When It Is Not “Business as Usual”: Petro-states and International Conflict

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May 20, 2017

Draft presented to Emerging Scholars in Grand Strategy Conference, University of Notre Dame, May 2017
Abstract

While there is increasing recognition that petrostates are more militaristic than their counterparts, it remains unclear why economic dependence on oil revenue leads to such belligerence. In this paper, I argue that one important cause of petrostate aggression can be explained in a two-level theoretical framework of the commercial peace, which asserts that the extent to which economic interdependence reduces militarized conflict depends on the degree of influence businesses have on foreign policymaking. My research reveals that petrostates have significantly smaller private sectors than other states. Given the diminished business influence on policymaking in petrostates, these countries are not constrained by the effect of economic interdependence in contrast to their non-petrostate counterparts. Quantitative analyses show that the pacific effects of economic interdependence are nullified for dyads containing at least one petrostate. This paper also provides a process tracing study of Colombia-Venezuela relations in order to illustrate the pathways of business influence on policy, as well as the limitations of these interests in oil dependent nations.
1 Introduction

Russia’s hostilities against Georgia in 2008 and the Ukraine in 2014, as well as Venezuela’s mobilization for war against Colombia in 2008–2010, highlight the significance of petrostates—nations that are 20% or more economically dependent on oil and gas revenues\(^1\)—as a source of global instability. The fact that dyads that include at least one petrostate are on average 40% more likely to be involved in interstate conflicts with fatalities emphasizes the importance of this issue to the international system. Yet research investigating why these dyads are more likely to engage militarily is nascent. This paper contributes to the literature on petrostate aggressiveness by focusing on the financial incentives of interstate dispute resolution.

Given the consequences of these interstate conflicts, it is surprising that before 2010, scholars largely ignored the relationship between oil dependence and interstate conflict.\(^2\) Despite a lack of empirical testing, the conventional argument presumes that natural resource abundance increases a petrostate’s vulnerability to attacks by its neighbors.\(^3\) Recent studies, however, have challenged this assumption by showing petrostates to be the primary initiators of conflict and that these disputes are not over oil resources.\(^4\)

A striking fact of petrostate conflicts is that they often occur between economically interdependent countries. Recently, John Muller argued that Russia’s seizure of Ukrainian territory in 2014 challenged the notion of the commercial peace as Putin’s “foray in an area of deep economic interdependence doesn’t seem to have been waylaid by potential economic cost considerations.”\(^5\) Like many proponents and critics of economic interdependence, Mueller makes the mistake of assuming that economic interdependence should have a uniform ef-

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1This paper’s references to oil revenues include both oil and gas.
2Koubi et al. (2014) echo these sentiments in their review of the natural resource curse literature.
3Meierding (2016).
4Colgan (2010, 2013); Ross and Voeten (2015); Schultz (2015); Meierding (2016).
5Mueller (2014).
fect on interstate conflict. Yet the causal mechanism of the commercial peace — that state leaders are constrained from resolving disputes by military force by businesses with financial interests in interstate trade — predicts that the pacific effects of economic interdependence should vary according to the degree of business influence on policymaking.

I argue that one substantial cause of petrostates’ increased willingness to use military force is that they are not restrained by the economic consequences of conflict. This is the result of the fact that oil dependence reduces the size and influence of the private sector. Thus, economic interdependence does not reduce militarized disputes as it does with non-petrostate dyads.

I test this theory using two statistical models. The first model adapts the most common variant of the commercial peace equation by examining the variation in oil dependence on the effectiveness of bilateral trade to reduce the likelihood of militarized disputes with fatalities.

I also use a two-part model (2 PM) as described by Vance and Ritter (2014) to assess these interactive effects on dispute severity. The appeal of this model over the standard logit is that it includes more information by evaluating all MIDs and their severity level. Moreover, it recognizes that the independent variables may have distinct effects on the probability of engagement in a dispute and the resulting level of hostility.

While the available quantitative data assesses the observable effects of my theory, it is unable to directly evaluate the argument’s causal logic. Therefore, I provide an in-depth case-study of Venezuela’s public-private sector relations and their consequences on the Colombia-Venezuela rivalry. This study illustrates how the relative degree of business influence within each nation affected the foreign policy measures used to resolve their frequent interstate disputes. These combined analyses support the hypothesis that petrostates are aggressive international actors because they are undeterred by the economic consequences from militarizing disputes.
2 Existing Literature

Dyadic relationships with petrostates are almost twice as likely to result in a fatal militarized conflict than their counterparts. The conventional view explains this result by assuming that petrostates have a greater risk of being targeted by their neighbors seeking control over resource rich territory both due to the strategic nature of these resources and the economic benefits derived from them. The following section reviews recent literature challenging this conventional narrative by showing petrostates to be initiators of disputes and the difficulty of benefiting from conflict over oil. It also describes the current arguments explaining petro-aggression and the need for further research into this topic.

2.1 Targets or Aggressors?

Rather than viewing petrostates as targets in the international system, Jeff Colgan explored the possibility that resource-backed aggression explained why petrostates are involved in a disproportionate number of militarized disputes.\(^6\) Through an analysis of directed dyads, Colgan’s research demonstrates that petrostates are much more likely to initiate militarized disputes than to be the target of aggression.\(^7\) Complementing these studies, Emily Meierding’s in-depth qualitative research reveals the flaws in the notion that states can benefit from oil wars. She identifies four overlooked “impediments to exploiting foreign oil: invasion costs, occupation costs, international costs, and investment costs.”\(^8\) Moreover, her research shows that the most common historical examples used to back the “petrostate as target” claim were not directly about oil. For example, her cases studies of “Japan’s invasion of the Dutch East Indies (1941–42), [and] Iraq’s invasion of Kuwait (1990)” find that these were wars for survival. She also demonstrates that “the Iran–Iraq War (1980–88) and the Chaco

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\(^6\)Colgan (2010, p. 676).
\(^7\)Colgan (2010); Hendrix (2015).
\(^8\)Meierding (2016, p. 262).
War between Bolivia and Paraguay (1932–35),” were not even connected to oil interests.9

The strongest rebuttal to the arguments put forth by Colgan and Meierding is from Francesco Caselli et al. who find a high risk of conflict “where only one country of the pair has oil and this oil is close to the border.”10 Kenneth Schultz, however, demonstrates that the result in Caselli et al. is “driven by a number of false positives: dyads in which the disputed territory does not encompass the oil near the border.”11 For example, he finds that within Caselli et al.’s own data “many of the most conflict-prone dyads with oil near the border were not, in fact, fighting about oil: for example, India–Pakistan, Israel–Egypt, Israel–Syria, Russia–Japan, and Armenia–Azerbaijan. Indeed, in some of these cases, the disputed territory does not overlap with the oil deposits.”12 Instead, Schultz shows that by “disaggregating territory into fifty-kilometer square grid cells reveals that cells that provide access to oil are, if anything, less likely to be part of dispute than cells without oil.”13 Evidence from several multinomial models support Schultz’s conclusion “that that the grid cells located on top of onshore deposits are associated with a lower probability of a dispute, while grid cells that give access to offshore oil or that sit on a path to oil are neither more nor less likely to be implicated in a claim than those that do not.”14

Apart from the study by Caselli et al., the above works call into question the logic that it would be in a sovereign nation’s interest to attack its territorial rivals to gain control over oil resources. Colgan finds that the petrostates initiate interstate conflicts at “a rate 94 percent higher than that of nonpetrostates.”15 Meierding provides in depth qualitative evidence that the four wars most commonly thought to be over petroleum resources were instead about security needs and national survival. Finally, Schultz points out that conflict

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9Ibid.
10Caselli et al. (2015, p. 304)
11Schultz (2015, p. 3).
12p. 17.
13p. 3.
14p. 19.
15Colgan (2010, p. 664).
over disputed territories usually only encompass a small portion of that area of land. He finds that territories that contain oil are less likely to be the target of an interstate dispute. Through a combination of quantitative and qualitative analyses, these studies convincingly argue that petrostates are rarely, if at all, targets of military aggression for control over their oil resources in the modern era. In doing so, they have reinitiated the question — why are petrostates involved in a significantly higher number of militarized conflicts?

