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What Does the Literature Tell Us on The Relationship between Economic Interdependence and Conflict Management? An Overview with A Focus on the MENA Region

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WHAT DOES THE LITERATURE TELL US ON THE RELATIONSHIP BETWEEN ECONOMIC INTERDEPENDENCE AND CONFLICT MANAGEMENT?

AN OVERVIEW WITH A FOCUS ON THE MIDDLE EAST AND NORTH AFRICA (MENA) REGION

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Abstract

The present paper provides the conceptual framework for the analysis of relationship between economic interdependence and conflict prevention, management, and solving. It starts by providing an overview of arguments of two main schools of thought that have been in debate over relationship between the two variables: the liberals, arguing for the pacifying effects of economic interdependence, and the realists, according to whom as interdependence between countries increases, so does the threat to their autonomy and national security, and thus likelihood of a conflict. It subsequently explores research focused on the question of conditionality of the relationship between the economic interdependence (usually operationalized in terms of trade exchange) and conflict: the impact of the type of political regime, (a)symmetry of relationship between economic partners, multilateralism, and trade agreements on the strength (and indeed outcome) on the interdependence-peace nexus. Further, analytical papers focused specifically on the countries in the Middle East and North Africa are reviewed. Finally, the paper examines specific aspects of the MENA region, focusing on factors flagged in the literature investigated as having a potential impact on the strength (or otherwise) of the pacifying effect of the economic interdependence. It concludes with summary of the findings from the literature review conducted, highlighting new variables such as potential trade wars or the ongoing Covid-19 pandemic, that might have to be taken into consideration in future research.

Keywords: economic interdependence, trade, conflict, peace, MENA, history of economic thought.
JEL Classifications: D74, N45, F15, B27.

Introduction

Historically, two main schools of thought have been in debate over the impact of economic interdependence on conflict: liberals and realists. The views of the former are based on a logic whereby countries avoid conflict with their trade partners in order to avoid "opportunity costs" of trade disruptions that would result from conflict. Realists, in turn, claim that as the interdependence between countries increases, so does the threat to their autonomy and national security, and thus the likelihood of a conflict. In short, while liberals emphasize benefits from economic interdependence, realists focus on its costs. The debate between the two schools was mostly purely theoretical up until the late 1980s/early 1990s, after which empirical studies started to emerge on both sides.

Outside of academia, the idea that economic integration promotes peace was one of the key drivers behind the establishment of the European Coal and Steel Community, which later evolved into the European Union. In other parts of the world, similar logic was transplanted – more or less successfully – as well. The Middle East and North Africa (MENA) has been, alas, one of the regions where attempts at tightening cooperation between individual countries have resulted in particularly little success. This is despite efforts to boost economic cooperation by virtue of joining a number of international organizations such as the World Trade Organization (WTO) and establishment of some regional ones as well, from the Pan Arab Free Trade Area (PAFTA), through the Agadir Free Trade Agreement and Maghreb Union, to Gulf Cooperation Council (GCC). More than that, the region has been ridden with domestic turmoil and state rivalry, with Iraq, Libya, Syria, and Yemen still caught up in conflicts (albeit currently it appears there are all nearing a de-escalation stage).

In what follows, the main aim of a study that the present Chapter is a part of is to foster a better understanding of the relationship between economic interdependence and conflict in the context of the Arab world. In order to achieve that goal, this Chapter commences the study by providing a conceptual framework for the analysis of the relationship between economic interdependence and conflict prevention, management, and solving. It starts by providing an overview of arguments of two main schools of thought that have been in debate over the relationship between the two variables: the liberals, arguing for the pacifying effects of economic interdependence, and the realists, according to whom as the interdependence between countries increases, so does the threat to their autonomy and national security, and thus the likelihood of a conflict. It subsequently explores research focused on the question of conditionality of the relationship between economic interdependence (usually operationalized in terms of trade exchange) and conflict: the impact of the type of political regime, (a)symmetry of relationship between economic partners, multilateralism, and trade agreements on the strength (and indeed outcome) on the interdependence-peace nexus. Further, analytical papers focused specifically on the countries in the MENA region are reviewed. Finally, the paper examines specific aspects of the MENA region, focusing on factors flagged in the literature investigated as having a potential impact on the strength (or otherwise) of the pacifying effect of the economic interdependence. It concludes with a summary of the findings from the literature review conducted, highlighting new variables such as potential trade wars or the ongoing Covid-19 pandemic, that might have to be taken into consideration in future research.

Conflict and economic interdependence – conceptualizations

Before we move further, it is crucial to comprehend what is understood by both economic interdependence and conflict. In general, as noted by Park (2018), modern political scientists conceptualized Kantian (1796) hospitality ("the right every stranger has of not being treater as an enemy in the country in which he arrives") – one of the key sources of cosmopolitanism and "perpetual peace" – in terms of economic interdependence predominantly operationalized in terms of trade exchange (albeit, as will be shown later in the Chapter, investment flows as well). In order to explore the relationship between economic interdependence and conflict, they predominantly employ opportunity cost theory (while others prefer signalling theory – for details see section below).

As for the other side of the equation, the majority of studies exploring the economic interdependence-conflict nexus deal with conflict prevention, saying little about conflict management (escalation) or solving. There are some exceptions to this rule, however. Goldsmith (2013), for instance, explored the relationship between trade interdependence on one hand, and conflict prevention as well as management on the other; he came to a conclusion that trade has a different effect on conflict depending on its phase. According to him, while trade interdependence reduces the likelihood of an onset of militarized dispute (especially among pairs of smaller states), it has no effect on the management of an already existing conflict. Trade volume, on the other hand, can help to prevent an escalation of a conflict into an all-out war (mostly for pairs of major powers), but, at the same time, it increases the likelihood of the emergence of militarized conflicts. Similarly, Lee and McLaughlin Mitchel (2012) analysed the impact of economic interdependence – which they conceptualize in terms of FDI flows – on territorial conflicts in their different stages, whereby conflict is defined as i) an onset of issue claims, and ii) a claim management. They find that the likelihood of an onset of a dispute as well as severe militarized conflicts decreases as global FDI flow increases, while the likelihood of an escalation of a conflict grows with an increase of bilateral FDI flows (for more details on their findings see subsequent sections; for more studies differentiating between different stages of a conflict, see also e.g., Mitrani & Press-Barnathan, 2015).

