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The Security Costs of Energy Independence

Most Americans accept that the United States' dependence on foreign oil, particularly from the Middle East, is dangerous and should be reduced if not eliminated. Although environmentalists have long called for reduced oil consumption because of the effects of fossil fuels on the environment, two other groups now share this goal, creating an unlikely alliance. One focuses on the economic costs of U.S. dependence on foreign oil, bemoaning the wealth that flows from the United States to oil-exporting states annually (an estimated $90–150 billion) and the lost opportunity for revenue from developing and selling alternative energy sources.[1] The other group consists of those who, particularly after the September 11 attacks, see U.S. dependence on foreign oil as a source of strategic vulnerability, as well as a burden on U.S. foreign policy. Not only is the United States' ability to defend itself and project power contingent on a ready supply of fuel, but the country's dependence on oil may compel leaders to spend lives and treasure to protect those foreign sources.[2]

As a result, policy debates focus exclusively on how the United States should reduce its dependence on oil, with suggestions ranging from conservation (supported by the environmentalists) to greater domestic production (made by those who focus on security) to aggressively pursuing alternate sources of energy (emphasized by those making an economic argument, as well as environmentalists). A critical oversight in all of this, however, is that any dramatic reduction in U.S. dependence on oil will create major security concerns, not only for current oil-exporting countries and their neighbors, but also for the West.

Three particular threats will grow with a dramatic reduction in U.S. consumption of foreign oil. First, international conflicts would increase between

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states that currently export oil and states that are their customers. Second, violence would increase within oil-exporting states themselves including civil wars, genocide, and terrorism, all of which are likely to spill into neighboring states. Third, in attempts to avoid the first two threats, states dependent on oil revenues will increasingly turn to illicit sources of income, such as narcotics trafficking or the arms trade, to replace their diminishing wealth.

This article does not suggest that the United States should continue to import oil at current levels; being so dependent on other states is a source of vulnerability and a lost opportunity for innovation. It is crucial to point out, however, some possible unintended consequences of a reduction in oil dependence. How can the United States and all developed states mitigate these dangers?

Unintended Consequences

Of the three ways in which an aggressive drop in the U.S. consumption of foreign oil would be detrimental to the United States and international security, the first two suggest that the loss of oil revenue will lead some oil-exporting states to experience an increase in interstate or intrastate violence or both.

International Conflict

A drop in demand for oil would lead to increased probability of conflict between current oil exporters and their customers, including developed Western states, as well as between oil producers and their neighbors. This risk will be especially pronounced in regions with a high number of oil-exporting states such as the Middle East.

According to the concept of interdependence, the likelihood of states going to war with each other decreases as mutual dependence between them increases, with trade being the most common measure of interdependence. This idea was reflected in the Clinton administration policy of increasing trade with China in the 1990s. Early European integration in the 1950s was similarly designed to prevent a future European war.[3] If valid, then the inverse of the theory suggests that as states reduce their demand for foreign oil, levels of interdependence between consumer states and oil exporters will fall, increasing the likelihood of conflict. Although it is unlikely that war would occur simply because of lower trade levels, the logic of interdependence theory is that the wealth gained from trade restrains policymakers who otherwise might engage in conflict.[4] If the United States is no longer dependent on foreign oil and if oil-exporting states no longer gain revenue from the United States, there would be fewer constraints on each state's willingness to use violence, whether it be in the form of conventional military force or state sponsorship of terrorism.

One counterargument is that the United States has been drawn into a number of conflicts as a result of its dependence on Middle East oil, such as

the reflagging of the Kuwaiti oil tankers in 1987 and the 1991 Persian Gulf War.[5] According to this logic, reducing its dependence on foreign oil would help the United States stay out of such conflicts. Although plausible, a useful exercise is to imagine a future where the United States is no longer dependent on Middle Eastern states for oil. Although the United States will still have important economic and political interests in the Middle East, such as Israel, Iraq, and Turkey as a NATO ally, if oil no longer provides states with some leverage over U.S. foreign policy, then the United States can pursue its interests with less concern about retaliation by oil-exporting states or by the Organization of the Petroleum Exporting Countries (OPEC). Conversely, as long as oil-exporting states depend on the United States to purchase oil, they are more inclined to assist the United States in pursuing any of its interests, such as the fight against terrorism. Consequently, if states no longer depend on the United States as a consumer, they may have less interest in cooperating with the United States.