2.2 Existing Theories of Petro-State Conflict

To date, there have been two theories proffered to explain petrostate aggression: (1) oil wealth in revolutionary regimes increases the tendency of these leaders to initiate military conflict Colgan (2010, 2013), and (2) high oil prices lead to increased willingness of petrostates to initiate military conflict Hendrix (2015). The following briefly summarizes these arguments while demonstrating their insufficiency to fully address the problem of petrostates and international conflict.

Colgan explains the aggressiveness of petrostates by looking at the effect of oil revenue on states with revolutionary governments. He focuses on these regimes because they tend to be substantially more aggressive than their counterparts due to the type of leadership that emerges from these governments. These leaders are “likely to have greater risk acceptance for achieving their desired political outcomes.” Colgan (2010, p. 666). Revolutionary governments also result in “the removal of domestic political and institutional constraints.” Hendrix (2015, p. 676). Oil income increases the revolutionary leader’s autonomy and reduces the possibility of being removed from office for foreign policy decisions.

While an important contribution to the literature, Colgan’s theory does not fully address

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16 Colgan (2010, p. 666).
17 p. 676.
18 p. 670.
why petrostates are involved in a greater number of dyadic militarized disputes. He cannot assert that the effect of oil on conflict is limited to revolutionary governments. Indeed, he admits that his classification of revolutionary governments does not entirely encapsulate the aggressive leadership he theorizes about. In particular, Russia is a significant outlier. Colgan notes “Russia’s democratizing revolution under President Boris Yeltsin in 1990–91 did not generate an overly aggressive government.” Moreover, he also notes that willingness to initiate conflict by Putin’s Russia demonstrates that revolutionary governments are “not a necessary condition for having aggressive preferences.”

Hendrix offers an alternative explanation by asserting that oil exporters are more conflict-prone when oil prices are high. The record high prices and conflictual events of 2008, particularly Russia’s invasion of Georgia and Chávez’s military aggression towards Colombia, have led many to intuitively support this hypothesis. Yet, many have also noted that Russia’s invasion of the Ukraine may be due to a counter phenomenon; the economic challenges of low prices possibly incentivized Putin to pursue a “rally-around-the-flag” strategy. Although Hendrix concludes that the data supports his explanation, his empirical results produce mixed support for the argument. While MID initiations by petrostates do seem price contingent in the directed dyads regression, the reverse is true at the monadic level. When it comes to relative bellicosity of petrostates, however, his results show the exact opposite. He does not offer an explanation for the contrasting results of these analyses.

Both Colgan and Hendrix use directed dyadic tests to assess whether their independent variables explain the initiation—whether State A was the first to take a codeable action—of a militarized dispute by a petrostate. The authors of this dataset, however, have repeatedly stated that this variable “should not be interpreted to be the states that ”started“ the conflict, or that are responsible for the conflict.” Thus, while Colgan and Hendrix find

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19Ibid, p. 683.
20Colgan (2014).
22Ghosh et al. (2004, p. 139).
support for petrostate initiation, they do so within the context of these limitations. Due to these data challenges, this paper seeks to explain the increased willingness of petrostates to respond to a dispute with military force regardless of which state initiates the conflict.

Both authors also test the bellicosity of petrostates as a function of their participation in any militarized dispute without consideration for the variation in the severity of these conflicts. The MID data include recorded incidents that vary greatly in the degree of military violence — from unreciprocated disputes over fishing boats to full scale wars. Only higher coded events involve the actual threat or use of military force. This is important because use of military force is an important threshold in international relations as it is at this point that “diplomacy becomes more actively coercive...there is a perception of a heightened risk of war, and the emotional climate of decision-making becomes increasingly clouded by hostility and fear.”

Addressing this issue, I follow the convention of many scholars using the MIDs dataset by classifying the dependent variable as participation in a MID that involves at least one death. An additional test uses the hostility level variable recorded in the MIDs data to test whether the inclusion of a petrostate in a dyadic conflict affects the degree of severity of a militarized dispute. This is explained in more detail in the model specification and data section.

3 Theory

I argue petrostates are involved in a higher proportion of international conflict, because they are more likely to use military force to resolve interstate disputes. This can be explained by the fact that the resource curse of oil dependence reduces the size and influence of the business community—the group that typically bears the costs of loss trade due to conflict. Thus, the lack of private sector influence in petrostates reduces the economic constraints on decisions to

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23Hensel (1994)
use military force to resolve disputes. For example, although Venezuela’s businesses suffered from the conflict with Colombia, they were excluded from the decisionmaking process. Their relatively small size as part of the economy and lack of inclusion in the government’s winning coalition prevented the business community from effectively challenging the regime’s survival.

This theory rests on three core assumptions. First, oil dependent countries typically have a smaller and less influential private sector relative to the government. As the following section will detail, the smaller private sector is commonly acknowledged to be a consequence of the resource curse. To my knowledge, this is the first paper to apply this finding to the foreign policy making process. Second, larger private sectors in non-petrostates will act to influence policy affecting their financial interests. In these cases, the business community will have a pacific influence on dispute resolution corresponding to the degree of trade that is at stake. Finally, economic interdependence will reduce militarized conflict between states relative to the influence of business on policymaking. Each of these assumptions will be assessed in the following section.

3.1 Oil and the Private Sector

The well-known phenomenon of the Dutch Disease explains why oil dependent economies have smaller and less influential private sectors. Abundance in natural resource production causes a decline in the manufacturing and agricultural sectors. One reason is due to “the ‘resource movement effect’: as the resource sector booms, it draws labor and capital away from the agricultural and manufacturing sectors and raises their production costs.”24 The decline of these sectors is also the result of “the ‘spending effect’: as money from the booming resource sector enters the economy, it raises the real exchange rate. A higher real exchange rate makes it cheaper to import agricultural and manufactured goods than to produce them.

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With few exceptions, the oil sector in petrostates are owned by the state. Thus, oil dependence increases the size of the government as a fraction of the national economy. Ross explains, “since agricultural and manufacturing sectors are typically in private hands, their declining profitability will reduce the size of the private sector. The Dutch Disease helps shift the country’s economic activities from the private sector to the government.” What remains of the private sector are services which provide “the economy with things that cannot be easily imported—like construction services, health care, and retail stores.” The forces concentrate national wealth to the state treasury; therefore, the state is the largest client for most of the service industry. As a result, financial success depends on access to government to obtain lucrative contracts rather than being determined by market competition.

Patrick J. McDonald, makes a similar, if more general argument that “governments possessing access to large quantities of public property are more likely to engage in military conflict than governments overseeing more privatized economies.” The financial autonomy gained by public assets “enables governments to redistribute publicly owned wealth within the economy toward political supporters (members of the winning coalition), tie significant portions of society to their survival in office and prevent the emergence of active opposition to its policies.” Reducing the size of the private sector is critical as “domestic economic sectors capable of surviving open competition from foreign producers generally support restrained national interests and cooperative foreign policies.”

- - A rare study measures the private sector size of 50 African countries. Stampini et al.

