Explore the Random Effect of Trade on Militarized Conflict

Rough Draft

Timothy M. Peterson
University of South Carolina

Shaoshuang Wen
University of South Carolina

This article attempts to explore variation by state in how trade influences conflict-propensity. It does so by specifying random slopes for the lower economic independence in a non-directed dyad model. This article examines different factors that lead states to be pacified or aggravated by trade exposure.(continue...)

Introduction

There are a volume of trade-conflict studies, mainly focusing on dyadic trade and its implications for the opportunity cost of conflict. Though there is a long-lasting debate on the effect of trade on conflict, current studies did not make too much progress helping us understand the variation of the pacifying effect of trade. Only minor adjustments are made in recent trade-conflict studies. For instances, Kleinberg, Robinson, and French (2012) measure extradyadic trade concentration, arguing that there is a negative relationship between outside trade concentration and the risk of interstate hostility. Chatagnier and Kavakli (2015) measure the export similarity to the global market, arguing that there is a positive relationship between export similarity and probability of getting involved in violent disputes.

Two things intrigue our interest exploring the random effect of trade on militarized conflict. First, there is a great variation of the pacifying effect of trade on conflict among different dyads. Table 1 provides us some intuitive evidence that the pacifying effect of trade vary among different dyads. On average, militarized conflicts are rare. However, if we take a close look at some typical observations, for instance, China and its neighbors, i.e., Japan and South Korea, we found something that conflict with some important findings in trade-conflict studies. Both Japan and South Korea are highly dependent on China's trade market, compared to the average trade dependence in general. However,

on average, we observe a militarized conflict between these dyads every ten years. The probability is pretty of getting involved in militarized conflict between the dyads with high trade dependence is pretty high. Surprisingly, Canada and the U.S. got involved in six violent disputes from 1957 to 2000, given that Canada's trade is significantly dependent on the U.S. market. It seems that the pacifying effect of trade does work on a friendly relationship between the U.S. and Mexico. Therefore, we argue that the most popular approach to studying trade-conflict relationship could be wrong as scholars ignore the random effect of trade on conflict. The pacifying effect of trade must be affected by other domestic-level factors, for instances, domestic win-set, bureaucratic politics, the public's punishment, regime types and among other factors. Second, though current trade dependence between dyadic countries is high; however, it will not be a credible constraint for the states to go to violent disputes if they can easily transfer their trade to a third country. Therefore, we argue that whether the market is unique matters. The random effect of trade then becomes non-ignorable.

Table 1: Distribution of Trade Dependence and Conflict in Identifiable Dyads

	Average Trade Dependence	Interstate Conflict	Pr. of MID
China-Japan	0.0092390	5 (45)	0.11
China-South Korea	0.0013470	6 (45)	0.13
China-The Philippines	0.0003270	5 (45)	0.11
U.S.-Canada	0.02578	6 (45)	0.13
U.S.-Mexico	0.007782	0 (45)	0
Total	0.0003910	1393 (524530)	0.0026

Theories and Facts

We concluded three propositions about the trade-conflict relationship that are identified among a number of scholars as following: (1) liberal argument that economic interdependence can mitigate potential conflict in international relations to some degree; (2) the argument, held by realists, that economic interdependence might lead to international conflict; and (3) the suggestion that trade and conflict are irrelevant.

Doyle (1983) argued that international relations are governed by perceptions of national security and the balance of power. The national economy determines a country's national security and the possibility of shifting the global distribution of economic power. Liberal theorists argue that states are more likely to deal with disputes through alternatives to the use of direct military force once they have become closely linked with each other economically. A certain degree of the balance of power between two countries becomes more stable once economic connections are established. Therefore, economic

interdependence can mitigate potential conflict in international relations to some degree. Thus, "economic interdependence has pacifying effects on international relations" (Xia, Jia, and Chen, 2014; Oneal, 2003; Lu and Thies, 2010).