When it comes to the measures of conflict, the majority of studies (Oneal and Russett, 1999; Dorussen, 2010; Gelpi and Grieco, 2008; Maoz, 2008; Lee and McLaughlin Mitchel, 2012; Chatagnier, 2016; Park, 2018; Lee and Pyun, 2020) use Militarized Interstate Disputes (MID) dataset in the Correlates of War (COW)[1] project. The most recent, 5.0 version of the MID dataset includes records of all instances of one state threatening, displaying, or using force against another country over the period 1816-2014 (Palmer et al., 2020). The definition of a militarized interstate dispute employed for the benefit of the project follows that developed by MID, which see it as

[1] https://correlatesofwar.org/data-sets/MIDs

united historical cases of conflict in which the threat, display, or use of military force short of war by one member state is explicitly directed towards the government, official representatives, official forces, property, or territory of another state. Disputes are composed of incidents that range in intensity from threats to use force to actual combat short of war (Jones et al. 1996).

A less popular measure is events data (as reported in the media), employed e.g., by Gartzke and Westerwinter (2016) who argue that conflict datasets "omit or underrepresent the non-militarized conflict", even though using events datasets presents its own set of issues such as potential misreporting by the media (also Gasiorowski, 1982). For the events data, usually, the Conflict and Peace Data Bank (COPDAB)[2] and/or World Event Interaction Survey (WEIS)[3] are used. The latter dataset covers the period 1966-92 (McClelland, 1983) while the former – 1948-78 and provides indications of conflict's intensity (Azar, 1993).

Liberals – the doux commerce

Theory

According to the liberals, commerce has a pacifying influence on international relations. Their views can be traced back to the works of some of the most prominent thinkers of the enlightenment period: Immanuel Kant, Montesquieu, and Adam Smith. Kant in particular argued that "the spirit of commerce that sooner or later takes hold of every nation, (…) is incompatible with war" (Kant, 1796). In other words, it is in the best (financial) interest of the states to abstain from conflict ("labour at the noble work of peace") with countries they have commercial relations with. Similar arguments were made by Montesquieu, who noted that "[t]he natural effect of commerce is to bring peace. Two nations that negotiate between themselves become reciprocally dependent if one has an interest in buying and the other in selling. And all unions are based on mutual needs" (Howse, 2006). Finally, Smith is widely regarded as one of the starchiest proponents of the idea that international trade promotes peace (see, e.g., Paganelli & Schumacher, 2019).

As discussed by Montesquieu, there are three dimensions to *doux commerce*. Central to liberal thought is the already mentioned international dimension, whereby the shared gains from trade are a common objective of trading nations, incentivizing them to remain in peaceful relationships with each other. Traders and consumers that derive gains from and become dependent on trade exchange with other states are incentivized to pressure authorities into maintaining a peaceful relationship with trade partners. Elected public authorities, in turn, are incentivized to take those demands into consideration, as they depend on public support – connected to positive economic results of their policies – to maintain their positions (Russet, 1999). Domestically, trade is believed to have "civilizing effects" on societies, making them less prone to supporting conflicts. Moreover, as it facilitates exchange and communication between citizens of two nations (in a dyadic relationship), it also increases mutual

[2] https://www.icpsr.umich.edu/web/ICPSR/studies/07767
[3] https://www.icpsr.umich.edu/web/ICPSR/studies/5211

understanding and affinity, making instigation of a war "socially unthinkable" (Paganelli & Schumacher, 2019; for more discussion on various classical liberal approaches towards the relationship between commerce and peace see, e.g., Stein, 1993 or Keohane, 1990).

Another way of thinking about the relationship between economic interdependence and conflict than in terms of an opportunity cost was introduced by Hirschman (1945) who examined the way that trade was utilized by the Nazi Germany as an instrument of power. Her arguments were further developed by Waltz (1970) and Bergsten, Keohane, and Nye (1975) into the perception of trade as a continuation of "war by other means". The latter exemplified their theory by analysing the approach of the United States towards the Soviet Union (USSR) during the cold war and Arab countries during and after the Yom Kippur War (1973-1974). In both cases, they argued, the US used economic policies to impact the situation in another country; in the former case, Washington restricted trade in a selection of strategic materials to restrict the USSR's access to advanced technologies. In the latter case, the US together with the Netherlands imposed an embargo on imports of oil from Arab countries to affect the outcome of political negotiations in the Middle East. Based on their analysis, Bergsten, Keohane, and Nye (1975) argued that the use of economic instruments is the first choice for countries when it comes to transactions that are predominantly economic in nature, and are seen as "a substitute for force, to achieve similar purposes when force is unavailable, or its use is deemed too costly."

Similar arguments pointing to the fact that commerce can be used by states as a *signalling mechanism* that helps to resolve disputes without resorting to a militarized conflict was later reiterated by Morrow (1999), Gartzke, Li and Boehmer (2001, 2003), Gartzke (2007), and Kim (2013) – although later research by Gartzke and Westerwinter (2016) showed that this can mean that "interdependence actually increases more modest non-militarized conflict, while also discouraging militarized disputes" (see more on this analysis in subsequent sections).

Early empirical conceptualizations and findings

Empirical scholarship within the liberal school of thought on the nexus between commercial relationship and peace is generally believed to have had commenced with a seminal paper by Polachek (1980) in which he empirically confirmed a hypothesis that trade between two trading partners (dyads) decreases the probability of conflict between them by way of increasing the cost of a potential hostility (indeed arguing that, on average, doubling the volume of trade results in "20% diminution of hostility" between the two trading partners). In his paper, he operationalized economic interdependence as welfare gains from trade proxied with price elasticities. Polachek used the same approach in some of his other early research; in Polachek and McDonald (1992), for instance, they argued that the inverse relationship between economic interdependence and conflict is stronger when the former is operationalized by the bilateral trade (in)elasticities (prepared by Marquez (1990)) rather than the trade volume/GDP ratio.

However, not least due to the limited availability of the price data, other ways of measuring economic interdependence became more prevalent. In another study, Polachek together with

Gasiorowski (1982), for instance, made an attempt at utilizing a different method and conceptualized the economic interdependence in terms of the (dollar value of) trade, which they analyzed against conflict levels between the United States and Warsaw Pact countries between 1967-1978. They confirmed Polachek's early results of the inverse relationship between economic interdependence and conflict, finding a negative correlation between the variables and thus arguing that increased trade between the US and the Warsaw Pact led to a reduction in conflict between them.

Arguably the most frequent way of conceptualizing economic interdependence encountered in literature (among others by Gelpi and Grieco, 2008; Gartzke & Westerwinter, 2016; Park, 2018; Silva & Selden, 2019) is through trade openness, measured as the ratio of bilateral trade to output (GDP). This measure was first introduced by Oneal et al. (1996) to test a hypothesis that free trade and democracy diminish the incidence of militarized conflict. Using a dyad-year as a unit of analysis for 1950-1985 and controlling for factors such as GDP per capita, geographic proximity, alliances, and relative power of a given state, they found that "pacific benefits of interdependence have not been sufficiently appreciated", especially when considering states that share a border, which are typically more prone to engage in conflicts with each other. Similarly, Oneal and Russett (1999), stressed that while numerous factors may facilitate international peace, trade alone is sufficient to reduce the probability of occurrence of militarized interstate disputes, most visibly among pairs of major powers (see also Russett, Oneal, and Davis, 1998; Russett and Oneal, 2001).