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\[\text{\textsuperscript{25}Ibid, Kindle Locations 1149–1151.}\]
\[\text{\textsuperscript{26}Ibid, Kindle Locations 1171.}\]
\[\text{\textsuperscript{27}Ibid, Kindle Locations 1174.}\]
\[\text{\textsuperscript{28}Author interview with Gabriela Febres-Cordero, former Venezuelan Minister of Trade from 1989–1992.}\]
\[\text{\textsuperscript{29}McDonald (2009, p. 17).}\]
\[\text{\textsuperscript{30}Ibid, p. 57.}\]
\[\text{\textsuperscript{31}Ibid, p. 48.}\]
\[\text{\textsuperscript{32}The author is not aware of other research on private sector size.}\]
Table 1: Private Sector Size of Oil Dependent Countries

<table>
<thead>
<tr>
<th></th>
<th>(1) Government Consumption</th>
<th>(2) Private Sector Investment</th>
<th>(3) Private Sector Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Dependency</td>
<td>-1.082</td>
<td>-2.334**</td>
<td>-12.413**</td>
</tr>
<tr>
<td></td>
<td>(0.875)</td>
<td>(0.809)</td>
<td>(3.984)</td>
</tr>
<tr>
<td>Observations</td>
<td>466266</td>
<td>203325</td>
<td>477075</td>
</tr>
<tr>
<td>Countries</td>
<td>174</td>
<td>116</td>
<td>175</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
* p < 0.05, ** p < 0.01, *** p < 0.001

“measure the size of the private sector by calculating the ratio between private and total consumption, investment and credit.”

They find that the private sector is substantially smaller in petrostates. Most of their data comes from African national accounts. To measure relative private sector size between petrostates and their counterparts, I make small adjustments in these measures based on the data available in the World Development Indicators (WDI). For the first measure, I use the ratio between government and total consumption, which should be the equivalent in any case. My second measure is the ratio between private and total investment. Both measures are normalized by GDP. The third measure is the credit available to private sector as a percentage of GDP. Table 1 extends these private sector measures to the full set of countries. I find that oil dependent countries have significantly smaller private sectors as measured by the ratio of private to total investment and availability of credit to the private sector. Thus, this section provides the theoretical explanation as to why the private sector is smaller and less influential in petrostates than in other nations, as well as providing the data verifying the unique political economy of oil dependence.

3.2 Business Power

The potential of the private sector to influence policy on interstate conflict is not simply a function of size but also its inclusion in the decisionmaking process. A plethora of studies...

33Stampini et al. (2013, p. 143).
have found that conflict substantially reduces economic exchanges.\textsuperscript{34} Consequentially, one
would expect that affected businesses would be highly motivated to participate in policy de-
cisions regarding interstate dispute resolution. Despite its significance to the understanding
of policymaking, the study of business and political power remains an understudied topic.\textsuperscript{35}

Pepper Culpepper explains that the concept of business power goes beyond the identification
of interest groups to the study “of the mechanisms by which business converts its interests
into policy.”\textsuperscript{36} Business has multiple direct and indirect channels to influence public policy.
Firms or business associations may lobby decision makers to represent their interests. They
may choose to invest in political campaigns and can play a significant role in the selection
of candidates. Prominent business leaders may be appointed to key roles within the govern-
ment. Economic elites may have privileged access to the media and direct engagement with
policymakers. In many instances, business will directly participate in policymaking. For
example, governments will “institutionalize business input into policy making or oversight
councils.”\textsuperscript{37} Finally, personal networks linking public and commercial elites may also shape
policy outcomes by producing a shared world view so that broad commercial interests be-
come internalized objectives of government policy. As such, many have argued that they are
the most important means of business influence. For example, Haggard et al. note for all the
studies in their edited volume, Business and the State in Developing Countries, “business
influence over government came not through distant lobbying but through a shared world
view, informal personal networks, and overlapping roles.”\textsuperscript{38}

These channels of influence are particularly difficult to study, however, since “business’s
political engagement often takes place out of the public eye, and accessible, quantifiable

\textsuperscript{34} Anderton and Carter (2001); Glick and Taylor (2010); Lee and Pyun (2016).
\textsuperscript{35} As far back as 1959, Robert Dahl complained about the lack of political science studies on the issue of
\textsuperscript{36} Culpepper (2011, p. 186).
\textsuperscript{37} Schneider (2010, p. 224).
\textsuperscript{38} Haggard et al. (1997, p. 53).
indicators of business influence are rarely available.” Thus, studies of business power typically “draw on extensive fieldwork, hundreds of interviews, and documents unavailable outside the studied countries” Therefore, this paper includes an additional analysis using these methods in a process tracing case study of Colombia-Venezuela relations to illustrate the mechanisms and varied effectiveness of the business community to influence government policymaking.

3.3 The Commercial Peace

The argument that the business community would seek to limit military conflict with countries with whom they share economic interests draws on the commercial peace thesis. The assertion that the benefits accrued through interstate commerce would increase the costs of war and hence reduce its occurrence can be found as far back as the writings of Kant and Montesquieu. The current body of literature, however, more directly emerges from Solomon W. Polachek’s empirical formulation of the opportunity cost argument; “the implicit price of being hostile is the diminution of welfare associated with potential trade losses.” John R. Oneal and Bruce Russett extend this argument, explaining that “fearful of the domestic political consequences of losing the benefits of trade, policymakers avoid the use of force against states with which they engage in economically important trade.”

On balance, empirical studies have found a strong relationship between economic interdependence and a reduced probability of militarized disputes. It should be noted that a small but significant group of studies produced contradicting results, either that trade increased

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39 (Fairfield, 2015, p. 4).
40 (Ibid).
41 Polachek (1980, p. 60).
42 Oneal and Russett (1999, p. 5).
conflict,\textsuperscript{43} had no substantive effect,\textsuperscript{44} or ambiguous results.\textsuperscript{45} Most agree, however, that these variant findings were an artifact “of the discrepancy to variable construction alone.”\textsuperscript{46} Instead, one of the striking aspects of the quantitative literature on the commercial peace is that these findings have been quite robust when extended to other forms of economic ties beyond trade, such as FDI (foreign direct investment) and monetary coordination.\textsuperscript{47} Similarly, while researchers often employ dyadic models, monadic and network variations have also found a positive relationship between economic interdependence and a reduction in militarized conflict.\textsuperscript{48} Other works have confirmed that the pacific effects of economic interdependence are robust to the issue of endogeneity.\textsuperscript{49}

One of the most salient critiques of the commercial peace thesis is that it lacks a causal explanation that incorporates domestic level actors, such as the firms doing the trading, foreign policy making, and interstate relations.\textsuperscript{50} Most proponents of the theory, however, do assume that the “state is not autonomous [and] leaders must listen to powerful interest groups. Economic interest groups thus are likely to have both the incentive and the capacity to impact policy if their interests are threatened.”\textsuperscript{51} This study addresses a key gap in the commercial peace literature by developing and testing a two-level theoretical framework in which the effectiveness of economic interdependence to reduce the likelihood of militarized conflict is conditional on the inclusion of business in foreign policy making.

