TRAGEDIES & PROMISES | ERF 30th
of Regional Conflicts of Peacebuilding Annual Conference
Responding to Disruptors and Enablers of MENA Development Pathway

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The Effects of International Trade and Finance

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2024

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Abstract

The relationship between economic and financial globalization and peace has been a subject of speculation and disagreement. Classical conceptions proposed that openness may act as a potent catalyst for peace. However, alternative perspectives have questioned this perspective by claiming that free trade can potentially weaken countries' national security. This debate underscores the need for empirical investigations beyond theoretical conjecture, providing a data-driven examination of the relationship between trade and financial globalization, and military conflict. This paper tries to explore the complex relationship between economic and financial integration and geopolitical conflicts, by focusing on the MENA region. Our analysis covers 142 countries over the period 2009-2020. Our results confirm that global trade liberalization is linked with a decline in the level of military conflicts in countries around the world. The relationship between financial openness and conflict varies depending on the sub-components of conflict and its definition as de facto or de jure financial openness. When we focus on the MENA region, our results indicate that trade globalization contributes to reducing the general level of conflict in oil-exporting MENA countries, while contributing to the fueling of conflict in oil-importing countries. Also, de facto financial globalization raises conflict in oil-exporter and oil-importer MENA countries. In contrast, de jure financial openness has a reducing effect on the overall conflict level in the MENA region. We hope to provide insights into the various ways in which trade and financial integration can either promote peace or create instability on a global scale. As there seems to be a complex relationship between peace on the one hand, and trade and financial openness on the other, exploring this relationship, especially for the "heated" regions like the MENA can well pave the way for constructing a political-economy framework within which policy options and priorities can be identified rationally and reasonably.

I.Introduction

This paper tries to explore the complex relationship between economic and financial integration and geopolitical conflicts, intending to gain a detailed knowledge of how trade and financial globalization affect a country's likelihood of military involvement. The backdrop against which this investigation unfolds is one marked by a period of increasing globalization, where countries are more intertwined than ever. The current global economic system is defined by trade and financial openness, which involves the elimination of obstacles to international trade and financial flows. The issue of whether economic interdependence between countries promotes peace or exacerbates violence has received increased scrutiny as nations participate in cross-border trade, services, and financial exchanges.

Historically, the relationship between economic interdependence and military conflict has been a subject of speculation and disagreement. Classical conceptions proposed that economic interdependence, namely through commerce, may act as a potent catalyst for peace. The rationale for this viewpoint is based on the idea that countries with significant economic stakes in each other would be reluctant to interrupt the movement of trade through military confrontation. From the theoretical view, the moderating effect of mutual trade and financial interdependence on military conflicts and wars is mentioned in "liberal peace theory" (Pollins, 1989a, 1989b). This theory argues that industrialized economies that prioritize market expansion have lower rates of interstate conflict and that market openness encourages more peaceful behavior between states (Mansfield, 2021). According to this view, as countries become more interdependent with each other through commercial and financial globalization, the incentives to provide the resources necessary to ensure political security and economic growth through territorial expansion and military conflict diminish (Rosecrance and Stein, 1973).

Nevertheless, alternative perspectives have questioned this perspective. Liberal peace theory has been criticized in many aspects by mercantilists, realists, dependency theorists (Wallerstein, 1974) and neo-Marxists (Emmanuel, 1972). They claim that free commercial trade can potentially weaken countries' national security. In other words, they contend that economic interdependence does not always prevent violence; on the contrary, it may intensify the risks and potentially aggravate tensions, particularly in scenarios where geopolitical objectives collide.

This debate underscores the need for empirical investigations that go beyond theoretical conjecture, providing a data-driven examination of the relationship between trade and financial globalization and military conflict. However, existing empirical studies generally analyze bilateral trade flows rather than global trade integration, which implies trade openness and their relationship with the probability of bilateral conflict. Additionally, to the best of our knowledge, there is no study in the existing literature analyzing the relationship between financial globalization and military conflict. This study aims to fill this gap in the literature

The paper aims to enhance the current literature by providing a comprehensive empirical analysis of the impact of trade and financial globalization on the military conflict at the global level. In this context, our analysis covers 142 countries over the period 2009-2020. We hope to provide insights into the various ways in which trade and financial integration can either promote peace or create instability on a global scale. As there seems to be a complex relationship between regional peace on the one hand, and trade and financial openness on the

other, exploring this relationship, especially for the "heated" regions like the MENA can well pave the way for constructing a political-economy framework within which policy options and priorities can be identified in a rational and reasonable way.

