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The Liberal Commercial Peace, Regional Considerations: International Relations of Southeast Asia, Latin America, and the European Union Countries

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THE LIBERAL COMMERCIAL PEACE, REGIONAL CONSIDERATIONS:
INTERNATIONAL RELATIONS OF SOUTHEAST ASIA, LATIN AMERICA, AND THE
EUROPEAN UNION COUNTRIES

by

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DEDICATION

To my father, Tiencheng Hsueh (薛天成); my mother, Shumei Ku (古淑媚); my uncle, Tunglo Liu (劉銅鑼); my aunt, Hsin Tung (董信); and, my wife, Tingchia Wang (王廷嘉).

And, to my senior and good friend, Tsungmu Wu (吳宗穆).

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ABSTRACT

Most of the large-N empirical studies on the liberal commercial peace theory demonstrate that, in general, trade has a robust pacifying effect in reducing the probability of dyadical militarized interstate disputes. However, why trade's pacifying effect varies across time and space remains a puzzle that previous research has not yet solved. The liberal commercial peace literature suggests the following questions are in need of answers: Why does trade promote peace mainly in inter-region dyads but not in intra-region dyads? What are the preconditions that make trade's pacifying effect work or not work? In this research, I argue that there are two critical preconditions for trade's pacifying effect to work: first, the benefits of trade must be substantively important, and second, important social actors who have stakes on trade must be able to influence the leaders when they are making foreign policy decisions. These two preconditions can be measured by countries' degree of democracy and degree of development. Therefore, regionally, the pacifying effect of trade is stronger in regions where the countries are more democratic and more developed, and it gets weaker in regions where the countries are less democratic and less developed; temporally, because countries' degree of democracy and degree of development vary from time to time, the pacifying effect of trade changes over time accordingly. I then extend this overarching framework to investigate the role of trade in the regional peace of Southeast Asia, Latin America, and the European Union countries, arguing that the variations of the regional peace can be predicted by looking at how trade affects the most important political issues in each of the

regions. By finding out more nuanced preconditions, this research advances our knowledge toward the liberal commercial peace theory in the contemporary international relations research.

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CHAPTER 1

Introduction

1 The unsolved puzzles

The topic of the dissertation is “The Liberal Commercial Peace, Regional Considerations: International Relations of Southeast Asia, Latin America, and the European Union Countries.” The goal of this dissertation is twofold. First, I construct a theory to explain several puzzles remaining unsolved in literature about trade’s unstable pacifying effect (Chapter 2). Second, I propose a theoretical framework which links leaders’ political survival with the role that trade plays in each of the regions in investigation to explain the regional peace in Southeast Asia (Chapter 3), Latin America (Chapter 4), and the European Union countries (Chapter 5). Although the four main empirical chapters of the dissertation are disjointed, they share a similar framework which addresses how regions become peaceful and how to explain the within-region variation of the regional international relations in the viewpoint of trade.

I begin with defining what the so-called “liberal commercial peace” is. The simplest definition of the liberal commercial peace is that: trade promotes peace. Although there are contradicting findings in literature regarding whether trade leads to peace or conflict,¹ generally speaking, most of the large-N research confirms that, dyadically, with the increase of trade in proportion to both sides’ gross domestic product

¹ Refer to Barbieri (2002), Mansfield and Pollins (2003), and Crescenzi (2005) to see a more complete literature review about the relationship between trade and conflict.

(GDP), the probability that they engage in militarized conflict will decrease (Oneal & Russett, 1997, 2001; Hegre, Oneal, & Russett, 2010).

As for why trade should have a pacifying effect, scholars of the liberal commercial peace theory point out three main causal mechanisms to link trade with the reduction of conflict occurrence (Kastner, 2005). The constraint arguments state that as interdependence increases, the cost of military conflict also increases due to the loss of valuable assets and trade flows. The informational arguments claim that interdependence enables states to signal more efficiently their true level of resolve through threatening to use costly economic sanctions, therefore reducing the likelihood of dangerous miscalculations about each other's resolves. The transformative arguments posit that interdependence can reduce the probability of conflict by reshaping the underlying states' interests and preferences, either through changing the states' core international objectives or through changing the balance of domestic political coalitions. According to these three causal mechanisms along with the findings of most of the large-N empirical research, the pacifying effect of trade should be a stable and universal one that works around the world.

However, several findings have put trade's pacifying effect into doubt. First, Barbieri (1996, 2002) demonstrates that trade leads to conflict rather than reduces it,² and Pevehouse (2004) demonstrates that trade actually makes conflict more likely to happen, while it simultaneously restrains the number of conflict from going rampant. Second, many demonstrate that trade's pacifying effect varies across time and space, that is, during some periods and in some countries trade leads to peace, while during another periods and in another countries trade leads to conflict (Beck, Katz, & Tucker, 1998;

² Although Xiang, Xu, and Keteku (2007) have demonstrated that Barbieri's research committed an omitted variable bias – not controlling for states' power.

Zorn, 2001). Third, if trade does have a pacifying effect, why except for the European Union countries (Ripsman, 2005), when it comes to regional peace, are there few scholars attribute it to trade? For example, the Middle East, Latin America, the West Africa, and Southeast Asia are known to gradually become a peaceful region since the end of the World War II (Kacowicz, 1995, 1998; Acharya, 2001; Miller, 2005). However, trade is seldom been mentioned as the main reason that stabilizes the regions. Lastly, Goldsmith (2006) demonstrates that if we separate the world into five regions according to the classification of the Correlates of War database – the West, Latin America, Africa, the Middle East, and Asia, we will find that trade actually increases the probability of militarized conflict in all of them, even including the West. If trade does have a pacifying effect, how could we explain these empirical puzzles?

2 The argument in short

To solve these puzzles, this dissertation is composed of four independent articles as each of the empirical chapters. The first article (Chapter 2) serves as the overarching theory, in which I propose a set of unified preconditions that explain the regional variations of trade's pacifying effect around the world. In short, I argue that trade's pacifying effect is a conditional one, which is simultaneously mediated by countries' degree of democracy and degree of development. The facts that trade's pacifying effect is the most evident in the European Union countries and that it is not as evident in any other region around the world strongly suggest that trade would lead to peace only in "developed" "democracies." Therefore, I posit that for the liberal commercial peace to work, dyadically, both countries must reach a domestic consensus on the benefits of trade so that both the leaders and the people in both countries would take trade into

consideration when dealing with international affairs. Only when all the important domestic political actors have a stable preference for the benefits of trade do “the three causal mechanisms of the liberal commercial peace” work in reducing the probability of militarized conflict. This is because “development” and “democracy” together suggest that the benefits of trade is substantively important and that people who have stake on trade could have the power to influence the leaders when they are making foreign policy decisions. These are the critical preconditions that make the three causal mechanisms work. Thus, all the four puzzles remaining in literature can be explained by my theory: *First, because countries’ degree of democracy and degree of development change from time to time, as a consequence, the pacifying effect of trade varies accordingly as well. Second, due to proximity, countries in the same region tend to have similar degree of democracy and development resulting from shared geography and history, and countries in different regions tend to have different degree of democracy and development. Therefore, trade’s pacifying effect varies from region to region.* Thus my argument solves the four puzzles.

Aside from the first article (Chapter 2), the following three articles (Chapter 3~5) extend the findings in Chapter 2 to investigate how trade and economic concerns relate to regional peace in three different regions, respectively. In Chapter 2 I demonstrate that, higher degree of democracy and higher degree of development are the critical preconditions that make trade’s pacifying effect work. Then, what is the role of trade in regions where the countries are less democratic and less developed and where the “old” liberal commercial peace theory would predict a pacifying effect?

I select two regions that matches this requirement – Southeast Asian and Latin America. Theoretically, trade should have an evident pacifying effect in these two regions.³ However, empirical findings in literature demonstrate that trade is never the main reason that contributes to the regional peace. In Southeast Asia, the security management of the Association of Southeast Asian Nations (ASEAN) has been argued to be the most important factor that maintain the regional peace based on a process of consensus building. In Latin America, the hegemonic stability effect managed by the United States is a well-known but controversial phenomenon. I propose a theoretical framework to explain the role of trade in these regional peace. I link trade with regional peace by looking at what the main domestic political issues are among countries in these two regions, because the main controversies in the domestic political arena also represent the leaders' ruling foundation. To make sure their political survival is unthreatened, leaders must satisfy the demand of their winning coalition (Putnam, 1988; Bueno de Mesquita, Smith, Siverson, & Morrow, 2003). *Therefore, to understand the role of trade in the regional peace, we should look at how trade may affect the balance of the key domestic political coalitions the leaders rely upon.* In the Southeast Asian countries, keeping a good economic performance is the key for leaders to maintain their ruling legitimacy due to their special historical background; in the Latin American countries, the domestic threat of coup d'état, the international threat of their enduring rivalries, and their relationship with the United States are the critical concerns for leaders to survive. Thus, I argue, we can predict the regional international relations by looking at how trade

³ I will further elaborate the reasons why trade should have an evident pacifying effect in these two regions in the next section.

may affect the political coalitions that the leaders must rely upon in order to keep incumbent.

Then, in Chapter 5, I extend this theoretical framework to investigate the international relations between the European Union countries. The European Union countries are the richest, the most democratic, and the most integrated region in the world where militarized conflict has been disappeared since 1986 and trade's pacifying effect is the most prominent. I demonstrate that this theoretical framework is still useful to understand how trade affects the international relations between countries that are the least-likely ones to have conflict by looking at the balance between their domestic internationalizing and backlashing coalitions.

In the next section, I will explain the theoretical reasons why I select these three regions to be investigated. By solving these four puzzles and proposing this theoretical framework, this research not only finds out more nuanced preconditions of the liberal commercial peace effect, but also enriches our knowledge toward how regions become peaceful and what the influence of trade is on regional peace.

3 Case selection

In this research I dig out how the regional characteristics affect the effectiveness of the liberal commercial peace effect by comparing three different regions around the world – Southeast Asia, Latin America, and the European Union countries. I select these three regions for investigation for four theoretical reasons. First, these three regions are known to have very peaceful international relations by many studies (Mitrany, 1948; Haas, 1964; Deutsch, Burrell, Kann, & Lee, 1957; Deutsch, 1961; Kacowicz 1995; Acharya 2001; Kivimäki 2001; Ray 2002; Buzan and Wæver 2003; Ripsman 2005;

Miller 2005; Solingen 2007; Tønnesson 2009; Kivimäki 2011), therefore, they are the most suitable regional cases to be tested to see whether the liberal commercial peace effect has contributed to the formation of the regional peace in terms of the reduction of militarized conflict.

Second, based on the concern of research design, these three regions are the most-likely cases that may enjoy the liberal commercial peace. The European Union countries have long been recognized as the most successful case of peace through interdependence and international integration, and their experiences to achieve peace are also the origin where scholars build the liberal commercial peace theory from. For the Southeast Asian countries, after decolonization since the end of World War II, state building and national prosperity have been their most important goals, and the establishment of ASEAN is meant to promote regional stability to attract badly needed foreign direct investment to stimulate economic development (Haftel, 2010; Tang, 2012). Thus, theoretically, the liberal commercial peace effect should be very prominent in the region as well. Lastly, Latin America is the most economically open region in the world during the 1990s when almost all of the countries adopted the Washington consensus of structure reform (Williamson, 1990). Therefore, theoretically, it should be the region with the most salient liberal commercial peace effect. In sum, based on the logic of the most-likely case study design (Eckstein, 1975; McKeown, 1999), these three regions should be the most likely ones to embody the liberal commercial peace effect. Thus investigating the regional variations of trade's pacifying effect across these three regions should give us the most leverage to find out the preconditions of the liberal commercial peace.

Third, all the three regions have important regional intergovernmental organizations (IGOs) to facilitate their intensive interaction between member states. Although the degree of regional integration varies across these three regions, the Association of Southeast Asian Nations (ASEAN), the Organization of American States (OAS), and the European Union (EU) have long been recognized to play an important role in promoting regional integration and conflict resolution in these three regions. In addition, the functionalists (Mitrany, 1948; Haas, 1958, 1964; Abbott & Snidal, 1998) and the liberals (Keohane, 1984; Oye, 1986; Russett, Oneal, & Davis, 1998; Oneal & Russett, 2001) all highlight the contribution of international organizations in conflict resolution and international coordination, whether in security issues or in trade issues. Therefore, due to the development of the three important IGOs, these three regions should be the most- likely ones to enjoy liberal commercial peace than any other regions.

Fourth, many scholars find that weak or failed states radically change the adaptability of international relations theories (Weiss & Kessler, 1991; Job, 1992; Ayoob, 1999; Miller, 2005) which implicitly assume that every state is the same unity with similar functions (Waltz, 1979). For example, the international security dilemma emphasized by mainstream international relations theories is not the main focus of this kind of states; instead, internal security dilemma is what they pay attention to due to their lack of legitimacy, functioning coercive capacity, and a capable bureaucracy (Kelly, 2007, pp. 216–217). Unlike other regions which are full of weak states, in lack of populations, or geographically isolated, such as some regions in Africa, Middle East, and the Oceania countries, the three regions under investigation in this research (Southeast Asia, Latin America, and the European Union countries) are regions composed of modern national

states with sufficient state capability to function as normal national states, thus they should be suitable for the liberal commercial peace theory to apply.

For these four reasons above, I contend that investigating these three regions are proper to explore how the regional characteristics condition the liberal commercial peace effect. In the next section, I will summarize the content of the dissertation and point out how this research could make up the deficiency in literature as the contribution.

4 Organization of investigation

The topic of chapter 2 is “The Liberal Commercial Peace, Regional Considerations.” As an overarching theory of the whole dissertation, I argue that trade’s pacifying effect is simultaneously conditioned on the degree of democracy and the degree of development, and that it embodies not in reducing all levels of conflict, but in reducing the conflicts that would cause fatality. I use data concerning the onset of militarized interstate dispute (MID) 3.10 (Ghosn, Palmer, & Bremer, 2004) from the Correlates of War dataset to test my argument. The finding of this chapter also bridges the long debate between the democratic peace theories and the capitalist peace theories by demonstrating that both the degree of democracy and the degree of development are independent and mutually reinforcing (rather than mutually exclusive) moderators of trade’s pacifying effect.

The topic of chapter 3 is “ASEAN and Southeast Asian Peace: National Building, Economic Growth, and ASEAN’s Conflict Management.” In this chapter I plan to solve an unsolved debate in the literature, that is, whether ASEAN’s security management in the region keeps the peace. I argue that the pacifying effect of ASEAN should be understood as a conditional one, which hinges on Southeast Asian countries’ economic

performance. For decades, national building and economic growth are the main goals of the Southeast Asian countries as well as their leaders' ruling foundation. When the leaders are not able to maintain good economic performance, they tend to emphasize the national building issues, such as territorial disputes, to keep their ruling legitimacy, thus compromising ASEAN's security management. Empirical analysis of the onset of militarized interstate disputes from 1950 to 2001 confirms my argument. My finding also contributes to the long debate about whether we need non-Western international relations theories to understand the international relations of the Asia-Pacific countries.

The topic of chapter 4 is "Latin American Peace: Hegemonic Stability during the Cold War and Capitalist Peace after the Cold War." In this chapter I plan to solve an unsolved debate in the literature, that is, what the role the United States was in the formation of the regional peace. Generally speaking, there are three competing models about it: the hegemonic stability argument emphasizes that it is the United States' peace keeping that stabilizes the region, the whirlpool model argues that the United States is only involved when its interests are compromised and it disengages soon after the events are solved, and the radical argument contends that the United States is actually the one who provokes conflicts in the region. I argue that Latin American peace should attribute to the United States' hegemonic stability effect; however, this does not mean that the United States has sufficient policy tools to constrain the conflictual behavior of all the Latin American countries. In countries that have higher degree of economic dependence on the United States, the United States has enough influence and economic leverage on the former to constrain the former from using force. Instead, in countries that have lower degree of economic dependence on the United States, the United States does not have

sufficient policy leverage on the latter. As a consequence, the hegemonic stability effect of the United States' security management becomes less evident in these countries.

Therefore, the hegemonic stability effect of the United States' leadership in the region is a conditional one, which hinges on whether the United States has enough economic leverage to influence a certain Latin American country's conflictual behavior. Besides, my argument also implies that after the end of the Cold War the regional peace should follow a "capitalist peace" trajectory when the region had lost its strategic value of geopolitics to the United States.

The topic of chapter 5 is "Embedded Liberalism and International Relations between the European Union Countries." In this chapter I want to highlight a phenomenon that is not well-explained by relative literature. That is, how to explain the variation of conflict and cooperation between the European Union countries after the Cold War. The European Union countries are the richest, the most democratic, and the most integrated countries in the world without any single militarized interstate conflict since 1986, so previous research has trouble measuring the cooperation and conflict among them since there is no variation in the popularly-used datasets. By applying Gary King and Will Lowe's "10 Million International Dyadic Events (IDE)" dataset (King & Lowe, 2003),⁴ I am able to investigate the international relations between the European Union countries. I argue that due to the logic of the embedded liberalism – the relationship between market opening and governments' welfare spending, among the European Union countries, their degree of interdependence and degree of domestic

⁴ King, Gary; Lowe, Will, 2003, "10 Million International Dyadic Events", <http://hdl.handle.net/1902.1/FYXLAWZRIA> UNF:3:dSE0bsQK2o6xXlxeaDEhcg== IQSS Dataverse Network [Distributor] V5 [Version].

compensation jointly will determine the number of their international conflicts. Among the EU countries, all things being equal, countries whose degree of interdependence and domestic compensation are both at a high level will have the least number of conflicts with their trade partners; countries whose degree of interdependence and domestic compensation are both at a low level will have few conflicts with their trade partners; countries who have low degree of interdependence and high degree of domestic compensation will have a few conflicts with their trade partners; and countries who have high degree of interdependence and low degree of domestic compensation will have the most number of conflicts with their trade partners.

Table 1.1 summarizes the plan of the previous three chapters. Among the three most-likely regions that may embody trade's pacifying effect, according to the literature about the regional peace,⁵ only in the European Union countries does trade have a meaningful contribution to regional peace. In the other two regions – Southeast Asia and Latin America, the pacifying effect of trade is not considered to help much in stabilizing the regions. According to literature, in Southeast Asia, regional peace is largely maintained by ASEAN's security management through a way of consensus building; in Latin America, the hegemonic stability effect in terms of the United States' security management is known as one of the main reasons that stabilize the region. However, the role of ASEAN and the United States in regional security does not go without challenge. Both ASEAN's ability of security management in Southeast Asia and the United States' ability of security management in Latin America vary case by case from time to time, and the literature has not yet offered a satisfying explanation. Even in the European Union

⁵ More detailed discussion regarding the literature about each regional peace will be presented in each of the chapters.

Table 1.1 Plan of the dissertation

Regions	How regions became peaceful	Explaining the within-region variations	Dissertation Chapter
Southeast Asia	Security community	← Economic growth rate	Chapter 3
Latin America	American hegemony	← The United States' economic leverage	Chapter 4
European Union	Interdependence and Integration	← Domestic compensation	Chapter 5

countries where interdependence has known as the main reason that promotes the regional peace, how to account for the variation of the international relations among the richest, the most democratic, and the most integrated countries remains an untouched part in literature. My arguments in each of the three chapters supplement the missing part of the literature and enrich our knowledge toward the regional peace by offering a theoretical viewpoint through the influence of trade on the domestic coalitions that the leaders must rely upon in order to keep incumbent.

Lastly, Chapter 6 is the conclusion, in which I discuss how my findings could contribute to our understanding toward how the rise of China may affect the international security in contemporary international system, the most important event of international relations in our time. Will a large-scale conflict between China and the United States or between China and other East Asian countries become unavoidable with the rise of China as the realists claimed? Or will the increased interdependence between China and the United States or between China and other East Asian countries largely reduce the probability of a large-scale conflict as the liberals claimed? My theory offers some answers to this critical question by specifying more nuanced preconditions and their influence on China's rising and international security.

Overall, by investigating the regional variances of the liberal commercial peace effect, this research not only solves the puzzles of the global-regional and the temporal discrepancies regarding trade's pacifying effect, but also advances our understanding about the liberal commercial peace theory in terms of the Lakatosian criteria (Lakatos, 1978) by finding out more nuanced preconditions and theoretical implications.

CHAPTER 2

The Liberal Commercial Peace, Regional Considerations

1 Introduction

Although there is a large literature about whether trade brings peace or conflict, most studies have reached a conclusion explicitly or implicitly stating that, overall, commercial ties have a net pacifying effect (Oneal & Russett, 1999; Maoz, 2009; Hegre, Oneal, & Russett, 2010; Choi, 2010); while, at the same time, the literature also points out that this liberal commercial peace effect may vary across time and space. For example, the Western European countries after World War II are the ideal type of the liberal commercial peace model, where trade interdependence “spilled over” (Haas, 1958, 1964) to political and social domains and so facilitated regional integration and a well-functioned security community (Deutsch, 1961; Deutsch, Burrell, Kann, & Lee, 1957); Adler and Barnett 1998; Bellamy 2004). However, these spill-over and integration effects of the liberal commercial peace in other regions of the world are not as evident as in Western Europe. For instance, although most of the countries in Southeast Asia and Latin America have welcomed market liberalization policies for decades, the liberal commercial peace effect has never been deemed as the main reason to explain the regional peace in these regions (Kacowicz, 1995; Acharya, 2001; Ray, 2002; Miller, 2005; Johnston, 2012). Accordingly, there are several questions in need of answers. Why does the liberal commercial peace appear to operate in the Western Europe but not in other regions? How do we account for the regional variation of the liberal commercial peace

effect? Is there a universal theory of the liberal commercial peace? If the pacifying effect of trade is actually mediated by specific regional preconditions, what are they? Could we have a general theory to guide us about how to find out the regional preconditions that make the liberal commercial peace work? The goal of this research is to answer these questions by investigating the relationship between regionally-distinguished characteristics and the liberal commercial peace.