Realists argue that economic interdependence might lead to international conflict. Realists assume that states care more about relative gains with the trade partner and who gains more (Levy and Thompson, 2010). In this sense, economic interdependence inevitably causes asymmetries in trade. States are more likely to preserve and seize their relative gains through initiating conflict (Xia, Jia, and Chen 2014). Similarly, Hirschman (1945) argues that asymmetrical interdependence can affect states' political relations as gains from trade are rarely symmetrical. Waltz (1970) also claims that economic interdependence could possibly cause conflict since trade lead to close and frequent contacts within trade partners. Barbieri (1996) argues that rather than inhibiting conflict, "extensive economic interdependence increases the likelihood that dyads will engage in militarized interstate disputes. Extreme interdependence has the greatest potential for increasing the likelihood of conflict" (29). As asymmetrical trade occurs, the more powerful states are more likely to vie with one another for control over finite resources and markets, and the expansion of trade may cause increased interstate conflict (Lenin, 1990). In addition, those states who focus more on who gains more might view the gain to their partner as a potential loss to themselves. In this sense, they will be reluctant to grant other states the benefits associated with trade. Therefore, the states who cannot benefit from trade may seek other alternatives, i.e. military confrontation, to preserve their interest (Gowa, 1994). More radically, some realists claim that economic independence stimulates the use of force. Buzan (1984) argues that economic independence leads to conflict, where states aim at accumulating monetary reserves through a positive balance of trade in mercantilist structures. Asymmetries eventually stimulate military confrontation.

Some argue that international conflict reduces economic interdependence rather than vice versa. Kim and Rousseau (2005) contend that, in the cases where conflict exists, the impact of economic interdependence evaporates once disputes are solved. Instead, leaders determine the utility of conflict based on security concerns and military factors rather than economic relations (Bueno de Mesquita, 1981). Therefore, economic interdependence hardly makes any difference on conflict. In contrast, the use of military force diminishes a state's economic interdependence with its adversary in a dispute (Kim and Rousseau, 2005).

Research Design

We are interested in the variation by state in how trade influences conflict-propensity on the trade-conflict relationship. As an initiative exploration to this topic, we use the replication data from Peterson & Rudolf (2015). The reason why we use militarized interstate dispute (MIDs) data to measure conflict is that we are interested in whether trade relationship affects the likelihood of serious conflict (i.e., militarized conflict). Next, we want to conduct mixed effects logistic regression tests on trade and conflict since our dependent variable is dichotomous. Here, we compare findings from the logistic regression model and from the mixed effects logistic model.

The unit of analysis is the dyad-year, where values for both dependent variable and explanatory variables are recorded in a given year from 1957 to 2000. The relatively short time period is constrained by limited data availability.

Dependent Variable: Conflict

Our dependent variable identifies whether dyads engage in militarized dispute by threatening, displaying, or using force against its dyadic partner (Dyadic MID, 3.10). This dependent variable is commonly used in literature on trade and conflict. A country pairing is coded as one when either (or both) took direct actions toward the other state or from it, and zero otherwise.

Independent Variable: Trade Dependence

The key independent variable is the so-called "lower dependence" first introduced by Oneal and Russett (1997) which is commonly used in many trade-conflict studies. The "lower dependence" is calculated by taking the value of dyadic trade flows (A's imports from B plus A's exports to B) divided by the higher of the dyad members' GDP. This variable captures the least dependence of the state on dyadic trade for its income.

Control Variables

Other important control variables on observables include lower polity score (Marshall and Jaggers 2010), relative capability ratio (CINC), contiguity and geographic proximity (COW), military alliance (COW), peace years after the last militarized dispute, and a dichotomous indicator of the Cold War period (1957 to 1991).

Democratic peace theory emphasizes that economic interdependence makes positive influence on interstate relationships of democratic regimes while decreasing conflict. A number of scholars have empirically tested that democracies rarely go to war with each other (Dixon, 1994; Bremer, 1992; Maoz and Russett, 1993). Therefore, it is extremely

important to control the influence of democratic status. We rely on the Polity IV data (Marshall, Jaggers and Gurr 2016) to represent the democratic status of the trade partners. In the Polity IV dataset, a score of -10 is given if the regime is highly authoritarian, while the score of 10 represents a highly democratic regime. We include the lower polity score within the dyad given evidence that democracies fight less and trade more.

Moreover, studies have revealed the significant impact of relative power on interstate relations. Organski and Kugler (1980) argued that asymmetrical power promotes peace while Morgenthau (1964) contended that power parity is more conducive to promoting peace. And thus, we must control for the relative power of dyad countries. Relative power is operationalized as state's COW relative capabilities index (CINC). CINC weighted state's average share of urban population, energy consumption, military expenditures, and industrial resources (Bremer, 1980). A ratio of larger to smaller state's capabilities is used to measure relative power. The log of the relative capabilities is used to control for the large variations in CINC scores among states within the system (Barbieri, 1996).

