

TO: Columbia University's Harriman Institute

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DATE: March 20, 2017

RE: Justifying a Counter-Cyclical US-Russia Policy (the Case of Energy Dependence)

○ **Description of the Examined Issue**

Over the last three years, Russia has become a significant geopolitical concern to the United States. Russia's increasing military activities around the world along with the allegations of Russia's intervention in the US election made the US military name it among the biggest threats to the US security.ⁱ Most importantly, Russia's incursion in Ukraine back in 2014 has created incentives to reconsider the national boundaries and spheres of interest among other regional hegemony. That is Russia's actions are destabilizing of the current international order. Even worse, the US expert community consistent failure to predict those actions, led to a reactive US-Russia policy.

Given the danger that Russia's destabilizing actions represent for the US security and for the world order in general, the ability to explain and predict factors driving Russia's aggressive actions is of crucial importance to the US leadership.

This memo argues that Russia's behavior follows a pattern of a typical petrostate: it tends to be conflict-prone when oil prices peak. Hence Russia will be more aggressive when the oil prices are high, and will be more likely to compromise and cooperate with the US under low oil revenues. Therefore, this memo recommends implementing a counter-cyclical policy with regards to Russia: containment when the oil prices are high and cooperation when the oil prices are low.

○ **Proposed Explanation**

Comparative literature demonstrated that the petrostates tend to become aggressive against their neighbors under skyrocketing oil prices. In a study of 153 country cases in the last 50 years, Hendrix shows that high oil prices consistently make oil-exporters more aggressive toward their immediate neighbors, while they don't affect the behavior of non-exporters. On average if the oil price hits a threshold of \$77 per barrel in constant 2008 dollars, petrostates get 30 percent more aggressive than non-exporters.ⁱⁱ Colgan analyzed militarized interstate disputes in 170 countries between 1945 and 2001 and found that countries where net oil export revenues constituted over 10 percent of GDP were among the most violent states in the world.ⁱⁱⁱ Such petrostates showed a remarkable propensity for militarized interstate disputes on average and engaged in militarized conflicts about 50 percent more often than non-petrostates in the post-World War II era.

The mechanism is as follows: High oil revenues lower militant leaders' domestic political accountability and responsibility for policy decisions while increasing the risks of international adventurism. Oil revenues also increase states' military capability by providing them with larger pools of funding for military expenditures.

From this perspective, Russia's leadership behavior can also be described as one of a typical petrostate with a short-term horizon that gets aggressive and ambitious once it accumulates substantive oil revenues. Back in the early 2000s when the price of oil was \$25 a barrel, Putin was still a friend of the US and didn't mind NATO enlargement in 2004. According to Hendrix's research, this is exactly how petrostates behave when the oil prices are low. Back in 2002 when the Urals price was around \$20, in his Federal Address Putin enumerated multiple steps to European integration. In 2014 – with the price of oil around \$110 – Putin invaded Ukraine to allegedly punish it for the attempts to create that same single economic space with the EU. Russia's recent adventures

in Georgia in 2008 took place when the price of oil hit its highest point since 1980 (\$105), and in Ukraine in 2014 when oil prices overcame even their 2008 levels.

It is hence plausible to hypothesize that Russia's behavior fits one described by Hendrix and Colgan's theories relatively well. Below I provide an empirical test for this theory.

o **Main findings**

I propose a different measure of Russia's state aggressiveness on the international stage –the aggressiveness of Russia's leaders' rhetoric. I assume that the 'aggressive' rhetoric (as measured by the number of 'aggressive' words and sentences used in a speech) is a suitable proxy for my purposes. Gardner and Moore (2008) discover that aggression and blame are precipitated by anger and perceived vulnerability, which are hence expected to foreshadow increased uses of force.^{iv} Analysis of the State of the Union Addresses of the US presidents tend to discover that U.S. presidents tend to use more verbal aggression during wartime than non-wartime periods. However, verbal aggression has been shown to appear in greater proportion in foreign than domestic contexts during both wartime and non-wartime periods.^v Hence, my assumption is justified by the empirical findings.

In the times when oil revenues are high, as typical petro-leaders, Russian presidents should feel more empowered and hence more aggressive on the international stage. By contrast, they should feel more conciliatory oriented during the times when the oil prices are low, and the economic situation is gloomy. The content analysis of the discourse also provides much larger number of observations, since presidents consistently deliver speeches on the issues of foreign policy, while only occasionally engaging in interstate disputes over the last years.