The liberal commercial peace theory holds the view that interdependence, specifically trade, should have a strong pacifying effect that can constrain both states from engaging in militarized interstate conflict, and that this pacifying effect should increase with the increase of interdependence. However, while the large-N research stably confirms the liberal commercial peace effect between the global dyads, empirical evidences between the intra-region dyads do not always support it. To explain the different effectiveness of the liberal commercial peace across different regions, I make two arguments in this research. First, I argue that looking at all levels of conflict is not proper to understand the liberal commercial peace effect, especially between the intra-region dyads. Because trade is demonstrated as also a measurement of interaction between both sides, countries that trade more intensively are also those who are most likely to have disputes due to their intensive interaction. Therefore, the pacifying effect of trade should embody in the reduction of high-level conflicts (those that cause fatality), not the low-level ones (those that do not cause fatality). Because countries in the same region tend to have more intensive interaction than countries between different regions, therefore they tend to have more conflicts simply due to intensive interaction. As a consequence, to test the effectiveness of the liberal commercial peace effect between the

intra-region dyads, we should look at only the high-level conflicts instead of looking at all the recorded conflicts indifferently.

Second, I argue that there are three regionally-distinguished characteristics that not only differentiate one region from all the others but also affect the three causal mechanisms of the liberal commercial peace, therefore making the effectiveness of the liberal commercial peace vary across regions. Besides, these three factors also help point out what conditions the pacifying effect of trade, that is, why in some regions trade reduces the probability of conflict and in others vice versa. These three regionally-distinguished characteristics, I argue, are their differing degree of intra-regional interdependence, degree of development, and degree of democracy. These three factors are universal ones that explain the regional variation of the liberal commercial peace effect. Thus, my theory proposes a generalizable framework that bridges the contradicting findings at the global level and the regional level.⁶

To access my argument, the structure of the research is as follows. In the next section, I first elaborate on what remains a puzzle in the literature about the liberal commercial peace phenomenon, that is, how to explain the regional variations of the liberal commercial peace effect, which is the question I want to answer in this research. Then, in the third section I construct my theory to solve this question, arguing that my theory can explain what conditions the liberal commercial peace effect both at the global level and at the regional level. I test my theory with statistical models using data from 1950 to 2001 in the fourth section, in which the empirical results show robust support for

⁶ In this research I use “at the global level,” “global dyads,” and “inter-region dyads” interchangeably to describe all the dyadic country combinations around the world, and use “at the regional level,” “regional dyads,” and “intra-region dyads” interchangeably to describe only the intra-region dyadic country combinations.

my theory. Overall, by bringing the regional concerns back in, this research largely enriches the liberal commercial peace theory not only in finding out more nuanced preconditions but also in extending more theoretical implications.

2 The Puzzle: Regional variations of the liberal commercial peace effect

As Kastner (2005) had reviewed, there are at least three arguments commonly used to link economic interdependence with a reduced likelihood of military conflict in liberal commercial peace literature as causal mechanisms: the constraint arguments, the informational arguments, and the transformative arguments. The constraint arguments state that as interdependence increases, the cost of military conflict also increases due to the loss of valuable assets and trade flows (Papayoanou, 1996; Oneal & Russett, 2001b; Gelpi & Grieco, 2003; Smith, 2014). The informational arguments claim that interdependence enables states to signal more efficiently their true level of resolve through threatening to use costly economic sanctions, therefore reducing the likelihood of dangerous miscalculations about each other's resolves (Fearon, 1995; Gartzke, 1999; Morrow, 1999, 2003; Gartzke, Li, & Boehmer, 2001; Powell, 2002; Gartzke & Li, 2003; Gartzke, 2003; Stein, 2003). The transformative arguments posit that interdependence can reduce the probability of conflict by reshaping the underlying states' interests and preferences, either through changing the states' core international objectives or through changing the balance of domestic political coalitions (Mitrany, 1948, 1966; Haas, 1958, 1964; Deutsch et al., 1957; Deutsch, 1961; Adler & Barnett, 1998a; Solingen, 2001, 2003, 2007; Simmons, 2003). Although the pacifying effect of the liberal commercial peace is not always a positive one, since in a dyadic level of analysis peace may result from the fact that the target state is successfully coerced by the sender state so that there is no overt

conflict; however, by and large, as a final phenomenon, trade does reduce the probability of conflict.

According to these three causal mechanisms of the liberal commercial peace theory, the pacifying effect of trade should be universal and ubiquitous across the whole world since these three causal mechanisms, no matter one, two, or all of them, should be found in any pair of countries with sufficient economic ties. However, two empirical evidences have put the liberal commercial peace effect into doubt. First, although the liberal commercial peace effect has been empirically supported as very prominent in many studies (Oneal & Russett, 1999, 2001a; Maoz, 2009; Hegre et al., 2010), it is interesting that when it comes to the regional peace, few scholars attribute it to interdependence. For example, regional security research seldom confirms the contribution of the liberal commercial peace effect outside the Western European countries, especially the long peace in Southeast Asia, Latin America, and the Middle East (Lake & Morgan, 1997; Acharya, 2001; Lemke, 2002; Ray, 2002; Buzan & Wæver, 2003; Miller, 2005; Goldsmith, 2007). Second, in statistical models, the liberal commercial peace effect usually does not hold in regional subsamples. For instance, by dividing the world into five different regions – the West, the Middle East, Africa, Asia, and Latin America, Goldsmith (2006) finds that at odds with the liberal commercial peace literature, interdependence is actually positive with the probability of the onset of dyadic militarized interstate dispute (MID) in all the five regions, even including the West. As a result, the pacifying effect of interdependence demonstrated in most of the literature may be very likely resulting from the inter-regional commercial peace rather than the intra-regional one. In other words, intra-regional trade leads to conflict rather

than reduces it, and inter-regional trade vice versa. Although it should be quite reasonable that countries tend to have more trade and conflict with neighboring ones than with those who are far away, this still arouses an inquiry of why the liberal commercial peace effect does not work, especially at the regional level. If trade only reduces the probability of conflict between pairs of countries between different regions but not between those in the same region, the substantive effect of the liberal commercial peace may be trivial and over-emphasized by the liberals since it cannot promote peace for countries that interact the most frequently.

Does the fact above result from some specific outlier states in each region that nullify the liberal commercial peace effect? Or does it result from the regional-specific characteristics that affect all the states in the region? In the monadic level of analysis, it is easier to understand why the liberal commercial peace effect does not work in certain countries because not all countries have the same characteristics. Since the goal of a scientific theory is to predict the central tendency, it is not surprising if we have some states as outliers against the prediction of the liberal commercial theory due to omitted variable bias such as other special preconditions. However, at the regional level of analysis, if the outliers are at the regional level, which means that most of the states in the region are outliers, a revision or a reconsideration of the liberal commercial theory may be a necessity. This can be done by two different ways. First, it is possible that the liberal commercial peace theory is not a universally generalizable one because it is derived only from the experience of the modern European countries after 1816, especially after the end of World War II, so that it may not well account for the international relations in other regions. Therefore, we need new theories (adding new causal mechanisms) to explain the

relationship between trade and conflict. Another way is to accept the three main causal mechanisms of the liberal commercial peace theory, but reconsider the regional preconditions that mediate the effectiveness of them, which, I argue, may be a more informative way since we have abundant literature of liberal commercial peace research and regional studies that help. In the next two sections, I will demonstrate why paying attention to the regional level of analysis is more helpful than looking at the monadic level of each outlier state, bringing the regional factors back in to enrich our understanding of the liberal commercial peace theory as well as the regional peace across the world.

3 Bridging the global-regional gap of the liberal commercial peace effect

How do we account for the regional variation of the liberal commercial peace effect? Is there a universal theory of the liberal commercial peace? If the pacifying effect of trade is actually mediated by specific regional preconditions, what are they? Could we have a general theory to guide us about how to find out the regional preconditions that make the liberal commercial peace work? In this section, I make two arguments to bridge the gap between the general liberal commercial peace theory and its regional variances. First, I argue that looking at all kinds of MIDs to conceptualize conflict is not a proper way to investigate the liberal commercial peace effect. Because the pacifying effect of trade works not in the reduction of all kinds of conflicts, but in the reduction of conflicts that would cause fatality. Second, I argue that there are two universal factors that condition the liberal commercial peace effect – countries' degree of democracy and development. As a consequence, the regional variances of the liberal commercial peace effect around the world are due to the regional variation of these two factors. By making

these two arguments, I offer a unified theory to explain the global-regional differences of the liberal commercial peace effect, instead of pointing out ad hoc explanations for every specific region around the world.

3.1 Why using all recorded MIDs is not proper for investigating the liberal commercial peace effect at the regional level

There are many debates about whether using all the recorded conflict events is proper to test the liberal commercial peace theory, especially regarding the most popular militarized interstate dispute (MID) data of the Correlates of War dataset (Barbieri, 2003; Pevehouse, 2003; Reuveny, 2003). Generally speaking, there are mainly two kinds of concerns about it: The first one is the concern of data quality, and the second one the concern of theory.

The first concern regards data quality. Not all levels of MIDs that happened will be recorded due to information availability, especially the low-level MIDs that happened in the third world countries where there is a lack of media coverage. Moreover, high-level MIDs tend to be recorded more correctly because they arouse more attention and give more information, especially those involved with casualties.

MID includes a series of events that are defined as “a set of interactions between or among states involving threats to use military force, displays of military force, or actual uses of military force” (Gochman & Maoz, 1984, p. 586). Among these three categories, there are conflict events with casualties and without casualties. Thus, displays of military force that involved with casualties may actually be more severe and arouse more attention than actual uses of military force that caused no fatality. Therefore, many researchers promote the claim that looking at the MIDs that caused fatality is more proper.

For example, Tose, Gleditsch, and Hegre (2000, p. 984) insist that the use of fatality MIDs helps avoid both coding irregularities and “attention bias” on low-level disputes. Souva and Prins (2006) also echo Tose et al. (2000) that “fatal MIDs offer greater temporal and spatial consistency in the historical recording of these events. Plus, they avoid very low-hostility disputes that may not reach the attention of policymakers” (Souva & Prins, 2006, p. 191). Given the fact that MIDs are very rare events,⁷ a slightly difference of the coding methods may result in a huge bias in a large-N research. For data quality concern, looking at only the MIDs that caused fatality gives us a more consistent measurement than taking all the MIDs into concern.

The second concern regards theory. Not all theories that predict the reduction of conflict have the causal mechanisms that cover all levels of conflict, and it is misleading to give all levels of conflict the same weight, either, simply by looking at the frequency of all levels of conflict.

The three causal mechanisms of the liberal commercial peace theory – the constraint argument, the informational argument, and the transformative argument – implicitly assume that trade’s pacifying effect should embody in the reduction of conflicts which are important enough to trigger the three causal mechanisms to work. In other words, low-level conflicts may not be salient enough to make trade be taken into consideration by leaders or any other influential social actors. In this situation, the three causal mechanisms may not work in low-level conflicts even though both sides have

⁷ For example, there are only 1,289 MIDs (2.28%) in the total 56,647 politically relevant (involving at least one major power, contingency, or separated by less than 400 miles of water) non-directed dyad-year observations in the sample period from 1950 to 2001. Among the total 1,289 MIDs, there are only 945 MIDs (1.67%) that involved the actual use of force, and only 439 MIDs (0.77%) that caused fatality. Given MIDs are such rare events, the estimated outcomes will be sensitive to the coding rules, which may change the number of MIDs in a large-N research.

significant trade. In addition, the degree of trade is also a measurement of the degree of interaction between both sides. It should not be surprising at all that countries who interact more often tend to have more conflictual issues simply due to their intensive interaction. For example, by using the COPDAB and the WEIS data,⁸ Pevehouse (2004) demonstrates that measurements of trade are also the measurements of the density of bilateral interaction. As a result, trade tends to make the presence of small amounts of conflict more likely due to intensive interaction, but simultaneously restrain the number of conflicts from going rampant due to the liberal commercial peace effect. Moreover, by using the MID data, Hegre (2009) also demonstrates that when investigating the trade-conflict relationship, it is imperative to control for interaction density between both countries due to the same reason.⁹

In the other situations, some low-level MIDs are actually caused by trade issues or geological reasons, such as the fishery disputes and the natural resource disputes between countries who share the same fishing ground or mineral vein. Those countries may well have a very closed economic interdependence relationship due to proximity, just like the U.S.-Canada fishery disputes or the China-Japan territorial disputes on the small islands

⁸ Refer to Azar (1980) about the COPDAB data, and Goldstein (1992) about the WEIS data. As for the comparison across the COPDAB, WEIS, and MID datasets, refer to Vincent (1983), Pevehouse (2003), and Reuveny (2003).

⁹ Besides, Beck, Katz, and Tucker (1998) find that although trade may not inhibit conflict, it does appear to shorten the spells of conflict, and Zorn (2001) finds that high levels of interdependence generally lower the probability of conflict, but in the short term trade increases the chance of conflict. Pevehouse (2004) and Hegre's (2009) explanations here also offer a good causal mechanism to account for Beck et al. (1998) and Zorn's (2001) findings that the pacifying effect of trade tends to be mixed if we do not differentiate the density of interaction between both sides.

in the East China Sea (Downs & Saunders, 1998; Hickey, 2014).¹⁰ Thus leaders in countries that have more intensive commercial interactions may also use militarized measures such as the demonstration of force to show their concern about the issues and to tell their people they did do something, but at the same time they do not really want to cause fatality since this will very likely destroy their current cooperative relationship. Therefore, this kind of conflicts that happens from time to time do not necessary mean that the liberal commercial peace effect does or does not work. Due to these reasons above, I argue that when using the MID data to test the liberal commercial peace effect, it is more proper to use MIDs that caused causality rather than to use all kinds of MIDs. Many “cheap MIDs” which involved only the low-level conflicts such as “threat to use force without casualties,” “display of force without casualties,” or even “actual uses of military force but without casualties” may not arouse attentions that are sufficient enough for the liberal commercial peace effect to work. Therefore, trade may play no role in these kind of cheap MID events. But this is not equal to saying that trade does have or does not have a pacifying/conflictual effect. Looking at fatal MIDs instead of all kinds of MIDs can help avoid conflicts that very likely have nothing to do with the liberal commercial peace effect, and thus is a more proper measurement of the conflicts that the liberal commercial peace effect should have prevented (or should have prevented but failed).¹¹

¹⁰ For example, according to the MID 3.1 data, from 1950 to 2001, there are 6 MIDs happened between the United States and Canada and also 6 MIDs happened between China and Japan. However, none of the above caused fatality.

¹¹ A good example is the 1995-1996 Taiwan Strait Crisis, which is a series of missile tests conducted by China in the waters surrounding Taiwan including the Taiwan Strait from July 21, 1995 to March 23, 1996. The first set of missiles fired in mid-to-late 1995 by China were allegedly intended to send a strong signal to Taiwan’s president Tenghui Lee, who had been seen as moving Taiwan’s foreign policy away from the

In sum, if we use at all kinds of MIDs as the dependent variable to conceptualize international conflict, the liberal commercial peace effect will be significant only at the global level, not the regional level. This is because countries in the same region tend to have higher degree of interdependence due to proximity and more MIDs due to intensive interaction, and because the liberal commercial peace effect works not in reducing the occurrence of all kinds of MIDs, but in reducing the occurrence of the fatal ones. For these reasons, using only the MIDs that caused fatality to conceptualize international conflict is more proper to investigate the liberal commercial peace effect, and this effect should work both at the global level and at the regional level.

Due to the two main concerns above – the data quality concern and the theory concern, I posit that the liberal commercial peace effect is more prominent between global dyads than between intra-region dyads if we use all levels of MIDs to measure the reduction of conflict. Because the degree of trade is also a measurement of the degree of interaction, with the increase of interaction comes with more chances for both sides to have disputes. Countries in the same region tend to interact more intensively thus have more issues to dispute. As a consequence, trade does not have a significant pacifying effect if we look at all levels of MIDs in which many of them have nothing to do with trade or actually are triggered by trade. Instead, among countries in the same region who have substantive trade relations, although they tend to have more issues to dispute, it is

One-China policy. The second set of missiles were fired in early 1996, allegedly intending to intimidate the Taiwanese electorate in the run-up to the 1996 presidential election. This crisis was coded as a MID that involved actual use of force without fatality in the COW MID 3.1 dataset, which is a MID that happened in spite of the high degree of interdependence between both sides and had no negative effect on bilateral trade later on. The trade flows between both sides still kept increasing very quickly after the missile crisis (Kastner 2007; 2009). This case shows that not all MIDs are relevant to the liberal commercial peace effect, even those in which force is actually used by one or both sides.

not their real interest to cause fatality to each other since doing so will compromise their interests for cooperation in the future. As a consequence, trade's pacifying effect embodies in reducing the probability of fatal MID, and this phenomenon should be evident both between global dyads and between intra-region dyads.

Based on these reasons, my argument proposes two hypotheses to be tested:

Hypothesis 1: If we look at all levels of MIDs, higher trade is associated with lower conflict occurrence only when including all dyads, not when limiting the analysis to intra-region dyads.

Hypothesis 2: If we look at only the MIDs that caused fatality (the fatal MIDs), higher trade is associated with lower conflict occurrence not only when including all dyads, but also when limiting the analysis to intra-region dyads.

Furthermore, as a theoretical implication of my argument, there are two more phenomena that should also be observed if my argument is robust enough. First, since the pacifying effect of trade between intra-region dyads is expected to be not statistically significant if we use all levels of MIDs to conceptualize it (due to the fact that intra-region dyads interact more intensively and so have more disputed issues), it should be statistically significant once the degree of bilateral interaction is put into control. And, second, since the pacifying effect of trade mainly embodies in reducing the conflict that may cause fatality despite how many disputed issues there are between both sides, this effect should still be statistically significant even though the degree of bilateral interaction is put into control. Thus, my theory proposes another two hypotheses to be tested:

Hypothesis 3: If we look at all levels of MIDs, higher trade is associated with lower conflict occurrence whether including all dyads or limiting the analysis to intra-region dyads, once the degree of bilateral interaction is put into control.

Hypothesis 4: If we look at only the MIDs that caused fatality (the fatal MIDs), higher trade is associated with lower conflict occurrence not only when including all dyads but also when limiting the analysis to intra-region dyads, whether the degree of bilateral interaction is controlled or not.

3.2 Universal and regional preconditions of the liberal commercial peace effect

3.2.1 Why the intra-region dyads are different from the inter-region dyads

Just like the methodological debate between the quantitative school and the qualitative school (King, Keohane, & Verba, 1994; Brady & Collier, 2010), large-N empirical research of international relations theories is typically regarded by non-quantitative scholars as too general to be useful when applied to explain the details of each specific event or the regional differences, especially the latter. Scholars who focus on the regional level of analysis make many arguments to justify the necessity of the regional level variables against traditional IR theories which typically assume universalism (Thompson, 1973; Lake & Morgan, 1997; Lemke, 2002; Buzan & Wæver, 2003; Hoogensen, 2005).¹² Among the many pro-regional-centered arguments, all of them would agree with the claim that traditional international relations theories insist too much on parsimony, therefore it is too abstract and distant to capture real world regional dynamics (Hentz & Bas, 2003). A good example is Shambaugh's (2004) critique of Mearsheimer's (2001) offensive realism that, "(i)t is a classic example of an international

¹² Refer to Kelly's (2007) review article about these arguments that emphasize the necessity of the regional level of analysis in the research of international relations.

relations theorist, who is not well grounded in regional area studies, deductively applying a theory to a situation rather than inductively generating theory from evidence”

(Shambaugh, 2004, p. 94). At the cost of parsimony, bringing regional variables back into concern can enrich our understanding of the regional variance of general international relations theories. In terms of statistics, failing to take regional characteristics into concern when building international relations theory is equal to committing an “omitted variable bias” (King et al., 1994, p. 170). As Johnston (2012) has noted:

“it is clear that whether because of geographic characteristics, cultural traits, the density of social network linkages, variation in the loss of strength gradient, or limits on other pathways for the diffusion of similarities, there is considerable variation across regions in the conduct of their international relations.....Even important large-N work suggests regional variation matters for overall findings”

(Johnston, 2012, p. 58).

Therefore, I posit that the variation of the effectiveness of the liberal commercial peace across different regions is due to some regionally different “omitted variables” that influence the three main causal mechanisms of the liberal commercial peace but are neglected by general international relations theorists.