It is necessary to control for both direct and indirect contiguity. On one hand, contiguous countries undertake relatively lower trade cost than noncontiguous countries at least due to the shorter distance of shipping. Therefore, contiguous countries have higher levels of trade than noncontiguous countries. On the other hand, contiguous countries are more likely to get involved in conflicts due to inevitable sovereignty and territorial disputes. Scholars have empirically tested the claim that contiguous dyads are more likely to trade with each other (Arad and Hirsch, 1981) and have higher levels of conflict (Goertz and Diehl, 1992; Gochman, 1991) than noncontiguous countries. The COW contiguity set (dyad-year-level in specific), as revised in 2007 by Paul Hensel, was used here. We will hold the argument that there are no significant differences between different categories of contiguity (Barbieri, 1994a); therefore, we chose to employ a dummy variable of contiguity, where direct contiguity (by land and by sea less than 150 miles) is coded as one, and zero otherwise. We also include the distance variable which is taken by the natural log of the distance between capitals.

Additionally, alliances are intended to deter and reduce interstate conflicts. Additionally, the high correlation between military alliance and trade partners has been revealed by Gowa (1994). Therefore, we have to control for the presence of military alliances. The COW alliances data (4.1 dyad_yearly in specific), as released in 2013, was used here. Alliance is a dichotomous variable coded "1" for dyad exist an alliance in a given year, and "0" otherwise.

At last, the peace years variable measures the time interval between the current militarized conflict and the last militarized dispute. The Cold War variable is a dichotomous indicator of the Cold War period (1957 to 1991), which could correlate both with trade

blocs and conflicts during the bipolar period.

Empirical Strategy

In the first step, the hypothesis addressing the relationship between trade dependence and militarized conflict is presented. The first hypothesis expects a constant pacifying trade dependence effect on militarized conflict with different models.

H1: higher trade dependence is associated with a lower likelihood of militarized conflict.

The basic logit model is specified as following:

$$Logit(P(MID_{ij}) = 1) = \beta_0 + \beta_1 trade\_dependence + \beta_2 lower\_polity\_score$$
$$+\beta_3 relative\_capabilities + \beta_4 contiguity + \beta_5 lndistance + \beta_6 alliance + \beta_7 peace\_years + \beta_8 Cold\_War$$

In the second step, the trade-conflict model is built on a sample randomly drew from the "population data". The sample takes 10% of the population data. The sample is drew based on different country combinations. In the "population data", we have 19242 different dyads in total. In our sample, after deleting rows with missing values, we have 1715 different dyads and 40938 observations. We did not work on the "population" data because running the mixed effects model with a binary dependent variable is really slow. For a exploratory research trial, we would work on the sampled data for now (we are not getting involved in the population vs. sample debate in IR here).

In the third step, the trade-conflict model is built with the random intercept. By doing so, we could explore whether states hold different "preferences" getting involved in militarized disputes.

In the next step, the trade-conflict model is built with the random slopes for the lower trade dependence variable. By doing so, we could explore how trade dependence have different influence on conflict among different dyads.

In the final step, where results are attached in the appendix section, we tried to throw the interaction term between trade and regime types in our model. The effect of trade conditioned by different regime types is tested.

Analysis

In Table 2, according to the results from Model 1, there is no surprise that we got sufficient evidence showing the pacifying effect on militarized conflict from the first logistic regression model with the "population data". What surprised us is that we do not have sufficient evidence to show the pacifying effect of trade on conflict, working on the sample data in Model 2. One possible explanation is that we only have 83 observations involved MID among 40938 observations, though MIDs are rare in any sense even in the

"population" data (1150 among 417320).

However, according to the results from Model 3 and Model 4, there is sufficient evidence to show that trade dependence has a significant effect on the probability of getting involved in militarized conflict in the mixed effects models again, working on the exactly same sample data. According to the mixed effects models, it is fair to argue that trade dependence is a good predictor of the probability of having militarized conflict in general.

The random intercept model has constant variance of 13.9 across different time points. The significance of random intercept indicates that different dyads hold different propensities in terms of getting involved in militarized conflict.

