict increases. This essentially means that the process of democratization increases the likelihood of the onset of domestic armed conflict. The majority of the sample of countries in this study begins with a polity score of -7 or below (around 1970), which would be considered a quite stable autocratic governance, and end with a higher score (-2 for example, in 2006). Fewer in the sample begin with a polity score in the mixed or anocratic regime category (between -6 to 6) and even when ending in the 7-10 polity range (a more stable democracy), the process of democratization still greatly heightens

the risk of the onset of conflict during that particular span of time. This finding further validates the inverted-U relationship as it relates no not only natural resources as a broad category but to oil more specifically. The U-curve relationship also more generally refers to civil war as the outcome variable but this study confidently expounds on this argument to include the likelihood of the onset of domestic armed conflict as a potential outcome variable as well.

The majority of the resource curse literature finds that higher levels of oil dependence, measured as fuel exports as a percentage of total merchandise exports or as a percentage of GDP, raises the likelihood of armed conflict but only up to 32 per cent. Once this threshold is met, the likelihood of conflict begins to lessen. Smith (2004) argues the opposite, that higher levels of oil dependence, past this threshold makes authoritarian regimes stronger (more durable) through the greater ability to fund patronage networks and repression, in effect, reducing the likelihood of armed conflict. Contrary to both lines of literature, the results of this study indicate the level of oil dependence is not a contributing factor to the likelihood of conflict because the onset of conflict seems to occur equally above and below this threshold, meaning that regime-challenging conflicts must be distinguished from secessionist conflicts.

As mentioned in the first finding, results show that there is a positive and significant relationship between movements in oil prices and the likelihood of the onset of domestic armed conflict, which contradicts the hypotheses. This suggests that as oil prices increase year to year, there is a higher likelihood of conflict initiating. When oil prices decrease from year to year, there is a lower likelihood of conflict.   However, the types of armed conflicts are not differentiated in the theoretical argument. Le Billion (2001) says that resource rents constitute the "prize" for controlling the state, which, of course, may lead to coup attempts or other violent means to attain political control, winning the "prize" and thus the distributive capability of the resource rents. If oil is both point (which it is) and proximate (meaning close to the capital), a decrease in oil prices should lead to a higher likelihood of the initiation of regime-challenging domestic armed conflict. Again, the state would have less money to both co-opt members of the winning coalition and repress those opponents of the regime who are also close to the capital and are competing for control for the "prize," being oil rents.

If oil is both point and distant (meaning away from the capital) and oil prices increase, there should be a higher likelihood of the initiation of secessionist domestic armed conflict because those who live close to the oil (far away from the capital) believe that they should control those oil rents instead of having the perceived "outsiders" control their local resources. Because of the distance from the capital, it would be easier to attempt to secede from the country as opposed to try and overthrow the current political leader. The environmental costs of the extractive industry (of which is often state controlled) may also give incentive to the locals to secede, though still with the intentions of having local control over the particular resource.

5. Conclusions and Implications for Future Research

It is important to point out that this study serves as more of a baseline on which future research should be built. The resource curse literature has grown tremendously

throughout the past decade but has failed to question the connection between the movement of oil prices and intrastate conflict. Instead, most studies attribute the level of oil dependency as the main indicator for conflict.

The results of this study indicate that oil dependent countries in general have a higher likelihood of experiencing the onset of domestic armed conflict when oil prices are increasing and have a lower likelihood of experiencing the onset of domestic armed conflict when oil prices are decreasing. Also, contrary to recent literature, the level of oil dependency does not seem to be an indicator for conflict.

Future research should not only vary the use of datasets in examining the onset of domestic armed conflict but should also look at how movements in oil prices affect the duration, severity, and intensity of conflicts, as well as the effects on interstate conflict. The temporal domain in this study roughly began after the fairly flat movement of global oil prices in 1970. Although this length of time covers the major historical booms and busts of oil prices, a longer time span should be used to see the difference with relatively flat movements in prices.

Because there is question as to what type of domestic armed conflicts are occurring in this sample (regime-challenging or secessionist), an intensive case study analysis should be included to classify these particular conflicts and to see whether there is a relationship between the upswing and downswing of oil prices to the outcome of either type of conflict. This study shows a positive relationship between the variables, which would indicate secessionist conflict but does not verify each to conclusively show that this is the case. In some cases, multiple armed conflicts occur in a single year and are not able to be distinguished in a yearly regression model so it may be important to measure both monthly start dates and monthly average global oil prices to better validate the relationship to the onset of conflict.
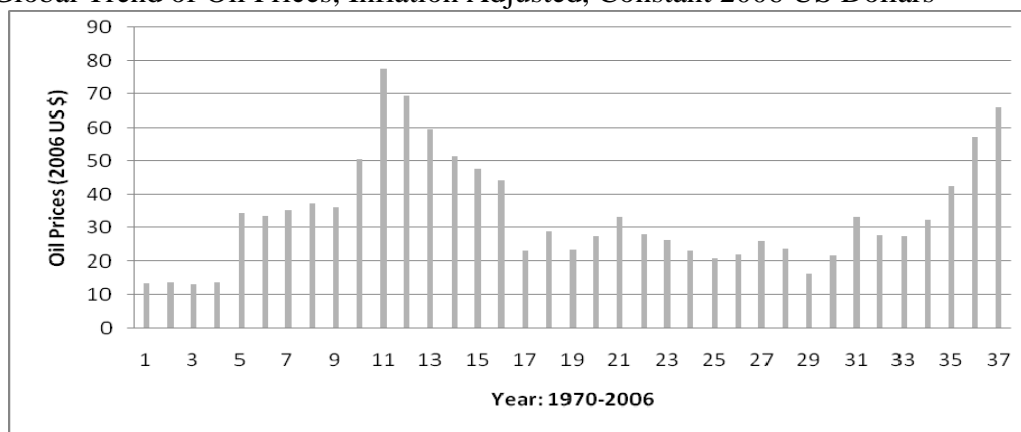
Appendix A

Oil Dependent Countries*

1. Algeria	98
2. Nigeria	98
3. Angola	95
4. Oman	95
5. Yemen	94
6. Libya	93
7. Venezuela	93
8. Kuwait	92
9. Qatar	91
10. Saudi Arabia	91
11. Congo, Rep.	88
12. Gabon	86
13. Azerbaijan	85
14. Iran, Islamic Rep.	83
15. Bahrain	81
16. Kazakhstan	69
17. Cameroon	62
18. Ecuador	59
19. Egypt, Arab Rep.	56
20. Bolivia	52
21. Colombia	40
22. Syrian Arab Rep.	40
23. Iraq	34
24. Indonesia	27

*Oil dependence is measured by fuel exports as a percentage of merchandise exports based on 2006 or most recent figures available from the World Bank (2007) World Development Indicators.

Appendix B

Global Trend of Oil Prices, Inflation Adjusted, Constant 2006 US Dollars

Appendix C

Summary of Variables

Variable	Obs.	Mean	Std. Dev.	Min	Max
Domestic Armed Conflict (onset)	819	.030525	.172132	0	1
Oil Prices$_{Log}$	819	3.426573	.4524377	2.580217	4.351181
Fuel Exports (As a % of Merchandise Exports)	628	63.07484	32.41972	0	193
Polity	819	-4.423687	6.278186	-10	9
GDP Per Capita	711	3,671.471	5,232.07	235	40,052
Infant Mortality Rate	193	91.66321	71.41673	10	280

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