Since regional omitted variables may bias statistical results, using regional dummy variables to roughly capsule all the possibly neglected omitted variables of each region is the most popular way to fix the statistical models. For example, Goldsmith (2006) argues that the regional omitted variables are very difficult or impossible to be reduced to “discrete causally independent variables because regions comprise very

complex sets of path-dependent interactions” (Goldsmith, 2006, p. 536). Therefore, he proposes two arguments to justify why for some purposes we should understand international relations based on “regions” and we should not further disaggregate “regions” into state level of analysis:

“I suggest that regions imply: (1) more similar internal political and socioeconomic characteristics, both institutions and political culture; and (2) increased frequency of shared interactions and even shared perceptions, often leading to similar expectations and patterns of interaction embodied in regional norms or institutions. These are based not only on proximity, but on regional identity as well (and so apply even within the subset of contiguous but inter-Intra-region Dyads...)” (Goldsmith, 2006, pp. 536–537).

For these reasons, which mainly result from the path-dependence phenomenon (Pierson, 2000; Mahoney, 2003; Mahoney & Rueschemeyer, 2003), Goldsmith (2006) argues that “using regions as a manifest indicator for what appear to be complex interactions between numerous unmeasured latent factors is reasonable empirically and theoretically” (Goldsmith, 2006, p. 538). Because the regional independent variables are too complicated and entangled to be further specifically identified, as Goldsmith’s argument, using regional dummy variables is the simplest way to take regional characteristics into concern.

Although using regional dummy variables may to some degree alleviate the omitted variable bias problem in large-N research, it does not help if we want to further dig out what the regional factors are that make a difference. In other words, using

regional dummy variables does not advance our knowledge about what causes the regional variations of the liberal commercial peace. Do these regional variations result from different regionally specific variables in each of the regions respectively? Or are they caused by some universal variables that vary in each of the regions respectively? Using regional dummy variables to model the liberal commercial peace does not enable us to answer these questions.

Echoing Goldsmith's argument, I argue that it is the different regional characteristics that cause the variation of the effectiveness of the liberal commercial peace across regions. But different from Goldsmith, I neither plan to stop here only by arguing that there are regional differences of the liberal commercial peace nor make a strong assumption that there must be some regionally-specific variables that are neglected by large-N research. Instead, according to the suggestions of literature, I try to look for the universal factors that vary across different regions rather than look for ad hoc regionally-specific reasons that condition trade's pacifying effect. Besides, I also try to design a general analytical framework based on literature that can guide us to find out how to make the liberal commercial peace effect work in different regions. In other words, I neither simply treat regional characteristics as an unmodelable or inseparable set of many entangled independent variables nor directly use regional dummy variables to catch all these regional characteristics as Goldsmith did in his research. Instead, according to literature, I enumerate the specific factors that differentiate one region from the others and construct an overarching theory to explain the regional variations of the liberal commercial peace effect. As such, the contribution of this research is to advance a theoretical progress of the liberal commercial peace theory.

3.2.2 The universal factors of the liberal commercial peace that vary regionally

Literature of regional international relations research suggests that, due to their intensive interactions with other neighbor countries in the same region, countries in the same region tend to have very similar political, economic, and cultural characteristics, which result from their proximate geography and history and are then later “locked-in” by the path-dependent effect (Liebowitz and Margolis 1995; Pierson 2000). By the same token, countries in different regions tend to have more divergent political, economic, and cultural characteristics than their intra-region counterparts. Because of this within-region and between-region difference, I posit that the different outcomes of trade’s pacifying effect in different regions are due to this within-region and between-region difference as well. So the next question to ask is, what are the specific factors which remain “similar within-region” but “dissimilar between-region” that make trade’s pacifying effect vary across regions? As mentioned before, the liberal commercial peace theory points out three causal mechanisms that explain how trade can reduce the probability of conflict. A review of the three causal mechanisms of the liberal commercial peace is informative as a beginning: The constrain argument highlights the importance of opportunity cost, the informational argument emphasizes on the process of costly signaling, and the transformative argument accentuates the influence of domestic political coalitions and the national goals that political leaders pursue. Starting from these three causal mechanisms, I posit that the key to searching for the specific factors that make trade’s pacifying effect vary across different regions is in looking for the specific factors that are related with these causal mechanisms and vary across regions. Based on literature, I argue that it is the

degree of intra-regional interdependence, the degree of democracy, and the degree of development that together condition the pacifying effect of trade.

Degree of intra-regional interdependence affects the three causal mechanisms in a very intuitive way. Higher intra-region interdependence means higher opportunity cost of cutting of trade as well as higher threshold of the sender state to threaten to cut off trade. Besides, higher intra-regional interdependence also indicates higher third-party trade and lower exit cost when the target state is threatened of cutting off trade (Crescenzi, 2003, 2005; Peterson, 2011). Therefore, strategically, higher intra-regional interdependence enhances the pacifying effect of trade in the region by (1) positively, increasing the opportunity cost of loss of trade or increasing the threshold of using economic coercion, or (2) negatively, sender state's successfully coercing target state by revealing a strong resolute to use economic sanction (Drezner, 1999; Gartzke, 2003). In addition, higher intra-regional interdependence itself may also be a consequence of good mutual relationship, denoting that both the national goals and domestic coalitions are internationalizing rather than backlashing, which also contributes to regional peace (Solingen, 2001, 2003, 2007).

Degree of democracy is another factor that conditions the pacifying effect of trade. After all, leaders are those who make foreign policy decisions (Most & Starr, 1989; Friedman & Starr, 1997; Bueno de Mesquita, Smith, Siverson, & Morrow, 2003). If the leaders are not constrained by any of the three causal mechanisms, the links between trade and foreign policy selection are disconnected. As the increase of institutional checks and balances to the leaders as well as the inclusion of social actors who have stakes on trade, the more likely that they are to be sensitive to the three causal mechanisms

(Papayoanou 1996; Oneal and Russett 2001; Gelpi and Grieco 2003; 2008). Even in nondemocracies, we can still find the effect that the more domestic constrains the leaders face, the more cautiously they use force (Weeks, 2008, 2012). Besides, the more democratic the regimes are, the more likely the costly signaling effect of trade will work due to information transparency (Schultz, 2001). All in all, the literature suggests that the effectiveness of the three liberal commercial peace causal mechanisms is conditioned on the degree of democracy of each state.

Degree of development also conditions the pacifying effect of trade. Before taking mutual trade into consideration, degree of development per se influences states' calculation of using force mainly by two reasons (Rosecrance, 1986). First, if the conflictual issue is about territory expansion, development can reduce the probability of conflict because "the costs of seizing and holding a territory increase with increased development, and the relative utility of occupying the territory decreases," therefore, "the chance that the expected utility of occupation exceeds the expected costs will decrease with increased development" (Hegre, 2000). Second, "since the utility of trade increases with increased development, then increased development also makes it more likely that the expected costs of breaking the trade bonds will exceed the gains to be expected from occupation" (Hegre, 2000, p. 9). From this opportunity cost and indifference curve perspective, what states long for can be achieved either by military measures or by economic ones, and increased development makes the former less attractive when the utility-maximizing states are doing the calculation. Recently, the capitalist peace scholars further demonstrate that a higher degree of development can largely enhance the democratic peace effect (Mousseau, 2000, 2003, 2005; Mousseau, Hegre, & O'neal, 2003;

Gartzke, 2007). When taking mutual trade into concern, given the fact that states with a higher degree of development tend to trade more, the effects of opportunity cost and costly signaling will tend to be more salient as well. By the same token, their national goals and domestic coalition may very likely be pro-internationalizing, too.

Based on the literature I discussed above, both the pacifying effect of trade “between countries in the same region” and “between countries between different regions” should be conditioned simultaneously on both countries’ degree of development and degree of democracy, because the degree of development and democracy can mutually reinforce the three causal mechanisms of the liberal commercial peace. Therefore, overall, based on the suggestions of previous research, I argue that the regional variances of the liberal commercial peace effect result from, in terms of statistics, an “omitted variable bias” or a “model miss-specification,” that is, the pacifying effect of trade should be a conditional one, which hinges simultaneously on both the degree of democracy and the degree of development. More specifically, a three-way interaction term of interdependence multiplied by development and democracy should be the independent variable instead of using interdependence as the only variable when modeling the liberal commercial peace effect. Once we specify the model as such, the regional variances of the liberal commercial peace effect should be disappear since these inter-region and intra-region differences have been caught up by the three-way interaction already. Hence, the hypotheses to be tested are:

Hypothesis 5: If we look at only the MIDs that caused fatality (the fatal MIDs), trade’s pacifying effect is conditioned simultaneously on both the degree of development

and the degree of democracy. That is, the three-way interaction of interdependence × development × democracy is associated with lower conflict occurrence.

Hypothesis 6: If we look at only the MIDs that caused fatality (the fatal MIDs), the three-way interaction of interdependence × development × democracy is associated with lower conflict occurrence not only when including all dyads but also when limiting the analysis to intra-region dyads.

What will happen if we try to predict all kinds of MIDs (instead of only the MIDs that caused fatality) with the three-way interaction? According to my theory, the three-way interaction will not have a statistically significant pacifying effect, whether at the global level or at the regional level. The reason is that, although the pacifying effect of trade can be reinforced by both the higher degree of democracy and the higher degree of development, higher degree of democracy and development also enhance the intensiveness of bilateral interaction and therefore leading to more conflicts. As a consequence, the pacifying effect of the three-way interaction resulting from the enhancement of the three causal mechanisms will be offset by the simultaneously-increased intensiveness of bilateral interaction. Thus, the last two hypotheses my theory proposes are:

Hypothesis 7: If we look at all kinds of MIDs, the three-way interaction of interdependence × development × democracy is not associated with lower conflict occurrence.

Hypothesis 8: If we look at all kinds of MIDs, the three-way interaction of interdependence × development × democracy is not associated with lower conflict occurrence whether including all dyads or limiting the analysis to intra-region dyads.

To sum up, in this section, I argue that the pacifying effect of trade should be understood as the following two points. First, trade will not decrease the probability of conflict that does not cause fatality, but will reduce the probability of conflict that cause fatality. Second, this liberal commercial peace effect is conditioned simultaneously on the degree of democracy and the degree of development, which accounts for the regional variances of the liberal commercial peace effect across different regions around the world. I illustrate this unified theoretical framework of the liberal commercial peace effect at the regional level of analysis in Figure 2.1 on the next page. All the eight hypotheses will be tested with data of the onset of militarized interstate disputes (MIDs) from 1950 to 2001 in the next section.

4 Research design

4.1 Dependent variables and statistical models

Following most of the literature on the relationship between trade and conflict, I use the onset of a new militarized interstate dispute (MID) between a pair of states each year as the dependent variable. This is because the dyadic design can better take different security threats that different countries face into concern. Thus the unit of analysis is dyad-year. I use the MID 3.1 dataset (Ghosn, Palmer, & Bremer, 2004) of the Correlates of War database. A MID is defined as “a set of interactions between or among states involving threats to use military force, displays of military force, or actual uses of military force” (Gochman & Maoz, 1984, p. 586). The new MID onset is a dichotomous variable which is coded 1 for the first year of a new MID in a dyad and 0 otherwise. The subsequent years of the same MID in the starting year is dropped from the data to reduce the problem of temporal dependence, because the statistical model I employ in this study,

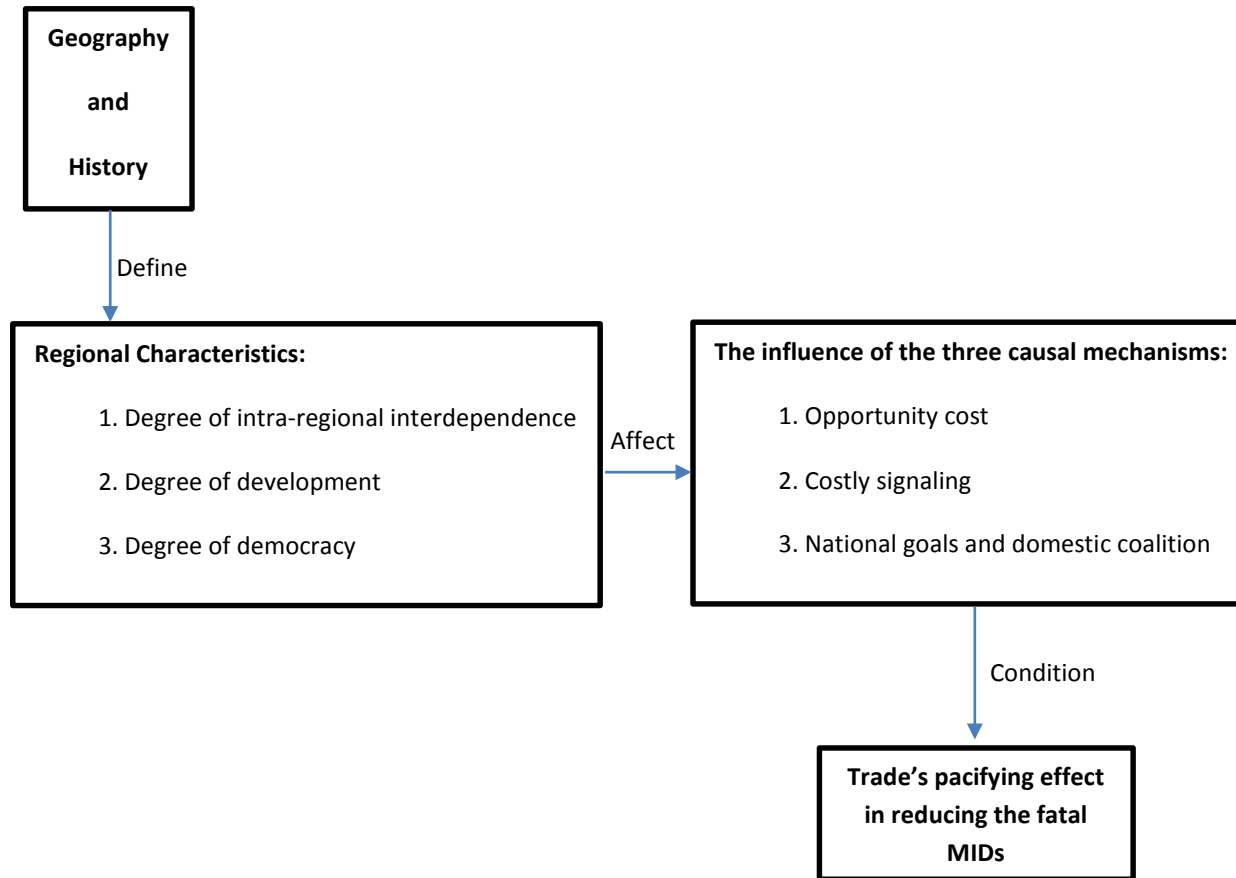


Figure 2.1 A Unified theoretical framework of the liberal commercial peace effect between the intra-region dyads

the logit regression model, assumes that the conflict events being analyzed are independent of each other. The temporal span of MID 3.1 data is from 1816 to 2001. Because most of the trade and GDP data is available only after 1950, the temporal coverage of this research is from 1950 to 2001.

For several reasons I mentioned above, in some models I look at only the MIDs that caused fatality, the fatal MIDs, instead of all the recorded MIDs. Because MID onset is a time-series cross-sectional binary variable across time (years) and space (dyads), in order to produce accurate standard errors and consistent coefficients, I estimate the logit regression model with the Huber/White robust standard error which assumes that observations within the same dyad across years are correlated but those between different dyads are uncorrelated, adjusting for clustering in dyads. I also adopt Carter and Signorino's (2010) method to include peace years between two MIDs or fatal MIDs that happened in the same dyad (how long the dyad remains a peaceful relationship in years), its square, and its cube into the model to control for temporal dependence.¹³ As most of the literature, I estimate all the models with the dependent variable at time t and independent variables at time $t - 1$ to mitigate problems of reverse causality.

4.2 Independent variables and control variables

My theory predicts that the three-way interaction of interdependence \times development \times democracy has a strong pacifying effect, so in order to have a complete model, my independent variables should include both this three-way interaction term as well as all its constituencies of interdependence \times development, interdependence \times

¹³ I also estimate all the models using Beck et al.'s (1998) peace years and cubic splines to control for temporal dependence. The outcomes are almost identical to Carter and Signorino's (2010) method I adopted.

democracy, and development \times democracy. Like most literature of the liberal commercial peace, I conceptualize interdependence, development, and democracy following the “weak link” logic adopted by Dixon (1994) and Oneal and Russett (1997) which assumes that “the likelihood of dyadic conflict is primarily determined by the less constrained of the two states in a dyad” (Oneal & Russett, 1997, p. 273). Typically, countries which has lower degree of interdependence, democracy, and development are regarded as the less constraint ones. **Low dependence** is the lower ratio of the sum of State A’s imports from and exports to State B over State A’s GDP in each dyad-year, data from Gleditsch’s (2002) expanded trade and GDP data. **Low democracy** is the lower democracy score of the two states in each dyad-year, data from the Polity IV dataset (Marshall, Gurr, & Jaggers, 2013). The Polity IV dataset’s democracy score ranges from -10 (the most autocratic) to 10 (the most democratic). **Low GDP/pc** is the logged GDP per capita of the lower GDP per capita value in each dyad-year, data also from Gleditsch’s (2002) expanded trade and GDP data. Thus the three-way interaction and all its constituencies are made of the combinations of these three variables, respectively.

To compare with most of the liberal commercial peace studies, I control for the following variables that had been demonstrated to have influences on conflict onset. I put the number of joint intergovernmental organization memberships (**IGOs**) into the model to include all the three Kantian peace components, and control for **Polity difference**, **Power ratio**, **Alliance**, **Cold war**, **Contiguity**, **Distance**, and **None major power dyad** in the models. IGOs is the number of total shared memberships of intergovernmental organizations of the two states in each dyad year, data from Pevehouse, Nordstrom, and

Warnke (2004).¹⁴ **Polity difference** is State A's polity score minus State B's polity score in absolute value, considering interest (dis)similarity resulting from different political regimes may influence the relationship between the two countries in each dyad (Bennett & Stam, 2000b; Peceny, Beer, & Sanchez-Terry, 2002). **Power ratio** is the weaker state's Composite Index of National Capability (CINC) score (Singer, 1988) divided by that of the stronger state and then logged (to catch the decreasing marginal advantage of increasing power difference) to generate a power ratio which ranges from 0 (total preponderance) to 1 (exact parity between the two states). **Alliance** is a dummy variable with a value of 1 if the two states in each dyad have signed a defense pact, neutrality, or entente in the year, and with a value of 0 if otherwise. **Cold war** is a dummy variable, taking a value of 1 between 1950 and 1989 to control for the change of international structure which may have a systemic effect on conflict onset in the region. **Contiguity** is a dummy variable which denotes whether the two countries of the dyad are contiguous by land, predicted to be positively correlated with conflict onset. **Distance** is the logged distance (in miles) between capitals of the two states in each dyad, predicted to be negatively related with conflict onset. Because major power countries are more prone to involve in international disputes (Bremer, 1992; Xiang, Xu, & Keteku, 2007), I create a dummy variable **None major power dyad** to control for this influence of power, taking a value of 1 if both states in the dyad are none major powers, and 0 if otherwise. The summary of all the variables used is shown in Table 2.1.

¹⁴ Although I have noticed that previous research about IGOs' pacifying effect is mixed as Dorussen and Ward's (2008) review had demonstrated, and that the aggregated count variable of shared IGO membership may mislead our understanding of IGOs' role in promoting peace (Boehmer, Gartzke, & Nordstrom, 2004), I still include this aggregated count variable in my models in order to further confirm my argument by considering all the Kantian peace variables at the same time. The statistical results are almost identical with or without this variable.

Although various variables are taken into control, the significance of my independent variables, especially the three-way interaction term, is not sensitive including or not including any of or all of these control variables above, whether including all dyads or limiting the analysis to intra-region dyads.

4.3 Subsample variable: How to define a region

To investigate the relationship between trade and conflict at the regional level, it is necessary to define what a region is, that is, the way to distinguish one region from all the others by theoretical reasons according to the goal of theory. The literature points out several theoretical methods to define a region. Generally speaking, regions can be defined by two main factors – physical regions (categorized by geographical and strategic reasons) and functional regions (categorized by economic, environmental, and cultural reasons) (Väyrynen, 2003), the former is also referred to “space of places” and the latter “space of flows” (Castells, 1996). For example, Goldsmith (2006) separates regions simply by geography using the Correlates of War database’s default, while Lake and Morgan (1997), Lemke (2002), and Buzan and Wæver (2003) define region mainly according to security externality and power structure concerns, and Huntington (2011) distinguishes regions by cultural factors and Buzan & Wæver (2003) somewhat also emphasize the concern of social construction. Because the goal of this research is to investigate how the universal factors that vary in different regions condition the pacifying effect of trade, mainly the intra-region trade and the intra-regional conflict which includes both places and flows, my position is somewhere between the physical and the functional approaches. That is, I am looking for a definition of region that is composed of approximate countries who have the most frequent interactions not only economically but also politically.