In the random intercept and random slope models, we assume a more flexible correlation structure. The significance of random slope of trade dependence indicates that trade dependence has different pacifying effect on the probability of getting involved in militarized conflict among different dyads.

According to the model selection criterion, the random intercept and slope model is more defensible.

The graph of predictions in Figure 1 is used to identify the relationship between the level of trade dependence and the probability of getting involved in militarized conflict. We controlled for the relative power ratio, log of distance, years since conflict, and lower polity score at the mean level. The graph indicates that those non-allied, noncontiguous countries will less likely to fight with each other after Cold War as there is more trade dependence between them.

Discussion and Conclusion

First, this paper provides sufficient evidence that the random effect of trade is non-ignorable. In the next step, we need to think about what domestic-level variables we need to use as conditionality. Throwing in a large number of interactions would be inefficient. Second, if we are going to predict the random slope with other covariates, these random effects are "random" values which cannot be used to show the varying effect for a particular dyads. Then, we need to think about what information can we get from predictions. Third, we need to use a different measurement of our dependent variable, considering that militarized conflicts are rare, and inference from GLMs is complicated and inefficient. It takes more than an hour to run a mixed model with 40938 observations and 1715 dyads. A continuous measurement of our dependent variable is preferred. Fourth, it is an interesting field to investigate in terms of interacting the trade variable with domestic conditionality. We need to find more theoretical supports to add them in. Finally, in this paper, our unit of analysis is dyad-year. Though we found evidence

Table 2: Coefficients and Robust Standard Errors for Trade Dependence and Militarized Conflict

DV: Any MID (dichotomous)				
	Model 1	Model 2	Model 3	Model 4
(Intercept)	-4.12^{***}	-4.88^{***}	-3.87	-7.90^{***}
	(0.21)	(1.08)	(2.51)	(0.00)
Lower trade/GDP	-13.38^{*}	6.85	-451.70^{***}	-80.19^{***}
	(6.53)	(26.53)	(38.71)	(0.00)
Lower polity score	-0.01^{*}	-0.04	0.01	0.01^{***}
	(0.01)	(0.02)	(0.03)	(0.00)
Relative capabilities	-0.83^{***}	0.69	-3.07^{*}	-2.84^{***}
	(0.20)	(0.78)	(1.45)	(0.00)
Contiguity	3.06^{***}	1.52^{*}	-0.60	-3.15^{***}
	(0.12)	(0.77)	(2.17)	(0.00)
Ln distance	-0.10^{***}	-0.21^{*}	-0.38	-0.32^{***}
	(0.01)	(0.10)	(0.27)	(0.00)
Alliance	0.10	0.01	0.02	-0.27^{***}
	(0.07)	(0.30)	(0.48)	(0.00)
Years since conflict	-0.09^{***}	-0.08^{***}	-0.04^{**}	-0.02^{***}
	(0.00)	(0.01)	(0.01)	(0.00)
Cold War	0.18^{*}	0.97^{***}	0.61^{*}	0.64^{***}
	(0.07)	(0.25)	(0.29)	(0.00)
AIC	10905.35	984.25	810.05	779.10
BIC	11003.82	1061.83	896.25	882.54
Log Likelihood	-5443.67	-483.12	-395.03	-377.55
Deviance	10887.35	966.25		
Num. obs.	417320	40938	40938	40938
Num. groups: dyad			1715	1715
Var: id (Intercept)			13.90^{***}	87.37^{***}
Var: id Lower trade/GDP				301.77^{***}
Cov: id (Intercept) Lower trade/GDP				161.07