The rest of the paper is organized as follows. Section 2 presents the relevant literature review. Section 3 introduces the data and the descriptive statistics Section 4 presents the empirical methodology and the results. Section 5 concludes and provides some policy implications.

II. Literature Review

Previous discussions about trade and military conflict centered around bilateral economic dependence and interstate military conflict. This relationship is based on the liberal peace theory. The liberal peace theory suggests that countries that have strong economic interdependence are less inclined to participate in military conflicts with one another. This theory is based on the notion that the presence of common democratic principles and mutual economic interdependence establishes a solid basis for harmonious relationships across states.

The capability of economic interests to foster peacebuilding is quite an old idea that goes back to such historical intellectuals as Baron de Montesquieu, Immanuel Kant, Richard Cobden, Karl Polanyi, and Joseph A. Schumpeter, among others (Lee and Pyun, 2016). Hume's emphasis on the advantages of commerce and his contention that economic interests can foster harmonious relations between nations has made a significant contribution to the liberal peace theory. Similarly, Cobden's support for free trade and the notion that economic interdependence promotes peace is in accordance with the liberal peace theory. Polanyi's analysis of the sociocultural consequences of economic systems and Schumpeter's emphasis on the influence of capitalism on international relations have also impacted the advancement of the capitalist peace theory.

Various perspectives in the literature contribute to the theoretical comprehension of the liberal peace theory by emphasizing the importance of economic interdependence in developing peaceful relations among states. For example, Staley (1939) provides insights into the relationship between economic interests and peace. Staley's perspectives contribute to the understanding of how economic factors influence international relations and potentially mitigate conflict. It is also claimed that governments coming together and communicating while making commercial and financial agreements with each other reduces the possibility of mutual war (Hirschman, 1977; Viner, 1951; Stain, 1993). The theory also emphasizes that bilateral trade openness creates efficiency gains that make both domestic traders and consumers dependent on foreign markets, so these groups put pressure on governments to prevent any military conflicts (Mansfield and Pollins, 2001). Rosecrance and Stein, 1973) also supports the capitalist peace hypothesis by highlighting the significance of economic interdependence in decreasing the probability of violence among states. This supports the main premise of the liberal peace theory, which suggests that peaceful relations are promoted through economic cooperation.

On the other hand, liberal peace theory has been criticized in many aspects by mercantilists, realists, dependency theorists (Wallerstein, 1974) and neo-Marxists (Emmanuel, 1972). Mercantilists claim that free trade can potentially weaken countries' national security. Moreover, the benefits of trade are not always distributed equally among states, and the way these gains are divided can impact the balance of power between states. Thus, the alteration of

power dynamics is considered a significant catalyst for military conflicts (Hirschman, 1980; Gilpin, 1980; Levy, 1989; Mearsheimer, 1990). In addition, dependency theorists argue that the degree of dependence on trade relations varies between countries, making the consequences of severing this relationship negligible for the less dependent country. Therefore, for a country less dependent on trade relations, trade partnership is not an effective factor in preventing military conflict. (Mansfield and Pollins, 2001). On the other hand, the potential negative ramifications of asymmetric economic interdependence within a nation include the risk of national autonomy being compromised and exploitation of concessions, which can give rise to interstate conflicts. The country that is more dependent on this relationship may try to compensate for its economic fragility through military dominance (Dos Santos, 1970; Gilpin, 1981; Liberman, 1998).

Some scholars, on the other side, argue that there is no consistent relationship between economic integration and military conflict. They claim that conflicts primarily arise due to differences in the allocation of political-military resources and that power dynamics are the fundamental cause of any perceived impact of economic interactions on military hostility. According to this view, economic relations have a less systematic influence on military conflict when fundamental national interests are involved (Buzan, 1984; Gilpin, 1987; Ripsman and Blanchard 1996).