Table 2.1 Summary of all the variables used

Variable	Observations	Mean	Standard Deviation	Min	Max
Low dependence	521,971	0.0003777	0.0023553	0	0.2143973
Low democracy	436,680	-4.237426	5.873694	-10	10
Low GDP/pc	521,971	7.578194	0.8534986	5.639279	10.6778
Low dependence X Low democracy	424,158	0.000171	0.0218834	-1.263152	1.55768
Low dependence X Low GDP/pc	521,971	0.0032546	0.0214277	0	1.554244
Low democracy X Low GDP/pc	424,158	-31.0953	46.00385	-106.778	102.0583
Low dependence X Low democracy X Low GDP/pc	424,158	0.0035852	0.2046547	-8.788939	15.10027
IGOs	539,106	21.64904	11.50687	0	108
Polity difference	436,680	7.984609	6.537954	0	20
Power ratio	545,231	-2.49345	1.96174	-11.97376	0
Alliance	528,033	0.0701055	0.2553249	0	1
Cold war	546,178	0.6268671	0.4836374	0	1
Contiguity	546,178	0.0364588	0.187429	0	1
Distance	546,178	8.250772	0.7804501	1.609438	9.421168
None major power dyad	546,178	0.9270677	0.2600255	0	1
MID Peace years	546,178	17.76141	13.08768	0	51
MID Peace years	546,178	486.7549	586.4473	0	2601
MID Peace years	546,178	15973.2	25821.03	0	132651
Fatal MID peace years	546,178	18.00594	13.1508	0	51
Fatal MID peace years	546,178	497.1569	593.472	0	2601
Fatal MID peace years	546,178	16406.92	26246.12	0	132651

For a pair of countries to have trade and conflict, according to the opportunity and willingness framework (Most & Starr, 1982, 1989), there must be a necessary condition that these two countries must have sufficient capabilities to interact with each other. By the same token, to investigate the pacifying effect of trade in different regions, it is imperative to define a region by a set of countries who have sufficient interaction with other countries in the same region but have rather insufficient interaction with countries outside the region. To match this theoretical need, I find Lemke's (2002) definition of regions is the most ideal measurement available for my purpose. Based on Bueno de Mesquita's (1981) operationalization of Boulding's (1962) loss-of-strength gradient, Lemke (2002) defines regions as groups of proximate states all of which hold sufficient capabilities to interact with each other. By applying a similar formula revised from Boulding's (1962), Lemke (2002) divides the world into 22 regions according to the model results: North America and the Caribbean, Central America, South America, Europe, West Africa, the Gulf of Guinea, the Central Lowlands of Africa, The South Atlantic Coast of Africa, the Indian Ocean region of Africa, the Central Highlands of Africa, the Horn of Africa, Southern Africa, the Maghreb, The Northern Rim of Africa, The Arab-Israeli region of the Middle East, The Arabian Peninsula, Central Asia, East Asia, South Asia, Southeast Asia, The Asian Archipelago, and Oceania. According to Lemke's categorizing method, a set of countries that interact with each other the most intensively are categorized as a region. By this definition, a region contains countries that the most likely to have trade and conflict with each other. Therefore, it is the most ideal classification for the goal of this research: to investigate the variation of trade's pacifying effect in different regions.

By adopting Lemke's (2002) definition of regions, I define the intra-region dyads as the dyadic country combinations that belong to the same region among the 22 regions above. The reference group is the global dyads often-used in large-N empirical IR research which are composed of the dyadic country combinations of all the countries around the world. According to the data I generated from the Eugene software (Bennett & Stam, 2000a), from 1950 to 2001, there are 417,773 none-directed dyad-year observations (and 13,538 global dyads); while according to Lemke's (2002) definition, there are 32,372 none-directed dyad-year observations (and 1,177 intra-region dyads).¹⁵

Since I have differentiated intra-region dyads from global dyads, here I demonstrate some stylized facts to show that looking at intra-region dyads rather than global dyads is more informative to understand interstate militarized conflict. Table 2.2 is the tabulation of all the fatal MIDs occurred from 1950 to 2001 between all dyads. Table 2.2 shows that there are total 466 MIDs that caused fatality occurred among the 546,178 dyad-year observations during the sample period. The baseline probability of fatal MID is 0.09%.

Table 2.3 is the tabulation of all the fatal MIDs that occurred between inter-region dyads from 1950 to 2001. According to Table 2.3, 205 of the total 466 MIDs (44%) are happened between inter-region dyads among the 502,248 inter-region dyad-year observations during the sample period. The baseline probability of fatal MID happened between inter-region dyads is 0.04%.

Table 2.4 is the tabulation of the fatal MIDs that happened between intra-region dyads from 1950 to 2001. According to Table 2.4, 261 of the total 466 fatal MIDs (56%)

¹⁵ Not counting in the dyads with missing values of the independent variables and the control variables.

are happened between intra-region dyads among the 43,930 intra-region dyad-year observations during the sample period. The baseline probability of fatal MID happened between intra-region dyads is 0.59%, which is 6 times higher than the baseline probability of all the fatal MIDs between global dyads (0.09%) and 15 times higher than the baseline probability of fatal MIDs between inter-region dyads (0.04%).

This tabulation analysis highlights the theoretical necessity of analyzing intra-region dyads. As we see in Table 2.2, Table 2.3, and Table 2.4, intra-region dyads are more likely to undergo fatal MIDs than inter-region dyads, which confirms the effect that countries that interact more tend to have more trade and conflict. Thus, for the liberal commercial peace effect to be a meaningful phenomenon, it must work not only between the global and inter-region dyads but also between the intra-region dyads. If trade's pacifying effect works only between the global dyads and inter-region dyads but not between intra-region dyads, then there is a good reason to reconsider the liberal commercial peace theory. In the next section, I will use statistical models to show that my theory is more robust than the liberal commercial peace theory because the former does not hold in intra-region dyads, while my theory offers a more consistent explanation for both the global dyads and the intra-region dyads.

4.4 Interaction density control variables: Hegre's (2009) approach

As for the control for the bilateral interaction density, I adopt Hegre's (2009) approach to conceptualize the bilateral "size dependence." As many previous studies have demonstrated (Tinbergen, 1962; Deardorff, 1997), "the volume of trade between two countries is to a large degree proportional to the product of the two countries' GDP and inversely proportional to the distance between them" (Hegre, 2009, p. 28). At

Table 2.2 The number of fatal MIDs between all dyads, 1950~2001

	Frequency	Percentage
No	545,712	99.91
Yes	466	0.09
Number of dyad-year observations	546,178	100.00

Table 2.3 The number of fatal MIDs occurred between inter-region dyads, 1950~2001

	Frequency	Percentage
No	502,043	99.96
Yes	205	0.04
Number of dyad-year observations	502,248	100.00

Table 2.4 The number of fatal MIDs occurred between intra-region dyads, 1950~2001

	Frequency	Percentage
No	43,669	99.41
Yes	261	0.59
Number of dyad-year observations	43,930	100.00

the same time, as for the interaction density in terms of interpersonal contact, Zipf (1946) shows that the number of persons that move between any two cities is also in proportion to the product of the number of populations of these two cities divided by the distance. In other words, the bilateral interaction density, whether in trade or in interpersonal contact, can be measured by similar methods, which is called “the gravity model” given that it has the same structure as the gravity model in physics. Therefore, Hegre (2009) suggests that to handle this kind of interference of “size dependence” on bilateral trade and conflict, we should put in all the decomposed variables of trade and conflict – that is, their constituent parts – to control for interaction density. These decomposed parts include both (logged) populations, distance, and contiguity. Besides, Hegre (2009) also suggests to put in (logged) GDP per capita and degree of democracy of both sides into the gravity model because richer and more democratic countries have higher ability to interact with other countries. Since I already have **Contiguity** and **Distance** in the control variables, in the models which I control for interaction density, I include **Country A’s population**, **Country B’s population**, **Country A’s GDP per capita**, **Country B’s GDP per capita**, **Country A’s polity score**, and **Country B’s polity score** as the control variables of bilateral interaction density.

5 Empirical Analysis

5.1 Basic analysis

In Table 2.5 I test the first two hypotheses. Model 1 is the popular Russett and Oneal model of the triangulating peace research (Russett and Oneal 2001), which takes all the dyads into concern. The result is the same as the liberal commercial peace literature that interdependence does reduce the probability of MID. However, Model 2

Table 2.5 Liberal commercial peace, global and regional, 1950~2001

[Dependent Variables $_t$]	All MID Onset		Fatal MID Onset	
	Test Hypothesis 1		Test Hypothesis 2	
	Model 1 All Dyads	Model 2 Intra-region Dyads	Model 3 All Dyads	Model 4 Intra-region Dyads
[Independent Variable $_{t-1}$]				
Low dependence	-63.513*** (18.841)	-20.008 (12.514) P<0.110	-98.459* (39.315)	-77.029* (37.221)
[Control Variables $_{t-1}$]				
Low democracy	-0.043** (0.014)	-0.030 (0.019)	-0.035 (0.025)	-0.014 (0.027)
Low GDP/pc	-0.097 (0.074)	-0.298** (0.112)	-0.632*** (0.128)	-0.721*** (0.154)
IGOs	0.024*** (0.006)	0.008 (0.007)	0.024* (0.010)	0.016 (0.012)
Polity difference	0.041*** (0.008)	0.043*** (0.013)	0.045*** (0.013)	0.034* (0.017)
Power ratio	0.193*** (0.044)	0.127* (0.056)	0.218** (0.070)	0.238** (0.085)
Alliance	-0.304** (0.140)	-0.434*** (0.154)	-0.284 (0.186)	-0.592*** (0.210)
Cold war	0.253* (0.113)	-0.199 (0.164)	0.353 (0.203)	0.458 (0.240)
Contiguity	2.779*** (0.169)	2.507*** (0.197)	3.451*** (0.295)	3.466*** (0.421)
Distance	-0.410*** (0.066)	-0.145* (0.070)	-0.483*** (0.110)	-0.266* (0.124)
None major power dyad	-1.758*** (0.172)	-0.775*** (0.217)	-1.864*** (0.284)	-0.428 (0.404)
Peace years ¹	-0.321*** (0.022)	-0.259*** (0.030)	-0.275*** (0.037)	-0.322*** (0.038)
Peace years ²	0.011*** (0.001)	0.008*** (0.002)	0.009*** (0.002)	0.012*** (0.003)
Peace years ³	-0.000*** (0.000)	-0.000** (0.000)	-0.000** (0.000)	-0.000** (0.000)
Constant	-0.343 (0.874)	-0.546 (1.071)	2.622 (1.514)	1.333 (1.644)

Pseudo R^2	0.350	0.257	0.371	0.327
Log Likelihood	-6225.803	-2548.931	-2178.461	-972.497
Chi-squared	2699.641	546.070	1487.689	378.777
Number of clusters	13,538	1,177	13,538	1,177
Number of observations	417,773	32,372	417,773	32,372

Note: Standard errors in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

demonstrates that this liberal commercial peace effect does not hold when we look at only the intra-region Dyads. In Model 2, interdependence does not have a significant pacifying effect anymore; in addition, its substantive effect shrinks by a great deal. The result of Model 1 and Model 2 shows that, when looking at all levels of MIDs, the liberal commercial peace effect only works inter-regionally, not intra-regionally, which suggests that previous findings of the liberal commercial peace effect largely result from the inter-regional effects rather than from the inter-regional ones and that the substantive effect of trade's pacifying effect in reducing all levels of MIDs is over-emphasized by the liberals.

Model 3 and Model 4 test my argument about a correct understanding of the liberal commercial peace effect: Trade does not always decrease the probability of low-level MIDs (those that do not cause fatality) due to the fact that trade is also a measurement of interaction density, while trade does decrease the probability of high-level MIDs (those that caused fatality). The result of Model 3 and Model 4 show that, when looking at only the MIDs that caused fatality, the liberal commercial peace effect holds stably whether at the global level or at the regional level.

In Table 2.6 I test the two extended hypotheses: Hypothesis 3 and Hypothesis 4. Model 5 and Model 6 demonstrate that once controlling for interaction density, the liberal commercial peace effect is significant in reducing all levels of MIDs at both the global level and the regional level. Model 7 and Model 8 show that if we look at only the MIDs that caused fatality, the liberal commercial peace effect is significant at both the global level and the regional level, whether controlling for interaction density or not.

Table 2.7 is the test of the three-way interaction because my argument expects that the pacifying effect of trade is conditioned simultaneously on the degree of

Table 2.6 Liberal commercial peace, global and regional, with interaction density, 1950~2001

[Dependent Variable $_t$]	All MID Onset		Fatal MID Onset	
	Hypothesis 3		Hypothesis 4	
	Model 5	Model 6	Model 7	Model 8
	All Dyads	Intra-region Dyads	All Dyads	Intra-region Dyads
Interaction density	Yes	Yes	Yes	Yes
[Independent Variable $_{t-1}$]				
Low dependence	-57.921*** (16.872)	-22.095 (12.450) P<0.076	-85.100* (36.101)	-65.777* (30.388)
[Control Variables $_{t-1}$]				
Low democracy	-0.083*** (0.014)	-0.088*** (0.018)	-0.092*** (0.026)	-0.056* (0.027)
Low GDP/pc	-0.338** (0.110)	-0.344* (0.153)	-0.877*** (0.160)	-0.696** (0.215)
IGOs	0.007 (0.005)	-0.003 (0.005)	0.006 (0.008)	0.005 (0.009)
Power ratio	0.191*** (0.041)	0.122 (0.068)	0.274*** (0.068)	0.220* (0.097)
Alliance	0.053 (0.143)	-0.175 (0.159)	-0.011 (0.186)	-0.277 (0.205)
Cold war	0.628*** (0.133)	0.069 (0.188)	0.730*** (0.221)	0.658* (0.296)
Contiguity	2.206*** (0.189)	2.174*** (0.208)	3.093*** (0.319)	3.054*** (0.437)
Distance	-0.670*** (0.093)	-0.350*** (0.084)	-0.694*** (0.147)	-0.444** (0.143)
None major power dyad	-0.413* (0.199)	-0.072 (0.274)	-0.431 (0.370)	0.119 (0.611)
Country A's capability	6.474*** (1.597)	0.736 (2.319)	-0.249*** (0.037)	-0.306*** (0.039)
Country B's capability	0.593 (2.272)	0.556 (3.652)	0.007*** (0.002)	0.011*** (0.003)
Country A's population	0.243*** (0.045)	0.217*** (0.063)	-0.000 (0.000)	-0.000** (0.000)
Country B's population	0.218*** (0.049)	0.170* (0.073)	8.871** (2.785)	-3.893 (6.587)
Country A's GDP/pc	0.207*** (0.057)	-0.021 (0.090)	-2.180 (4.193)	-7.698 (10.839)

Country B's GDP/pc	0.220** (0.068)	0.229** (0.084)	0.201** (0.073)	0.262** (0.101)
Country A's polity score	0.036*** (0.009)	0.044** (0.014)	0.137 (0.078)	0.185 (0.097)
Country B's Polity score	0.017 (0.010)	0.020 (0.016)	0.264*** (0.076)	-0.173 (0.161)
Peace years ¹	-0.285*** (0.021)	-0.237*** (0.030)	0.154 (0.087)	0.304** (0.102)
Peace years ²	0.009*** (0.001)	0.007*** (0.002)	0.050*** (0.014)	0.021 (0.019)
Peace years ³	-0.000*** (0.000)	-0.000* (0.000)	0.020 (0.017)	0.016 (0.019)
Constant	-8.111*** (1.356)	-6.821*** (1.777)	-3.515 (2.036)	-5.980** (2.160)
Pseudo R ²	0.372	0.272	0.391	0.342
Log Likelihood.	-6020.258	-2495.520	-2110.438	-951.620
Chi-squared	2757.497	714.652	1734.142	552.058
Number of clusters	13,538	1,177	13,538	1,177
Number of observations	417,773	32,372	417,773	32,372

Note: Standard errors in parentheses. * p<0.05, ** p<0.01, *** p<0.001.

Table 2.7 Three-way interaction of liberal commercial peace, global and regional, 1950~2001

[Dependent Variables $_t$]	Fatal MID Onset			
	Test Hypothesis 5		Test Hypothesis 6	
	Model 9 All Dyads	Model 10 Intra-region Dyads	Model 11 All Dyads	Model 12 Intra-region Dyads
Interaction Density	No	No	Yes	Yes
[Independent Variables $_{t-1}$]				
Low dependence	734.302*** (177.010)	427.002* (181.729)	726.865*** (183.555)	437.039* (198.029)
Low Democracy	0.043 (0.158)	0.006 (0.166)	-0.136 (0.148)	-0.072 (0.146)
Low GDP/pc	-0.589*** (0.166)	-0.660** (0.183)	-0.740*** (0.174)	-0.609* (0.227)
Low dependence × Low democracy	84.331*** (21.890)	68.925*** (21.266)	81.877*** (23.631)	59.752** (23.429)
Low dependence × Low GDP/pc	-114.610*** (27.457)	-70.813* (28.273)	-110.768*** (28.118)	-71.491* (30.605)
Low democracy × Low GDP/pc	-0.006 (0.020)	-0.000 (0.021)	0.009 (0.019)	0.005 (0.019)
Low dependence × Low democracy × Low GDP/pc	-12.434*** (3.275)	-10.080** (3.108)	-11.725*** (3.443)	-8.881** (3.345)
[Control Variables $_{t-1}$]				
IGOs	0.027** (0.010)	0.018 (0.012)	0.008 (0.008)	0.006 (0.009)
Polity difference	0.041** (0.013)	0.031 (0.017)		
Power ratio	0.228** (0.070)	0.252** (0.085)	0.279*** (0.068)	0.220* (0.096)
Alliance	-0.274 (0.180)	-0.613** (0.207)	-0.003 (0.183)	-0.283 (0.204)
Cold war	0.422* (0.204)	0.488* (0.243)	0.756*** (0.220)	0.696* (0.294)
Contiguity	3.396*** (0.289)	3.512*** (0.433)	3.071*** (0.314)	3.126*** (0.449)
Distance	-0.502*** (0.112)	-0.279* (0.126)	-0.702*** (0.147)	-0.453** (0.145)
None major power dyad	-2.017*** (0.275)	-0.590 (0.412)	-0.606 (0.380)	-0.231 (0.625)
Country A's capability			8.332** (3.040)	-6.278 (6.898)
Country B's capability			-2.956 (4.217)	-9.668 (10.274)
Country A's population			0.195** (0.071)	0.264* (0.103)

Country B's population			0.142 (0.079)	0.197* (0.096)
Country A's GDP/pc			0.259*** (0.077)	-0.175 (0.163)
Country B's GDP/pc			0.146 (0.088)	0.311** (0.104)
Country A's polity score			0.049*** (0.014)	0.022 (0.018)
Country B's polity score			0.019 (0.017)	0.015 (0.019)
Peace years ¹	-0.274*** (0.036)	-0.319*** (0.037)	-0.250*** (0.037)	-0.304*** (0.039)
Peace years ²	0.009*** (0.002)	0.012*** (0.003)	0.007*** (0.002)	0.011*** (0.003)
Peace years ³	-0.000* (0.000)	-0.000** (0.000)	-0.000 (0.000)	-0.000* (0.000)
Constant	2.728 (1.855)	1.170 (1.963)	-4.117 (2.197)	-6.465** (2.260)
Pseudo R ²	0.376	0.331	0.394	0.344
Log likelihood	-2162.386	-967.650	-2100.422	-947.792
Chi-squared	1596.129	388.190	1852.416	591.801
Number of clusters	13,538	1,177	13,538	1,177
Number of observations	417,773	32,372	417,773	32,372

Note: Standard errors in parentheses. * p<0.05, ** p<0.01, *** p<0.001.

democracy and the degree of development. Model 9 and Model 10 test Hypothesis 5, where the three-way interaction term is significant in reducing the MIDs that caused fatality at both the global level and the regional level. That is, whether at the global level or at the regional level, the pacifying effect of trade is conditioned on both the degree of democracy and the degree of development.

Model 11 and Model 12 test Hypothesis 6, which states that the three-way interaction term is significant in reducing the MIDs that caused fatality at both the global level and the regional level, even though the interaction density is also taken into concern. That is, whether at the global level or at the regional level, the pacifying effect of trade is conditioned on both the degree of democracy and the degree of development, and this three-way conditional effect holds stably whether the interaction density is controlled for. The statistical test for Hypothesis 7 and Hypothesis 8 is not shown for brevity. The test shows that when looking at all levels of MIDs, the three-way interaction is not statistically significant in reducing conflict, whether at the global level or at the regional level. The reason is that the degree of democracy and the degree of development are also the measurement of the intensiveness of bilateral interaction, and so countries interact more frequently tend to have more low-level MIDs. This nullifies the pacifying effect of the three-way interaction.

The three-way interaction also explains for the puzzle why in some regions trade actually leads to conflict rather than reduce it. In all the three-way interaction models in Table 2.7, one of the constituent variable, Low dependence, is significant with a positive coefficient, which means that in dyads where the degree of democracy and development is not high enough, trade actually increase the probability of fatal conflict. In other words,

in regions where there are few democratic and rich countries, trade may lead to conflict rather than promote peace. Thus my theory provides a unified explanation for the regional contradicting variations of the liberal commercial peace effect.

In sum, all the hypotheses my theory proposed are well-supported by the empirical evidences. These results confirm my arguments that, first, looking at all kinds of MID's is not a proper way to understand the liberal commercial peace effect, because the pacifying effect of trade works not in reducing all kinds of MID's, but in reducing the MID's that would cause fatality; and, second, the liberal commercial peace effect is simultaneously conditioned on both the degree of democracy and the degree of development, that is, higher levels of democracy and development can reinforce trade's pacifying effect due to enhancing the three causal mechanisms of the liberal commercial peace. My argument not only explains for why there are global and regional variations of the liberal commercial peace effect, but also develops a unified theory, the three-way conditional preconditions, that bridges the global-regional discrepancies of the liberal commercial peace effect.