$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$

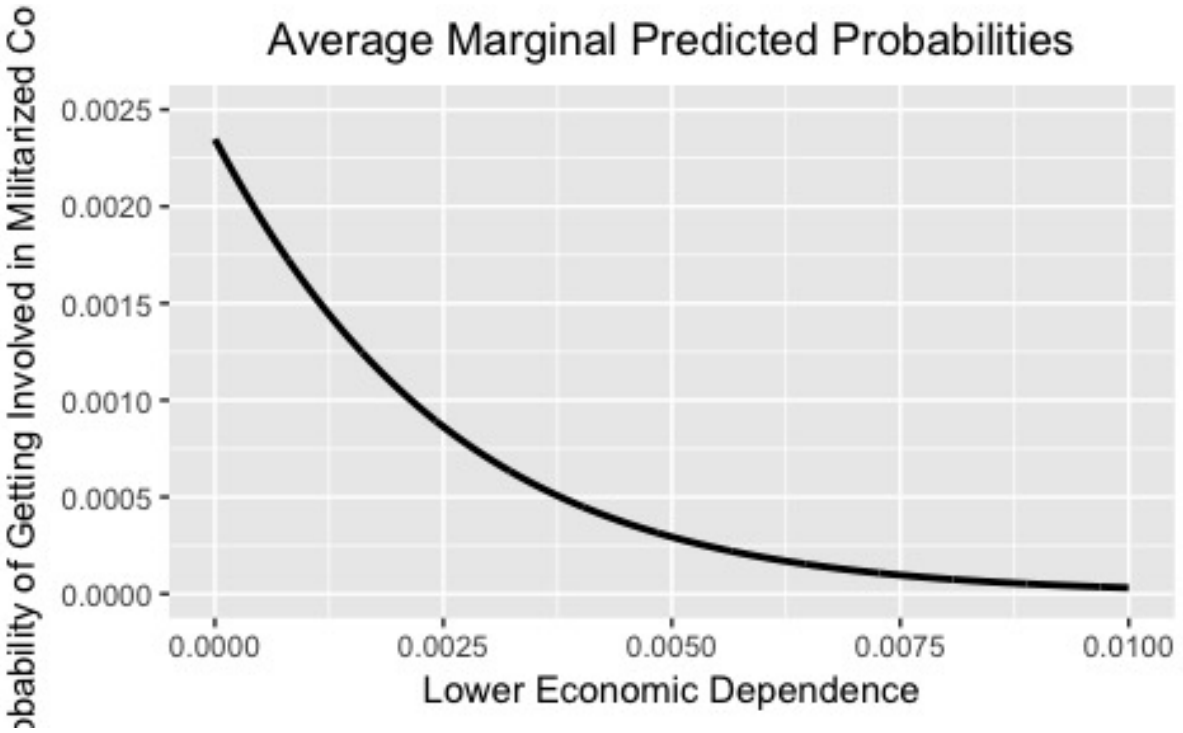

Figure 1: Predicted Probabilities for Any MID

that the pacifying effect of trade dependence vary across different dyads, we can hardly determine the interactions between trade and other domestic-level covariates because the domestic political atmospheres can be totally different between the two countries involved in one dyad. Therefore, we suffered too much noise (See Appendix). In the next step, we need to isolate the domestic-level covariates for each country. Analysis of initiation of war instead of occurrence of war could be a possible solution.

Appendix

In this section, we throw in a potential interaction term between trade dependence and regime type, in order to check whether regime type could change the effect of trade dependence on the probability of dyads getting involved in violent disputes.

In order to better measure the joint regime type status between dyadic countries. We created the new variable–"jointdem", which indicates joint democracy. We rely on the Polity IV data (Marshall, Jaggers and Gurr 2016) to represent dyadic democracy here, in order to fit our unit of analysis. In the Polity IV dataset, a score of -10 is given if the regime is highly authoritarian, while the score of 10 represents a highly democratic regime. We use Erik's (2007) calculation method to prepare monadic values by "combining Polity democracy (DEMOC) and autocracy (AUTOC) scales as follows: [(DEMOCi - AUTOCi

) + 10]/2" (174). BOTH DEMOC. (≥ 7) equals one ("1"), and zero ("0") if one of dyad is less than seven.

In table 3, we found that different methods of measuring dyadic regime types do not affect neither the significance nor the magnitude of the pacifying effect so lot, according to the results from model 5 and model 7. The results remain constant, which is not surprising for us. However, there does not appear to be a significant difference in the effect of trade dependence based on regime types. Both interaction terms are not significant.

One possible explanation is that we have too much noise in how we modeling our covariates. The lower trade dependence indicator measures the least dependence of one on the other in an observed dyad, though we have no idea which is dependent on which. The lower polity score and joint democracy measures an average democratic status of the dyads. However, the domestic political atmospheres can be totally different between the two countries involved in one dyad. In this sense, we failed to connect domestic-level factor of regime type with trade dependence by simply throwing an interaction term.

The results of mixed effects models with interaction term between trade dependence and regime type are displayed in table 4. Surprisingly, except for the trade indicator, we lost all other significance in the mixed effects model. We need to doubt check the R codes and data we used here.