Numerous follow-up studies confirmed those findings using more elaborate research designs, improved datasets and controlling for different variables. In a 2010 paper authored with Hegre, Oneal and Russett reiterated their earlier findings, explaining – in line with the liberal theory logic – that "commerce promotes peace because violence has substantial costs, whether these are paid prospectively or contemporaneously".

McDonald (2004) altered the liberal argument claiming that it is free trade, not "just trade" that contributes to diminishing interstate militarized conflict. Maoz (2009), in turn, employing Social Network Analysis, corroborated the liberal paradigm, arguing that economic interdependence – conceptualized through the integration of various variables (including trade) into a single measure – mitigates conflict at monadic, dyadic, and systemic levels.

Goldsmith (2013) claimed that as the volume of trade between two countries increases, so does the likelihood of conflict emergence (an argument to the contrary was made e.g., by Hegre (2004)) by – but the likelihood of an escalation of an already existing conflict goes down. However, trade interdependence – measured as the value of trade as a portion of GDP or total trade (whichever is lower for a given dyad) – inhibits militarized conflicts' onset but has no significant effect on their escalation. In other words, "different *aspects* of trade may have different effects on the likelihood of conflict, at different *stages* of the conflict process." An earlier analysis by Hegre (2004) also corroborates the liberal logic whereby the likelihood of a conflict decreases as trade between a pair of countries increases.

Another approach to the question of *liberal peace* was undertaken by Gartzke, Li, and Boehmer (2001) who argued that it is capital interdependence that has a major signalling effect and so is of crucial importance for the avoidance of conflict through the use of economic policies. According to them, the contribution of capital interdependence towards conflict prevention is significant independently of the effects of other variables such as trade or democracy.

Indeed, one (less developed than in the case of trade) strand of research conceptualizes economic interdependence through bilateral foreign direct investment (FDI) flows. Having analysed data on FDI flows and stocks for 1980-2000 on monadic and dyadic levels, Bussmann (2010) found that they mitigated the risk of serious militarized conflict (i.e., involving at least one battlefield death) between states involved in the capital exchange, even when endogeneity was accounted for. Her findings were confirmed by Polachek, Seiglie, and Xiang (2012) who used dyadic FDI flows (in the 1990s) to examine a two-way relationship between conflict and FDI and found that bilateral FDI flows reduced the likelihood of militarized conflict as countries want to avoid scaring off investors and disrupting mutually economically beneficial exchange. Similar results were reported by Lee and McLaughlin Mitchel (2012) who explored FDI-territorial disputes nexus and argued that an increase in global, bilateral, and monadic FDI flows reduces chances of "severe militarized disputes over border issues". Much like in the case of trade exchange, the FDI effect worked first and foremost through an "opportunity costs causal mechanism". Based on those three studies, each employing a different research design, evidence is available to the effect that FDI flows reduce different types of conflict, from lower-level events (Polachek, Seiglie, and Xiang, 2012) to severe conflict including at least one death on a battlefield (Bussmann, 2010).

Realists

Theory

According to the second school of thought, realism, economic interdependence rather than having pacifying effect can actually increase the likelihood of interstate conflict. Realists believe that countries care not just about absolute gains, as argued by the liberals, but also relative ones. In what follows, the realist theory assumes that states are concerned not only about their own gains from cooperation but also whether the gains of another state are greater than theirs or not, since "relative gains may advantage partners and thus may foster the emergence of a more powerful potential adversary" (Grieco, 1988, see also Waltz, 1970). In other words, realists argue that:

> *international anarchy is the principal force shaping the motives and actions of states. (...) states in anarchy are preoccupied with power and security, are predisposed towards conflict and competition, and often fail to cooperate even in*

the face of common interests. Finally, international institutions affect the prospects for cooperation only marginally. (Grieco, 1988)

Therefore, one of the security externalities of engaging in trade exchange within this anarchic system is that it can enhance the military potential of one (or more) of the parties (Gowa and Mansflied, 1993). Equally, overdependence on trade partners can be a significant threat (e.g., Keohane, 1975).

At the same time, worth underlying is the fact that while the realist school representatives focus on the negative spill overs from growing economic interdependence, they oftentimes underline that the relationship between economic interdependence and conflict is a weak one. Indeed, Waltz (2000), for instance, argued that "among the forces that shape international politics, interdependence is a weak one" and Buzan (1984) seconded him stating that the role of economic factors "in the broader issues of peace and war" is generally "overrated".

Moreover, it is not to say that the realists do not observe the positive impact of interdependence at all, but rather argue that costs outweigh the benefits. Waltz (1970) conceded that the impact of interdependence, weak in general, can be twofold: "[i]nterdependence in some ways promotes peace by multiplying contacts among states and contributing to mutual understanding. It also multiplies the occasions for conflicts that may promote resentment and even war."

Empirical evidence

Gasiarowski (1986), while agreed that *beneficial* trade exchange leads to a lower probability of conflict – which he understood not just as militarized conflict but also lower-level hostilities such as diplomatic protests – argued that in general international interdependence increases it due to dominance of costly aspects of economic interdependence. At the same time, he agreed that as the costs of economic interdependence decreased e.g., thanks to a decline in costs of transportation of goods, this could potentially lead in the future to benefits outweighing costs, especially if efficient and effective policies aimed at reduction of interdependence-related costs were introduced.

Barbieri (2002) in turn, took a more decisive stand. Based on her empirical analysis of the economic relationship between economic dyads during the period 1980-1992, she argued that militarized conflicts, and indeed wars, are more likely to emerge between economically interdependent dyads than between pairs of states that do not trade with each other extensively. This, she claimed, holds true both in the case of symmetric and asymmetric trade relationships, in line with her earlier (1996) argument that the stronger the interdependence – no matter if symmetric or asymmetric – the higher the likelihood of militarized conflict between two states.

A somehow different argument was made by Martin, Mayer, and Thoenig (2008), who claimed that trade interdependence has in fact two different effects: bilateral trade reduces but multilateral trade increases the likelihood of conflict between a trade dyad. At the same time, globalization decreases the probability of the emergence of a global conflict. This is because while bilateral trade rises the cost of a bilateral war, multilateral trade decreases it as states become less dependent on any one particular trade partner. In other words, "multilateral openness increases the probability of local wars but should deter global conflicts."

Lack of pacifying effect of economic interdependence on conflict onset was also confirmed empirically by Keshk, Pollins, and Reuveny (2004) and Kim and Rousseau (2005) (although both papers did find at the same time that conflict does impede trade).