5.2 The outcome of the control variables

The results of the control variables are also very informative and important to my theory. In Table 2.5, Table 2.6, and Table 2.7, I frame the control variables which have different effects on the dependent variables between the global level and the regional level.

In Model 1 and Model 2 where the dependent variable is the onset of all kinds of MID's, **Low democracy**, **IGOs**, and **Cold war** have significant influences at the global level, not at the regional level; instead, **Low GDP/pc** has significant influence at the

regional level, not at the global level. In other words, when considering all kinds of MIDs, the increase of the degree of democracy reduces the probability of conflict mainly between a pair of countries from different regions, not in the same region; the increase of development (**Low GDP/pc**) reduces the probability of conflict mainly between a pair of countries in the same region, not from different regions; the increase of IGO memberships increases the probability of conflict mainly between a pair of countries from different regions, not in the same region; and a pair of countries from different regions are more likely to undergo MIDs during the Cold War period, but this phenomenon does not exist between a pair of countries in the same region.

In Model 3 and Model 4 where the dependent variable is the onset of fatal MIDs only, **IGOs** and **None major power dyad** have significant influences at the global level, not at the regional level; instead, **Alliance** has significant influence at the regional level, not at the global level. In other words, when considering only the fatal MIDs, the increase of IGO memberships increases the probability of conflict mainly between a pair of countries from different regions, not in the same region; a pair of countries in the same region who are allies are less likely to undergo MIDs, but a pair of countries from different regions who are allies are not; and none major power dyads from different regions are less likely to undergo MIDs, but none major power dyads in the same region are not.

In Model 5 and Model 6 where the dependent variable is the onset of all kinds of MIDs and the interaction density of both sides is taken into concern, **Power ratio**, **Cold war**, and **None major power dyad** have significant influences at the global level, not at the regional level. In other words, when considering all kinds of MIDs, the increase of

power ratio increases the probability of conflict mainly between a pair of countries from different regions, not in the same region; a pair of countries from different regions are more likely to undergo MIDs during the Cold War period, but this phenomenon does not exist between a pair of countries in the same region; and none major power dyads from different regions are less likely to undergo MIDs, but none major power dyads in the same region are not. However, in Model 7 and Model 8 where the dependent variable is the onset of fatal MIDs only and the interaction density of both sides is taken into concern, this global-regional discrepancies disappear. Compared to Model 3 and Model 4 where the dependent variable is also fatal MID onset but not controlling for the interaction density of both sides, the global-regional consistency of Model 7 and Model 8 implies that the global-regional discrepancies should result from different interaction density, so once controlled for it the discrepancies no longer exist.

In Model 9 and Model 10 where the dependent variable is fatal MID onset, the independent variable is the three-way interaction, and the interaction density is not controlled, **IGOs** and **None major power dyad** have significant influences at the global level, not at the regional level; instead, **Alliance** has significant influence at the regional level, not at the global level. The outcome of Model 9 and Model 10 is very similar to Model 3 and 4. The only difference between “Model 3 – Model 4” and “Model 9 – Model 10” is the independent variable (**Low dependence** vs. the three-way interaction). Again, in Model 11 and Model 12 where the dependent variable is fatal MID onset, the independent variable is the three-way interaction, and the interaction density is controlled, this global-regional discrepancies disappear. The outcomes of Model 11 and Model 12 are very similar to Model 7 and Model 8. The only difference between “Model 7 – Model

8” and “Model 11 – Model 12” is the independent variable (**Low dependence** vs. the three-way interaction). Notice that in Table 2.7 the coefficients of the three-way interaction hold stably at both the global level (-12.434 vs. -11.725) and the regional level (-10.080 vs. -8.881) whether the interaction density of both sides is controlled for or not. Compared to the very unstable result of the **Low dependence** independent variable before and after controlling for the interaction density (-98.459 vs. -85.100; -77.029 vs. -65.777), this implies that the three-way interaction is a more proper way to model the liberal commercial peace effect despite different levels of analysis.

In sum, many of the control variables have different effects between the global level and the regional level, and once the interaction density is controlled for, this global-regional difference no longer exists. The results here confirms the methodological necessity of the regional level of analysis that when testing general theories of international relations, we should test it not only at the global level but also at the regional level.

5.3 Substantive effects

To further interpret the substantive effect of the three-way interaction, in Figure 2.2, Figure 2.3, and Figure 2.4 I plot the predicted probability of fatal MID onset based on the estimation of Model 11 in Table 2.7, according to the change of **Low dependence**, **Low democracy**, and **Low GDP/pc**, respectively, holding all other variables constant.¹⁶ In each plot, I look at how the probability of fatal MID changes with the predictor under

¹⁶ I plot all the figures according to the method suggested by Dawson and Richter (2006) and Dawson (2014). I first standardize all the independent variables and control variables, and re-run Model 11 to get new coefficients. Then, I plot the figures according to the new coefficients. Therefore, the variation of the predictor of each plot refers to the variation of each independent variable after it has been standardized.

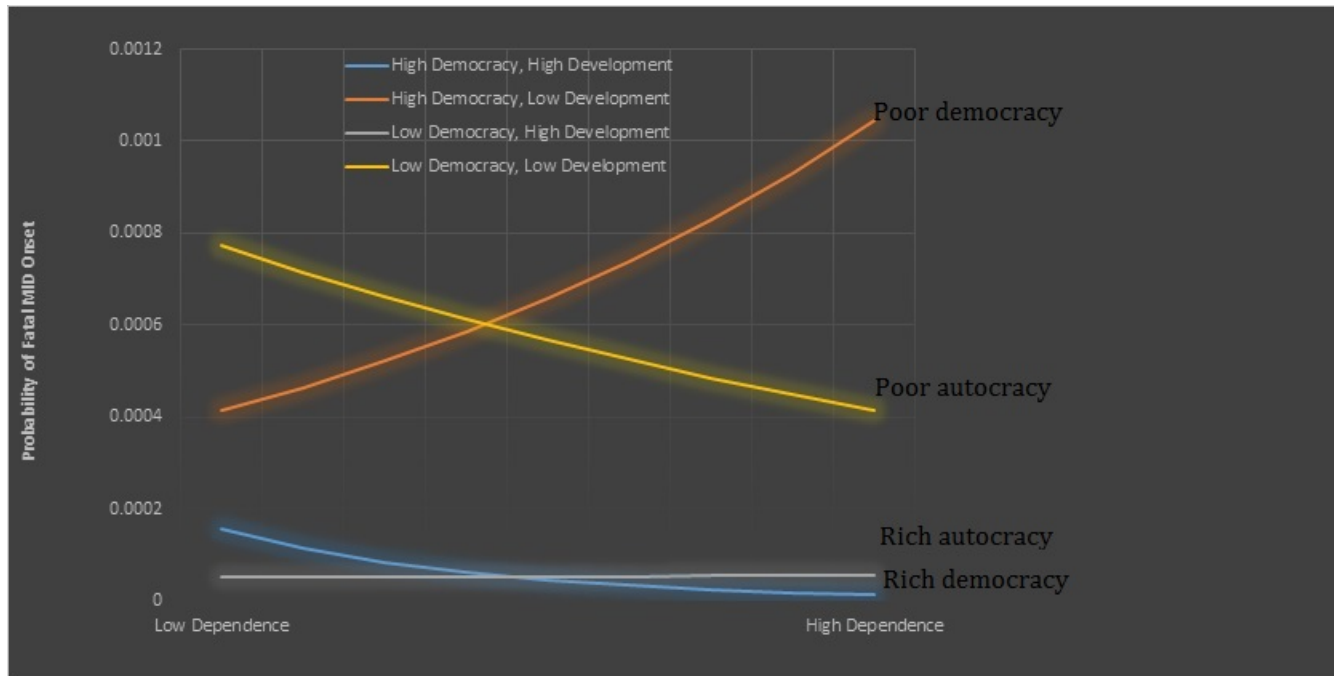


Figure 2.2 Predicted probability of fatal MID onset, using **Low dependence** (denoting as **Dependence** in the plot)

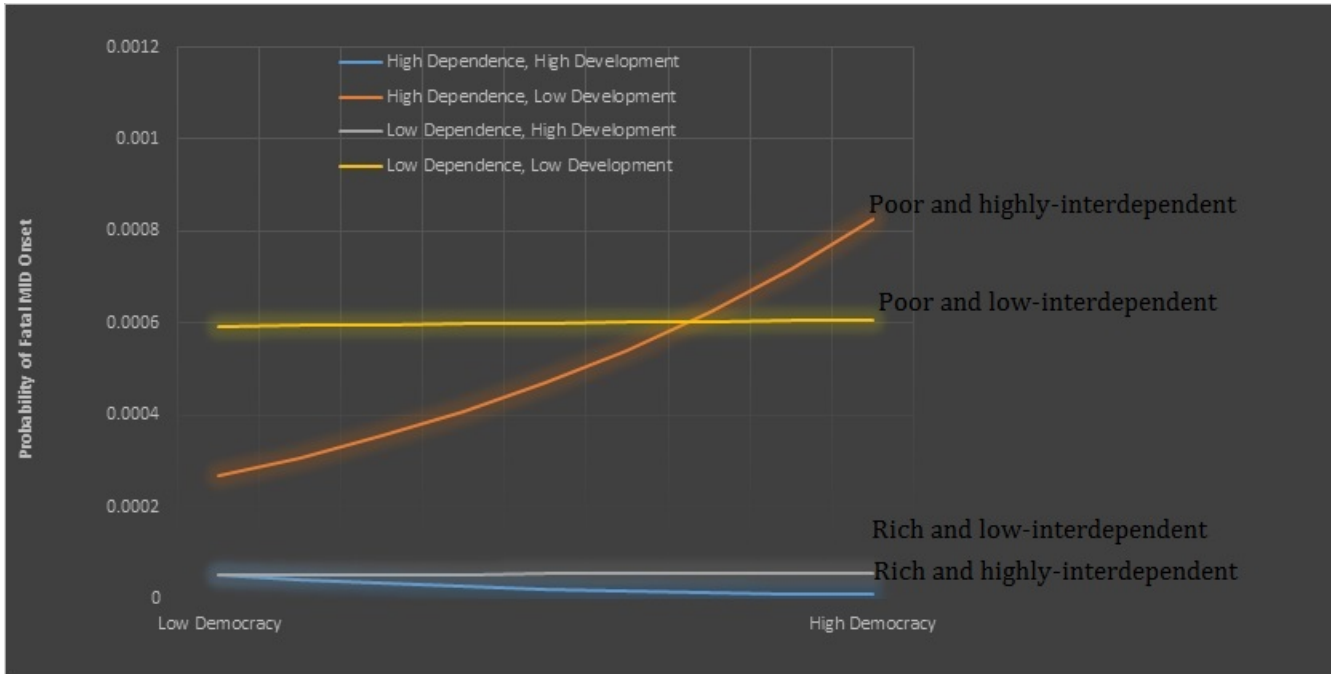


Figure 2.3 Predicted probability of fatal MID onset, using **Low democracy** (denoting as **Democracy** in the plot)

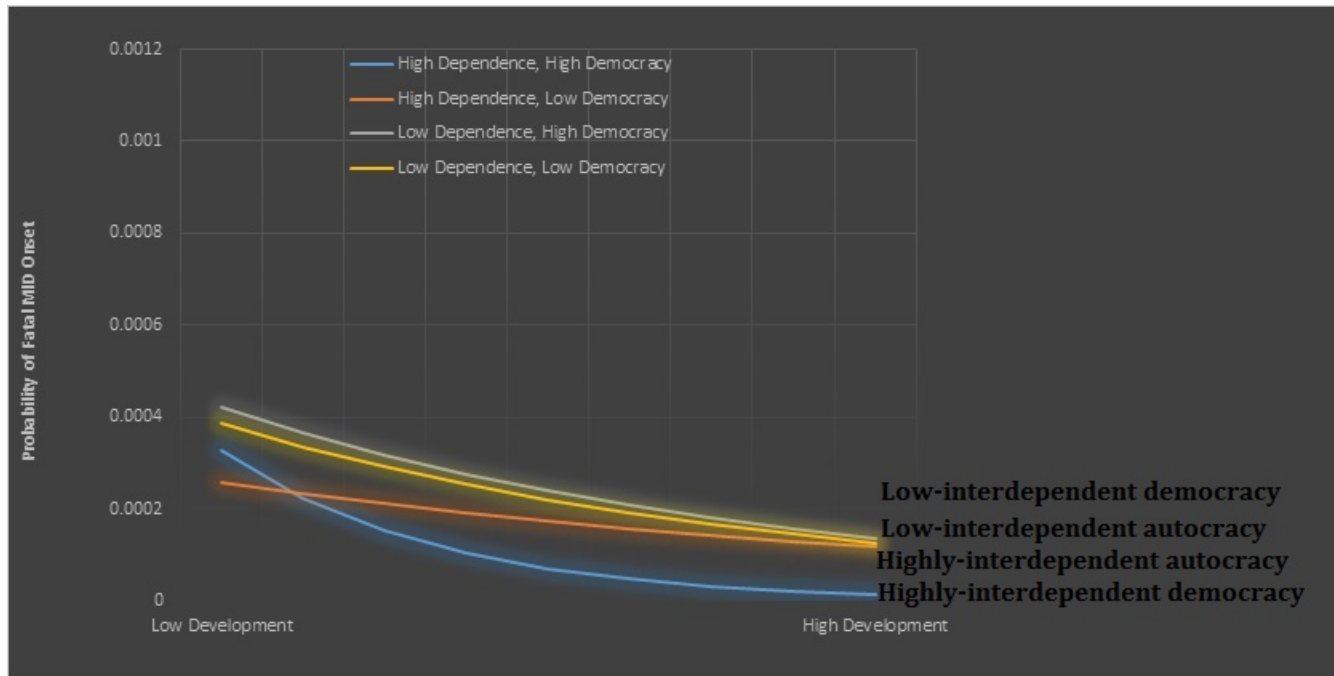


Figure 2.4 Predicted probability of fatal MID onset, using **Low GDP/pc** (denoting as **GDP/pc** in the plot)

four different conditions: when both the other two moderators are at their high level, when both of them are at their low level, when one of them is at its high level and the other is at its low level, and when one of them is at its low level and the other is at its high level. Low level or high level of each moderator is determined by their 1st or the 99th percentile of all the observations.¹⁷

Figure 2.2 shows how the degree of democracy and the degree of development condition trade's pacifying effect. For simplicity, I denote the four situations as poor autocracies, rich autocracies, poor democracies, and rich democracies. As we can see in Figure 2.2, at the regional level, poor countries are more likely to have conflict than rich countries. In poor autocracies, the probability of conflict decrease with the increase of the degree of dependence; however, in poor democracies, the probability of conflict increases with the increase of the degree of dependence. In rich countries, the pacifying effect of trade is not as salient as in rich countries. In total, Figure 2.2 confirms my argument that the pacifying effect of trade is conditioned on both the degree of democracy and the degree of development.

Figure 2.3 and Figure 2.4 demonstrate the three-way interaction based on the point of view from democracy and from development, holding the degree of dependence constant at its low and the high values.

¹⁷ Although Berry, Golder, and Milton (2012) suggest that theories with interaction terms should be tested with all the combinations of the lowest and highest values of all the variables, I do not demonstrate the results when **Low dependence**, **Low democracy**, and **Low GDP/pc** are at their extreme values at both ends, respectively. Instead, I present the results when these variables are very low and very high (at the 1st and the 99th percentiles). This is because the real world data of these three variables have extreme outlier values at both ends. Therefore, adopting the values of the 1st and the 99th percentiles will be a more proper way to show the relative low and high values of these variables rather than adopting their lowest and highest values.

Figure 2.3 shows how the degree of dependence and the degree of development condition democracy's pacifying effect. For simplicity, I denote the four situations as poor and highly-dependent countries, poor and low-dependent countries, rich and highly-dependent countries, and rich and low-dependent countries. As we can see in Figure 2.3, at the regional level, poor countries are more likely to have conflict than rich countries. Counter-intuitively, the increase of the degree of democracy does not have salient influence on the probability of conflict in three of the four situation; and, in poor and highly-dependent countries, the increase of the degree of democracy actually increase the probability of conflict. Put differently, the pacifying effect of trade in poor and highly-dependent countries with increased degree of democracy is not evident as the liberal commercial peace studies may contend.

Figure 2.4 shows how the degree of dependence and the degree of democracy condition development's pacifying effect. For simplicity, I denote the four situations as low-dependent democracies, low-dependent autocracies, highly-dependent autocracies, and highly-dependent democracies. As we can see in Figure 2.4, at the regional level, the pacifying effect of development is remarkably stable under all of these four different situations. That is, the increase of GDP per capita will consistently decrease the probability of fatal MID despite the degree of dependence and the degree of democracy.

Comparing the results of Figure 2.2, Figure 2.3, and Figure 2.4, we can find several patterns of trade's pacifying effect. First, trade's pacifying effect is, exactly as my theory predicts, a conditional one. In rich democracies and poor autocracies, trade reduces the probability of conflict. However, in poor democracies, trade increases the probability of conflict; and in rich democracies, the relationship between trade and

conflict is not very clear. These contradicting facts explain why the relationship between trade and conflict has been a debatable issue for a long time: Because the pacifying effect of trade alone is not strong enough compared to other liberal factors, and because the pacifying effect of trade is further conditioned on other liberal factors, the pacifying effect of trade is very sensitive to model specification, time, space, and the level of analysis (global or regional). Therefore, as a consequence, it is very difficult for scholars to reach a consensus when it comes to trade's pacifying effect. Second, at odds with the literature which argues that trade's pacifying effect is augmented by the increase of the degree of democracy, my findings demonstrate that this pacifying effect is actually more complicated. For example, while Gelpi and Grieco (2003; 2008) find that trade constrains the conflict behavior of democratic leaders but not autocratic leaders, I find that trade does not constrain the conflict behavior of leaders in poor democracies and rich autocracies. I find that there is no literature to account for these anomalies (trade leads to conflict in poor democracies and barely has effect on peace or conflict in rich autocracies) except for my theory. This suggests that when it comes to leaders' conflict behavior in different political regimes, looking at the domestic institutional constraints and audience costs on political leaders¹⁸ is not enough, if the country's degree of development is not taken into consideration. Third, in accordance with the capitalist peace theories, the pacifying effect of development is the most strong and stable compared to democracy and dependence. This explains why many scholars argue that it is development rather than democracy or dependence that contributes to peace. More discussion about the

¹⁸ Such as Mesquita and Lalman (1992), Fearon (1994, 1995), Werner (1996), Smith (1996; 1998), Schultz (1999, 2001), Bueno de Mesquita et al. (2003), Slantchev (2006), and Weeks (2008, 2012).

relationship between the capitalist peace theories and my theory will be addressed in the next section.

5.4 Robustness checks

I also conduct several sensitivity checks to see whether the result of my model hold stably. These include the check for multicollinearity of the independent variables, the use of different conceptualization of regions (including the COW regions and the Buzan and Wæver's (2003) regions), looking at politically relevant dyads (Lemke & Reed, 2001) and politically active dyads (Quackenbush, 2006) at the global level, controlling for countries' interest similarity by including their United Nations General Assembly Voting patterns (Strezhnev & Voeten, 2013), and use international crisis behavior (Hewitt, 2003) as the alternative dependent variable for international conflict. The results are not shown for brevity. All the robustness checks demonstrate that the outcome of my models are not sensitive to various checks.

6 Conclusion and Discussion

By looking at only the militarized interstate disputes that caused fatality and by applying the unified framework of the three-way interaction, my argument bridges the global-regional gap of the liberal commercial peace effect, that is, it accounts for the regional variations of trade's pacifying effect. The key is that the pacifying effect of trade is conditioned on both the degree of democracy and the degree of development, because these two factors can simultaneously strengthen the three causal mechanisms that link trade to the reduction of militarized conflict. Therefore, the pacifying effect of trade varies across regions because countries' degrees of democracy and development tend to be similar within-regionally and different between-regionally.

Aside from proposing a unified theory of the liberal commercial peace effect, my argument may also shed light on the debate between the democratic peace theories and the capitalist peace theories (Schneider, 2014). The capitalist peace theories point out four theories to claim that it is the capitalist's concerns rather than the democratic effects that lead to peace (Mousseau, 2010): peace through trade and free markets (Weede, 1996); (McDonald, 2004), peace through market-intensive economy (Mousseau, 2000, 2002, 2003; Mousseau et al., 2003; Mousseau, 2009, 2013), peace through financial openness (Gartzke et al., 2001; Gartzke, 2007), and peace through the limited proportion of governments' nontax revenue (McDonald, 2007, 2009); however, proponents of the democratic peace theories contend that the democratic peace theories have more solid micro-foundation causal mechanisms to link democracy to peace (Schneider & Gleditsch, 2010; Choi, 2011; Bueno de Mesquita & Smith, 2012; Chan, 2012). One of the reasons why so far the debate has not yet been solved (Gartzke & Weisiger, 2013; Mousseau, 2013; Ray, 2013; Dafoe, Oneal, & Russett, 2013) is that, empirically, the factors of capitalist peace and democratic peace, such as free market, capital openness, economic growth, and even shared ideology, have similar origins and form a mutually reinforcing virtuous circle so that it is very difficult to sort out what belongs to the capitalist peace and what belongs to the democratic peace (Russett, 2010; Schneider & Gleditsch, 2010).¹⁹ The three-way interaction of my theory – interdependence, democracy, and development, further confirms that the democratic peace effect and the capitalist peace effect are very likely to be mutually reinforcing rather than mutually exclusive. Put

¹⁹ Although Russett (2010) has correctly pointed out that the democratic peace effects work only dyadically, not monadically, and so Weede (2010) thinks that it is safer for the Western countries to promote peace through establishing economic interdependence rather than through forcing democratization in nondemocratic countries.

differently, not only the capitalist peace effect is stronger in more democratic dyads, but also the democratic peace effect is stronger in more developed dyads. Therefore, the capitalist peace and the democratic peace are not theories that may replace each other, but those that are mutually re-confirming to each other.

