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THE EFFECTS OF INTERNATIONAL TRADE AND FINANCE

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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. On the other hand, financial globalization increases overall conflict. The relationship between financial openness and conflict also varies depending on the sub-components of conflict When we focus on the MENA region, our results indicate that oil-importing MENA countries are more likely to benefit from trade globalization while trade partnership is not an effective factor in preventing military conflict in oil-exporters. Our results also show that financial globalization exacerbates conflict levels in oil-exporter MENA countries while it has insignificant impact on oil-importers. 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.

Keywords: Conflict, peace, trade globalization, financial globalization.
JEL Classifications: F10, F14, F36.

ملخص

العلاقة بين العولمة الاقتصادية والمالية والسلام موضع مضاربة وخلاف. اقترحت المفاهيم الكلاسيكية أن الانفتاح قد يكون بمثابة حافز قوي للسلام. ومع ذلك، فقد شككت وجهات النظر البديلة في هذا المنظور من خلال الادعاء بأن التجارة الحرة يمكن أن تضعف الأمن القومي للبلدان. ويؤكد هذا النقاش الحاجة إلى إجراء تحقيقات تجريبية تتجاوز التخمين النظري، وتقدم دراسة تستند إلى البيانات للعلاقة بين العولمة التجارية والمالية والصراع العسكري. تحاول هذه الورقة استكشاف العلاقة المعقدة بين التكامل الاقتصادي والمالي والصراعات الجيوسياسية، من خلال التركيز على منطقة الشرق الأوسط وشمال إفريقيا. يغطي تحليلنا 142 دولة خلال الفترة 2009-2020. وتؤكد نتائجنا أن تحرير التجارة العالمية يرتبط بانخفاض مستوى الصراعات العسكرية في البلدان حول العالم. ومن ناحية أخرى، تزيد العولمة المالية من حدة الصراع عموما. تختلف العلاقة بين الانفتاح المالي والصراع أيضًا اعتمادًا على المكونات الفرعية للصراع. عندما نركز على منطقة الشرق الأوسط وشمال إفريقيا، تشير نتائجنا إلى أن البلدان المستوردة للنفط في الشرق الأوسط وشمال إفريقيا من المرجح أن تستفيد من العولمة التجارية بينما الشراكة التجارية ليست عاملاً فعالاً في منع الصراع العسكري في مصدري النفط. وتبين نتائجنا أيضا أن العولمة المالية تؤدي إلى تفاقم مستويات الصراع في البلدان المصدرة للنفط في الشرق الأوسط وشمال أفريقيا، بينما تؤثر تأثيرا ضئيلا على مستوردي النفط. ونأمل أن نقدم رؤى ثاقبة لمختلف الطرق التي يمكن بها للتجارة والتكامل المالي أن يعززا السلام أو يخلقا حالة من عدم الاستقرار على نطاق عالمي. وبما أنه يبدو أن هناك علاقة معقدة بين السلام من جهة، والانفتاح التجاري والمالي من جهة أخرى، فإن استكشاف هذه العلاقة، لا سيما بالنسبة للمناطق «الساخنة» مثل منطقة الشرق الأوسط وشمال أفريقيا، يمكن أن يمهد الطريق لبناء إطار سياسي - اقتصادي يمكن في إطاره تحديد خيارات وأولويات السياسات بشكل عقلاني ومعقول.

1. 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 trade 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).

Liberal peace theory has been criticized in many aspects by mercantilists, realists, dependency theorists and neo-Marxists. They claim that free 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

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.

2. 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 trade 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). 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 support 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 and neo-Marxists. 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, 1981; Mearsheimer, 2018). 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, 1981; 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; Lee and Pyun, 2016; McDonald, 2004; 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; Lee 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. (2008) 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.

3. Data

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 et al. (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 et al. (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 to '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.