Finally, Poufinas & Pistikou (2018) employed a financial analysis-econometric approach to a study relationship between Greece and Turkey. They found that bilateral economic interdependence – measured using trade and FDI flows indicators – does not have a pacifying effect and indeed has no impact at all on bilateral conflict, defined here as violations of airspace, territorial waters, and land borders.

Contingencies

Arguably, the most interesting and consequential question in the examination of the interdependence-conflict connection is whether – and if yes, to what extend – the relationship between the two is universal or contingent on other factors. Indeed, the early research by both representatives of liberalist and realist schools was criticized on the grounds of "having the air of universality, applying to all actors in all times and places" (Mansfield & Pollins, 2003). Empirically, attempts at transplanting the liberal peace from the West to the Balkans, Southern Africa, or Central America in the 1990s showed limitations of this approach depending on the local context (Almohamad, Kirchschlager, & Kurtenbach, 2021).

One important strand of research looks into the role of the type of political regime of the trading partners. The theoretical underpinnings of the argument that economic interdependence (conceptualized as trade exchange) fosters peace come back to one of the already discussed above dimensions of *doux commerce*: the idea that public authorities are reliant on the political support of the public and so need to be successful, among others, in terms of economic growth (which, as most economists agree, is facilitated by trade), as well as an understanding that while this is true in democracies it may not hold in case of autocratic regimes. First, Oneal et al. (1996) argued that while trade has an overall pacifying effect on dyads of countries, this influence is stronger among democracies. The importance of democracy as a conflict mitigating factor was also acknowledged by Friedberg (1994), a representative of a realist school of thought, who theorized about the case study of Asia vis-à-vis Europe and concluded that due to relative lack of full democracies in the region (save for Japan, India, Australia, and New Zealand) – as well as low levels of inert-regional trade – liberal peace in the region was not likely any time soon.

Gelpi and Grieco (2008) analysed trade and conflict between dyads of democratic and autocratic states for the period 1950-1992 and came to a conclusion that the conflict-diminishing effect of trade holds only in democracies. At the same time, their analysis let them believe that even if trade levels between two states were low, as long as they were both democratic the likelihood of conflict between them was "very unlikely", and as such that the pacifying effects of trade "while significant, are secondary to the impact of democracy." Indeed, they claimed that in order for trade exchange to have pacifying effect at all, it must be conducted between two states that are democratic; in other words, trade was but an "additional constraint" for conflict eruption. More than that, they speculated that measures of economic interdependence other than trade – such as investment – may potentially have bigger, and less dependent on the type of political regime, pacifying effect (see also Gelpi and Grieco, 2003). A similar argument was made earlier by Papayoanou (1999) and later by Park (2018). The latter did, however, additionally argue that while trade interdependence does indeed decrease the probability of conflict between democratic states, it increases the odds of hostilities between autocracies. Using the research design similar to that of Gelpi and Grieco (2008) but for an extended time period (1950-2001), he found that both during and after the Cold War period autocracies have been initiating conflict with their close trade partners, presumably because for autocratic leaders depending "too much" on external markets was increasing a feeling of vulnerability.

The argument of vulnerability is related to a broader discussion on the impact of (a)symmetry of economic relationships on peace maintenance. In order to understand better this relationship between trade, militarized conflict, and (lack of) symmetry in the relationship between two states, Hegre (2004) employed a reformulated expected utility model (Dorussen 1999). His results pointed to a conclusion that pacifying effect of trade was most potently visible in symmetric country dyads; the more asymmetric the dyad, the weaker the pacifying effect was. In his work, he used an alternative conceptualization of economic interdependence, trade efficiency, which, he argued – unlike more popular measures of trade interdependence (trade-to-GDP and trade-to-total-trade ratios) — was not dependent on the size of the asymmetry.

Gartzke and Westerwinter (2016) argued that the relationship between economic interdependence and peace was more complex than oftentimes assumed and may "alternately enhance or impede international cooperation" depending on a number of factors, lack of balance in an economic relationship being one of them. They found that countries in symmetric economic relationships participated in fewer militarized conflicts but at the same time in a larger number of non-militarized ones. In asymmetric dyadic relationships, in turn, militarized hostilities were more likely to appear, in line with the already discussed above the logic of trade as a continuation of war by other means (Hirschman, 1945; Keohane & Nye, 1997; some scholars, however, argue that even in asymmetric relationships economic integration never increases the probability of conflict; see, e.g., Kinne, 2012). This effect of symmetry or lack thereof is, however, diminished by multilateral trade dependencies. Indeed, while the majority of studies on economic interdependence and conflict focused on dyadic trade relations, Gartzke and Westerwinter (2016) noted that the relationship between the two "does not disappear at the boundaries of the dyad." The more trade partners a given state does have, the less reliant on any individual trade tie it is, and so the mechanisms that increase or decrease – depending on how (un)balanced a given relationship is – the likelihood of militarized conflict are less potent. In an asymmetric relationship, this mitigating effect is, however, stronger in the case of the less dependent state of the dyad, with the effect on behaviour on the more dependent state having weaker empirical backing.

A related strand of research examined the effects of membership in multilateral organizations on engagement in interstate conflict. Oneal and Russett (1999) argue that indeed trading partners that were both members of an international organization were less likely to become involved in militarized conflict with each other and that this effect was significant even in "particularly dangerous" dyads whereby one of the countries is a major power. Aaronson, Abouharb, and Wang (2015), on the other hand, argued that membership in a multilateral organization – in their particular case the World Trade Organization (WTO) – on its own did not reduce the likelihood of militarized dispute between any dyad of member states. However, the pacifying effect was observable if the dyadic trade between two member states increased as a result of joining the WTO. A study specifically focused on the impact of WTO on the trade-conflict relationship was conducted by Chatagnier & Lim (2016). They approached the issue in a slightly different way, distinguishing between two periods in the life of the organization: pre- and post-1995, that is as General Agreement on Tariffs and Trade (GATT) and later as WTO. They argued that during the former period, membership to GATT alone made joint-member dyads less prone to conflict than non-joint member ones. However, this impact disappeared under the WTO due to change in the dispute settlement mechanism (DSM) rules; according to Chatagnier & Lim (2016), the highly legalized DSM scheme reduced the room for manoeuvre (or "economic statecraft") for countries in case of a trade dispute with another member state and therefore may – the authors argue – have increased the likelihood of militarized dispute. Their findings offered a nuance to a more general earlier research on trade networks by Dorussen and Ward (2010), who argued that "general engagement with the international trade network (…) matter(s) more than trade links with particular third parties" and that mediation effects are less important to conflict prevention than communication effects of belonging to the same trade network.