Given this unified framework (the three-way interaction) of the liberal commercial peace effect, one of the future research agendas based on my theory is to find out how my theory can discuss with other theories that specify the preconditions about how trade leads to peace or conflict. For example, previous studies on the trade-conflict relationship demonstrate that the preconditions include expectations of future trade (Copeland, 1996), what states trade (Gasiorowski, 1986; Dorussen, 2006), the difference between intra-industry trade and inter-industry trade (Peterson & Thies, 2012), different degree of “exit cost” of both sides in a dyad (Crescenzi, 2003, 2005; Peterson, 2011), how free the bilateral trade is (McDonald, 2004), and whether both sides have signed preferential trade agreements (Blanchard, Mansfield, & Ripsman, 1999; Mansfield & Pevehouse, 2000, 2003; Mansfield, 2003; Bearce, 2003). Given the fact that previous literature has demonstrated that democracies and developed countries trade more, trade more diversified goods, have more trade partners (and so lower exit cost), enjoy more free trade relations with each other, and participate in more regional and global trade organizations and preferential trade agreements (and so having a more positive attitude toward future trade) (Alt & Gilligan, 1994; Alt, Frieden, Gilligan, Rodrik, & Rogowski, 1996; Keohane & Milner, 1996; Milner, 1997; Mansfield, 1998; Milner, 1999; Mansfield, Milner, & Rosendorff, 2000, 2002; Bueno de Mesquita et al., 2003; Milner & Kubota, 2005; Mansfield & Solingen, 2010; Mansfield & Milner, 2012), all these preconditions

may be part of the intervening variables of the degree of democracy and degree of development.²⁰ Thus, compared to these many preconditions proposed by previous literature, my theory offers a more parsimonious, consistent, and overarching framework to account for the variations of the liberal commercial peace effect around the world. The relationship between the three-way interaction and all these preconditions is waiting for future exploration.

²⁰ Although all the mechanisms can be a reversed and reciprocal one, such as that participating in trade and international cooperation can further promote democratization and development (Sachs & Warner, 1995, 1997; Li & Reuveny, 2003; Mansfield & Pevehouse, 2006, 2008), the substantive causal effect of democracy and development on all these causal mechanisms should be stronger than vice versa given there is huge amount of literature on the former.

CHAPTER 3

ASEAN and Southeast Asian Peace: National Building, Economic Performance, and ASEAN's Security Management

1 Introduction

East Asian and Southeast Asian countries have enjoyed peaceful international relations for decades, especially after 1979. Although there has been some turmoil, intra- and interstate wars during the 1960s and 1970s, there is an academic consensus that East Asia and Southeast Asia generally have become a very peaceful region since the end of the Sino-Vietnamese war in 1979, in terms of the lack of interstate violence and the exceptionally low levels of battle deaths (Leifer, 1989; Tønnesson, 2009; Kivimäki, 2011; Goldsmith, 2014). However, even though scholars have consensus to East Asian and Southeast Asian peace, what contributes to the peaceful situation remains a puzzle because the main theories of international relations have different explanations to account for it, while all of them confront with limitations (Solingen, 2007; Tønnesson 2009).

Specifically for Southeast Asia, the literature provides at least three competing perspectives to explain how the peaceful situation could be achieved. First, the liberal peace theory emphasizes the pacifying effects of democracy, interdependence, and intergovernmental-organizations, the so-called Kantian peace (Oneal & Russett, 1999, 2001; Goldsmith, 2007). Second, the constructivist theory of peace underlines the successful security management of the Association of Southeast Asian Nations (ASEAN) due to the mutually-reinforced effects between commonly shared identity, interests,

values, and norms that form a well-functioned security community through a process of social construction (Acharya, 2001, 2004; Kivimäki, 2001; Ba, 2009). Third, Southeast Asian peace may result from the countries that adopt a capitalist development strategy. In his article which aims to refute the previous two perspectives, Tang (2012) argues that Southeast Asian peace should be understood as a capitalist trajectory. Because of Southeast Asian countries' common interests and preferences of adopting economic liberalization policy for economic development exert a strong conflict-constraining effect. In his non-directed dyad-year analysis from 1950 to 2001, he uses a dummy variable (*JntELP*) denoting whether both countries in the dyad-year t jointly adopt economic liberalization policy as his independent variable,²¹ and this independent variable (*JntELP*) is negative with the probability of militarized interstate conflict (MID) and highly significant across various models and robustness checks. As Tang (2012) had demonstrated, there are few democratic dyads in the region, there is a low degree of interdependence between those countries, and interstate conflict does happen between the ASEAN members, Southeast Asian stability may be maintained neither by the liberal peace components nor by the ASEAN security management, but by the capitalist concern as Tang's argument.

However, even Southeast Asian peace is not caused by either the liberal peace components or the ASEAN security management, whether it is achieved by a capitalist

²¹ Tang (2012) adopts Sachs and Warner's (1995) binary category to define whether both states in a dyad-year t are jointly open trade regime, coded as 1 if yes and 0 otherwise. According to Sachs and Warner (1995), a country is coded as a closed trade regime if any one of the following criteria is true: non-tariff barriers cover 40% or more of trade, average tariff rates are 40% or more, the black market exchange rate depreciated by 20% or more relative to the official exchange rate during the 1970s or 1980s, a socialist economy is in place, or a state monopoly on exports exists. The Sachs and Warner data spans from 1950 to 1992, and it is lately expanded by Wacziarg and Welch (2008) through 1999.

trajectory does not go without question. After a scrutinization of the Southeast Asia states who adopted economic liberalization, I find two problems that cast Tang's argument in doubt. First, observations of *JntELP* dyads are few. Second, most of the *JntELP* dyads are those that never have any conflict record before they become *JntELP*; and among the *JntELP* dyads who have experienced conflict before they adopt economic liberalization policy, they had resolved the conflict before they switched to economic liberalization policy. Therefore, I posit that Southeast Asian peace may not be maintained by this capitalist trajectory. Instead, according to the suggestion of previous research and empirical evidences, I argue that the ASEAN security management has its contribution to the Southeast Asian peace, but its ability of conflict-constraining in the region is conditioned by the economic performance of Southeast Asia states. Unlike the European countries, most of Southeast Asian countries were colonies of European countries which suffered from low level of development and the lack of national autonomy before the end of World War II. Given such a background, when they were independent after World War II, national building and economic development became the most important goals of those countries. Besides, as newly-independent national states where the political elites of various standpoints are still struggling under their unstable political regimes, leaders and their ruling coalitions must strive to fulfill these goals to keep incumbent. This is also the reason that these countries want to form and join ASEAN, to achieve these two goals through international cooperation with their regional partners with similar backgrounds. When the leaders are able to provide economic growth under the ASEAN cooperation and security management, they do not have to consolidate their ruling legitimacy through emphasizing national building issues such as old grudges and territorial disputes with

each other. However, if the leaders are not able to maintain economic performance, they not only lose their confidence in ASEAN but also face the pressure to result to national building issues in order to keep their ruling legitimacy, which compromises ASEAN's ability of security management and so increase the probability of conflict. These entangled economic development and national building issues are leaders' most important concern for political survival, which distinguish Southeast Asia from the other regions in the world, and we cannot know the whole picture of Southeast Asia if failure to take this regional characteristic into concern.

I proceed this argument as following. In the next section I re-appraise Tang's (2012) argument by investigating the Southeast Asian countries who adopt economic liberalization policy, showing that Southeast Asian peace may not be well-explained by the capitalist trajectory. Then, I present my argument that the security management of ASEAN does play an important role in the maintenance of Southeast Asian peace, however, ASEAN's influence on conflict-constraining in the region is conditioned on the economic performance of Southeast Asian states. Next, I explain my research design and present the statistical results using data from 1950 to 2001 of all the 11 Southeast Asian countries²² along with the substantive effects and various sensitivity checks. In the last section I summarize this article and discuss my finding with previous literature as a concluding remark.

²² The 11 Southeast Asian countries in my sample from 1950 to 2001 include Brunei (1984~), Cambodia (1953~), Indonesia, Laos (1953~), Malaysia (1957~), Myanmar, the Philippines, Singapore (1965~), Thailand, North Vietnam (1954~), and South Vietnam (1954~1975), and all of them became ASEAN members by 1999 when Cambodia finally got the admission.

2 Explaining Southeast Asian peace

2.1 The capitalist trajectory revisited

After investigating into the 11 Southeast Asian countries, Tang (2012) argues that neither the constructivist theory of peace which emphasizes the security management of ASEAN nor the liberal peace theory, which underlines the pacifying effects of democracy and economic dependence, can well account for the Southeast Asian peace. Instead, he argues, it is those states' "motivations and preferences to promote national economic development on the liberal capitalist trajectory" (Tang, 2012, p. 390) that has a significant influence on the formation of Southeast Asian peace, because those Southeast Asian leaders' "failure of promoting national wealth may jeopardize their ruling foundation" (Tang, 2012, p. 390). The reason, Tang claims, is that because these Southeast Asian leaders' domestic ruling coalition "prefers the liberal capitalist approach of economic development," and because "the success of the liberal capitalist development approach hinges on a stable, open, and adaptable economic environment and market" (Tang, 2012, p. 390). Therefore, these leaders will be less likely to act belligerently since doing so hurts this capitalist development strategy.

To access his argument, Tang first uses empirical evidences to demonstrate that the Southeast Asian peace from 1950 to 2000 may not be well explained by democracy, economic interdependence, and ASEAN, because in Southeast Asia, democratic dyads are very few (only 44 of the total 1,998 non-directed dyad-years, as shown in his Figure 1), economic interdependence is generally very low (as shown in his Figure 2), and there are still 11 of the total 85 militarized interstate disputes (MIDs) that occurred between joint ASEAN dyads (as shown in his Figure 3). These empirical evidences are the starting

point that Tang thinks that there may be another factor that promotes Southeast Asian peace.

However, after scrutinizing the empirical evidences about Tang's argument,²³ I find two problems that may compromise the validity of his argument, that is, whether Southeast Asian peace is formed by a capitalist trajectory should be put into doubt. The first problem is that, observations of *JntELP* dyads are rather few. Among the total 1,998 dyad-year observations in the sample, only 258 of them are *JntELP* dyads (less than 13%). In his article, Tang (2012) claims that "such low frequency of democratic dyads gives rise to a suspect about the implication of democratic peace in Southeast Asia" (Tang, 2012, p. 392). By the same logic, we should suspect about the implication of capitalist peace in the region as well. Therefore, although *JntELP* may have a very strong pacifying effect, it may not be the main reason that maintains the regional peace.

The second problem is about whether adopting economic liberalization policy does make the country more reluctant to use force as the capitalist peace theory claims. I review this effect by tabulating the dyadic and the monadic MID records before and after both countries or one of the country adopted economic liberalization policy. Table 3.1 presents the dyadic result. As we can see in Table 3.1, among the total 55 dyad combinations in Southeast Asia, only 10 of them are *JntELP* dyads. Besides, among the 10 *JntELP* dyads, only 2 of them, "Malaysia – the Philippines" and "Malaysia – Indonesia," had experienced MID before they both adopted economic liberalization policy, and the conflict between Malaysia and Indonesia had been solved long before they became a *JntELP* dyad. As a result, among the whole sample there is only 1

²³ I replicated Tang's (2012) data in the same way according to his description.

Table 3.1 MID onset between *JntELP* countries before and after *JntELP*, 1950~2001

<i>JntELP</i> Dyad	Year of becoming <i>JntELP</i>	Number of MID occurred before becoming <i>JntELP</i> (Year of MID)	Number of MID occurred after <i>JntELP</i> (Year of MID)
Thailand – Malaysia	1963	0	0
Thailand – Singapore	1965	0	0
Thailand – Philippines	1989	0	0
Thailand – Indonesia	1971	0	0
Malaysia – Singapore	1965	0	1 (1992)
Malaysia – Philippines	1989	5 (1968, 1979, 1980, 1985, 1988)	0
Malaysia – Indonesia	1971	3 (1963, 1964, 1965)	0
Singapore – Philippines	1989	0	0
Singapore – Indonesia	1971	0	0
Philippines – Indonesia	1989	0	0

dyad-year that had MID after they became *JntELP*, Malaysia and Singapore. Therefore Tang's independent variable *JntELP* will be statistically significant for sure under any sensitivity check since there is only 1 MID among the total 258 *JntELP* dyads. Put differently, when most of the *JntELP* dyads are those who had never had any MID before or had resolved the conflict issue before they became *JntELP*, the pacifying effect of the capitalist peace factor may be over-emphasized.

According to Tang's (2012) argument, Southeast Asia states that adopt economic liberalization policy are less likely to act belligerently in foreign policies because "the success of the liberal capitalist development approach hinges on a stable, open, and adaptable economic environment and market" (Tang, 2012, p. 390). In other words, the pacifying effect of the capitalist approach should be not only a dyadic phenomenon but also a monadic one. Table 3.2 presents the monadic analysis, comparing the frequency of MID before and after the countries' adoption economic liberalization policy. Among all of the 5 countries who adopted economic liberalization policy in the 52-year sample space, only the Philippines experienced more total MIDs and had a higher probability of experiencing a MID prior to liberalization. All the other 4 countries actually are more likely to experience MID after market opening. In sum, both the dyadic and monadic analyses of MID record suggest that the capitalist trajectory may be misleading.²⁴

By re-investigating Tang's (2012) empirical evidences, I find that Southeast Asian peace may not follow a capitalist trajectory as Tang claims. *JntELP* dyads are few in the

²⁴ There might be a strategic effect in the monadic level of analysis that other states may be more likely to provoke conflict against the countries adopting economic liberalization policy since the former knows that the latter does not want conflict and thus is more likely to make a concession. This strategic effect in the monadic level further puts Tang's argument into doubt that Southeast Asian peace is made of a capitalist trajectory.

Table 3.2 Monadic MID onset analysis of countries who adopt economic liberalization policy, 1950~2001

Country	Total number of MID occurred	Year of adopting economic liberalization policy	Number of MID occurred before/after adopting economic liberalization policy (MID per year, before/after)
Indonesia	4	1971	1/3 (0.045/0.097)
Malaysia	10	1963	0/10 (0.000/0.256)
Philippines	9	1989	7/2 (0.175/0.154)
Singapore	1	1965	0/1 (0.000/0.027)
Thailand	51	1950	0/51 (0.000/0.981)

Note: Among the total 11 Southeast Asian countries, 6 countries (Brunei, Cambodia, Laos, Myanmar, North Vietnam, and South Vietnam) never adopt economic liberalization policy during the sample period from 1950 to 2001.

region. Most of the *JntELP* dyads are those that had never had any conflict record before they become *JntELP*, and among the *JntELP* dyads who had experienced conflict before they became *JntELP*, they had reached stable resolution before they became *JntELP*. Therefore, I posit that there must be other factors that contribute to Southeast Asian peace. As Tang (2012) had demonstrated, democratic dyads are few in the region and interdependence between Southeast Asian countries is generally at a very low degree. Given the liberal peace factors are less likely the answer to Southeast Asian peace, and many scholars have emphasized the contribution of ASEAN security management, I posit that the answer to Southeast Asian peace should lie on a re-appraisal of ASEAN's role in the region, especially on how to explain the variation of ASEAN's effectiveness in security management. In the next section, I will review the debate about ASEAN and construct a theory to bridge the different views about the ASEAN's ability of security management in the region.

2.2 The debate about ASEAN

When it comes to Southeast Asian peace, literature leads us to the debate of whether ASEAN's security management exerts a meaningful pacifying effect. Opponents criticize its inability and weak institutionalization, while upholders emphasize its importance of socialization that creates "the ASEAN way" of conflict resolution. Both of them can find empirical evidences to support their contradictory perspectives: while scholars find that ASEAN did constrain conflict in the region in terms of frequency of conflicts, number of battle deaths, and conflict termination (Kivimäki, 2011), others demonstrate that failed coordination and militarized conflict did happen between ASEAN members (Leifer, 1989; Khong, 1997; Acharya, 1998, 2001), and that ASEAN did not

have a statistically significant pacifying effect, at least in the dyadic level of analysis (Tang, 2012). These two contradictory perspectives suggest that ASEAN sometimes works well but sometimes does not, and that a correct understanding about ASEAN should not be arguing whether it works to stabilize the region, but finding out what are the preconditions that mediate its effectiveness in interstate-coordinating and conflict-constraining. Therefore, to explain Southeast Asian peace, it is crucial to figure out what enables and disables ASEAN in collective security management.

As an international regime, different perspectives of international relations theories have different explanations about the evolution and decline of ASEAN. Realists hold the perspective that the predominance of individual foreign policies has compromised the collective actions of ASEAN since the very beginning (Rüland, 2000; Jones & Smith, 2007). However, this realists' perspective does not explain why sometimes individual countries are prone to act collectively but sometimes less so, especially when there are no clear relative power dynamics in the region (Gilpin, 1981). The liberals who start from a functional approach may predict that, as an international regime, in ASEAN, cooperation and institutionalization will deepen and legalization and contractualization will increase as time goes by (Mitrany, 1948; Keohane, 1984); those who are based on the pluralistic domestic approach may content that it depends on the attitude of domestic coalitions of each member state (Solingen, 2008). Still we need a theory to explain why this “deepening” effect does not embody in ASEAN like its European Union counterpart and what changes the attitude of domestic coalitions in each country.

The constructivists' explanation about the role of ASEAN is the most accepted view, which distinguishes the uniqueness of the "ideational" Asia from the "material" Western world (Acharya, 2001; Khoo 2004; Tan 2006; Kivimäki 2008; Stubbs 2008; Narine 2008; Johnston, 2012; Kohno, 2014). Through the emphasis on the social construction for consensus among common interests, values, and norms, ASEAN maintains the regional peace by constructing a "security community" (Deutsch, 1961; Adler & Barnett, 1998) which promotes peace through socialization instead of sanction or coerce. Since a security community is built on the process of socialization, "[w]hether any specific security community will continue to function in the long run will depend on the ability of its facilities for peaceful adjustment to keep ahead of the strains and burdens which any growth of social transaction may throw upon them" (Deutsch 1961: 103). These "strains and burdens" could result from internal and external, such as the failure of consensus building or the adding of new unsocialized actors and the consequent new material burdens. However, this constructivist approach does not go without challenge. What determines the success or failure of internal consensus building and whether the adding of new actors will compromise the original consensus remain a question the constructivists have not well answered. For example, the security community argument does not give us clear and consistent answers about the questions of ASEAN: why the old ASEAN member the Philippines and Thailand have more battle deaths after they joined ASEAN while all the other Southeast Asian countries have largely reduced them (Kivimäki, 2011); why Indonesia and the Philippines had experienced more conflicts after they joined ASEAN (Kivimäki 2011, 75); why MID, especially the fatal ones, did happen between joint ASEAN countries (Tang 2012, 395); why after 1996 the ASEAN

principle of non-interference in domestic affairs was not as clear as before (Kivimäki, 2001); why the mechanisms of peace that have existed after the founding of ASEAN are in a process of erosion while there is no direct threat to peace in the region (Kivimäki, 2001); and why the 1997 financial crisis largely compromised the leadership of ASEAN. Answering these questions by the failure of internal consensus building seems ad hoc, and explaining them by the adding of new unsocialized members is not able to account for the variation after each wave of ASEAN expansion. For these reasons, I argue that the constructivist's perspective about the ASEAN security community is not sufficient to explain the variation of the effectiveness of the ASEAN security management, and that its effectiveness should be a conditional one depending on other preconditions.

What is the most important precondition that mediates ASEAN's ability of security management in the region? In this article I argue that ASEAN's conflict-constraining ability is conditioned on Southeast Asian countries' economic performance. Since Southeast Asian countries were independent from their colonizers after the end of World War II, due to their special historical and socioeconomic background, national building and economic growth have been the most important goals of the leaders and their ruling coalitions. When leaders in Southeast Asian countries are able to maintain good economic performance, they thus have enough legitimacy for their political survival. However, if they are not able to keep economic growth, they are forced to pursue national building issues such as claiming ownership of disputed territory with neighboring countries or emphasizing on the priority of their own ethnic groups, and so compromising ASEAN's ability of consensus building and increasing the probability of conflict. The importance of pursuing national building and economic growth distinguishes Southeast

Asian countries from all the other countries or regions in the world because of their unique historical and socioeconomic background. I content that to get a whole picture of ASEAN's role in the region we must take this special background into concern.