\textsuperscript{43}Barbieri (2002, 1996).
\textsuperscript{44}Gartzke (2007); Gartzke and Li (2003).
\textsuperscript{45}Morrow (1999).
\textsuperscript{46}Gartzke and Zhang (2015, p. 429).
\textsuperscript{47}See for example: Bussmann (2010); Gartzke et al. (2001); Kim (2013); Lee and Mitchell (2012); Polachek et al. (2012); Rosecrance and Thompson (2003); Suzuki (1994).
\textsuperscript{48}For example: Dorussen and Ward (2010); Kinne (2012); Lupu and Traag (2013); Maoz (2009); Souva and Prins (2006).
\textsuperscript{49}Hegre et al. (2010); Robst et al. (2007); Lee and Pyun (2016).
\textsuperscript{50}Mansfield and Pollins (2001); Simmons (2003); Schneider (2014).
\textsuperscript{51}Baird and Dixon (2010, p. 9).
3.4 The Strategic Nature of Oil

Not only does oil dependence generate a unique political economy, but it is also distinct from other traded goods. Given the crucial role of oil to the domestic politics of a petrostate, one might suppose that these states would be less aggressive towards their buyers. This does not appear to be the case due to the demand elasticity of petroleum. The strategic nature of oil means that demand for oil imports are very high. Thus, oil exporters are less concerned about trade disruption with partners because they can easily find other buyers. Polachek looks at data from Saudi Arabia to show that trade does not prevent conflict invitation from oil exporters, but is an inhibiting factor for oil importers.\(^{52}\)\(^{53}\)

The concentration of oil revenues allows petrostates to subordinate the independent financial interests generated from petroleum assets. For example, in Venezuela, when the workers of the state-owned oil company, PDVSA, went on strike to protest changes to the constitution, Venezuelan President, Hugo Chávez, fired nearly half of PDVSA’s 40,000-person workforce, making loyalty the key characteristic for employment. In Russia, President Putin’s actions to renationalize the industry were not welcomed by the oil oligarchs who had become very affluent in the post–1990s period. When Russia’s wealthiest businessman and head of the oil group Yukos, Mikhail Khodorkovsky, challenged Putin politically, Khodorkovsky was imprisoned. Yukos’s assets were seized by the Russian government and later auctioned off to bogus companies that were then acquired by the state-owned gas company, Gazprom.\(^{54}\)

My argument that the lack of business constraints on state leaders in petrostates explains the increased tendency to use military force is supported by the evidence that petrostates have smaller private sectors and financial interests are subordinate to the state. The following section tests this hypothesis with a multilevel framework for the commercial peace by which

\(^{52}\)Polachek (1980, p. 70).

\(^{53}\)Further studies have also found that the more inelastic the goods being trading the greater the pacific effect on trade Crescenzi (2005); Maoz (2009); Peterson (2014).

\(^{54}\)Dixon (2008).
the pacific effect of economic interdependence is mediated by the degree of business influence on policymaking. I show that while bilateral trade substantially reduces the likelihood of a serious militarized disputes for interstate relations that do not involve a petrostate, it has no affect on dyads that include an oil dependent nation.

4 Quantitative Analysis

To test the thesis that petrostates are not bound by the financial interests of the private sector, from militarizing interstate conflicts, I apply the standard empirical strategy of using a dyadic regression model testing the effect of economic interdependence on militarized disputes. The appeal of the commercial peace thesis is that its causal mechanism is the strength of business influence on foreign policymaking. Thus, this provides a means to assess as to whether the smaller private sectors in petrostates reduces the typical influence business has on decision making.

4.1 Defining Conflict

The literature on interstate disputes often fails to agree on the meaning of conflict. International conflict can occur on a variety of levels: ranging from low-intensity incidents, including trade disputes, diplomatic disagreements, and unintentional border violations; to high-intensity incidents such as the mobilization of troops, displays of possible force, or the actual use of the military to resolve a dispute. This distinction is an important theoretical issue as several studies have shown that greater interaction through commercial exchanges may actually increase the probability of low level disputes.\textsuperscript{55} Failing to take this variation into account hampers understanding of the effect of economic interdependence on the

\textsuperscript{55}Crescenzi (2005); Gartzke and Westerwinter (2016); Massoud and Magee (2012); Pevehouse (2004).
likelihood of militarized disputes.

Scholars of the liberal peace began with the quest to understand the determinants of war and peace. But full-scale wars are rare and the focus shifted to the militarization of disputes that could develop into war. The use of military force is an important threshold in international relations as it is at this point that “diplomacy becomes more actively coercive...there is a perception of a heightened risk of war, and the emotional climate of decision-making becomes increasingly clouded by hostility and fear.”\(^{56}\) Thus, the concern is that conflicts involving the threat or use of force are the most likely to escalate to war, as well as inflict the most damage to the countries involved and to the stability of the international system.

The distinction between low and high-intensity conflicts, however, is somewhat of a conundrum for users of the Correlates of War (COW) Militarized Interstate Disputes (MIDs) dataset.\(^{57}\) The advantage of this measure is that it is the most commonly used and comprehensive dataset of interstate conflicts, and the use of it allows for direct comparison to other studies on militarized disputes. On the other hand, the intensity of these conflicts varies greatly. One issue for researchers is the number of disputes involving fishing boats without any real possibility of military confrontation between the two countries. For example, there were six of these disputes between the United States and Canada from 1974 to 1997. Another example of a low intensity conflict is an incident in 2003 when U.S. “warships and planes briefly violated Indonesian waters near the island of Java.”\(^{58}\) The conventional solution to this issue is a binary indicator for those conflicts that result in at least one fatality. This solution, however, restricts our understanding of many serious militarized disputes that did not result in official death counts.

Another approach is to use a continuous variable of dispute severity. The MIDs data includes

\(^{56}\)Hensel (1994).
\(^{57}\)Palmer et al. (2015).
\(^{58}\)Ibid..
a five-point level of hostility (LOH) scale for each state’s highest military action in the dispute. This scale defines the hostility level as “1 is no militarized action, 2 is the threat to use force, 3 is the display of force, 4 is the use of force, and 5 is war.” The next question is how to measure dispute hostility given that each state often responded with a different level of military action. Commonly, researchers will use the highest level of action reached by either state. This creates a problem, however, in that a conflict in which State A’s LOH is 4 (the use of force) while State B’s LOH is 1 (no militarized force) would be considered to have a higher severity level than a conflict where both State A’s and State B’s LOH is 3. An example of the first is a dispute in 2005 in which “a Canadian patrol boat seized a Portuguese fishing vessel, claiming that the boat was fishing in Canadian waters. Portugal protested, claiming the boat was in international waters.” A conflict characteristic of the second is an incident in which “Turkish planes violated Greek airspace near Samos on 3/12/99, with Greek planes intercepting. A week later, Turkey threatened a Greek missile site if it ”again“ threatened Turkish planes. On 5/6/99, Turkish planes violated Greek airspace southwest of Rhodes, where they were intercepted by Greek planes.”

Diehl and Goertz address this problem by developing the baseline rivalry level (BRL) scale which multiplies each state’s LOH and transforms the ordinal numbers into an interval scale based on the relative frequency in a cumulative distribution function. This results in a scale that ranges from 2 to 100. A similar measure is constructed for fatalities. Since most MIDs with fatalities do not list the exact number, the dataset provides six categories: 1) 1–25, 2) 26–100, 3) 101–250, 4) 251–500, 5) 501–999, 6) > 999 deaths. The midpoint of the range is used as the fatality estimate. The fatalities of both sides are estimated, are transformed into natural logs, and then placed into a cumulative distribution scale. Both the LOH and fatality scale are spliced together to create the BRL, which ranges from 2 to 200. The full

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60 Palmer et al. (2015).
61 Ibid.
62 Diehl and Goertz (2001, p. 292)
63 Palmer et al. (2015).
4.2 Model Specification