The impact of participation in trade agreements on the probability of conflict was addressed by a limited number of studies as well. The theory argues that trade agreements may have a pacifying effect through strengthening of the economic interdependence channel, increased contacts resulting in increased trust channel, and reduction of the likelihood of imposition of a trade embargo by either side of a preferential trade arrangement (PTA) (Schiff and Maurice, 2003). This theory was tested by, among others, Mansfield and Pevehouse (2000) who explored the relationship between membership in PTAs and proneness to conflict and found a reduced likelihood of conflict between parties to the same PTA, an effect that became stronger as trade exchange increased between them. They also found that the pacifying effect of trade was significantly more pronounced among countries belonging to the same PTA than between states that lacked this connection. In fact, Mansfield and Pevehouse (2000) argued that in the case of a pair of states that were not members of the same PTA, the pacifying effect of trade flows was relatively small (see also Mansfield and Pevehouse, 2003; Dembinski et al., 2004; Mansfield, Milner, and Pevehouse, 2007). Similarly, Ghoneim (2005) argued that regional trade agreements "can act as a vehicle for reducing tensions and preventing conflicts, provided that other conditions are favourable."

A more nuanced view was presented by Hafner-Burton and Montgomery (2012) who in their study of PTAs controlled for the already discussed above factor of symmetry or lack thereof in trade relationships. In their earlier work (2006, 2008, 2009), the authors showed membership to international governmental organizations (IGOs) or PTAs "simply provide a benign forum for state interaction". In their 2012 paper, they built on those earlier findings and – employing social network analysis – found that for PTAs to have a conflict-preventing effect they must "create ties among states with relatively equal social positions within the international political economy, facilitating trust and reciprocity". Membership in PTA could, however – according to Hafner-Burton and Montgomery (2012) – actually increase a likelihood of a conflict by virtue of creating asymmetric relationships between members to an agreement and therefore increasing distrust amongst them (see an earlier discussion on the effects of [a]symmetry).

Intrastate conflict

Worth mentioning is also a selection of studies that sought to explore the impact of economic interdependence on *intrastate* conflict. First, Barbieri and Reuveny (2005) argued that trade and FDI flows, as well as portfolio investment, diminish the probability of presence (but not of onset) of a civil war. Another component of the 'globalization' variable that they included, however, Internet use, had the same effect only in the case of the least developed countries. This suggested, the authors believed, that while globalization did not stop the emergence of civil wars, it could contribute to their solving, as costs related to foregone global ties (in the form of trade exchange, FDI flows, and presence of portfolio investment) increased. Their results were corroborated by Blanton and Apodaca (2007), who found that globalization (measured by trade, FDI, portfolio investment, and overseas development assistance) had a stronger effect on mitigating the intensity of an intrastate conflict than on the likelihood of its occurrence. Along similar lines, a somehow ambiguous effect of trade on the likelihood of occurrence of civil wars was identified by Martin, Mayer, and Thoenig (2008), according to whom on the one hand emergence of the most severe intrastate conflicts can be inhibited by trade openness, which however can at the same time increase the likelihood of less intense conflicts. At the same time, Bussmann and Schneider (2007), found that increased levels of the economic integration of a country indeed do decrease the risk of civil war – but that at the same time the spill overs from globalization processes leading to the said higher levels of integration can actually have a somehow destabilizing effect on a country.

Later, Powell and Chacha (2016) came to less ambiguous conclusions and found that economic openness (proxied by trade openness, FDI levels, contract investment money, and investment profile) decreases the likelihood of *coups d'état*, since as the economic interdependence with the rest of the world increases, so do the opportunity costs of the potential interstate conflict. On the other hand, earlier research by Elbadawi and Hegre (2007) found no direct relationship between trade openness and trade shocks on the one side and the likelihood of an armed internal conflict on the other. Indirectly, however, they agreed that through the facilitation of short-term and long-term growth, trade may actually be seen as reducing the likelihood of an internal conflict.

At the same time, the researchers seem to agree that once the internal conflict appears, the degree of the economic integration of a country affects the probability of third-party willingness to influence the civil war country. Bove, Skrede Gleditsch, and Sekeris (2015) for instance argued that oil-producing countries see more interventions from third parties, keen on preventing conflict-induced increases in the oil prices (to read more on their findings, see section *Evidence from the MENA* region below). A more general case of the impact of bilateral trade on the likelihood of a third-party intervention was in turn examined by Stojek and Chacha (2015), who argued that the stronger the trade ties between a civil war country and a potential intervenor, the more motivation does the latter have to intervene, especially in support of the embattled government. Their findings are in line with earlier work by Aydin (2012) as well as Greig and Regan (2008); the latter argued that a wish to avoid potential costs resulting from trade disturbances resulting from a conflict is a motivation for potential mediators – although, according to them, not as strong as having historical ties such as colonial history. Their findings run contrary to those of Chatagnier (2018), who argued that the historic (colonial) relationship between the belligerent and the potential mediator is of no importance. What matters, according to him, is the level of integration of a civil war country into the global production network; the higher, the more the interstate conflict in the country in question is seen as a threat to their economic interests by third countries. According to him, the relationship between participation in global value chains and the probability of mediation by great powers was "statistically significant and substantively strong".

Kathman (2011) in turn looked at the issue from a regional perspective, arguing that potential of interstate conflict diffusion and contagion and thus its potential geopolitical consequences; for him, trade was one of three proxies of a regional value of a country under civil war to third parties that considered intervention to prevent the spread of the conflict in the region.

Impact of conflict on interdependence

As it has been shown, the debate on the pacifying effects of economic interdependence (usually conceptualized as trade) has been ongoing for a few decades already, with no clear consensus reached thus far. The question of whether the relationship between trade and conflict is reciprocal – i.e., whether the presence of conflict affects the volume of trade as well – has, however, been approached by fewer scholars. One of the studies specifically focused on this issue was that by Keshk, Pollins, and Reuveny (2004), who claimed that the argument about the pacifying effect of trade is false and "may well be an artifact of simultaneity bias", since the evidence decidedly points to trade being inhibited by conflict. Similar arguments were forwarded by Kim and Rousseau (2005), according to whom economic interdependence decreases as a result of an outbreak of a militarized conflict. Their hypotheses corroborate arguments by, e.g., Anderton and Carter (2001) but contradict those of earlier research by Barbieri and Levy (1999) according to whom war between major powers does not have any effect on trade levels.

More recently, Marano, Cuervo-Cazurra & Kwok (2013) argued that both intrastate and interstate conflict adversely affected trade, although to a different extent, with civil wars having a more damaging effect. They attribute this difference to the fact that both the infrastructure and societal relations undergo a more severe destruction in case of internal conflicts than interstate wars.

Some of the most definitive results to date were developed by Novta & Pugacheva (2020) according to whom trade is "very strongly and durably affected" by conflict, even after accounting for the impact of illegal traffic of goods. According to their calculations presented in a recent IMF working paper on the macroeconomic costs of conflict, during the year of the conflict outbreak exports decreases by 26% and imports by 17%, five years since the conflict's onset – by cumulative 35% and 23% respectively, and by cumulative 58% and 34% respectively ten years since the conflict onset. In that, they confirm earlier findings by Glick and Taylor (2005) whose quantitative work on data dating back to 1870 led them to the conclusion that costs imposed by conflict on trade "might be of the same order of magnitude as the direct costs of war, such as lost human capital".