I have chosen the corpora of the President's public speeches of the Russian presidents in 1999-2016 available at Kremlin.ru for my analysis, and calculated the number of aggressive words and sentences with manifestation of anger-driven verbal signs (open hatred and insults, contempt and disgust, criticism, suspicion, direct blame attribution, revengefulness and name calling) among them. I then correlated those aggressive words and speeches to the lagged average quarterly oil export price. Among other controls, I include aggressive words/sentences with a quarterly lag (to account of a time-dependence in the foreign policy rhetoric). Below I show the results of the analysis:

Variable	Aggressive Words (Quarter Average)			Aggressive Sentences (Quarter Average)		
Lagged Exports (Q-1)	0.00054***	0.00043***	0.00059***	0.00164***	0.00138***	0.00151***
Putin's Approval		0.28759	0.50220		-0.01070	0.13267
Economic Growth		-1.59e+02*	-1.71e+02		-3.39e+02**	-3.40e+02*
NATO Expansion (Y-1)		-8.95621	-11.38292		-19.79522	-21.93581
Aggressive Words (Q-1)			-0.22668			
Lagged Sentences (Q-1)						-0.06019
_cons	13.4701***	2.4717	-10.9151	5.3216	29.9239	19.7006
N	63	63	62	65	65	64
r2	0.07360	0.11783	0.14522	0.19116	0.24146	0.24865
r2_a	0.05842	0.05699	0.06890	0.17833	0.19089	0.18388

* p<0.1; ** p<0.05; ***p<0.01

Table 1. The lagged quarterly oil price and Russia's president's aggressive rhetoric, OLS, robust SE

As the above table shows, the empirical findings confirm the hypothesis. The crude oil exports are strongly and significantly linked to the aggressiveness of Russia's presidents' rhetoric (whether measured by the number of aggressive sentences or words).

○ **Policy Recommendations**

The results above suggest an existence of a strong link between the aggressiveness of Russia's presidents (Putin and Medvedev) public speeches (as reflective of the Kremlin's foreign policy agenda) and higher oil prices. The results are robust to introduction of additional controls. Because the rhetorical aggressiveness of the presidents has also been linked to their actions in the literature, one can argue that the Russian leadership feels more empowered during the times of higher oil revenues, and hence is more prone to a conflict behavior.

The big debate in the literature focuses on whether Russia is weak or strong.^{vi} This memo postulates that Russia's behavior is consistent with a vision of Russia as a 'strong' power. In other words, it tends to engage in the interstate military disputes when it feels empowered to do so (due to the availability of the economic resources). Hence, it is recommended that the US-Russia policy is adjusted accordingly.

The findings of this paper should be used to assist policymakers in elaborating strategy of targeting Russia. Rather than focusing on narrowly defined 'energy security', it is recommended that broader oil-conflict dynamics is taken into account when US-Russia policy is concerned.

This memo hence recommends adjusting the US-Russia policy by making it counter-cyclical to Russia's domestic economic situation. When Russia's oil revenues are high (particularly above Hendrix's threshold), one shall expect Russia's leadership to be more conflict-prone. These are the periods when the containment policy (strengthening NATO, exploiting Russia's deteriorating economy^{vii}) should work best.

By contrast, the attempts at collaboration with Russia (be it a new Reset policy, a joint Syria conflict resolution program, the counter-terrorist cooperation) are most likely to work only during the times of low oil prices and overall economic weakness of the Russian state. Feeling less confident about its hold on power, the Russian leadership will be more prone to concessions in an attempt to get access to the western finance and loans.

○ **Counter-arguments**

To explain Russia's incursion in Ukraine a number of alternative arguments have been raised in the literature.

The most influential explanation of Russia's incursion in Ukraine in 2014 has been provided by John J. Mearsheimer^{viii} and Stephen Walt^{ix}. Basing on state's rationality assumptions, realist scholars assert that states always tend to pursue their own relatively stable national interests and struggle for power. That implies that Russia always felt threatened by the west, and NATO expansion in the zone of Russia's strategic interests (NATO's 2008 Bucharest Summit Declaration that Ukraine and Georgia "will become members of NATO"^x) threatened Russia – a declining super-power – and provoked its aggressive military response in Georgia and Ukraine.

There is a number of problems with the argument that Russia was threatened by NATO expansion. For example, it is unclear why Russia ignored the previous waves of NATO expansion back in 2004, when its border with NATO countries expanded to a thousand kilometers in length, until 2008. Moreover, back then Russia was so unperceptive to immediate security threats highlighted by the realist thinkers that it kept developing active partnership with NATO, participating in joint military exercises in Afghanistan and peacekeeping operations throughout this time.