4. Empirical methodology and estimation results

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

$$conflict\_overall_{it} = \beta_0 + \beta_1\left(tradeglob\_df\right)_{it-2} + \beta_2(financeglob\_df)_{it-2} + \beta_3 X_{it} + \eta i + \varphi t + u_{it} \quad (1)$$

$$insecurity_{it} = \beta_0 + \beta_1\left(tradeglob\_df\right)_{it-2} + \beta_2(financeglob\_df)_{it-2} + \beta_3 X_{it} + \eta i + \varphi t + u_{it} \quad (2)$$

$$militarization_{it} = \beta_0 + \beta_1\left(tradeglob\_df\right)_{it-2} + \beta_2(financeglob\_df)_{it-2} + \beta_3 X_{it} + \eta i + \varphi t + u_{it} \quad (3)$$

$$ongoing\_conflict_{it} = \beta_0 + \beta_1\left(tradeglob\_df\right)_{it-2} + \beta_2(financeglob\_df)_{it-2} + \beta_3 X_{it} + \eta i + \varphi t + u_{it} \quad (4)$$

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) and de facto financial globalization (financeglob_df). X_{it} refers governance indicators such as acceptance of right of others (aro), free flow of information (ffi), sound business environment (sbe) and control of corruption. 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 1 presents the results of the fixed effects panel regression analysis for Equation (1-4) for the whole sample.

Table 1. Estimation results: conflict_overall index and sub-indices, whole sample

VARIABLES	(1) conflictoverall	(2) insecurity	(3) militarization	(4) ongoingconflict
tradeglob_df	-0.0022***	-0.0018***	-0.0017***	-0.0030***
	(0.0003)	(0.0006)	(0.0004)	(0.0006)
financeglob_df	0.0010*	0.0035***	0.0010	-0.0021**
	(0.0006)	(0.0006)	(0.0008)	(0.0008)
aro	-0.3749***	-0.3500**	-0.0994*	-0.6080**
	(0.1409)	(0.1689)	(0.0546)	(0.2656)
ffi	-0.4297***	-0.4639***	-0.2838***	-0.4875***
	(0.0623)	(0.1419)	(0.0476)	(0.0536)
sbe	-0.4790***	-0.3998***	0.1688	-1.0448***
	(0.0912)	(0.1259)	(0.1416)	(0.1458)
controlofcorruption	-0.4358***	-0.8321***	0.1984**	-0.3530**
	(0.0848)	(0.1168)	(0.0916)	(0.1573)
Observations	1420	1420	1420	1420
Number of countries	142	142	142	142
F-stat. (Overall)	10.28	8.14	7.84	12.7
	[0.000]	[0.000]	[0.000]	[0.000]
F-stat. (Country FE)	75.45	57.42	94.71	48.61
	[0.000]	[0.000]	[0.000]	[0.000]
R^2	0.1088	0.0881	0.0852	0.131

Note: All models include a constant and year dummies but not reported to save space.

*Driscoll-Kraay standard errors are in parentheses. p-values for the estimated coefficients are denoted as: *** p<0.01, ** p<0.05, * p<0.1. p-values for the F-statistics are in brackets.*

Table 1 shows that increased trade globalization, that is, multilateral trade openness, leads to less overall conflict as well as less insecurity, militarization and ongoing conflict 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. Therefore, as conventional wisdom often suggests trade openness tends to reduce conflict and improve safety and security.

Considering de facto financial globalization, Table 1 shows that financial openness increases overall conflict level. This increase has resulted from the contribution of the insecurity sub-index. On the other hand, financial openness has a decreasing impact on ongoing conflicts. While financial openness offers opportunities for economic growth and development, its unchecked expansion can exacerbate tensions and create security dilemmas. 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 1 also 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.