This section estimates two separate models—(1) a logit model for the likelihood of a militarized dispute with fatalities and (2) a two-part model examining the probability of the severity of the dispute—to assess the tendency towards militaristic belligerence by petrostates. While the appeal of the BRL scale is the ability to analyze the data with a linear model, the problem of selection bias must be addressed. Given that these analyses are restricted to conflicting states, they “do not employ a random or representative sample.” Therefore, previous studies have used a Heckman selection model to examine dispute severity. This requires a selection equation to predict the likelihood of conflict followed by a linear regression of the severity of military force used. The problem is that this model requires an exclusion restriction — the determination of variable(s) that should affect the onset of conflict, but not their severity. When these variable(s) are not theoretically justified, “the ‘cure’ may be worse than the ‘disease’. . . .[since] the appropriateness of a selection model and the quality of the results are highly sensitive to the identification of the selection process itself.” The lack of a theoretically specified variable(s) to identify the conflict onset equation is borne out by the diversity of variables used. For example, Reed uses dyadic peace years to identify conflict onset, but not escalation. Yet as Brandt and Schneider point out, there is no reason to believe that the number of peace years does not also affect conflict escalation. Moreover, this variable does not provide enough information to adequately distinguish the equations. The same problems apply to Braithwaite and Lemke’s use of contiguity, rivalry,

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65 Braithwaite and Lemke (2011, p. 114).
66 Brandt and Schneider (2007, p. 5).
67 Reed (2000).
68 (Brandt and Schneider, 2007, p. 19);
and minor-minor status and Sweeney’s selection of allies to distinguish conflict onset from escalation and severity.⁶⁹

Colin Vance and Nolan Ritter identify additional problems with the Heckman selection model. They point out that this model “treats censored observations as missing, which gives rise to the sample selection problem that the model is designed to correct. Results are typically interpreted in terms of potential outcomes.”⁷⁰ This is a significant issue for conflict models for which a value of zero represents the lack of a dispute not missing data. Moreover, they also explain that the Heckman model is “only valid for the particular case in which the dependent variable and the explanatory variable of interest are continuous and are measured in levels; they are not valid for logged variables, dummies, or other functional forms.”⁷¹ While often ignored in political science applications, “it can have a major impact on the estimate.”⁷²

Instead, Vance and Ritter advocate for the 2 PM model, commonly used in economics and other fields. This model also “involves the estimation of a probit and OLS regression, but is distinguished by the omission of the inverse Mills ratio from the latter regression. Results from the 2 PM are interpreted in terms of actual outcomes.”⁷³ Thus, this model does not require an exclusion restriction and is more appropriate for studies interested in effects of the observed values of the independent variable. Therefore, I apply the 2 PM to test the hypothesis that the effectiveness of bilateral trade to reduce the severity of conflict differs between dyads with and without a petrostate.

⁶⁹Braithwaite and Lemke (2011); Sweeney (2003).
⁷¹[p. 532].
⁷²(Ibid).
⁷³[p. 529].
4.3 Key Variables

FATAL DISPUTES: this variable is coded as a one if a military dispute with a fatality occurred between a dyad in a given year. The value is zero for all other dyad years.

In the 2 PM, the first part is a selection equation using a logit on the binary of a militarized dispute occurring or not for each dyad year. The second part is a regression of the BRL (level of hostility scale) for those dyad years with a militarized dispute.

PETROSTATE: is a country for which oil and gas revenues make up at least 20% of the total economy. Oil and gas revenue are from Ross (2013). GDP data are from Feenstra et al. (2013). Table 2 provides a complete list of petrostates included in the regression analysis, which covers the years 1960–2007.

BILATERAL TRADE: is the natural log of the total trade flow between a dyad.74 Given that the model also includes the natural log of both states’ GDP, this variable is essentially equivalent to the measurement of trade dependence (total trade divided by the higher GDP of the two nations). Additionally, it avoids confounding the effects of trade and economic size on the probability of conflict.75

4.4 Control Variables

The included control variables are derived from the model in Hegre et al. (2010); Oneal and Russett (2005), which is the most fully specified model, and therefore, the basis for most of the literature on the determinants of MIDs. Additionally, these variables have been shown theoretically and empirically to be significant predictors of militarized disputes. Detailed explanations for the control variables can be found in the above references.

74 All monetary values are in current US$. Data is from Barbieri and Keshk (2012).
75 For a more detailed explanation see: Hegre et al. (2010, p. 768), Keshk et al. (2004, pp. 1164–1165).
<table>
<thead>
<tr>
<th>Oil Dependence</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>Algeria</td>
</tr>
<tr>
<td></td>
<td>Angola</td>
</tr>
<tr>
<td></td>
<td>Bahrain</td>
</tr>
<tr>
<td></td>
<td>Brunei</td>
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<tr>
<td></td>
<td>Congo</td>
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<tr>
<td></td>
<td>Equatorial Guinea</td>
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<td></td>
<td>Kuwait</td>
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<td></td>
<td>Libya</td>
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<td></td>
<td>Oman</td>
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<tr>
<td></td>
<td>Qatar</td>
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<tr>
<td></td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td></td>
<td>Senegal</td>
</tr>
<tr>
<td>80%</td>
<td>Turkmenistan</td>
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<tr>
<td></td>
<td>Trinidad and Tobago</td>
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<tr>
<td>70%</td>
<td>United Arab Emirates</td>
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<tr>
<td></td>
<td>Uzbekistan</td>
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<tr>
<td></td>
<td>Yemen</td>
</tr>
<tr>
<td>60%</td>
<td>Gabon</td>
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<tr>
<td></td>
<td>Iraq</td>
</tr>
<tr>
<td>50%</td>
<td>Iran</td>
</tr>
<tr>
<td></td>
<td>Nigeria</td>
</tr>
<tr>
<td>40%</td>
<td>Bolivia</td>
</tr>
<tr>
<td></td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>30%</td>
<td>Azerbaijan</td>
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<tr>
<td></td>
<td>Chad</td>
</tr>
<tr>
<td></td>
<td>Russia</td>
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<tr>
<td></td>
<td>Venezuela</td>
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<tr>
<td>20%</td>
<td>Egypt</td>
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<tr>
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<td>Equatorial Guinea</td>
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<tr>
<td></td>
<td>Indonesia</td>
</tr>
<tr>
<td></td>
<td>Norway</td>
</tr>
<tr>
<td></td>
<td>Syria</td>
</tr>
<tr>
<td>10%</td>
<td>Cameroon</td>
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<tr>
<td></td>
<td>Ecuador</td>
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<td></td>
<td>Mauritania</td>
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<td></td>
<td>Malaysia</td>
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<tr>
<td></td>
<td>Mexico</td>
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<tr>
<td></td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td></td>
<td>Sudan</td>
</tr>
</tbody>
</table>
As mentioned above, the natural log of each state's GDP are included in the model. They are represented according to the lower and higher value. These variables also control for country size as discussed in Hegre (2009).

*Lower and higher democracy:* are the Polity scores for each state. These variables control for the democratic peace and the research suggesting that “democracies and autocracies are particularly likely to fight one another.”

The following variables are included to control for the balance of power theory of conflict.

*Probability of Winning* and *National Capacity:* are both based on Composite Index of National Capacity (CINC) score (version 4.0). This index attempts to capture a nation’s capacity for military conflict through measurements of a state’s iron and steel production, military expenditures, military personnel, primary energy consumption, total population, and urban population. The probability of winning is the larger CINC value divided by the sum of both states’ scores. This provides an indicator of the balance of power between the states as “conflict should be less likely when capabilities are closer to equal.” The model also includes the natural log of the higher CINC score, because “the larger state is the weak link in the chain of peaceful dyadic relations [as] it is less constrained in projecting military power.”

*Contiguity:* is a dichotomous indicator of whether the states in a dyad share a common border. Shared borders greatly increase the propensity towards conflict.