These theoretical views have been empirically tested in various studies, particularly involving bilateral trade models. Empirical studies on trade and conflict were raised in the 1980s by Polachek's (1980) work. His study showed that trade fosters peace by diminishing the probability of hostilities between nations. In his bilateral trade model, he concluded that there is an inverse relationship between the benefits of trade and the intensity of conflict between states. His further studies also claim that more trade interdependence between countries indicates a history of cooperation between them and reduces conflict by aiding in implementing negotiated settlements (Polacheck et al., 1999). Some other studies (e.g. Oneal and Russett, 1999; Gartzke and Li, 2003; Liu and Pyun, 2016; McDonald, 2004; Dorussen, 2006; Hegre et al.,2010); Kim and Rousseau , 2005; Gartzke and Westerwinter, 2016) also support Polachek's findings and reveal that the frequency of military conflict between two countries decreases, as bilateral trade between them increases. They generally argued that the utilization of power undermines the benefits derived from trade and poses a threat to the dissemination of crucial information necessary for the cultivation of reciprocal comprehension (Oneal and Russet, 1997). However, some studies find the opposite result as well (e.g. Barbieri, 1996; Barbieri, 2002; Martin et al. 2008). Lee and Pyun (2016) note that the variation in the results of these empirical studies also depends on the different measurements of trade and conflict.

In the literature, a few studies analyze the impact of global trade integration on military conflict rather than the effect of bilateral trade volume. However, these studies focus on the possibility of interstate conflict rather than global conflicts (e.g. Barbieri and Peters, 2003; Martin et al., 2008; Liu and Pyun, 2016). Barbieri & Peters (2003) argues that countries more open to global trade are more likely to engage in conflicts between two parties. Martin et al. (2003) claim that countries with greater trade openness are more likely to engage in war. This is because increased multilateral trade openness reduces the reliance on any specific country and lowers the potential cost of a fight between two nations. Seitz et al. (2015) propose that implementing trade liberalization between two countries decreases the likelihood of armed conflict, resulting in a reduction in defense expenditures for both governments. Lee and Pyun (2016) analyze the impact of global trade integration on military conflict based on a gravity model. They find that

both the expansion of bilateral trade dependence and global trade openness foster interstate military conflict considerably. They also posit that the variation in the impact of trade integration on bilateral interstate conflicts can be attributed to the influence of geographical distance.

As can be seen, in the literature, empirical studies analyze the impact of bilateral trade on bilateral conflict or the impact of global trade on bilateral conflict. To the best of our knowledge, there has been no study exploring the effects of financial openness on military conflict. Therefore, the effects of global trade and financial liberalization on global military conflict level have not yet been examined in the literature. This research question is still unanswered for MENA either. The article aims to fill this gap in the literature, focusing specifically on the MENA region.

III. Data and Some Descriptive Statistics

The sample consists of a panel covering 142 countries classified by income levels and the years 2009-2022. The 19 MENA countries are also examined both as a whole and classified as oil exporters (Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, United Arab Emirates) and oil importers (Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, Yemen)

The definition of variables and data sources are given below:

conflict_overall: This variable shows the level of violence or fear of violence in a country. The index is published as the "Global Peace Index" by the Institute for Economics and Peace (IEP). The value of the index changes between 1 and 5. Originally, 1 refers most peaceful value while 5 represents the least peaceful value. Therefore, we changed the name of the index to "conflict index". Therefore, in the conflict index, 1 represents the least conflict level while 5 represents the highest conflict level.

> **a. insecurity:** This index is the sub-index of the conflict_overall index. It shows discord within a nation. The index covers the indicators of the level of criminality in society, the number of refugees, political instability, political terror scale, impact of terrorism, number of homicides, level of violent crime, number of jailed population, number of internal security officers and ease of access to small arms and light weapons. The value of the index changes between 1 and 5, 1 represents the lowest discord while 5 represents the highest discord level.

> **b. militarization:** This index is the sub-index of the conflict_overall index. It shows a country's level of military build-up and access to weapons, imports and exports major conventional weapons, financial contribution to UN peacekeeping mission, nuclear and heavy weapons capabilities. The value of the index changes between 1 and 5, 1 represents the lowest militarization level while 5 represents the highest one.