Table 1 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 generally 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. An unexpected result is the increasing impact of control of corruption on military build-up. This result can be explained by several factors. In countries with lower levels of corruption, resources are more likely to be allocated efficiently and transparently. When corruption is controlled, governments can allocate funds towards military spending without significant leakage or misappropriation, leading to increased investments in major conventional weapons and heavy weapons capabilities. Moreover, control of corruption may be perceived as essential for national security, as corruption can weaken institutions, erode public trust, and undermine state sovereignty. In countries where corruption is effectively controlled, governments may prioritize military build-up as a means of safeguarding national security and protecting against internal and external threats.

The next tables focus on MENA region. Table 2 presents the results for the MENA region for overall conflict index and its sub-indices.

Table 2. Estimation results: conflict_overall index and sub-indices, MENA region

VARIABLES	(1) conflictoverall	(2) insecurity	(3) militarization	(4) ongoingconflict
tradeglob_df	-0.0050***	-0.0053***	-0.0021	-0.0072**
	(0.0017)	(0.0017)	(0.0015)	(0.0025)
financeglob_df	0.0034*	0.0028	0.0077***	0.0025
	(0.0018)	(0.0055)	(0.0026)	(0.0036)
aro	-2.3469***	-3.0084***	0.4012	-3.3315***
	(0.6171)	(0.7811)	(0.7400)	(0.7787)
ffi	-0.4475	-0.7247	1.2885**	-1.3212
	(0.5809)	(0.5463)	(0.4778)	(0.8214)
sbe	-0.3204	-0.1475	0.5037	-1.2008***
	(0.4348)	(0.7505)	(0.7621)	(0.3397)
controlofcorruption	-0.9401***	-2.1063***	0.3514	-0.2471
	(0.2278)	(0.3490)	(0.2566)	(0.3396)
Observations	180	180	180	180
Number of countries	18	18	18	18
F-stat. (Overall)	9.76	6.13	1.41	13.49
	[0.000]	[0.000]	[0.000]	[0.000]
F-stat. (Country FE)	28.99	29.51	54.48	13.47
	[0.000]	[0.000]	[0.000]	[0.000]
R^2	0.4991	0.3849	0.126	0.5793

Note: All models include a constant and year dummies but not reported to save space.

*Driscoll-Kraay standard errors are in parentheses. p-values for the estimated coefficients are denoted as: *** p<0.01, ** p<0.05, * p<0.1. p-values for the F-statistics are in brackets.*

Table 2 shows that trade globalization contributes to reducing the overall level of conflict in MENA, similar to the results for the sample including all countries. This decline has resulted from reduced levels of insecurity and ongoing conflict. In explaining this result, what we said for the entire sample is also valid for MENA.

On the contrary, financial globalization increases overall conflict level in MENA region. This increase is due to the increase in militarization level. Financial globalization provides MENA counties with greater access to global financial markets, allowing them to procure advanced military equipment and weapons systems. The availability of funds through international financial channels can fuel arms races among neighboring countries, leading to increased militarization and tensions. Financial globalization may also divert resources away from productive sectors of the economy towards military spending and arms procurement. The prioritization of military expenditures over social welfare programs can undermine stability and exacerbate underlying grievances. Financial globalization can also increase the vulnerability of countries in the MENA region to external shocks and geopolitical instability.

Tablo 2 also shows that governance indicators generally insignificant or reduce the overall conflict level and its sub-indices. However, free flow of information of information has positive impact on militarization.

Table 3 presents the results for overall conflict index for oil-exporter and oil-importer MENA countries, separately