Evidence from the MENA region

Over the last three decades (1990-2018), the MENA region experienced the second-largest number of armed conflicts globally, after Sub-Saharan Africa, most of them of governmental rather than territorial nature (Almohamad, Kirchschlager, & Kurtenbach, 2021). Importantly, the majority were internal, rather than inter-state or internationalized-internal – as indeed is the case on the global scale – which renders limited applicability of the liberal peace theory, predominantly tested for inter- rather than intra-state conflicts. At the same time, the level of conflict internationalization in the MENA region, while lower than in Sub-Saharan Africa, has been almost as high as in Central Asia and higher than anywhere else in the world (Almohamad, Kirchschlager, & Kurtenbach, 2021). Indeed, hostility between Iran and Saudi Arabia, for instance, reverberates far beyond the territory of these two states, and terrorist organizations such as ISIS operate in a transnational manner. Additionally, the region experienced one of the highest levels of non-state armed conflicts compared to all world's regions but Sub-Saharan Africa. Furthermore, the relative weakness of regional organizations (e.g., the League of Arab States) and agreements (e.g., Agadir Free Trade Agreement) underscore fragmentation in the region.

Given the abovementioned relatively high internationalization of conflict in the MENA region, of particular interest are the already above-mentioned findings by Bove, Skrede Gleditsch, and Sekeris (2015) who examined the importance of economic interest in incentivizing third-parties to intervene in inter-state militarized conflicts abroad. Based on their analysis of the role of oil, or rather the role of the probability of conflict-induced oil-prices increase, they argued that the larger the oil reserves in a country where internal war takes place and the higher the demand for oil in the potential intervener, the higher the likelihood of the intervention. Countries dependent on oil imports are motivated to intervene and suppress internal conflicts in oil-producing states in order to secure continuity of their oil imports. While discussing the broader role of oil in international relations, the authors also point out to e.g., a particular relationship that the United States has with oil-rich Persian Gulf countries, who enjoy its support (military and otherwise) despite being autocratic regimes (a type of political regime that the US tends to be at odds with elsewhere).[4]

Another approach to the question of conflict internationalization was undertaken by Kamel (2016) who explored the EU-Libya relations during a decade leading to the outbreak of intra-state conflict in Libya in 2011. During the period under analysis, the relations between the two partners became closer (albeit not nearly as close as in the case of the other Southern Mediterranean countries), as exemplified by the signature of a Memorandum of Understanding or growth in the volume of mutual trade exchange, as part of the EU's peace-through-trade strategy. Kamel argues that the reason for the failure of the EU's policy in the case of Libya was not taking into consideration the local context and specificities: its history, geography (also in terms of location of oil reserves), political reality (i.e., lack of "conventional" political structure), and socio-cultural realities ("sense of statelessness" and the primacy of tribal/family allegiance), as well as the international environment under which Libya had been operating (mainly the US policy of isolating Libya).

As for the prevalence of conflicts where non-state actors are involved, Mitrani and Press-Barnathan (2015) analysed the extent to which economic policies have been successful in the promotion of peace between Israel and Palestine. Their main conclusion was that due to serious asymmetries between the two sides of the conflict of both political and economic nature, application of economic means in this particular case was largely unsuccessful (in line with earlier arguments by e.g., Hegre, 2004). The authors recognized that the conflict management (not, as they repeatedly stressed, conflict resolution) strategy employed by the Israelis did not bring expected results also due to the fact that for the Palestinian side – a non-state actor – strive for independence is the foremost goal, overriding economic factors. At the same time, for Israel, Palestine is too weak of an economic partner to render economic costs or benefits significant enough to serve as a motivation for conflict resolution. A similar conclusion was earlier reached by Reuveny (1999), who advocated for economic separation between the two, contending that the interdependence would not lead to peace due to the way in which their highly asymmetric relationship is structured.

The argument about the contribution of trade agreements to peace promotion was, in turn, examined by El-Anis (2018). Having focused in particular on twenty countries in the MENA region over the period 1990-2014, he found that commercial institutions are not very effective in promoting trade in the region, with the relationship between membership and volume trade at dyadic level positive but limited and weaker than in case of, e.g., market size or military

[4] On that note it is interesting to point out that when the Saudi oil sites were attacked in September 2019 and then, more recently in March 2021, the US despite harsh rhetoric withheld from military response (towards the alleged culprit, Iran), a fact that some commentators connect to its growing energy self-sufficiency. As pointed out by the authors of the study in conclusions to their paper, the changing global energy-dependency landscape will affect the level of motivation of different countries to intervene in intra-states conflicts abroad.

capabilities. More interestingly, he argued that the increase in trade, low as it may be – and so deepened economic integration – have not resulted in increased political cooperation and more peaceful interactions between the states in question. To put it more straightforwardly, "trade does have a pacifying effect in the MENA" and "increasing economic integration/interaction through trade, therefore, while reducing the occurrence of MIDs does not offer a very compelling policy approach to promoting peace in the region".

Only somehow less pessimistic are the results of later research by Oumazzane (2021) who zoomed in on a more specific case of the Agadir Free Trade Agreement. His hypothesis was that as the trade volume and its growth rate – and so the trade dependency – between Agadir Agreement member states increases, so does the "positive peace" (measured using Human Development Index) and political cooperation (proxied as the number of joint military operations and common UN peacekeeping missions, as well as intra-regional FDI flows), while the number of militarized interstate disputes (MIDs) goes down. The results he obtained were ambiguous, underscoring challenges related to establishing a correlation between participation to the Agadir Free Trade Agreement and individual above-listed variables and – more generally – difficulty in evaluating the relationship between participation to a commercial institution and peace between its members. His overall conclusion is, nonetheless, that the membership to the Agadir Free Trade Agreement did indeed foster political cooperation and promoted peace between the members, although "local and regional characteristics especially [must be acknowledged] in order to demonstrate the policy implications of any such findings".

The importance of the said local and regional characteristics in evaluating the contribution of trade agreements to peace promotion was stressed earlier by Ghoneim as well. In his 2005 paper, he argued that the accumulation of certain features of the region, such as the prevalence of non-democracies and significant wealth asymmetries, had in the past diminished pacifying effects of regional trade agreements (RTAs) in the region. The agreements could, however, fulfil their peace-promoting role should certain conditions be met. Specifically, Ghoneim believed that increasing their effectiveness in the MENA would require i) the RTAs to be of the "deep" sort, ii) strong support (in the form of external pressures) from partners such as the EU and the US, iii) ensuring that all parties to an agreement can expect a fair distribution of economic benefits, and iv) maintaining realistic approach and avoiding overt optimism regarding expected results.