> **c.ongoing conflict:** This index is the sub-index of the conflict_overall index. It shows the extent to which countries are involved in internal and external conflicts, as well as their part and length of involvement in those conflicts. The value of the index changes between 1 and 5, 1 represents the lowest ongoing conflict level while 5 represents the highest one.

tradeglob_df: This variable shows the level of trade globalization (de facto), which refers multilateral trade openness. The index covers trade in goods, trade in services and trade partner

diversification as a percentage of GDP. The data are taken from The KOF Globalisation Index published by Savina, Haelg, Potrafke and Sturm (2019).

financeglob_df: This variable shows the level of financial globalization (de facto). The index covers foreign direct investment, portfolio investment, international debt, international reserves and international income payments as a percentage of GDP. The data are taken from The KOF Globalisation Index published by Savina, Haelg, Potrafke and Sturm (2019).

financeglob_dj: This variable shows the level of financial globalization (de jure). The index covers Chinn-Ito index of financial openness and Jahan-Wang index of capital account openness. The data are taken from The KOF Globalisation Index published by Savina, Haelg, Potrafke and Sturm (2019).

Governance indicators:

a. **aro:** This variable shows the countries' level of acceptance of the rights of others. The index represents the level of formal laws that protect fundamental human rights and freedoms, as well as the informal social and cultural norms that govern citizen behavior. This index is one pillar of Positive Peace Index published by the Institute for Economics & Peace. The value of the index varies between 1 and 5. Originally, 1 represents the highest level of acceptance of rights and 5 represents the lowest level. For better understanding, we transfomed the index by inverting it; thus, 1 represents the lowest level of acceptance of rights while 5 represents the highest level.

b. **ffi:** This variable demonstrates the countries' level of free flow of information. The index indicates the extent to which the media freely and independently disseminates information in a way that helps society make better decisions. This index is one pillar of Positive Peace Index published by the Institute for Economics & Peace. The value of the index varies between 1 and 5. Originally, 1 represents the highest level of acceptance of rights and 5 represents the lowest level. For better understanding, we transfomed the index by inverting it; thus, 1 represents the lowest level of free flow of information while 5 represents the highest level.

c. **sbe:** This variable refers 'sound business environment' which demonstrates the countries' level of the strength of institutions that support private sector operations. This index is one pillar of the Positive Peace Index published by the Institute for Economics & Peace. The value of the index varies between 1 and 5. Originally, 1 represents the highest level of sound business environment and 5 represents the lowest level. For better understanding, we transformed the index by inverting it; thus, 1 is the weakest level and 5 is the strongest level.

d. **control of corruption:** This variable indicates the extent to which countries control corruption. Data taken from World Bank Governance Indicators. The value of the index varies between 0 and 1; 0 represents the level where corruption is least controlled, while 1 represents the level where it is most controlled.

e. **democracylevel:** This variable represents the quality od democracy across world. The The Democracy Index is published by the Economic Intelligence Unit and is an index measuring the quality of democracy and based on 60 indicators grouped measuring pluralism, civil liberties, and political culture. The value of the index varies between 1 and 10, 1 representing the lowest quality of democracy and 10 representing the highest quality.

lngdppc: This variable represents the log. of real GDP per capita. The data source is World Development Indicators.

Table-1 below shows descriptive statistics

Table-1 Descriptive Statistics

Variables	Whole sample			MENA			MENA Oil-exporters			MENA Oil importers		
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.
conflict_overall	1.96	1.95	0.39	2.29	2.23	0.48	2.18	2.15	0.49	2.4	2.38	0.43
tradeglob_df	55.15	55	18.47	56.93	58	19.98	59.94	60.5	21.16	53.59	55.5	18.09
financeglob_df	62.19	62.5	18.76	59.15	63	21.5	63.24	70	24.25	54.6	51.5	16.93
financeglob_dj	56.35	59	18.77	55.29	56.5	17.04	55.29	56	19.3	55.3	57	14.22
aro	0.4	0.34	0.16	0.33	0.32	0.08	0.35	0.33	0.08	0.31	0.31	0.06
ffi	0.41	0.35	0.16	0.33	0.32	0.07	0.34	0.32	0.06	0.33	0.32	0.07
sbe	0.36	0.28	0.18	0.33	0.29	0.11	0.34	0.35	0.09	0.31	0.27	0.13
corruption	0.39	0.32	0.24	0.34	0.36	0.19	0.37	0.39	0.2	0.31	0.33	0.17
democracy	5.62	5.88	2.14	3.65	3.37	1.51	3.02	3.04	0.76	4.36	4.07	1.79
gdppc	8.6	8.57	1.41	9.05	8.97	1.13	9.61	9.87	0.93	8.43	8.26	1.01
Obs.	1704			228			120			108		
Countries	142			19			10			9		

As seen in Table-1, while the average conflict level for the entire sample is 1.96, this rate is 2.29 for the MENA region. Additionally, the conflict level is higher for oil-importer MENA countries (2.40) than for oil exporters (2.18). Also, trade globalization as well as de facto and de jure finance globalization for oil exporter MENA countries are higher than those for oil-importers. While values of governance indicators are close to each other in oil-exporting MENA countries and oil-importer MENA countries, they remain lower than the average values of the entire sample. On the other hand, the average level of democracy in oil-exporter MENA countries is quite low compared to oil-importers and the entire sample.