At the regional level, conflicts between neighboring states would become more likely. Neighbors already make up the bulk of militarized disputes, which are even more common when states must compete for scarce resources. Japan's expansion for oil prior to World War II is one example, and several conflicts were at least partly about scarce water: Israel and Jordan (1967), Egypt and Ethiopia (1980), and South Africa and Lesotho (1986). A dramatic decrease in demand would lower the price of oil on the world market, which could lead to severe economic consequences for many oil exporters. Initially, many consumer states will benefit as they will be able to afford more oil. Oil-exporting states, however, will see profits decline; and scarcities will become more pronounced, especially in the Middle East.

> Any dramatic reduction in U.S. dependence on oil will create three major security concerns.

Oil has often been a cause of regional conflicts, such as Iraq's invasion of Kuwait in 1990 or the July 2001 clash between Iran and Azerbaijan over oil-bearing zones in the Caspian Sea. So, it is possible that less global demand for oil would decrease the frequency of such situations. As states lose their oil revenue, however, and thus the ability to provide their people the standard of living to which they have grown accustomed, basic necessities could become catalysts for conflict. Resources such as food and water are already scarce in many parts of the world, a problem that would be exacerbated for states that lose substantial oil revenues.

Internal Conflict

Although internal violence, including terrorism, is often believed to be born out of economic hardship, the number of terrorists coming from Kuwait is greater than the number from Niger. [6] This suggests that some level of wealth is necessary for violence to occur; bomb-making requires some education, and ammunition costs money. The most dangerous situations appear to be when individuals have wealth, but then lose what they have or fear they are about to, therefore engaging in violence out of dissatisfaction. For example, Professor Scott Atran shows that suicide terrorists are not poor or lacking in opportunities, but that relative loss of economic or social advantage by educated persons might encourage support for terrorism.[7] If true, current oil-exporting states are particularly susceptible to internal violence as a result of this relative deprivation. Several of these states already suffer from internal problems because of social divisions, but these issues will grow as national wealth declines, making governments less capable of dealing with unrest either by providing social programs or through intimidation. Even in states where the majority of the population does not directly profit from the sale of oil, many people still benefit from oil wealth, such as better roads, more educational opportunities, and more advanced technology. Even relatively small cuts in revenue will negatively affect those populations.

Similarly, just as resource scarcity is a catalyst for interstate conflict, economic problems stemming from a lack of necessary resources also lead to internal violence, as illustrated in Sierra Leone in the early 1990s and Indonesia in 1997.[8] These same types of conflicts would increase in frequency within states that are somewhat stable now, only because oil provides them with a relatively satisfied population and because it gives governments the means to crack down on those who would engage in violence.

Trafficking in Narcotics and Arms

Historically, when states have been unable to generate revenue through normal trade channels, they sought other sources of wealth. As oil-exporting states experience economic turmoil, particularly if their governments feel they must generate wealth to maintain control or to avoid some of the issues discussed above, many will probably turn to the sale of illicit goods such as drugs and military hardware.

There are several examples of states engaging in such behavior when economic needs arise. For example, Ukraine's lack of hard currency since its independence in 1991 has led it to become one of the most active suppliers of legal and illegal small arms.[9] Although the Taliban in Afghanistan initially claimed to oppose drugs on religious grounds, they turned a blind eye to the cultivation of drugs when revenue coming into the country from any other sources dried up.[10]

For other examples of states turning to illicit trade resulting from the loss of legitimate revenue, one need only examine the behavior of states following the imposition of trade sanctions. North Korea and Libya each developed networks for arms sales, including nuclear and missile technology.[11] North Korea continues to lack outlets for legal trade because of international sanctions and relies on several illicit ways of earning money. According to the Institute for Defense Analyses' Andrew Coe:

> A drop in oil demand would lead to an increased probability of international and internal conflict.