Table 3: Coefficients and Robust Standard Errors for Trade Dependence and Militarized Conflict Logistic Regression Model with Interactions

	Dependent variable:			
	DV: Any MID (dichotomous)			
	(Model 5)	(Model 6)	(Model 7)	(Model 8)
lower trade/GDP	-13.912^{*}	-13.456^{*}	-12.726^{*}	-8.632
	(6.087)	(6.025)	(5.892)	(6.354)
lower polity score	-0.021^{***}	-0.019^{***}		
	(0.005)	(0.006)		
lowerdep:lowerpolity		-0.734		
		(0.827)		
joint democracy			-0.469^{***}	-0.418^{***}
			(0.099)	(0.108)
lowerdep:jointdem				-14.125
				(12.832)
relative capabilities	-0.835^{***}	-0.835^{***}	-0.921^{***}	-0.917^{***}
	(0.187)	(0.187)	(0.184)	(0.184)
contiguity	3.195^{***}	3.194^{***}	3.193^{***}	3.193^{***}
	(0.108)	(0.108)	(0.108)	(0.108)
ln distance	-0.123^{***}	-0.123^{***}	-0.125^{***}	-0.125^{***}
	(0.013)	(0.013)	(0.013)	(0.013)
alliance	0.030	0.026	0.031	0.029
	(0.067)	(0.067)	(0.067)	(0.067)
years since conflict	-0.073^{***}	-0.073^{***}	-0.072^{***}	-0.072^{***}
	(0.003)	(0.003)	(0.003)	(0.003)
Cold War	0.199^{**}	0.196^{**}	0.174^{**}	0.170^{*}
	(0.069)	(0.069)	(0.067)	(0.067)
Constant	-4.480^{***}	-4.471^{***}	-4.254^{***}	-4.262^{***}
	(0.194)	(0.194)	(0.183)	(0.183)
Observations	490,555	490,555	490,555	490,555
Log Likelihood	$-6{,}505.104$	$-6{,}504.701$	$-6{,}500.916$	$-6{,}500.275$
Akaike Inf. Crit.	13,028.210	13,029.400	13,019.830	13,020.550
Note:				*p<0.05; **p<0.01; ***p<0.001

Table 4: Coefficients and Robust Standard Errors for Trade Dependence and Militarized Conflict Mixed Effects Model with Interactions

	Model 9	Model 10	Model 11	Model 12
lower trade/GDP	-155.88^{**}	-201.93	-290.02^{***}	-112.52^{*}
	(49.77)	(145.44)	(86.82)	(51.52)
lower polity score	0.01	0.02		
	(0.03)	(0.04)		
lowerdep:lowerpolity		-4.97		
		(15.31)		
joint democracy			-1.23	-1.30
			(0.69)	(0.68)
lowerdep:jointdem				50.37
				(86.48)
relative capabilities	-1.61	-2.26	-1.55	-1.36
	(1.87)	(2.43)	(1.73)	(1.89)
contiguity	-3.11	-3.91	-3.37	-2.95
	(3.83)	(4.78)	(3.27)	(3.82)
ln distance	-0.39	-0.59	-0.53	-0.35
	(0.50)	(0.64)	(0.41)	(0.50)
alliance	-0.59	-0.62	-0.35	-0.32
	(0.47)	(0.48)	(0.47)	(0.47)
years since conflict	-0.02	-0.02	-0.02	-0.01
	(0.01)	(0.01)	(0.01)	(0.01)
Cold War	0.73^{*}	0.75^{*}	0.87^{***}	0.91^{***}
	(0.28)	(0.29)	(0.26)	(0.26)
(Intercept)	-8.24	-5.20	-6.19	-8.78^{*}
	(4.49)	(5.69)	(3.56)	(4.40)
AIC	923.66	929.77	927.25	921.58
BIC	1029.07	1043.97	1032.66	1035.78
Log Likelihood	-449.83	-451.89	-451.62	-447.79
Num. obs.	48265	48265	48265	48265
Num. groups: id	1761	1761	1761	1761
Var: id (Intercept)	78.07	48.81	43.16	77.63
Var: id lowerdep	16440.38	8165.65	17931.30	8672.10
Cov: id (Intercept) lowerdep	1132.90	631.33	879.77	814.87

$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$

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