III. Empirical Methodology and Estimation Results

In order to analyze the impacts of trade and financial globalization on military conflict, we consider the following equations:

$$conflict\_overall_{it} = \beta_0 + \beta_1(tradeglob\_df)_{it} + \beta_2(financeglob\_df)_{it} \qquad (1)$$

$$+\beta_2(financeglob\_dj)_{it} + \beta_3 X_{it} + \eta i + \varphi t + u_{it}$$

$$insecurity_{it} = \beta_0 + \beta_1(tradeglob\_df)_{it} + \beta_2(financeglob\_df)_{it} \qquad (2)$$

$$+\beta_2(financeglob\_dj)_{it} + \beta_3 X_{it} + \eta i + \varphi t + u_{it}$$

$$militarization_{it} = \beta_0 + \beta_1(tradeglob\_df)_{it} + \beta_2(financeglob\_df)_{it} \qquad (3)$$

$$+\beta_2(financeglob\_dj)_{it} + \beta_3 X_{it} + \eta i + \varphi t + u_{it}$$

$$ongoing\ conflict_{it} = \beta_0 + \beta_1(tradeglob\_df)_{it} + \beta_2(financeglob\_df)_{it} \qquad (4)$$

$$+\beta_2(financeglob\_dj)_{it} + \beta_3 X_{it} + \eta i + \varphi t + u_{it}$$

where the subscripts i and t refer country and years, respectively. Dependent variables of the model are overall conflict index and its sub-indices, which are insecurity, militarization and ongoing conflict indices. The key independent variables are de facto trade globalization (tradeglob_df), de facto financial globalization (financeglob_df) and de jure financial globalization (financeglob_dj). X_{it} refers control variables such as acceptance of right of others (aro), free flow of information (ffi), sound business environment (sbe), control of corruption, democracy level and the log. of real GDP per capita (lngdp). The variables ηi and φt denote time-invariant country-specific effects and time-specific effects, respectively. The last term uit is idiosyncratic error component

Equations are estimated by using fixed effects (FE) model. We adopt Hoechle (2007) approach that produces Driscoll-Kraay standard errors for panel models. Table 2 presents the results of the fixed effects panel regression analysis for Equation (1-4) for the whole sample.

Table-2 Estimation Results: conflict_overall index and sub-indices, whole sample

Variables	(1) conflict_overall	(2) insecurity	(3) militarization	(4) ongoing conflict
tradeglob_df	-0.0014*	-0.0025***	0.0000	-0.0011
	(0.0007)	(0.0008)	(0.0007)	(0.0011)
financeglob_df	0.0005	0.0021**	0.0026***	-0.0029***
	(0.0005)	(0.0010)	(0.0007)	(0.0005)
financeglob_dj	-0.0014**	-0.0012***	-0.0007	-0.0020
	(0.0007)	(0.0005)	(0.0008)	(0.0017)
aro	-0.3604***	-0.3951**	-0.2259**	-0.4371***
	(0.0783)	(0.1547)	(0.0958)	(0.1114)
ffi	-0.2890***	-0.3422***	-0.3211***	-0.1997*
	(0.0377)	(0.1021)	(0.0557)	(0.1119)
sbe	-0.1273**	-0.2375***	0.3666***	-0.3252*
	(0.0599)	(0.0625)	(0.0848)	(0.1810)
controlofcorruption	-0.3060***	-0.6422***	-0.0559	-0.0336
	(0.1118)	(0.1368)	(0.1648)	(0.1361)
democracylevel	-0.0306	-0.0367	0.0204***	-0.0569**
	(0.0187)	(0.0259)	(0.0040)	(0.0237)
lngdppc	-0.3067***	-0.2756***	-0.0746***	-0.5183***
	(0.0400)	(0.0414)	(0.0171)	(0.0899)
Observations	1704	1704	1704	1704
Number of countries	142	142	142	142
F-stat. (Overall)	17.45	14.07	10.8	22.09
	[0.000]	[0.000]	[0.000]	[0.000]
F-stat. (Country FE)	75.44	57.84	94.07	46.7
	[0.000]	[0.000]	[0.000]	[0.000]
R^2	0.1849	0.1547	0.1232	0.1745