> In the 1990s, North Korea engaged in considerable illegitimate trade, including large-scale narcotics trafficking, currency counterfeiting, ballistic missile sales, and industrial and sexual slavery. These new exports grew in parallel with the decline in legal exports.[12]

Missile technology and conventional weapons make up as much as 40 percent of North Korea's total exports. The regime earns $1.5 billion from missile sales alone, representing 8.8 percent of its gross domestic product (GDP).[13] Although this amount pales in comparison to the United States, which led the world in arms sales at $37.8 billion in 2008,[14] the risk is the potential growth in arms sales by countries such as Saudi Arabia and Iran, much of which would go to trouble spots in the Middle East and the rest of the developing world.

The danger here is not simply creating illicit trade networks but the link between such networks and various forms of political violence, both within states and across borders.[15] For example, several terrorist groups, such as the Irish Republican Army in Northern Ireland and the *Euskadi ta Askatasuna* in Spain, had links to narcotics as well as arms trafficking and were more active as a result of those connections.[16] Therefore, rather than wait for illicit trade networks to develop and then spend the kind of money the United States has been spending in combating drugs in countries such as Colombia and Mexico, the West should act now to prevent the growth of such networks in oil-exporting states.

Who Is at Risk?

Although it is impossible to predict how the loss of oil revenue will affect each state, some generalizations can be made about which states are most likely to encounter these security risks. To illustrate the specific level of threat to some states, Table 1 identifies oil revenue as a percentage of GDP for the 13 members of OPEC, as well as the change in oil dependence over the last 10 years. Not only are many OPEC states heavily dependent on oil for the country's wealth, but this trend

Table 1: OPEC States' Dependence on Oil

	Percentage of GDP From Oil		% Change
State	2008	1998	1998–2008
Angola	76.75	46.57	+64.80
Saudi Arabia	58.80	22.31	+163.54
Iraq	56.98	48.34	+17.86
Libya	55.16	20.59	+167.96
Kuwait	53.41	32.66	+63.54
Qatar	42.45	32.74	+29.67
United Arab Emirates	39.40	22.94	+71.73
Nigeria	34.84	26.73	+30.34
Algeria	29.45	12.01	+145.20
Iran	25.79	8.53	+202.47
Venezuela	24.31	13.31	+82.69
Ecuador	22.35	3.89	+474.95
Indonesia	3.93	4.16	−5.63

Source: Organization of the Petroleum Exporting Countries, "Annual Statistical Bulletin, 2008," 2009, pp. 11, 13, http://www.opec.org/library/Annual%20Statistical%20Bulletin/pdf/ASB2008.pdf.

is moving in the wrong direction, with every member state except Indonesia being more dependent on oil revenue now than they were 10 years ago.

Five OPEC members appear to be most vulnerable to a dramatic loss in oil revenue: Angola, Iraq, Kuwait, Libya, and Saudi Arabia. All five get more than one-half of their GDP from oil, and all are more dependent on oil wealth now than they were 10 years ago. In other words, these states, all of which already suffer from internal tension and border conflicts, will run the greatest risk of experiencing the security issues outlined earlier. Moreover, Algeria, Ecuador, Iran, Libya, and Saudi Arabia have all seen their dependence on oil more than double in the last 10 years.[17]

Based on these trends, many OPEC states will likely continue to become more dependent on oil revenues unless steps are taken now to eliminate some of the future security concerns. OPEC states outside of the Middle East seem better

situated to withstand the loss of oil revenue, although making comparisons with regional neighbors suggests that the same security threats discussed above are possible. For example, Latin America has three major oil-exporting states: OPEC members Ecuador and Venezuela and nonmember Mexico. Venezuela and Mexico are much better off economically than their Latin American neighbors,[18] at least partly because of oil; Venezuela gets nearly one-fourth of its GDP from the sale of petroleum. Although internal conflict already exists there, the security threat will likely grow if Venezuela suffers a significant reduction in its petroleum revenue. In addition, the loss of Venezuela's oil income will force that government to make a choice. One path involves economic hardship similar to experiences in other Latin American states, such as Bolivia and Paraguay. The second path involves the narcotics trade. As we have seen with Colombia, even if the Venezuelan government chooses to stay out of the drug trade, individuals within the country will likely opt in rather than suffer personal hardship.

Mexico has a different story. For one thing, oil accounts for less than 10 percent of its total export revenues. In addition, Mexico actually benefits when global oil prices drop because its main trade partner, the United States which accounts for nearly 90 percent of Mexico's total exports, is able to purchase more Mexican goods. Because its economy is becoming more diversified and less dependent on the sale of oil, Mexico is likely to withstand a drop in demand for oil, whereas many OPEC states will not be so lucky unless they diversify their economies. Herein lies an important lesson: the more that states develop trade in non-oil sectors, the more the profits from those sectors will offset any loss of oil revenue and eventually promote stability.