*Distance:* is the natural log of the distance between the capitals of both countries. This

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Data are from Feenstra et al. (2013), Maddison (2010).
Marshall and Jaggers (2002).
Singer (1988).
Bennett and Stam (2000, p. 669).
Hegre et al. (2010, p. 768).
Stinnett et al. (2002).
value accounts for the transportation costs of projecting military power further from home as well as the degree of political relevance between pairs of states.\textsuperscript{83}

\textit{Alliances:} denotes whether the states have at least one formal alliance.\textsuperscript{84}

Additionally, temporal dependence is adjusted for with a cubic spline for peace years as described in Beck et al. (1998). These coefficients are not reported in the results below.

### 4.5 Results

#### 4.5.1 Militarized Disputes with Fatalities

Table 3 reports the logit coefficients for the probability of a militarized dispute with fatalities. Equation 1 is the standard commercial peace model, examining the pacific effects of bilateral trade. In consensus with most research on economic interdependence and conflict, bilateral trade significantly reduces the likelihood of a fatal dispute. The fact that bilateral trade gains substantive and statistical significance with the inclusion of petrostate dyads and their interaction with trade in Equation 2 suggests that accounting for the variation in domestic business power strengthens the commercial peace argument.

While the interaction coefficient for bilateral trade and petrostate dyads is statistically significant, this value is insufficient information to determine if there is a substantively meaningful interaction among the independent variables.\textsuperscript{85} One method to determine the significance and substantiveness of the interaction is to plot “how the marginal effect of one variable on \(\Pr(Y)\) varies with the value of another variable.”\textsuperscript{86}

\textsuperscript{83}Hegre et al. (2010, p. 766).
\textsuperscript{84}Gibler and Sarkees (2004).
\textsuperscript{85}Berry et al. (2010, p. 257).
\textsuperscript{86}Ibid, p. 261.
Table 3: Fatal Militarized Disputes

<table>
<thead>
<tr>
<th></th>
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<th>(2)</th>
</tr>
</thead>
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<tr>
<td>Bilateral Trade $\ln$</td>
<td>-0.102*</td>
<td>-0.156***</td>
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<tr>
<td></td>
<td>(0.043)</td>
<td>(0.044)</td>
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<tr>
<td>Oil Dependent Dyads</td>
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<tr>
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<td>(0.245)</td>
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<tr>
<td>Bilateral Trade $\ln \times$ Oil Dependent Dyads</td>
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<tr>
<td></td>
<td>(0.053)</td>
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</tr>
<tr>
<td>Smaller GDP $\ln$</td>
<td>0.223*</td>
<td>0.226*</td>
</tr>
<tr>
<td></td>
<td>(0.089)</td>
<td>(0.089)</td>
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<td>Higher GDP $\ln$</td>
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<td>0.325**</td>
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<tr>
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<td>(0.125)</td>
<td>(0.122)</td>
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<tr>
<td>Lower Democracy</td>
<td>-0.126***</td>
<td>-0.116***</td>
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<tr>
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<td>(0.023)</td>
<td>(0.021)</td>
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<td>0.014</td>
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<td>(0.013)</td>
<td>(0.013)</td>
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<td>Higher Capability $\ln$</td>
<td>0.315**</td>
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<td>(0.110)</td>
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<td>Probability of Winning</td>
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<td>-2.519**</td>
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<td>(0.962)</td>
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<td>Distance $\ln$</td>
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<td>(0.106)</td>
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<td>Alliances</td>
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<td>(0.231)</td>
<td>(0.233)</td>
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<table>
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<th>Log-likelihood</th>
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<td>(1)</td>
<td>269250</td>
<td>11027</td>
<td>-1702.731</td>
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<tr>
<td>(2)</td>
<td>269250</td>
<td>11027</td>
<td>-1695.154</td>
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Clustered standard errors in parentheses
Omitted: peace years and splines

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$
Figure 1: Marginal Effects

Figure 1 shows that the marginal effect of bilateral trade on the probability of a militarized dispute with fatalities is substantial for dyads without a petrostate, while having no effect on interstate relations that include at least one oil dependent country. These separate effects can also be seen in Figure 2 which displays the different predictive margins for non-petrostate and petrostate dyads at distinct levels of bilateral trade.

4.5.2 Hostility Level of Militarized Disputes

The results of the 2 PM are reported in Table 4. Once again, Equation 1 is the standard commercial peace argument. Interestingly, bilateral trade appears to have no effect on the onset of conflict. The regression in the second part, however, shows that economic interdependence significantly reduces the severity of the military force used to resolve the dispute. This result echoes other findings suggesting that trade may increase low level disputes but

\[87\] Although these effects appear quite small, they are substantively important given the rarity of a fatal militarized dispute for all dyads. For this sample there were 449 fatal conflicts out of 269,250 observations.
<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
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<tbody>
<tr>
<td></td>
<td>logit</td>
<td>regress</td>
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<td>Bilateral Trade$_{ln}$</td>
<td>-0.018</td>
<td>-3.153***</td>
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<td></td>
<td>(0.025)</td>
<td>(0.951)</td>
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<tr>
<td>Oil Dependent Dyads</td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Bilateral Trade$_{ln}$ *</td>
<td></td>
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<tr>
<td>Smaller GDP$_{ln}$</td>
<td>0.133**</td>
<td>-0.834</td>
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<tr>
<td></td>
<td>(0.050)</td>
<td>(1.531)</td>
</tr>
<tr>
<td>Higher GDP$_{ln}$</td>
<td>0.252***</td>
<td>-0.253</td>
</tr>
<tr>
<td></td>
<td>(0.061)</td>
<td>(1.955)</td>
</tr>
<tr>
<td>Lower Democracy</td>
<td>-0.083***</td>
<td>-0.834*</td>
</tr>
<tr>
<td></td>
<td>(0.010)</td>
<td>(0.381)</td>
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<tr>
<td>Higher Democracy</td>
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<td>0.425</td>
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<td>(0.009)</td>
<td>(0.291)</td>
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<tr>
<td>Higher Capability$_{ln}$</td>
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<td>4.419</td>
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<td>Probability of Winning</td>
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<td>-51.216**</td>
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<td>(0.484)</td>
<td>(16.963)</td>
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<td>Contiguity</td>
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<td>-0.781</td>
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<td>(0.168)</td>
<td>(4.686)</td>
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<td>Distance$_{ln}$</td>
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<td>(0.131)</td>
<td>(4.094)</td>
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<td>(N)</td>
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<td>269250</td>
</tr>
<tr>
<td>Log-likelihood</td>
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<td>-1.21e+04</td>
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</tbody>
</table>

Clustered standard errors in parentheses
Omitted: peace years and splines

* \(p < 0.05\), ** \(p < 0.01\), *** \(p < 0.001\)
reduce violent militarized conflict. The interaction of trade and petrostate dyads in Equation 2 is not quite significant in the regression portion of the model. Figure 3, however, replicates the previous finding that bilateral trade has a significant effect on the hostility level of the conflict for non-petrostate dyads while being absent in oil dependent dyads. Figure 4 visualizes these predictive margins.

4.5.3 Discussion of results

Both models demonstrate that economic interdependence reduces the scale of military force used to resolve interstate disputes for dyads without a petrostate, while having no effect on petrostate dyads. This is consistent with the hypothesis that petrostates are more willing to use military force because they are unconstrained by the business community with financial interests in the peaceful resolution of conflict. The variation between petrostate and non-
Figure 3: Marginal Effects

Figure 4: Predictive Margins
petrostate dyads also strengthens support of a multilevel framework for the commercial peace which incorporates the degree of business influence on domestic policymaking within the interstate bargaining process.

These quantitative analyses substantiate the theory that the military bellicosity of petrostates is because the natural resource curse generated by oil dependence reduces the size and influence of the private sector. Without these economic constraints, petrostates are more likely than their counterparts to make policy decisions that harm the financial interests of their domestic businesses. The following case study on Venezuela and its rivalry with Colombia provides an illustrative example of this hypothesized causal process by demonstrating the varying effectiveness of business influence on foreign policy.