Why are national building and economic performance the most important concern of leaders in Southeast Asian countries but not in the others? Taking a look at their initial situation at the moment of independence after the end of World War II is informative. Table 3.3 summarizes this initial condition of Southeast Asian countries at the moment of their independence. There are four unique preconditions that explain why national building and economic performance are the most important goals of Southeast Asian countries: their experience of being colonized, their variety of domestic ethnic groups, their thirst of emerging from poverty, and their disputed territorial issues due to fractured geography. When these countries become independent after World War II, these four preconditions create domestic coalitions focusing on national building issues and requiring for economic performance. Thus Southeast Asian leaders must fulfill these goals for their own political survival.

Different from the other regions in the world, all the Southeast Asian countries are colonized by the European countries. The only exception is Thailand. However, although nominally Thailand is an independent country, actually as an artificial buffer zone it is under control by Britain (in India) and France (in Indochina). Long being colonized by the Western countries and then occupied by Japan during World War II, people in Southeast Asian countries have been treated unequally across different ethnic groups, have been in poverty, and have longed for their own autonomy. Meanwhile, their variety

Table 3.3 Background of Southeast Asian countries in their early years after independence

Country	Colonized before independence	Ethnic groups	Religion groups	Year of independence	GDP per capita in the 1950s and in 2000	Territorial dispute with other Southeast Asian countries
Brunei	Yes, by Britain and Japan	Malay 65.7%, Chinese 10.3%, other indigenous 3.4%, other 20.6% (in 2011)	Muslim (official) 78.8%, Christian 8.7%, Buddhist 7.8%, other (includes indigenous beliefs) 4.7% (in 2011)	1984	17,358 (in 1984) 19,022	Yes, with Malaysia and Vietnam
Cambodia	Yes, by France and Japan	Khmer 90%, Vietnamese 5%, Chinese 1%, other 4%	Buddhist (official) 96.9%, Muslim 1.9%, Christian 0.4%, other 0.8% (in 2008)	1953	1,680 (in 1953) 2,042	Yes, with Thailand and Vietnam
Indonesia	Yes, by Netherland and Japan	Javanese 40.1%, Sundanese 15.5%, Malay 3.7%, Batak 3.6%, Madurese 3%, Betawi 2.9%, Minangkabau 2.7%, Buginese 2.7%, Bantenese 2%, Banjarese 1.7%, Balinese 1.7%, Acehnese 1.4%, Dayak 1.4%, Sasak 1.3%, Chinese 1.2%, other 15% (in 2010)	Muslim 87.2%, Christian 7%, Roman Catholic 2.9%, Hindu 1.7%, other 0.9% (includes Buddhist and Confucian), unspecified 0.4% (in 2010)	1945	936 (in 1950) 3,642	Yes, with Malaysia and Philippines
Laos	Yes, by France and Japan	Lao 55%, Khmou 11%, Hmong 8%, other (over 100 minor ethnic groups) 26% (in 2005)	Buddhist 67%, Christian 1.5%, other and unspecified 31.5% (in 2005)	1954	1,730 (in 1954) 1,367	Yes, with Thailand
Malaysia	Yes, by Portugal, Britain, and Japan	Malay 50.1%, Chinese 22.6%, indigenous 11.8%, Indian 6.7%, other 0.7%, non-citizens 8.2% (in 2010)	Muslim (official) 61.3%, Buddhist 19.8%, Christian 9.2%, Hindu 6.3%, Confucianism, Taoism, other traditional Chinese religions 1.3%, other 0.4%, none 0.8%, unspecified 1% (in 2010)	1963	1,971 (in 1954) 9,919	Yes, with Singapore, Indonesia, Philippines, and Vietnam
Myanmar	Yes, by Britain and Japan	Burman 68%, Shan 9%, Karen 7%, Rakhine 4%, Chinese 3%, Indian 2%, Mon 2%, other 5%	Buddhist 89%, Christian 4% (Baptist 3%, Roman Catholic 1%), Muslim 4%, Animist 1%, other 2%	1948	309 (in 1950) 829	Yes, with Thailand
Philippines	Yes, by Spain, the United States, and Japan	Tagalog 28.1%, Cebuano 13.1%, Ilocano 9%, Bisaya/Binisaya 7.6%, Hiligaynon Ilonggo 7.5%, Bikol 6%, Waray 3.4%, other 25.3% (in 2000)	Catholic 82.9% (Roman Catholic 80.9%, Aglipayan 2%), Muslim 5%, Evangelical 2.8%, Iglesia ni Kristo 2.3%, other Christian 4.5%, other 1.8%, unspecified 0.6%, none 0.1% (in 2000)	1946	1,343 (in 1950) 3,425	Yes, with Indonesia, Malaysia, and Vietnam

Singapore	Yes, by Britain and Japan	Chinese 74.2%, Malay 13.3%, Indian 9.2%, other 3.3% (in 2013)	Buddhist 33.9%, Muslim 14.3%, Taoist 11.3%, Catholic 7.1%, Hindu 5.2%, other Christian 11%, other 0.7%, none 16.4% (in 2010)	1965	3,086 (in 1965) 27,186	Yes, with Malaysia
Thailand	No, but controlled by Britain, France, and Japan	Thai 95.9%, Burmese 2%, other 1.3%, unspecified 0.9% (in 2010)	Buddhist (official) 93.6%, Muslim 4.9%, Christian 1.2%, other 0.2%, none 0.1% (in 2010)	1932	837 (in 1953) 6857	Yes, with Laos, Cambodia, and Myanmar
North Vietnam (Vietnam)	Yes, by France and Japan	Kinh (Viet) 85.7%, Tay 1.9%, Thai 1.8%, Muong 1.5%, Khmer 1.5%, Mong 1.2%, Nung 1.1%, others 5.3% (in 1999)	Buddhist 9.3%, Catholic 6.7%, Hoa Hao 1.5%, Cao Dai 1.1%, Protestant 0.5%, Muslim 0.1%, none 80.8% (in 1999)	1945	1162 (in 1954) 1,812	Yes, with Malaysia, Philippines, and Cambodia
South Vietnam	Yes, by France and Japan			1945	814 (in 1954) 988 (in 1975)	

Note: GDP per capita is the real GDP per capita in 1996 US dollar value, data from Gleditsch (2002). As a comparison, GDP per capita of the United States in 1950 is 10,703, and 33,293 in 2000. Data of ethnic groups in each Southeast Asian country is from The World Factbook of the CIA website: <https://www.cia.gov/index.html>. Data of territorial disputes is from Amer (1998).

of domestic ethnic groups divided by different religions further complicated their national identity building. The Western colonizers and Japan selected certain ethnic groups and made them leaders of their puppet regimes in order to facilitate their ruling in these countries, which further exacerbated the animosity between the ruling ethnic groups and the ruled ones. Besides, the ruling ethnic groups also took advantage of their power to expropriate the wealth of the ruled, making the societies more unequal and stratified. As we can see in Table 3.3, in the 1950s when they became independent, most of them had a yearly GDP per capita less than 2,000 USD (in 1996 value) while the United States had more than 10,000 at that time, let alone the wealth is highly concentrated on the ruling groups. As a consequence, at the moment of their independence from the Western and Japanese colonizers, Southeast Asian countries faced extreme difficulty in national building and badly needed to get out of poverty.

Given these preconditions, for Southeast Asia leaders, the best way to stabilize their ruling foundation is by making progress of economic growth. Only by doing so can the leaders improve the faith of various domestic groups in their undemocratic political regimes. When they are not able to do so, their ruling legitimacy will soon be in danger. A good example is that the 1997 financial crisis made many long-lasting nondemocratic governments in Southeast Asia become overturned or under reform. In Thailand, the united government was replaced by the Democratic Party and a new constitution was passed in the same year; in Indonesia, the 32-year long Suharto government was overturned after the event of May 1998 Riots, in which more than one thousands of Chinese Indonesians were killed; in Malaysia, the 17-year long Prime Minister Mahathir Mohamad had to start a power struggle against his Deputy Prime Minister and Minister

of Finance Anwar Ibrahim in order to remain in power.²⁵ In Southeast Asia where the political regimes are still in search of an equilibrium, economic downturn forces the leaders to find a way out of legitimacy crisis. Another set of preconditions that affect Southeast Asia leaders' calculation under economic downturn – domestic ethnic conflicts and international territorial disputes – plays an important role here. Bad economic performance forces leaders resort to provoking domestic and international disputes in order to maintain their ruling legitimacy. Among the total 85 Southeast Asian MIDs from 1950 to 2001, 71 of them happened in the year when at least one state in the dyad had a growth rate less than 3%. Therefore, I argue that to understand the effectiveness of ASEAN's security management in the region, we must take national building and economic performance, the most important goals of Southeast Asian countries, into concern. Thus, the effectiveness of ASEAN security management should be condition by Southeast Asian countries' balance between these two factors. When leaders are able to maintain growth, they are willing to act through ASEAN to work out a consensus toward various issues; however, if they are not able to maintain economic performance, domestic pressure from their ruling coalitions and their political competitors will force them to seek national building issues for legitimacy, and so compromising the ASEAN way of consensus building. As Kivimäki (2011) has demonstrated, "the ASEAN diplomatic style avoids situations where one of the conflicting parties would lose face, and thus it is reflected in a conflict termination record with a low frequency of defeat of one of the parties" (Kivimäki, 2011, p. 68). The fact that both conflicting parties are willing to accept a conflict termination without a substantive solution further reveals that getting

²⁵ Refer to Solingen (2004) to see more detailed discussion about how the 1997 financial crisis reshaped the domestic politics of Southeast Asian countries.

what they are fighting for per se is not the main reason for both leaders to engage in a dispute. If so, we would expect that economic performance does not have a significant effect on ASEAN's security management.

Based on the reasons above, the hypothesis derived from my argument to be tested is:

Hypothesis: The effectiveness of ASEAN's security management in Southeast Asia is conditioned on Southeast Asian countries' economic performance.

3 Research design

3.1 Dependent variable

Following most of the literature on Southeast Asian peace and international conflict, I use the onset of a new MID between two Southeast Asian states each year as the dependent variable. This is because the dyadic design can better take different security threats that different countries face into concern. Thus the unit of analysis is dyad-year. I use the MID 3.1 data (Ghosn, Palmer, & Bremer, 2004) from the Correlates of War database. A MID is defined as “a set of interactions between or among states involving threats to use military force, displays of military force, or actual uses of military force” (Gochman & Maoz, 1984, p. 586). The new MID onset is a dichotomous variable which is coded 1 for the first year of a new MID in a dyad and 0 otherwise. The subsequent years of the same MID in the starting year is dropped from the data to reduce the problem of temporal dependence, because the statistical model I employ in this study, logit regression, assumes that the conflict events being analyzed are independent of each other. Because MID onset is a time-series cross-sectional binary variable across time (years) and space (dyads), in order to produce accurate standard errors and consistent

coefficients, I estimate the logit regression model with the Huber/White robust standard error which assumes that observations within the same dyad across years are correlated but those between different dyads are uncorrelated, adjusting for clustering in dyads. I also adopt (Carter & Signorino, 2010) method to include peace years, peace years' square, and peace years' cube into the model to control for temporal dependence.²⁶ As most of the literature, I estimate all the models with the dependent variable at time t and independent variables at time $t - 1$ to mitigate problems of reverse causality.

3.2 Independent variables

My theory argues that the effectiveness of ASEAN security management is conditioned on Southeast Asian states' economic performance, therefore, the set of my independent variables should be composed of three different variables: one denotes whether the pair of countries are joint ASEAN members, another denotes its economic performance, and the other the interaction term of the first two to measure the conditional effect of economic performance on ASEAN security management. Given the dyad-year design, I create a dummy variable **Joint ASEAN** to present whether both countries in each dyad-year are members of ASEAN, coded as 1 if yes and 0 otherwise. According to my theory, **Joint ASEAN** alone is expected not to have stable statistically-significant influence on MID onset in models except for when it is in the interaction term.

Because my theory expects that conflict is more likely to be initiated by countries with worse economic performance in each dyad-year, I construct the variable **Low growth rate** which is the lower value of economic growth rate of the two states in each dyad-year to measure Southeast Asian countries' economic performance. This

²⁶ I also estimate all the models using Beck, Katz, and Tucker's (1998) peace years and cubic splines to control for temporal dependence. The outcomes are almost identical.

conceptualization is called the “weak link” logic (Dixon, 1994; Oneal & Russett, 1997) which assumes that “the likelihood of dyadic conflict is primarily determined by the less constrained of the two states in a dyad” (Oneal & Russett, 1997, p. 273). Data of economic growth rate is calculated from Gleditsch’s (2002) expanded trade and GDP data by equation:

$$Growth\ Rate = \frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} .$$

Now that the two independent variables are ready, thus the interaction term **Joint ASEAN × Low growth rate** conceptualizes this conditional effect. My theory predicts that this interaction variable should be statistically significant with a negative sign on MID onset across all the models.²⁷

3.3 Competing and control variables

I control for the variables that have demonstrated influence on interstate conflict onset in previous research to show that my independent variable is still valid after taking these various factors into concern, and some of them are even variables of competing explanations against my argument on the maintenance of Southeast Asian peace. The first set of competing variables is the democratic peace and the Kantian peace component (Oneal & Russett, 2001) because many research has found that democracy, interdependence, and international organizations have very strong pacifying effects. **Low democracy** is the lower democracy score of the two states in each dyad-year, data from

²⁷ I also create an ordered independent variable **ASEAN** ranging from 0 to 2, denoting whether none, one, or two of the countries in each dyad are members of ASEAN, and its conditional effect **ASEAN X Low growth rate**. This conditional effect is significant and negative with the probability of MID onset after 1979. However, I do not further investigate this phenomenon since my theoretical argument is mainly about joint ASEAN dyads.

the Polity IV dataset (Marshall et al., 2013). This democracy score ranges from -10 (the most autocratic) to 10 (the most democratic). Besides, because democratic peace is better understood as a strictly dyadic phenomenon (Bueno de Mesquita, Smith, Siverson, & Morrow, 2003; Quackenbush & Rudy, 2009), that is, the democratic peace effect does not work in a mixed dyad which is composed of a democracy and an autocracy,²⁸ I control for **Joint democracy**, the interaction term of both countries' democracy score, to capture this effect.²⁹ **Low dependence** is the lower ratio of the sum of State A's imports from and exports to State B over State A's GDP in each dyad-year, data from Gleditsch's (2002) expanded trade and GDP data. **IGOs** is the number of total shared memberships of intergovernmental organizations of the two states in each dyad-year, data from (Pevehouse, Nordstrom, & Warnke, 2004).³⁰

I then control for contiguity, distance, alliance similarity, and power parity of each dyad, for these factors are found to be influential on international dispute (Bremer, 1992). **Contiguity** is a dummy variable which denotes whether the two countries of the dyad are contiguous by land, predicted to be positively correlated with conflict onset. **Distance** is

²⁸ Goldsmith (2014) also finds this similar strategic effect in East Asia.

²⁹ Following Barbieri's (2002) measurement of the interactive effect of both states' democratic scores, the Joint democracy variable is constructed as

$$\text{Joint Democracy} = \left(\frac{\text{PolityScore}_A + 10}{2} \right) \left(\frac{\text{PolityScore}_B + 10}{2} \right),$$

which ranges from 0 to 100. The reason that she adds 10 to each state's polity score (ranging from -10 to 10) is to avoid a negative value.

³⁰ Although I have noticed that previous research about IGOs' pacifying effect is mixed as Dorussen and Ward's (2008) review had demonstrated, and that the aggregated count variable of shared IGO membership may mislead our understanding of IGOs' role in promoting peace (Boehmer, Gartzke, & Nordstrom, 2004), I still include this aggregated count variable in my models in order to further confirm my argument by considering all the Kantian peace variables at the same time. The statistical results are almost identical with or without this variable.

the logged distance (in miles) between capitals of the two states in each dyad, predicted to be negatively related with conflict onset. I adopt (Signorino & Ritter, 1999) weighted S-score to construct the variable **Alliance similarity**, which denotes the level of similarity of each dyad's alliance portfolio.³¹ **Power parity** is the weaker state's CINC score (Singer, 1988) divided by that of the stronger state to generate a power ratio which ranges from 0 (total preponderance) to 1 (exact parity between the two states). Data of Contiguity, **Distance**, **Alliance similarity**, and **Power parity** are from the COW database generated by the Eugene software (Bennett & Stam, 2000a). Development is also found to have a pacifying effect (Rosecrance, 1986, 2010; Hegre, 2000; Mousseau, Hegre, & O'neal, 2003), so I include **Low GDP/pc** which is logged GDP per capita of the lower GDP per capita in each dyad-year to control for development. I also include the interaction between contiguity and development, **Contiguity** × **Low GDP/pc**, because economic development decreases states' incentive for territorial expansion (Gartzke, 2007). Lastly, I create a **Cold war** dummy variable, taking a value of 1 between 1950 and 1989 to control for the change of international structure which may have a systemic effect on conflict onset in the region.³²

³¹ I do not control for strategic alliance (whether the dyad has a defense pact, neutrality, or entente) which is typically put into control when studying conflict because among Southeast Asian countries, only Thailand and the Philippines are formal allies due to their military cooperation with the United States, and Thailand and the Philippines never had any MID during my sample period.

³² Although I include many control variables in my model, this conditional effect of **Joint ASEAN X Low growth rate** holds robustly no matter with or without any of or all of the control variables in all the three different levels of MIDs (These results are not shown here for brevity. Please refer to the replication archive).

4 Empirical results

4.1 Basic analysis

The empirical analysis strongly supports my hypothesis. Table 3.4 shows how the pacifying effect of ASEAN is conditioned on the economic performance of Southeast Asian countries. I list the results of three different time periods (Model 1, Model 2, and Model 3) to demonstrate that this conditional effect can still hold under different temporal or systemic conditions. The whole sample space ranges from 1950 to 2001 due to data availability which is shown as Model 1.³³ Model 2 shows the result from 1967 because the ASEAN is formally established by the founding five states (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) in 1967. Model 3 shows the result after 1979, the beginning of the prominent Southeast Asian peace. The results of the three different time periods all support my hypothesis, and even so during the prominent post-1979 peace.

I start interpreting the statistical results based on models without the interaction term between **Low growth rate** and **Joint ASEAN** (not shown for brevity). In models without the interaction term, neither **Low growth rate** nor **Joint ASEAN** have significant influence on MID onset in all the three different time periods. The only one variable that has consistent and significant pacifying effect across the three different time periods is **Contiguity** \times **Low GDP/pc**, which means that economic development does reduce the probability of conflict due to territorial expansion in the region. This result, also not in the prediction of my theory, also confirms my argument that economic factor plays an important role in the regional peace. When the interaction term is added into model specification, it is significant in all the time periods as Table 3.4 presents, and its

³³ Most economic data is available after 1950 and the COW dyadic MID data is updated through 2001.

Table 3.4 ASEAN and Dyadic MID onset in Southeast Asia

	Dependent Variable: MID Onset _t		
	Model 1 1950~2001	Model 2 1967~2001	Model 3 1980~2001
[Independent Variables _{t-1}]			
Low growth rate	-3.183 (3.462)	-0.217 (3.597)	9.801 (7.848)
Joint ASEAN	-0.968 (0.656)	-1.261* (0.740)	-0.507 (0.975)
Joint ASEAN × Low growth rate	-7.917* (4.514)	-13.204** (6.198)	-23.496* (12.013)
[Control Variables _{t-1}]			
Low democracy	-0.599*** (0.169)	-0.543*** (0.194)	-1.338** (0.587)
Joint democracy	0.112*** (0.034)	0.123*** (0.041)	0.303** (0.120)
Low dependence	-8.043 (10.480)	0.307 (15.625)	35.401* (19.244)
IGOs	0.055*** (0.020)	0.021 (0.028)	-0.104 (0.068)
Low GDP/pc	1.139*** (0.430)	0.757 (0.540)	1.128 (0.984)
Contiguity	9.876*** (3.492)	8.751* (4.778)	21.222*** (5.185)
Contiguity × Low GDP/pc	-1.295** (0.505)	-1.064 (0.654)	-2.608*** (0.705)
Alliance similarity	-1.385 (1.744)	-3.098** (1.359)	-3.710** (1.877)
Distance	-1.385*** (0.350)	-0.731 (0.595)	-0.395 (0.844)
Power parity	0.057 (0.583)	0.939 (0.744)	2.041* (1.110)
Cold war	0.914* (0.535)	0.787 (0.571)	1.098** (0.500)
Peace years ¹	-0.229*** (0.078)	-0.193* (0.112)	-0.080 (0.143)
Peace years ²	0.009* (0.005)	0.006 (0.006)	-0.002 (0.007)

Peace years ³	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)
Constant	-7.125 (5.432)	-6.325 (6.840)	-16.633 (12.227)
Pseudo R^2	0.341	0.300	0.426
Log likelihood	-218.860	-154.815	-65.408
Chi-squared	358.976	367.817	26320.352
Clusters (Dyads)	45	45	36
N	1,649	1,224	692

Note: Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The total dyad-year observations of Southeast Asian countries from 1950 to 2001 should be 1,998; from 1967 to 2001 should be 1,503; and from 1980 to 2001 should be 954. About 246 observations are always missing (not included in the regression models) during all the three different time periods which mainly result from the missing polity scores of Brunei from 1984 to 2001 and Cambodia from 1979 to 1987.

influence remains significant and becomes stronger even after 1979 when the region has achieved a prominent peaceful status and when the conflict-resolution function of ASEAN has put into doubt after 1994 (Kivimäki, 2001). The **Low growth rate** variable is not significant across all time periods, suggesting that when the coefficient of **Joint ASEAN × Low growth rate** is zero – that is, when states are not joint ASEAN members, economic growth rate does not have influence on MID onset. This also confirms the fact that ASEAN is built by Southeast Asian countries who are sensitive to their economic performance and so want to pursue economic growth through regional cooperation by putting aside their disputing issues. The coefficient of **Joint ASEAN** is significant only in Model 2 where the temporal coverage is from the founding of ASEAN to 2001, but not in Model 3 which only covers the post-1979 Asian peace, suggesting that when the coefficient of **Joint ASEAN × Low growth rate** is zero, ASEAN generally has a pacifying effect in Southeast Asia after established. However, after 1979, ASEAN's influence on the regional peace maintenance is conditioned on Southeast Asian countries' economic performance.