All models include a constant and country and year fixed effects but not reported to save space.
Driscoll-Kraay standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. p-values in brackets for test statistics

Table 2 shows that when the overall conflict level is considered, increased trade globalization, that is, multilateral trade openness, leads to less military conflicts in whole sample. In other words, trade globalization contributes to a reduction in the level of violence or fear of violence in a country. This result may have several possible interpretations and reasons, consistent with the literature. Trade globalization contributes to economic interdependence between nations. As countries become more economically interconnected, there may be an inherent motivation to maintain military relations to safeguard trade partnerships, investments, and economic stability. In other words, interruption of trade and financial flows can disrupt peace by contributing to military conflicts. Therefore, multilateral trade openness can serve as a deterrent to violence and conflict. By engaging in mutually beneficial trade relationships, nations are incentivized to settle problems amicably rather than via armed confrontation. Therefore, strong economic linkages between countries can promote a feeling of shared prosperity and deter violence because war has greater costs than possible rewards. Trade may also promote international cooperation and dialogue, nurturing mutual trust and comprehension that aids in the prevention of misunderstandings and the peaceful resolution of disputes. During trade discussions and accords, governments may establish platforms for peacefully settling problems. Diplomatic mechanisms offer viable alternatives to military confrontation in resolving trade-related disputes or other complaints. This can contribute to a more peaceful international environment.

Considering the effects of trade globalization on the sub-indices of overall conflict, Table 2 shows that multilateral trade openness has a reducing effect on the level of insecurity, similar to the overall conflict level. The insecurity level of a country reflects the extent to which a nation is unable to maintain internal and external peace, protect its citizens from crime and violence, and uphold the rule of law. Increased trade openness has the potential to foster economic growth and facilitate development. As economies expand, they have the potential to enhance stability, thereby fostering enhanced safety and security. An enduring and flourishing economic climate may frequently linked to reduced levels of criminal activity and internal unrest. Therefore, as the conventional wisdom often suggests trade openness tends to reduce conflict and improve safety and security.

Considering de facto financial globalization, Table 2 shows that there are opposite effects on the sub-indices, so that its impact on the overall level of conflict remains insignificant. De facto financial globalization increases levels of insecurity and militarization while reducing ongoing conflicts. The increasing effect of de facto financial liberalization on the insecurity level can be explained by the fact that financial liberalization might exacerbate income inequality. Thus, the concentration of wealth in specific parts of the population can lead to social unrest and insecurity among individuals who perceive themselves as being left behind. Table 2 also shows that de facto financial globalization has an increasing effect on the militarization level of countries, similar to its effect on the insecurity sub-index. The militarization index shows a country's level of military build-up and access to weapons, imports and exports of major conventional weapons, nuclear and heavy weapons capabilities. The increase in militarization level with de facto financial liberalization could be attributed to factors such as arms competition and security dilemmas triggered by economic rivalry, the allocation of financial gains to fund military spending, and a perceived need to address security challenges associated with financial openness. In the case of the ongoing conflicts index, Table 2 indicates that de facto financial globalization has a reducing effect on countries' level of ongoing conflict. This

result can be explained by the fact that increased economic interdependence and cooperation and the wealth created by financial liberalization reduce the motivation for ongoing conflict.

According to the table, de jure financial globalization also has a reducing effect on the overall level of conflict, similar to trade liberalization. De jure financial liberalization pertains to the official elimination of obstacles to financial markets and institutions. It entails the implementation of legislation and regulations that facilitate the involvement of both domestic and international actors in the financial sector. The legislative foundations and institutional structures developed via de jure financial liberalization foster a stable economic environment. De jure financial liberalization frequently entails enhancing regulatory institutions and governance systems. Efficient institutions can help avert conflicts by establishing methods for resolving disputes, guaranteeing stability in financial matters, and promoting a culture of adherence to international norms. They can establish a favorable atmosphere for harmonious economic interactions.