5 Venezuela as a Petrostate

5.1 The Political Economy of Oil

The large share of oil revenues that make up Venezuela’s economy typifies how the natural resource curse leads to a classic rentier state that deprives the private sector of leverage in policymaking. As the Dutch Disease predicts, the expansion of oil in the 1920s led to a reduction of the agricultural and manufacturing industries. Along with the overvaluation of the currency, this resulted in “traders [losing] their profitable export business and [having] to rely on imports, using the state as the source of foreign exchange.” Thus, as far back as the 1920s, Venezuela’s political economy was defined as one in which “the state had the resources to provide something for everyone, and the private sector had ample access to the flow of benefits.”

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89 This section still needs to be revised.
90 Thorp and Durand (1997).
Business success, therefore, was not based on market competition, but rather on establishing relationships to the government to obtain access to state resources. Given that “profits were dependent on appropriate decisions by bureaucrats or party leaders... businessmen became commensurate lobbyists.” Unsurprisingly, this made corruption an integral part of politics as “political leaders used their influence to reward financial contributors to their campaigns with these lucrative deals.”

This situation generated a relationship in which the state holds most of the power vis-à-vis the private sector. As a result, the business community has limited commercial influence on public policy. Gabriela Febres-Cordero, former Venezuelan Minister of Trade from 1989–1992, described the business community as beggars, needing the state to survive. The weakness of commerce to influence policy was reflected in President Carlos Andrés Pérez’s ill-fated experiment with economic openness and market competition. Ironically, while the goal of this plan was to decrease economic dependency on oil by growing the private sector through privatization and trade liberalization, the policy had no real input from commercial interests.

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92 Ortiz (2006, p. 76).
93 Gates (2012, p. 245).
94 Interview with author: 2015.
Febres-Cordero explained that this resulted in the perception that the new system would just give greater privileges to those already in power. The business community, already weak in terms of cohesiveness, fractured further as groups vied “for control over raw materials, financing, and distribution channels.”

Another aspect of the growing dysfunction in Venezuela public-private sector relations was the long economic depression that had begun in 1974. It was in this context that Hugo Chávez’s populist appeal won the presidency. Despite his rhetoric, many in the private sector were cautiously optimistic regarding the election of Chávez, believing that he, like many other left populist leaders, would adopt pragmatic, marketed-oriented policies.

Chávez’s early economic policies were, in fact, pragmatic rather than ideological. On his cabinet he maintained “the well-regarded finance minister from Caldera’s team, Maritza Izaguirre,” and undertook “an orthodox macroeconomic management” of public expenditures. More importantly, Chávez did not appear to have “any intention to increase the share of the State in the Venezuelan economy in these years.” Throughout this period, however, Chávez took steps that gradually further eroded the power of business to shape public policies. By 2002, only one of the five hundred largest Latin American companies was owned and operated by Venezuelans.

The 1999 constitutional reform greatly expanded the powers of the president, eliminated the Senate, and eroded any constraints on the executive. This increased the stakes of holding power and removed the opposition from “any means to influence policy.” Although the next two years were characterized by a tense and uneasy relationship between the Chávez government and the business community, commercial interests did not grow truly concerned

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95 Di John (2010, p. 120).
96 Campello (2011, p. 143).
97 Ibid.
until 2001 with the passage of a “package of forty-nine laws...that dramatically increased state intervention in the economy.” It was not only the content of these laws that enraged economic elites but also the fact that the entirety of Venezuelan civil society had been excluded from any discussion of the state’s expanded role in the economy.

The private sector along with other excluded civil society groups took several steps to reduce or remove Chávez’s grip on power. In April 2002, Pedro Carmona led a brief coup, but Chávez was restored to power in less than 72 hours. Later that year, workers and managers of PDVSA led a three-month strike. Chávez responded by firing “nearly 60 percent of the PDVSA personnel, including most managers, and assigned control of the oil industry to the military.” In 2003, the opposition was able to demand a recall referendum. With popularity ratings under 40%, Chávez took advantage of the rise in the oil price, as well as the state’s larger share of the revenues to launch his massive social spending initiatives. The strategy worked and Chávez won 59% of the vote. With this victory Chávez had completely eliminated the private sector from the regime’s “real selectorate” — “the group that actually chooses the leader.”

The following details how the complete elimination of business power in the second part of Chávez’s presidency altered Venezuela’s foreign policy with neighboring Colombia. Chavez broke decades of bilateral conflict management which had prioritized peace for the sake of Colombia and Venezuela’s growing and mutually beneficial trading relationship. The distinct political economy of a petrostate is needed to understand Chavez’s surprising decision to return the rivals to a state of military conflict, ending most interstate trade. This resulted in large costs to both economies, particularly Venezuela.

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100 Ortíz (2006, p. 88).
102 Bueno de Mesquita and Smith (2011, p. 5).
5.2 The Colombia - Venezuela Rivalry

Figure 6: Economic Interdependence

The alteration in Colombia – Venezuela relations is illustrated by examining two similar incidents involving the arrests of Colombia guerrilla leaders in Caracas – the first occurring in 2001 during Chávez’s economically pragmatic years and the second in 2005 after Chávez’s power had been consolidated.

5.2.1 2001

On February 13, 2001, Venezuelan and Colombian police made a joint arrest of Jose Maria Ballestas in Caracas. Ballestas was an ELN member wanted for the hijacking of a Colombian commercial airliner in 1999. It was expected that “two days later, on Feb. 15, Mr. Ballestas was to have been handed over at the Caracas airport to two Colombian agents, who were to have transported him there.”\(^\text{[103]}\) Therefore, it was with genuine surprise when

\(^{103}\)Forero (2001).
just moments before Ballestas was to be flown to Colombia, “Venezuela’s interior minister and Mr. Chavez’s closest political adviser, Luis Miquilena, ordered the guerrilla’s release, arguing that he had requested asylum.”

The Colombian government grew increasingly frustrated when Venezuelan officials denied knowledge of Ballestas’s presence in Venezuela, forcing Colombia’s defense minister, Luis Ramírez, to release a video of the guerrilla’s arrest. In April, Venezuela rearrested Ballestas, charging him “with forging documents and assuming a false identity.” After months of unanswered phone calls from Colombia’s Ministry of Defense, Venezuela finally extradited Ballestas in December.

Although the incident raised tensions between Colombia and Venezuela, trade remained the top priority. In March, just days after Colombia filed a formal extradition request for Ballestas, Colombian President Pastrana and Chávez held a bilateral meeting to discuss commercial issues. At the meeting, Pastrana “stressed the significance of the binational economy, which, according to him, had increased by more than 30 per cent. He added that in this regard, this figure is expected to exceed 40 per cent this year.”

### 5.2.2 2005

The situation in Venezuela was quite different in December 2004 when Rodrigo Granda, a senior member of FARC, was captured in Caracas and then “transported to Colombia, and arrested by Colombian officials.” Venezuela declared this incident to be a violation of its sovereignty and of international law, while Colombia accused Venezuela of “knowingly harboring Colombian guerrillas.” With the commercial sector fully excluded from policy

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108 Ibid.
at this point in his presidency, Chávez took the unprecedented action of suspending bilateral trade and business accords in January 15, 2005, demanding an apology from the Colombian government.