According to Sekkat (2014a), in turn, achieving greater economic interdependence in the region would also require a change of approach of the authorities in MENA countries towards the very idea of integration. As he points out, "[t]he contrast between the EU (supra-national) and the Arab (inter-governmental) approaches to integration reflects to a large extent the reluctance of Arab leaders to transfer a part of their sovereignty to supra-national bodies". As a result, the lived reality of the region is a vicious circle whereby on the one hand lack of integration enables the emergence and existence of hostilities between states, and on the other – the existence of hostilities prevents closer integration.

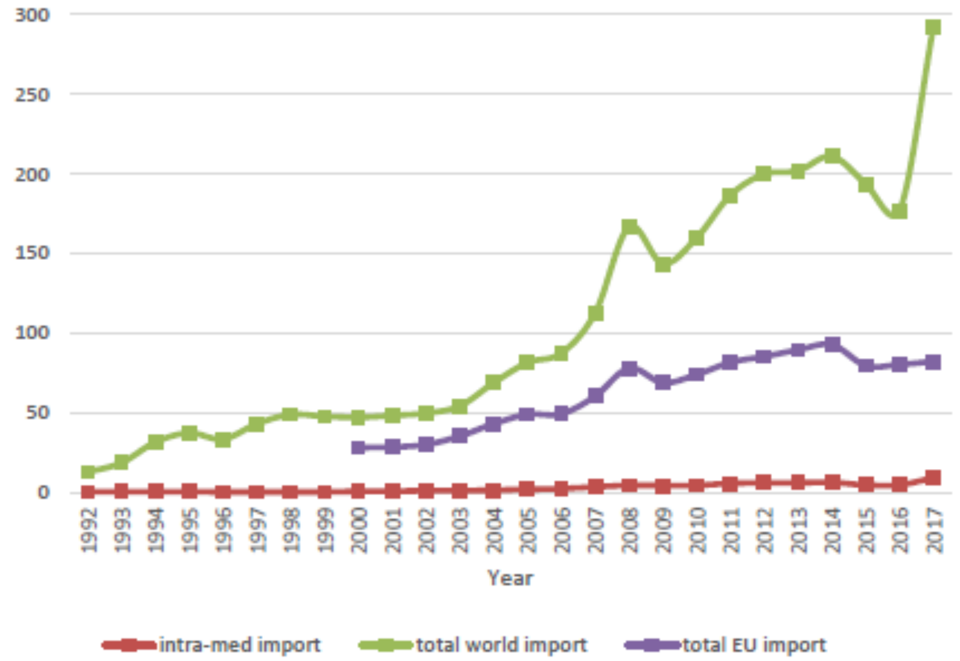
Implications for MENA region

As it has been shown above, literature points to a number of factors upon which strength of the pacifying effect of economic interdependence may be contingent on. The present section briefly discussed a number of those in relation to the MENA region.

Firstly, for the pacifying effect of economic interdependence to be able to work at all, countries must actually be dependent on each other, whether as measured by the volume of trade exchange or direct investment. Indeed, the countries in the MENA have been struggling to attract FDI from within or outside of the region alike. At the same time, intra-regional investments in the region remain modest; for instance, as of 2017, approximately 15% of FDI in the MENA countries came from the region, with plurality originating from the EU (Dabrowski & Domínguez-Jiménez, 2021). The OECD estimates that between 2003-2019 only 3% of total announced greenfield FDI to Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, and Tunisia originated from within MENA (OECD, 2020).

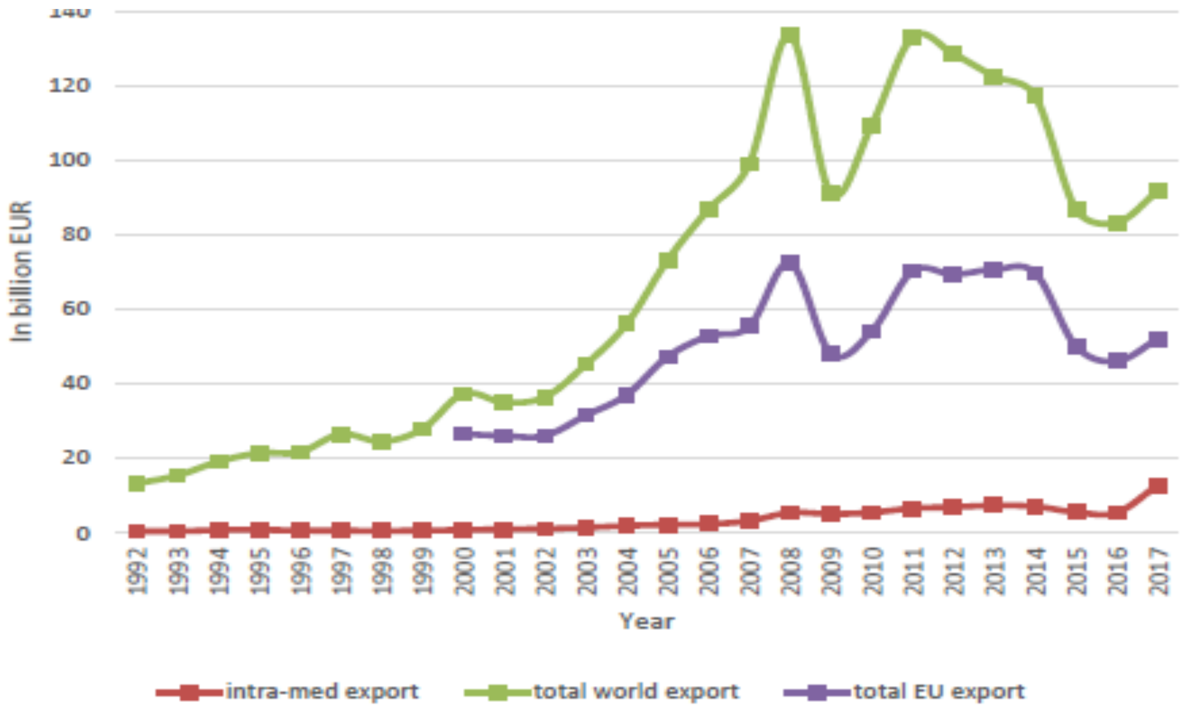
Similarly, intra-Arab total trade, measures as a percentage of total trade, remains persistently low (see Figure 1 and Figure 2 below). Even accounting for re-exports, trade in non-oil products between the Arab states as of 2017 accounted for 13.1% of their total trade; within the GCC and Maghreb Union, this number was even lower, at 9% and 2.1% respectively (ESCWA, 2019). These numbers, low as they are, are even less impressive when compared to amounts in the EU (63.1%) or even ASEAN countries (23.2%).