Russia is another potential danger spot because it is the only nuclear state, at least for now, that has significant revenue from the sale of oil, roughly 8–20 percent of its GDP. Losing that income will have less dramatic effects on Russia than on many OPEC states more heavily reliant on oil sales, at least partly because of recent attempts to diversify the Russian economy. Its economy, however, is still too fragile to handle a major drop in demand for oil. Given the existing tension between Russia and states such as Georgia and Ukraine, neither the United States nor Russia's neighbors can afford the risk of a nuclear Russia suffering economic instability.[19]

Some leaders do recognize the danger of being dependent on oil revenues. Nigeria's government has attempted to reemphasize tourism and solid materials as alternatives to dependence on oil.[20] One OPEC state attempting to reduce its dependence on the sale of oil is Qatar. Although its reliance on oil has grown over the last decade, Qatar is attempting to diversify its economy by developing offshore natural gas reserves.[21] Right now, the United States needs to encourage other oil-producing states to follow suit.

Criticisms

There are at least three plausible counterarguments to the points made above. The first is to question whether the loss of oil revenue will really cause these risks, because many of the states dependent on oil revenues already suffer from internal conflict and engage in illicit trade. In fact, might the loss of oil revenue in Iran conversely reduce its ability to sponsor terrorism and decrease the amount of arms it is able to purchase? Although plausible, the historical record shows the opposite result: as Libya and North Korea lost legitimate trade as a result of sanctions, both increased their involvement in illicit trade and purchased arms in greater numbers.[22] Although the sanctions themselves, rather than simply the loss of revenue, possibly led to this behavior, the Ukraine example discussed earlier illustrates that sanctions are not a necessary condition for states to sell arms illegally and that lack of wealth is a much more direct explanation.

Many oil-exporting states will probably turn to sell illicit goods such as drugs and military hardware.

Another counterargument emphasizes some potential benefits of a loss of revenue, namely a reduction in power by certain domestic groups that could facilitate the emergence of democracy in these countries. There are two responses to this argument. First, it is not clear that the loss of oil revenue will automatically bring about democracy. The loss of wealth by those in power rarely leads them to give up power, but more often causes a greater crackdown on the population to prevent challenges to the state's authority. Iraq, Libya, and North Korea illustrate that the loss of wealth does not lead to a loss of control by those in power.[23] In contrast, diversified economies are more likely to bring about democratic reform, regardless of whether certain groups hold power because of oil or not.

Assuming that the logic is correct and these oil-producing states are undemocratic only because of the oil revenue held by a few individuals, there is no reason to believe that the subsequently emerging democratic states would be stable or that they would bring to power individuals and groups friendly to the West. Moreover, newly democratizing states are among the least stable and are more prone to wars.[24] Therefore, even if this counterargument is valid, the results will not alleviate the security concerns discussed in this article and could make them worse. Although there will be numerous benefits of reducing dependence on oil, including possibly democratization, we need to understand and prepare for the risks as well.

The third counterargument is that even if the concerns in this paper are valid, oil-producing states will eventually diversify their economies on their own to

reduce internal instability and chaos, similar to what Mexico and Qatar have done. Again, there are two responses. First, there is no indication that states such as Angola, Kuwait, Libya, and Saudi Arabia are taking such steps, and measures must be taken soon rather than after the oil revenue begins to dry up. In addition, even those states which recognize the need to expand their economy beyond the oil sector, such as Nigeria and Russia, have had difficulty doing so, even in fairly prosperous times.[25] In part, this is because of limited foreign direct investment (FDI) in non-oil sectors of their economies. The irony is that although higher gas prices increase U.S. incentives to become less dependent on oil in the long term, it simultaneously makes oil-exporting states more dependent on oil in the short term, thus decreasing incentives for diversification. Part of the task for the West is to convince oil-producing states that it is easier to develop alternative sources of income now while profits are high, rather than wait until it is under duress as revenues decline.