There is no evidence of preoccupation with the NATO threat on the diplomatic level either. As late as in 2007 Russia's Parliament ratified an agreement that allowed NATO troops and arms to pass

through Russia's territory in case of a military necessity.^{xi} Moreover, Russian elite members repeatedly raised the issue of Russia's own future NATO accession up until at least 2009.^{xii} Michael McFaul, a former U.S. ambassador to Russia, argues that in multiple meetings between President Obama, President Putin and Prime Minister Medvedev over a five-year period, the issue of NATO expansion never came up even once.^{xiii}

Along with these arguments, I also failed to find an empirical confirmation to this hypothesis in the analysis of Russia's presidents speeches. As the above table illustrate, there is no significant relationship between presidents' aggressive rhetoric and NATO expansion in the previous year. If anything, the relationship is negative.

○ Conclusions

In the above analysis, I show that a more consistent explanation of Russia's recent aggressive behavior on the world stage may be provided by connecting its propensity to engage in the military conflicts with the dynamics of the oil prices. In line with the theory of petro-aggressiveness, Russian leadership tends to be more aggressive rhetorically when the oil prices are high, and may be more likely to negotiate with the western powers when oil revenues are low.

In terms of policy recommendations, this memo implies that attempts to achieve alliances or compromises with Russia's leadership during the periods when the oil prices peak may be a failing strategy. Instead, one may think of a counter-cyclical US-Russia policy that would focus on containing Russia during the periods when oil prices peak (or exceed Hendrix's thresholds) and the coalition-building strategy during the periods of the low oil revenues. Such an approach would also allow the United States to elaborate a pro-active Russia policy, which it has been lacking in the recent years.

ⁱ Shalal, A. The US military now sees Russia as its biggest threat. Reuters, December 5, 2016.

<http://www.businessinsider.com/r-us-reshaping-budget-to-account-for-russian-military-threat-2016-12>

ⁱⁱ Hendrix, Cullen S., Oil Prices and Interstate Conflict Behavior. Peterson Institute for International Economics Working Paper No. 14-3. July 31, 2014. Available at SSRN: <https://ssrn.com/abstract=2474642> or <http://dx.doi.org/10.2139/ssrn.2474642>

ⁱⁱⁱ Colgan, J.D.. Petro-Aggression: When Oil Causes War. Cambridge University Press, 2013

^{iv} Gardner F.L., Moore Z.E. Understanding clinical anger and violence: the anger avoidance model. Behavior Modification. Vol 32, Issue 6, 2008

^v Stice, J. W. 1974. Verbal Aggression in State of the Union Messages During Wartime and Non-Wartime. Dissertation Abstracts International, 34: 6786

^{vi} Aleksashenko, A. Stop calling Russia weak, Brookings Institution blog, May 28, 2015// <https://www.brookings.edu/blog/order-from-chaos/2015/05/28/stop-calling-russia-weak/>

^{vii} Daalder, I. The best answer to Russian aggression is containment. Financial Times, October 16, 2016// <https://www.ft.com/content/258cfe0-9171-11e6-8df8-d3778b55a923>

^{viii} Mearsheimer, J.J. Why the Ukraine Crisis Is the West's Fault. The Liberal Delusions That Provoked Putin. Foreign Affairs, September/October 2014 Issue// <https://www.foreignaffairs.com/articles/russia-fsu/2014-08-18/why-ukraine-crisis-west-s-fault>

^{ix} Walt, S.M.. Why Arming Kiev Is a Really, Really Bad Idea. Foreign Policy, February 9, 2015//

<http://foreignpolicy.com/2015/02/09/how-not-to-save-ukraine-arming-kiev-is-a-bad-idea/>

^x NATO, "Bucharest Summit Declaration," Press Release 049, April 3, 2008,

http://www.nato.int/cps/en/natolive/official_texts_8443.htm

^{xi} Законопроект № 410940-4. О ратификации Соглашения между государствами-участниками Североатлантического договора и другими государствами, участвующими в программе "Партнерство ради мира", о статусе их Сил от 19 июня 1995 года и Дополнительного протокола к нему. //

[http://asozd2.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=410940-4](http://asozd2.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=410940-4)

^{xii} Snegovaya, M. Ukraine's Crisis Is Not the West's Fault. Moscow Times, September 15, 2014//

<http://old.themoscowtimes.com/opinion/article/ukraine-s-crisis-is-not-the-west-s-fault/507100.html>

^{xiii} McFaul, M., Sestanovich, S. Mearsheimer, J.J. Faulty Powers. Who Started the Ukraine Crisis? Foreign Affairs, November/December 2014