Figure 1. South Mediterranean Countries (Morocco, Algeria, Tunisia, Lebanon, Egypt, and Jordan) imports (from the world, rest of the world, EU, and within the region)



Source: Ecorys, CASE, FEMISE (2021). Ex-post evaluation of the impact of trade chapters of the Euro-Mediterranean Association Agreements with six partners. https://op.europa.eu/en/publication-detail/-/publication/fab9bddd-9106-11eb-b85c-01aa75ed71a1

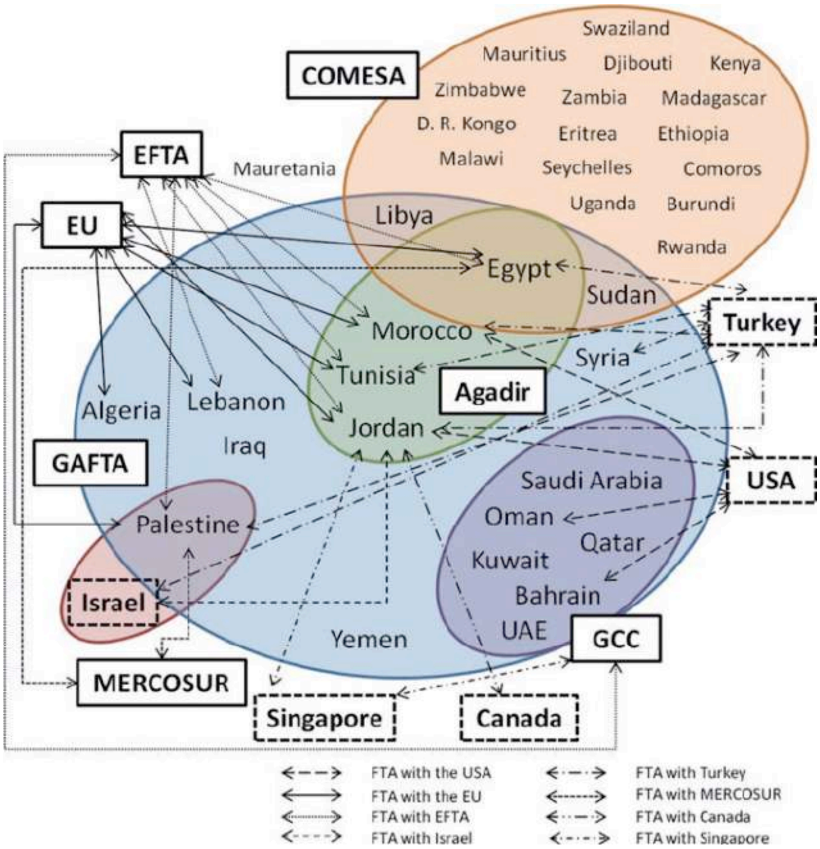
Figure 2. South Mediterranean Countries (Morocco, Algeria, Tunisia, Lebanon, Egypt, and Jordan) exports (to the world, rest of the world, EU, and within the region)



Source: Ecorys, CASE, FEMISE (2021). Ex-post evaluation of the impact of trade chapters of the Euro-Mediterranean Association Agreements with six partners. https://op.europa.eu/en/publication-detail/-/publication/fab9bddd-9106-11eb-b85c-01aa75ed71a1

This is despite a large number of intra- and inter-regional trade agreements and associations the Arab countries are party to. Over twenty agreements have been signed by the Arab countries since the 1950s, including the Convention for Facilitating Trade and Regulating Trade Transit signed in 1953, Arab Common Market of 1964, GCC) established in 1981 Arab Maghreb Union in 1989, Agadir Free Trade Agreement to name but a few. This is on top of numerous trade agreements signed with partners from outside of the region, such as the European Union or the United States (see Figure 3 below).

Figure 3. Spaghetti Bowl of Arab Countries' Free Trade Agreements, 2014 (FTAs with external as well as regional partners excluding bilateral agreements among Arab countries)



Source: Zorob (2018).

Finally, Oneal et al. (1996), Papayoanou (1999), Gelpi and Grieco (2008), and Park (2018) all underlined the importance of the type of political regime on outcomes of closer interdependence. In particular, various arguments were made to the point that the conflict-diminishing effect of trade holds only in democracies. The broader MENA region is consistently ranked as the least democratic one globally, with (as of 2020) no full democracies in the region, only two flawed democracies (Tunisia and Israel), two hybrid regimes (Morocco and Lebanon), and 16 authoritarian regimes (EIU, 2021). Over the last decade, the average democracy index in the region declined from 3.62 in 2011 down to 3.44 in 2020.

Conclusions

While the question of whether and what impact economic interdependence has on conflict has been approached by numerous scholars, a clear answer is not easily available. That said, it appears that a more extensive body of research, empirical and theoretical alike, supports the notion propagated by the liberal school of thought, i.e., the idea that economic integration promotes peace. At the same time, a growing number of analysts approaches the topic in a less dichotomic way, pointing to various factors on which the final outcome of the interdependence-conflict nexus is dependent on: political regime of the countries involved, (a)symmetry of mutual relationship, involvement of non-state actors, or membership to the same international organizations or agreements. In the MENA region, in particular, research has shown that a cumulation of various factors from the above-mentioned list and beyond rendered the peace-promoting effects of economic interdependence less effective.

At the same time, the methods applied to the measurement of the impact of economic interdependence on conflict continue to be put under debate. For instance, while the majority of studies on the subject conceptualize economic interdependence through trade in goods or – on a much smaller scale – FDI, already back in 2010 Hoekman and Sekkat pointed out that it might be worth incorporating exchange of services or even labour in order to explore the topic. This might be particularly true in the MENA region, where trade in services is, on average, more significant than globally; in most countries in the region (with the exception of Algeria and Palestine), counted as a percentage of GDP, it is decidedly higher than the average in middle-income countries (8.2%) or globally (13.4%), reaching up to 50.6% in Lebanon (WB, 2020). Looking forward, trade in services is expected to grow in importance not only in the region by globally as well.

Some other factors that will have to be taken into consideration in future research include widely discussed creeping reverse of globalization and increase in isolationist tendencies, as well as potential trade wars, e.g., between China and the US or other Western states.

Without a doubt, the ongoing Covid-19 pandemic will have had a great impact on the global economy; for instance, global FDI is estimated to have declined by 30% (up to 45% in the Arab countries) in 2020 and trade in goods and services by 5.6% and 15.4% respectively (OECD, 2020; UNCTAD, 2020). At the same time, as the pandemic exposed the weaknesses of global value chains, increasingly experts and politicians alike talk about potential nearshoring and reshoring of production. For the MENA region, this poses a great opportunity not only in terms of growth of FDI but also enhancement of economic interdependence not just with the EU (the origin of companies that could potentially move to the MENA states e.g., from Asia) but also – if done wisely – other countries in the region.

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