Consequences of a Decline in U.S. Demand

Despite numerous calls to decrease U.S. dependence on Middle East oil, doing so could have dramatic negative consequences for regional and international security, and these issues are largely overlooked in the current debate over how to cut U.S. consumption. The United States is often faulted for failing to account for the interests of others, and on this issue, a narrow focus on oil independence runs risks detrimental to long-term U.S. and global interests.

The United States should not maintain its dependence on oil simply to prevent economic instability in Russia, regional conflict in the Middle East, or the growth of the drug trade in Venezuela, but the United States must be cautious regarding how it goes about reducing its consumption. Some states are even more dependent on oil revenues than the West is on oil imports, and the United States must be careful about rushing toward energy independence without first considering the unintended consequences.

The United States only gets about 15 percent of its oil from the Middle East. Nearly 22 percent of all OPEC oil, however, is sold to the United States.[26] The United States is the world's largest consumer of oil (more than 25 percent), and a reduction in U.S. demand will have a dramatic effect on the price of oil and on the world's oil-exporting states. The real effects of a drop in U.S. consumption are difficult to predict and may depend on how the United States reduces its demand. If it does so simply through conservation, then the gradual decline in demand will likely have minimal effects on oil exporters. On the other hand, a drastic drop in demand, such as that associated with the development of a new technology, will have significant economic repercussions for a number of countries, even those that do not sell much oil to the United States.

Angola, Iraq, Kuwait, Libya, and Saudi Arabia as well as Russia run the greatest risks.

Initially, the loss of the United States as a major consumer would not cripple the economies of oil suppliers because there will be enough demand from countries such as India and China to provide continued revenue. In fact, U.S. reductions in consumption would even benefit many other potential consumers that do not have the money to purchase enough oil at current prices. To balance this drop in price, however, the likely response from oil producers will be to boost production and sell more oil. This will diminish the world's oil reserves even more rapidly, possibly creating more interstate conflicts over remaining oil supplies, and ultimately run the security risks outlined here. As a result, the long-term consequences of even just the United States cutting its consumption of oil will be striking. These effects will be multiplied if global consumption also declines.

What to Do? Act Now

Regardless of how U.S. consumption declines, the demand for oil would not fade overnight; existing commercial airliners, military vehicles, and even automobiles will still need oil in the short term. The eventual drop in demand, however, could catch many states unprepared unless they begin to plan now for that eventuality with assistance from the developed world. One thing the United States should do now is to promote economic diversification and the development of alternate sources of wealth in states that are heavily dependent on oil revenue. This would not only help mitigate the economic problems that will otherwise face oil exporters, but helping states improve their economies will foster more amicable relations between states by increasing mutual interdependence and trust.

To do this, the West should promote greater FDI to non-oil sectors in these oil-exporting countries. This can be accomplished by providing incentives for investment and encouraging oil exporters to liberalize investment regulations and allow greater foreign investment. Yet, diversification alone will not be enough. A big concern in Qatar, for example, is the combination of very low unemployment (0.4 percent) and relatively low literacy (89 percent).[27] This suggests that a significant part of the population is relatively uneducated and will have trouble switching jobs out of the petroleum sector, which currently accounts for more than 40 percent of the country's GDP. As a result, the West should encourage states to diversify their economies in part by helping improve education among these countries' labor forces. Because worker education and training programs take a long time to have an effect, it is important to begin developing such programs now,

rather than waiting until the problem appears and it is too late to begin retraining uneducated workers.

The United States cannot prevent developed states from reducing their consumption of oil, nor should the United States try because doing so is important for environmental, economic, and national security reasons. The United States should be aware of the potential security costs of its actions, however, and must act now to avoid future threats. A significant drop in U.S. demand will increase the likelihood of international and internal violence and will lead more states to engage in illegal drugs and arms sales.

To offset these dangers, the United States and other Western countries should act now in at least three ways: 1) increase transparency in their alternative energy policies so oil-exporting states are not caught off-guard by a decline in demand, 2) push oil-exporting states to diversify their economies by liberalizing FDI regulations and by promoting investment to those countries, and 3) help oil-exporting states expand workforce education programs so that those who work in the oil sector can more easily transition into other professions. Addressing these potential problems is not only in the national interest, but will also ensure greater international stability and improve diplomatic ties between the United States and several states with which it currently has lukewarm or worse relations.

Notes

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