Table 2 also indicates that governance indicators such as acceptance of the rights of others (aro), sound business environment (sbe), free flow of information (ffi), control of corruption as well as real GDP per capita, reduce the overall conflict level and its components. This result points out the impact of efficient governance in upholding internal stability. Strong governance, marked by adherence to legal principles, political stability, responsibility, and transparent handling of the economy, may establish systems for averting and resolving conflicts, as well as fostering societal unity.

Table 3 below presents the results of the fixed effects panel regression analysis in Equation (1) for the MENA region as a whole, as well as for oil exporter and oil-importer MENA countries, separately.

Table 3 Estimation Results: conflict_overall index, MENA region, oil exporters and importers

Variables	(1) conflict_overall MENA	(2) conflict_overall oil-exporters	(3) conflict_overall oil-importers
tradeglob_df	-0.0007	-0.0061*	0.0050**
	(0.0013)	(0.0032)	(0.0016)
financeglob_df	0.0093***	0.0136***	0.0087**
	(0.0019)	(0.0029)	(0.0027)
financeglob_dj	-0.0042***	0.0038	-0.0104**
	(0.0013)	(0.0039)	(0.0032)
aro	-1.1482***	-1.1132***	-0.0133
	(0.2084)	(0.1874)	(1.5422)
ffi	-2.4678***	-0.5377	-1.9571**
	(0.4350)	(1.0117)	(0.6854)
sbe	-0.1645	1.5892*	-1.0426
	(0.4535)	(0.8573)	(1.0069)
controlofcorruption	-0.8178***	-0.7089**	-2.0768**
	(0.2016)	(0.2538)	(0.6626)
democracylevel	0.0057	-0.0198	0.0590

	(0.0264)	(0.0266)	(0.0382)
lngdppc	-0.6493***	-0.3279*	-0.8593***
	(0.0879)	(0.1684)	(0.1067)
Observations	228	120	108
Number of countries	19	10	9
F-stat. (Overall)	19.14	5.72	27.05
	[0.000]	[0.000]	[0.000]
F-stat. (Country FE)	25.46	21.61	34.92
	[0.000]	[0.000]	[0.000]
R^2	0.6694	0.5599	0.8726

All models include a constant and country and year fixed effects but not reported to save space.
Driscoll-Kraay standard errors in parentheses *** $p<0.01$, ** $p<0.05$, * $p<0.1$. p-values in brackets for test statistics

As seen in Table 3, trade globalization contributes to reducing the general level of conflict in oil-exporting MENA countries, while contributing to the fueling of conflict in oil-importing countries. Oil-exporter countries often heavily depend on their oil revenues. Trade openness in these countries, particularly in the oil industry, has the potential to increase economic interdependence with international partners. The stability and predictability of oil revenues can diminish the motivation for military conflicts, as trade disruptions could result in significant economic repercussions for both oil-exporting states and their trading counterparts. This result can also be explained by Martin et al. (2008) argument as follows: oil-exporter MENA countries may have diversified their trade partners due to their oil resources, reducing bilateral dependency and the possibility of conflict. Moreover, oil-exporter MENA countries have a vital role in ensuring global energy security. Participating in free trade agreements contributes to the stability of energy markets and promotes diplomatic ties with nations that rely on oil imports. These nations may give precedence to diplomatic and economic resolutions instead of armed confrontation to guarantee the uninterrupted exportation of oil. On the other hand, oil-importer MENA countries may be facing a shortage of resources, which could result in heightened rivalry for scarce resources. Trade openness can make these states vulnerable to global markets. If access to crucial resources becomes a cause of competition or disagreement, it may lead to military confrontations to ensure the acquisition of basic supplies. Under such circumstances, the expansion of trade may intensify economic inequalities, resulting in social upheaval and armed hostilities. Also, oil-importer MENA countries may be located in regions with increased geopolitical tensions. Trade openness may subject these countries to the ramifications of wars between neighboring countries, hence heightening the likelihood of military involvement or being entangled in regional disputes. This explanation is consistent with Blomberg and Hess (2006) who show how violence hinders trade.