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

VARIABLES	(1) conflictoverall MENA	(2) conflictoverall oil-exporters	(3) conflictoverall oil-importers
tradeglob_df	-0.0050***	-0.0036	-0.0063***
	(0.0017)	(0.0025)	(0.0011)
financeglob_df	0.0034*	0.0164***	-0.0037
	(0.0018)	(0.0037)	(0.0022)
aro	-2.3469***	0.7378	-0.5679*
	(0.6171)	(0.4335)	(0.2945)
ffi	-0.4475	0.4823	-1.3900
	(0.5809)	(0.4805)	(0.7715)
sbe	-0.3204	-0.9196	-10.5495***
	(0.4348)	(0.5957)	(1.2320)
controlofcorruption	-0.9401***	-1.0361***	-1.3926***
	(0.2278)	(0.2299)	(0.3542)
Observations	180	100	80
Number of countries	18	10	8
F-stat. (Overall)	9.76	5.61	36.95
	[0.000]	[0.000]	[0.000]
F-stat. (Country FE)	28.99	23.41	13.77
	[0.000]	[0.000]	[0.000]
R^2	0.4991	0.2862	0.7706

Note: All models include a constant and year dummies but not reported to save space.

*Driscoll-Kraay standard errors are in parentheses. p-values for the estimated coefficients are denoted as: *** p<0.01, ** p<0.05, * p<0.1. p-values for the F-statistics are in brackets.*

As shown in Table 3, trade globalization contributes to reducing the general level of conflict in oil-importing MENA countries, it has an insignificant effect for oil-exporters. The differential impact of trade globalization on the general level of conflict between oil-importing and oil-exporting MENA countries can be attributed to several factors specific to each group.

Oil-exporting MENA countries often derive a significant portion of their revenue from oil exports, which can lead to economic and political dynamics distinct from those of oil-importing countries. The reliance on oil revenues may overshadow the potential pacifying effects of trade globalization, as economic stability hinges largely on oil prices and production levels rather than diversified trade relations. Oil-exporting countries may prioritize maintaining the status quo of their oil-dependent economies, which can limit the potential positive impacts of trade globalization on conflict reduction. 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. Oil-exporting MENA countries may also face unique geopolitical challenges, such as competition for control over oil resources or regional power dynamics, which can outweigh the influence of trade globalization on conflict dynamics. In contrast, oil-importing MENA countries may experience greater benefits from trade globalization as it helps diversify their economies and reduce dependency on volatile oil markets. They are more likely to benefit from trade globalization due to their greater need for economic diversification. Trade openness provides these countries with access to a wider

range of goods, services, and markets, reducing their vulnerability to economic shocks and promoting stability.

Table 3 also shows that de facto financial globalization increases overall conflict levels in oil-exporters while it has insignificant impact on oil-importing MENA countries. The vulnerability of oil-exporting economies to fluctuations in oil prices, facilitated by their financial openness, may expose them to the volatility of global commodities markets, potentially contributing to conflict. Oil-exporter MENA countries are often located in regions with complex geopolitical dynamics and security challenges. Financial globalization can intensify geopolitical tensions by increasing competition for control over oil resources, access to strategic assets, and influence in regional affairs.

5. 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 conclude 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.

On the other hand, financial globalization increases overall conflict. The relationship between financial openness and conflict also varies depending on the sub-components of conflict. While de facto globalization has an increasing effect on insecurity, it has a decreasing effect on the ongoing conflicts. 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.

When we focus on the MENA region, our results indicate that oil-importing MENA countries are more likely to benefit from trade globalization due to their greater economic diversification while trade partnership is not an effective factor in preventing military conflict

in oil-exporters. Trade globalization contributes to reducing conflict in oil-importing MENA countries by promoting economic diversification and stability. However, its impact on oil-exporting MENA countries may be limited by factors such as reliance on oil revenues and geopolitical challenges. Addressing the root causes of conflict in oil-exporting countries requires comprehensive strategies that go beyond trade openness to include governance reforms, economic diversification, and conflict resolution efforts.

Our results also show that financial globalization exacerbates conflict levels in oil-exporter MENA countries while it has insignificant impact on oil-importers. The reasons may be heavy reliance on oil revenues, geopolitical tensions, fueled arm races and economic vulnerability of oil-exporters. In contrast, oil-importing MENA countries may experience less impact from financial globalization due to greater economic diversification and resilience to external shocks.

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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