Initially, Colombian President, Álvaro Uribe insisted that the government had not been involved, rather “Mr. Granda was picked up inside Colombia and that his capture was the result of the offer of a monetary reward.” The suspension of trade and border closure immediately led to a sharp increase in petroleum prices in Colombia and shortages of foods and essential goods in Venezuela. The economic shutdown forced Uribe to respond to “growing protests from his own commercial supporters” by conceding to Venezuelan’s demand for an official apology.

There are two significant points to note regarding the Granda incident. On the Colombian side, economic interdependence worked according to the theoretical expectations. Business elites, suffering from the costs of the suspension in trade effectively pressured President Uribe to give into Venezuela’s demand for an apology in order to quickly restore trade. In Venezuela, however, the lack of private sector influence enabled Chávez to politicize the trading relationship. This was just a prelude, however, to the confrontations that lay ahead.

5.2.3 From Economic Interdependence to Threats of War

A new low in Colombia - Venezuela relations began with the Reyes incident in Ecuador. In what has become a highly publicized operation, the Colombian military crossed the border of Ecuador, targeting a FARC camp, in which intelligence had just placed one of its highest-ranking members, Raúl Reyes. The pre-dawn raid succeeded in killing Reyes and 24

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110 BBC Monitoring Latin America (2005).
111 Raby (2011, p. 166).
Unsurprisingly, Ecuador reacted hostilely to the event occurring within its territory. The strength of the Venezuelan response was unexpected, however, as Chávez ordered the mobilization of Venezuelan troops, sending “10 battalions and tanks to the Colombian border.” He also threatened to cut off all commerce, and trade slowed along the borders as Chávez began blocking Colombian imports. Latin American leaders responded within days at a “summit in the Dominican Republic in an effort to resolve the dispute before it could escalate further.” Relations were finally normalized “when Uribe and Chávez met in Paraguaná, Venezuela.” Analysts interpreted the eventual crisis resolution as being “driven by practical economic considerations” given “Colombian-Venezuelan bilateral trade was valued at some $6 billion per annum.”

This assumption would be challenged a year later when a new crisis emerged in July 2009.

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112 Marcella (2008).
113 Ibid, p. 18.
114 Randall (2011, p. 151).
115 Ibid.
116 Ibid.
over details of a U.S.-Colombia Defense Co-operation Agreement, which would have given U.S. armed forces access to at least three Colombian military bases. Chávez responded by breaking off commercial and economic relations as well as expropriating the assets of Colombian businesses operating in Venezuela. Chávez’s reaction seemed to be a repetition of previous squabbles, and Colombian businesses as well as economic analysts expected that trade would resume within weeks. The president of ANDI during this period, Luis Carlos Villegas, predicted “that although exports will fall, they will remain ‘high’ because of the two countries’ economic interdependence.”

Rather than a restoration of the trading relationship, tensions between the two countries continued to climb. In October, the kidnapping of 12 youths playing soccer “in the Venezuelan State of Tachira and the subsequent massacre of 11 of them, including nine Colombians” inflamed emotions on both sides. Venezuela followed this incident up with a “protest note to the Colombian Embassy in Caracas,” and revived a “theory about a plot to assassinate President Hugo Chavez.” The situation began to be described by some, such as former Colombian President Ernesto Samper, as a “state of pre-war.” Certainly, events seemed to be headed in that direction. In November, Venezuelan soldiers blew up two pedestrian bridges. At a public ceremony during the same month, Chávez instructed his generals to “prepare for war” against Colombia. Unsurprisingly, Colombia’s armed forces also began assessing scenarios for a possible attack from Venezuela. Similar clashes continued until Uribe’s successor, Juan Manuel Santos, took office in August 2010. Although trade was eventually restored in late 2010, the two countries never regained a similar level of interdependence.

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117 The Economist (2009).
118 BBC Monitoring Latin America (2009b).
119 Ibid.
120 Ibid.
121 Hamer (2009).
122 Pardo (2009).
123 BBC Monitoring Latin America (2009a).
This account illustrates the link between oil dependency and a reduction in private sector influence on policy. Lacking the typical commercial constraints against military force, petrostates may choose to militarize their disputes with trading partners, even when it comes at a significant expense to their own economy. In the case of Venezuela and Colombia, it is notable that there was ample evidence at the time that Chávez’s decisions were hurting the economy. The prolonged interruption in trade from Colombia led to growing shortages of staples, a problem that has only grown worse in subsequent years.

6 Conclusion

Petrostates are a major source of international instability. Much of the IR literature, however, continues to assume that the higher rates of involvement in military conflict are because oil dependent states are targeted for their petroleum resources. In contrast, the emergent literature on petro-aggression has demonstrated that oil dependent states are more likely to initiate conflict rather than be the recipient of their neighbors’ aggression. Despite the persistent classification of many of these conflicts as “oil wars,” disputes over territory are less likely to include those areas with access to petroleum deposits. Yet the fact remains that petrostates are nearly twice as likely as their counterparts to be involved in a militarized dispute with fatalities. Given the consequences of these conflicts, there is an urgent need to understand why petrostates are more willing to use military force to resolve interstate disputes.

In this paper, I argue that due to the natural resource curse, the private sector is smaller and less influential in petrostates. Therefore, oil dependent states are not constrained by the financial interests of the business community on the use of military force. As a result, given an interstate dispute, petrostate dyads are more likely to engage in more severe military conflicts because they are unaffected by the pacific influence of economic integration.
The empirical analyses support this theory. I demonstrate that the private sector is substantially smaller in petrostates. In the model of fatal militarized disputes, I find that while economic interdependence significantly reduces the likelihood of these conflicts for non-petrostate dyads, it has no effect when there is at least one oil dependent nation. The 2 PM model similarly finds that bilateral trade reduced the level of military forced used in a conflict only for non-petrostate dyads. The Colombia - Venezuela case study illustrates the causal process of business power in policymaking and contrasts the influence of these interests on policy decisions between non-petrostates and petrostates when an issue of dispute arises.

The distinctive results between oil dependent states and their counterparts are also consistent with a multilevel framework of the commercial peace thesis which takes into account domestic politics within the interstate bargaining process. Given that petrostates have smaller private sectors, the statistical findings suggest that the effectiveness of economic interdependence to reduce severe military conflict is dependent on the degree of business power. Furthermore, the 2 PM shows that the pacific effects of bilateral trade on the severity of military forced used in a conflict are stronger when accounting for the fact that economic interdependence does not reduce the likelihood of a dispute occurrence.

Like most studies in political science, the conclusions reached in this paper are limited by the availability of data. There is a surprising lack of research attempting to measure private sector size. The data for the measures used in this paper are still quite restricted regarding the countries and years for which they can be obtained. More difficult is determining a generalizable measure of business power. As Karcher and Schneider point out “most of the areas of business influence lack easily measurable indicators.”¹²⁴ Because “business’s political engagement often takes place out of the public eye,” research on business power relies “on extensive fieldwork, hundreds of interviews, and documents unavailable outside the studied

¹²⁴Karcher and Schneider (2012, p. 280).
countries." A first step might be to find a way to standardize the existing qualitative studies in the comparative politics literature through a medium-n analysis. Applications of network analysis as described in Mahdavi (2016) may also provide a way forward in developing a generalizable measure of business power.

The dangers of aggressive petrostates are all too apparent when considering the examples of Venezuela in the late 2000s and Russia’s ongoing conflict with the Ukraine. This paper contributes to the pressing need to understand the bellicosity of petrostates by providing a theory that explains how the smaller private sector in oil dependent states reduces the economic constraints on using military force. Consequentially, petrostates are not affected by the incentives of economic integration that increases the likelihood of pacific conflict resolution. These findings should help policymakers react to current and prospective conflicts, as well as develop strategies to encourage longer term stability and cooperation in the international system.

References


\(^{125}\)Fairfield (2015, p. 4).