Table 3 also shows that de facto financial globalization increases overall conflict levels in both oil-exporter and oil-importer MENA countries. De facto financial openness, which reflects the actual economic integration and exposure to global financial markets, may potentially render countries more susceptible to economic risks. When these nations encounter economic disturbances in the international financial markets, they might confront heightened internal economic obstacles that have the potential to incite social unrest and conflicts. Also, some countries in the MENA region rely heavily on specific resources, such as oil, as their primary source of wealth. Their economies may be vulnerable to swings in resource prices due to de

facto financial openness, which could expose them to the volatility of global commodities markets. The economic issues resulting from such reliance could potentially contribute to internal strife. In contrast, Table 3 indicates that de jure financial openness which refers to the formal policies and regulations in place to facilitate financial integration has a reducing effect on the overall conflict level in the MENA region.

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IV. Conclusion

This paper aims to enhance the current literature by providing a comprehensive empirical analysis of the impact of trade and financial globalization on the military conflict level. Our results confirm a complex relationship between global peace and trade and financial openness. Trying to explore this relationship empirically for the MENA region can pave the way for constructing a political-economy framework within which policy options and priorities can be identified rationally and reasonably.

Our results confirm that global trade liberalization is linked with a decline in the level of military conflicts in countries around the world. This finding is in line with the existing literature and can be explained by various reasons. For instance, economic interdependence created by increased trade acts as a deterrent to conflict since countries are less likely to engage in hostilities that could disrupt essential economic ties. Additionally, diplomatic relations and institutional mechanisms established through trade agreements can provide peaceful ways to resolve disputes, hence lowering the chances of military conflicts. Furthermore, trade can promote cultural exchange and mutual understanding, thereby enhancing relations and reducing the likelihood of conflicts.

The impact of financial liberalization on countries' levels of military conflict is also a complex and multifaceted issue. The relationship between financial openness and conflict varies depending on the sub-components of conflict and its definition as de facto or de jure financial openness. While de facto globalization has an increasing effect on insecurity and militarization, which are the components of conflict, it has a decreasing effect on the other sub-component, ongoing conflicts. Therefore, its effect on the overall level of conflict remains insignificant. De facto financial liberalization in practice may increase competition for resources, both within a country and across borders. If not handled with caution, this competition has the potential to grow into geopolitical tensions, especially if countries compete for dominance over significant resources or strategic economic sectors. On the other hand, de jure financial openness contributes to reducing insecurity and has a reducing effect on the overall level of conflict. De jure financial liberalization often improves regulation and governance. Effective institutions can prevent conflicts by resolving disputes, ensuring financial stability, and promoting international norms. They can foster economic harmony.

When we focus on the MENA region, our results indicate that trade globalization contributes to reducing the general level of conflict in oil-exporting MENA countries, while contributing to the fueling of conflict in oil-importing countries. Oil exporters rely primarily on oil earnings. Trade openness in these countries, especially in the oil, could boost economic dependency on other nations. Stability and predictability of oil revenues might reduce military conflict

motivation since trade interruptions could have serious economic consequences for oil-exporting states and their trading partners. Also, oil-exporter MENA countries may have diversified their trade partners due to their oil resources, reducing bilateral dependency and the possibility of conflict. On the other hand, oil-importer MENA countries may suffer resource shortages, increasing competition for scarce resources. Trade openness can render these countries exposed to global markets. Thus, rivalry for vital resources may lead to armed conflict to secure them. Moreover, economic instability and unfair trade benefits could cause domestic discontent and conflicts. Under such conditions, trade openness may increase economic inequality, causing social unrest and war. Various region-specific factors may also contribute to this trend. For example, proximity to conflict zones can expose MENA countries to spillover effects and this may contribute to trade openness causing conflict.

Our results also point out that de facto financial globalization raises conflict in oil-exporter and oil-importer MENA countries. De facto financial openness—economic integration and exposure to global financial markets—may increase economic risk. When these nations experience worldwide financial market disruptions, they may face increased internal economic hurdles that could lead to societal discontent and conflict. In contrast, de jure financial openness has a reducing effect on the overall conflict level in the MENA region

To summarize, the intricate relationship between trade and financial openness and military conflict highlights the significance of careful policy deliberations. Policymakers should acknowledge that the relationship between economic openness and conflict is complex, and it is influenced by various contextual elements such as geopolitical dynamics and regional stability. When formulating policies, it is necessary to strike a balance between the potential advantages of economic integration and the cautious management of risks in order to minimize unforeseen negative outcomes.

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