To further make sure the statistical significance of this conditional effect does not result from some “cheap MIDs” which involved only low levels of MID such as “threat to use force” or “display of force,” I also estimate the same models on force MID (those that actually use force against one another) and fatal MID (those that cause fatality) onset, the results are presented in Table 3.5.³⁴ Again, in all the basic models without the

³⁴ Besides, Toset, Gleditsch, and Hegre (2000, p. 984) insist that the use of fatality MIDs helps avoid both coding irregularities and “attention bias” on low-level disputes. Souva and Prins (2006, p. 191) also echo Toset et al. (2000) that “fatal MIDs offer greater temporal and spatial consistency in the historical recording of these events. Plus, they avoid very low-hostility disputes that may not reach the attention of policymakers.” Therefore, there are good reasons to check whether my independent variable can still work on fatality MIDs.

interaction term **Joint ASEAN** × **Low growth rate**, neither **Joint ASEAN** nor **Low growth rate** is significant (not shown for brevity). As for models with this interaction term, as Table 3.5 shows, actually this conditional effect is getting larger with the increase of the level of conflict. Put differently, this conditional pacifying effect of ASEAN works the best in constraining high hostility levels of MID.³⁵

There is some other information in Table 3.4 and Table 3.5 worthy of noticing. The development variable **Low GDP/pc** is never significant after the foundation of ASEAN in 1967, which may reinforce my argument that Southeast Asian peace does not belong to the capitalist trajectory since the capitalist peace theory predicts development to have a pacifying effect (Mousseau, 2000; Mousseau et al., 2003; Gartzke, 2007). In addition, the interdependence variable, **Low dependence**, is significant in all the models after 1979, but not before, which may suggest that although interdependence in Southeast Asia is in a low degree in general, a liberal commercial peace effect is gradually growing in the region after 1979 when the region reached a stable situation. Thus, although Southeast Asian peace so far is certainly not maintained by the Kantian components given all of them are at a low degree in the region, it is not the same to say that the increase of these components does not promote peace in the region. As long as Southeast Asian states' economic performance keeps growing stably, chances are that the regional peace could benefit from the liberal peace factors in the future.

To further demonstrate the substantive effects of **Low growth rate** on the pacifying effect of **Joint ASEAN** during different time periods, I plot the predicted

³⁵ In Table 5 where the dependent variables are “force MID onset” and “fatal MID onset,” I adjust the **Peace years** variables according to “force MID onset” and “fatal MID onset” respectively.

Table 3.5 ASEAN and Dyadic force and fatal MID onset in Southeast Asia

Dependent Variable t	Force MID onset t			Fatal MID onset t		
	Model 4 1950~2001	Model 5 1967~2001	Model 6 1980~2001	Model 7 1950~2001	Model 8 1967~2001	Model 9 1980~2001
[Independent Variables t_{-1}]						
Low growth rate	-4.964 (3.764)	-2.504 (4.120)	9.358 (8.619)	3.311 (5.497)	5.088 (5.308)	26.764** (11.399)
Joint ASEAN	-1.568*** (0.585)	-2.079** (0.816)	-0.860 (1.088)	-0.467 (1.045)	-0.428 (1.096)	-1.050 (1.410)
Joint ASEAN × Low growth rate	-17.360*** (3.898)	-24.840*** (5.629)	-35.760*** (10.570)	-23.204*** (7.575)	-29.680*** (5.273)	-61.906*** (18.794)
[Control Variables t_{-1}]						
Low democracy	-0.735*** (0.135)	-0.679*** (0.094)	-0.991* (0.590)	-0.763*** (0.237)	-0.829*** (0.222)	-0.574 (0.744)
Joint democracy	0.139*** (0.031)	0.150*** (0.029)	0.239** (0.121)	0.176*** (0.052)	0.215*** (0.055)	0.176 (0.189)
Low dependence	-1.034 (10.913)	12.669 (14.992)	36.170* (18.808)	-371.975* (195.121)	-603.185*** (140.434)	-438.464*** (168.415)
IGOs	0.070*** (0.019)	0.054* (0.031)	-0.080* (0.042)	0.015 (0.022)	-0.002 (0.042)	-0.049 (0.124)
Low GDP/pc	1.106** (0.451)	0.663 (0.505)	1.114 (0.911)	0.907* (0.536)	0.142 (0.721)	2.781 (4.442)
Contiguity	9.626** (3.884)	7.925* (4.570)	20.161*** (5.099)	-3.601 (4.522)	-9.868 (6.486)	-15.754 (35.954)
Contiguity × Low GDP/pc	-1.243** (0.561)	-0.989 (0.618)	-2.439*** (0.673)	0.621 (0.671)	1.546* (0.914)	1.186 (6.331)
Alliance similarity	-0.134 (1.966)	-1.757 (1.751)	-3.399 (2.134)	-0.639 (2.053)	-2.142 (2.168)	119.791** (59.718)
Distance	-1.379*** (0.431)	-1.027 (0.689)	0.019 (0.914)	-2.548*** (0.450)	-2.371*** (0.717)	-25.193 (22.216)
Power parity	0.053 (0.617)	0.687 (0.763)	1.949* (1.094)	0.870 (0.946)	2.096* (1.211)	12.700*** (3.827)
Cold war	1.203 (0.732)	1.222 (0.798)	1.338** (0.595)	1.020 (0.651)	1.434* (0.776)	0.781 (1.358)
Peace years ¹	-0.195** (0.081)	-0.184* (0.110)	-0.136 (0.201)	-0.139 (0.107)	-0.130 (0.122)	0.085 (0.352)
Peace years ²	0.007 (0.005)	0.006 (0.006)	0.001 (0.010)	0.006 (0.005)	0.005 (0.005)	-0.008 (0.019)
Peace years ³	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)
Constant	-10.122 (6.403)	-7.233 (6.989)	-17.027 (14.072)	-1.801 (6.198)	2.728 (6.968)	5.171 (140.907)
Pseudo R ²	0.375	0.359	0.465	0.360	0.376	0.599
Log likelihood	-178.939	-119.318	-55.791	-113.402	-73.683	-24.256
Chi-squared	1020.720	1501.045	21201.238	889.253	1046.502	.

Clusters (Dyads)	45	45	36	45	45	36
<i>N</i>	1,649	1,224	692	1,649	1,224	692

Note: Standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Peace years variables are adjusted according to force MID onset and fatal MID onset respectively. The total dyad-year observations of Southeast Asian countries from 1950 to 2001 should be 1,998; from 1967 to 2001 should be 1,503; and from 1980 to 2001 should be 954. About 246 observations are always missing (not included in the regression models) during all the three different time periods which mainly result from the missing polity scores of Brunei from 1984 to 2001 and Cambodia from 1979 to 1987.

probability of MID onset as well as the frequency of observations in Figure 3.1 for joint ASEAN dyads based on the results of Model 1, Model 2, and Model 3, holding all continuous variables at their mean and dichotomous variables at their median. Figure 3.1 shows that the pacifying effect of ASEAN is conditioned on Southeast Asian states' economic performance: the probability of conflict decreases with the increase of economic growth rate. The magnitude of this conditional effect holds stably across the three different time periods. When one of the countries in the dyad has a negative 0.15 economic growth rate in a certain year, the probability of conflict onset between them in the next year is about 10%. This probability of conflict onset decreases as the increase of **Low growth rate**, and the probability of conflict onset is getting closer to zero when **Low growth rate** approaches 0.10.

4.2 Robustness tests

In this section I exert several robustness tests to demonstrate that my argument still holds stably after taking these factors into concern. All the models below span from 1980 to 2001 to show that the pacifying effect of ASEAN is conditioned on Southeast Asian countries' economic performance even when the region has achieved a long peace after 1979.³⁶ The outcomes of various sensitivity checks are presented in Table 3.6.

Since I have put in doubt Tang's (2012) argument that Southeast Asian peace is achieved by a capitalist trajectory, I include his independent variable **JntELP**, a dummy variable denoting whether both countries in the dyad adopt economic liberalization policy, in my model. Model 10 shows that the conditional effect becomes even stronger and

³⁶ I also estimate all the sensitivity check models from 1950 to 2001 and the outcomes are almost identical.

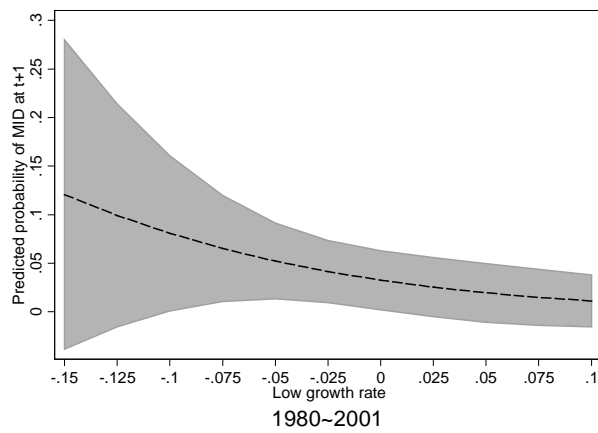
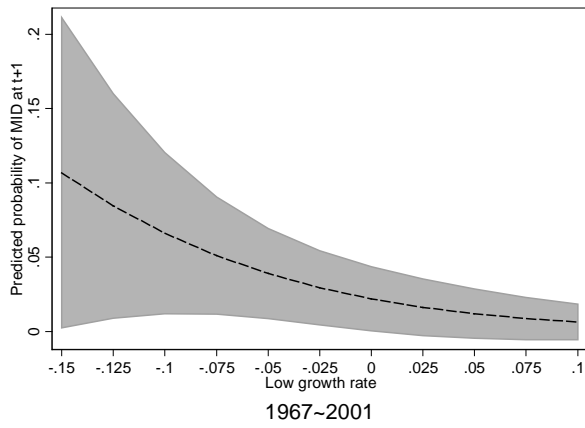
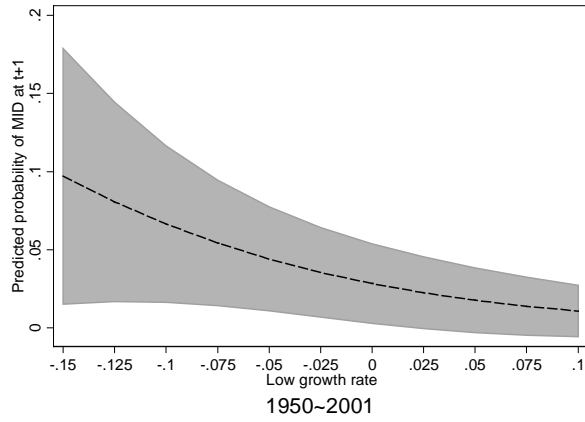


Figure 3.1 Low growth rate and predicted probability of MID onset at t+1 with 95% confidence interval in different time periods.

more significant with **JntELP** in the model. Although **JntELP** is highly significant, as I have shown in this article, it should not be the main factor that maintains Southeast Asian peace.

According to the MID data, there are 85 MIDs that happened between Southeast Asian dyads from 1950 to 2001. Among them, Cambodia was involved in 31 MIDs and Thailand was involved in 51. Only 18 of the total 85 MIDs in the region have nothing to do with these two extremely belligerent countries. Thus my statistical results may be driven by Cambodia and Thailand as the outliers. In Model 11 I include two dummy variables, **Cambodia** and **Thailand**, in the model to denote if the dyad is composed of Cambodia or Thailand to see whether the effects of my independent variables still hold. Model 11 shows that this does not change the outcome of my model.³⁷

Considering that interest (dis)similarity resulting from different political regimes may influence the relationship between the two countries in each dyad (Bennett & Stam, 2000b; Peceny, Beer, & Sanchez-Terry, 2002), I take their **Polity difference**, State A's polity score minus State B's polity score in absolute value, into concern in Model 12. Model 12 shows that the probability of conflict in the region does increase with the polity difference of the two countries in the dyad, however, it does not change the influence of my independent variables.

There is a possibility that looking at conflict between all the countries in Southeast Asia is misleading. According the logic of "opportunity and willingness" (Most & Starr, 1982, 1989), although the Southeast Asian countries are located in the same region, it does not mean that each of them has the opportunity to have a dispute

³⁷ I also run the sensitivity check excluding Singapore because it is an outlier which involved in only 1 MID from 1950 to 2001. The outcomes are almost identical.

Table 3.6 Robustness checks of dyadic MID onset in Southeast Asia, 1980~2001

	Dependent Variable: MID onset t					
	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15
[Independent Variables t_{-1}]						
Low growth rate	12.175 (8.466)	10.325 (7.697)	11.418 (7.520)	9.910 (7.862)	26.912*** (9.844)	19.956* (11.896)
Joint ASEAN	-0.979 (0.701)	-0.435 (0.878)	-0.494 (0.954)	-0.501 (1.033)	0.573 (1.519)	-4.576 (3.712)
Joint ASEAN \times Low growth rate	-30.020*** (11.403)	-23.768** (11.415)	-25.179** (11.550)	-25.009** (12.392)	-39.730** (16.070)	-89.384** (38.238)
[Sensitivity check variables t_{-1}]						
JntELP	-9.996*** (2.676)					
Thailand		0.506 (1.248)				
Cambodia		0.500 (0.619)				
Polity difference			0.239** (0.117)			
Politically active dyad				2.847** (1.185)		
Low openness					-6.677* (3.411)	
High trade barrier						73.556 (248.671)
Constant	-28.452 (19.702)	-15.493 (12.690)	-11.075 (9.297)	-13.265 (12.647)	-33.877*** (7.033)	-138.566*** (29.133)
Pseudo R^2	0.470	0.428	0.434	0.438	0.280	0.533
Log Likelihood	-60.405	-65.271	-64.498	-64.052	-46.613	-18.073
Chi-squared	41236.316	23390.671	16279.450	25433.616	3220.865	.
Clusters (Dyads)	36	36	36	36	28	21
N	692	692	692	692	532	375

Note: Standard errors in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Other control variables not shown for brevity. The total dyad-year observations of Southeast Asian countries from 1980 to 2001 should be 954. About 246 observations are always missing (not included in the regression models) during all the three different time periods which mainly result from the missing polity scores of Brunei from 1984 to 2001 and Cambodia from 1979 to 1987.

with all of the others. For example, the inland Laos would never have a dispute with the far away island countries like Indonesia or Brunei. Therefore, controlling for this “opportunity” or “necessary condition” is crucial to grasping the Southeast Asian peace. I adopt Quackenbush’s (2006) definition of “politically active dyads” and include a dummy variable **Politically active dyad** into the model to denote whether the dyad is capable of having a dispute.³⁸ Among the total 55 dyads in Southeast Asia, only about half (26) of them are defined as politically active. Model 13 presents that politically active dyads do have higher probability of conflict, however, this does not change the significance and substantive effect of my independent variables.

Besides, although interdependence (**Low dependence**) does not have a significant pacifying effect in the region, it is possible that the pacifying effect of trade does not do so through interdependence, but through the general openness of each state, through the internationalizing coalition in domestic politics (Solingen, 2001, 2003), or through free trade (McDonald, 2004). In order to exclude that possibilities, I check whether openness or free trade affects my argument about the regional peace in Model 14 and Model 15. I conceptualize the general openness of trade by calculating the trade share of total GDP of each state (**Low Openness**), adopting the lower value of openness in the dyad following the weak link logic. The openness data is from Penn World Table 8.0 (Feenstra et al. 2013). As for the power of internationalizing coalition or free trade, I conceptualize it using gravity model residuals (**High trade barrier**), adopting the lower value of the two

³⁸ According to Quackenbush (2006, p. 43), a dyad is defined as a politically active one if at least one of the following six characteristics applies: (1) The members of the dyad are contiguous, either directly or through a colony; (2) One of the dyad members is a global power; (3) One of the dyad members is a regional power in the region of the other; (4) one of the dyad members is allied to a state that is contiguous to the other; (5) one of the dyad members is allied to a global power that is in a dispute with the other; or (6) one of the dyad members is allied to a regional power (in the region of the other) that is in a dispute with the other.

countries in each dyad because that country has higher trade barriers than the other. The gravity model residuals data is from Peterson and Lassi's (forthcoming) expanding of the Hiscox and Kastner's (2008) trade barriers data. Theoretically, the more the power of internationalizing coalition in the state, the more free trade and the lower trade barrier it has, therefore, the dyad will have more trade flows than predicted by the gravity model of trade. As a consequence, there will be more gravity model residuals (McDonald, 2004; Kastner, 2007).³⁹ Model 14 shows that while openness has a significant pacifying effect, what is interesting is that when including Low openness into the model, the increase of Low growth rate actually increases the probability of MID, but this conflictual effect is eliminated by the dominantly conditional pacifying effect of Joint ASEAN Low growth rate. Simply judging by the coefficient, the inclusion of Low openness actually strengthens the influence of this conditional effect, which may suggest that leaders in Southeast Asian countries which have more open markets are more sensitive to their economic performance. Model 15 shows that when taking High trade barrier into concern, although it fails to achieve statistical significance, the conditional pacifying effect of Joint ASEAN Low growth rate gets much stronger than without it.⁴⁰

In sum, all the sensitivity checks demonstrate the robustness of this conditional effect.

³⁹ I do not exclude the rival explanations of the PTA peace arguments (peace through preferential trade agreements) (Mansfield, Pevehouse, & Bearce, 1999; Mansfield & Pevehouse, 2000, 2003; Bearce, 2003; Mansfield, 2003) in these sensitivity checks because PTAs between Southeast Asian countries also belong to the ASEAN framework.

⁴⁰ Due to lots of missing data in **Low openness** and **High trade barrier**, Model 14 has only 532 and Model 15 has only 375 of the total 954 dyad-year observations, so we should interpret these results with caution.

5 Concluding remark

According to literature, there are competing explanations about the formation of Southeast Asian peace. It is not surprising that the liberal commercial peace does not work well in the region given the low degree of interdependence and few democratic dyads. Most scholars refer to the success of ASEAN's security management and common identity building as the key to the regional stability, however, empirical evidence does not support the pacifying effect of ASEAN. Lastly, Tang's capitalist trajectory argument may not give us much leverage to understand the regional peace, either, since countries who adopted economic liberalization policy are not those who were prone to conflict. Based on literature, I revisit the characteristics of Southeast Asian countries and the spirit of ASEAN, arguing that to correctly understand ASEAN we should consider the characteristics of Southeast Asian countries. Due to their special historical and socioeconomic backgrounds, which make the leaders struggle for national building and economic development, ASEAN's ability of security management is conditioned on Southeast Asian countries' economic performance.

My argument also explains and unifies the controversy in literature of ASEAN's ability of security management. While some scholars applaud "the ASEAN way" that successfully stabilizes the region, others criticize it for its inability to make the ASEAN states resolve disputes without the use of force (Leifer, 1989; Acharya, 1999), especially after 1996 (Kivimäki, 2001). In this paper I try to investigate what causes this variation of ASEAN's security management ability and develop a consistent theory that can account for this variation; that is, whether ASEAN is no more than a "talking shop" depends on Southeast Asian states' economic performance. As many scholars have demonstrated

(Narine 2004; 2008; Haftel 2010), “ASEAN is principally expected to be a platform for managing regional security for economic development” (Tang 2012, p. 396), when the Southeast Asian leaders are able to maintain economic development, they would be willing to put aside their conflictual issues or accept ASEAN’s mediation. Otherwise, economic downturn compromises leaders’ faith in “the ASEAN way.” Thus my theory bridges the two contradictory perspectives about ASEAN’s ability of security management in the region.

My finding also, to some degree, put the constructivist’s perspective about ASEAN in doubt. For a long time, debate about whether we need new international relations theories to understand East and Southeast Asia emphasizes on the difference between the “material” Western and the “ideational” Asia (Kang, 2007; Acharya & Buzan, 2010; Wang, 2010; Johnston, 2012; Kohno, 2014). Many argue that one of the important reasons for the European Union (EU) to evolve is due to the fact that most of the EU countries are democracies (Ikenberry, 2000), which is not the case in Southeast Asia. Besides, the ideological difference between the European liberal rationalism based on democracy and the ASEAN communalism and solidarism based on autocratic legacies may well differentiate ASEAN from the EU (Beeson & Jayasuriya, 1998; Pettman, 2010). Therefore, many Southeast Asian scholars may agree with Rüländ & Jetschke’s (2008) conclusion that ASEAN “will neither become an Asian EU, nor fall into oblivion. It will remain ASEAN” (Rüländ & Jetschke, 2008, p. 407). However, if the effectiveness of ASEAN’s security management in the region is conditioned on Southeast Asian states’ economic performance, this East-West theoretical distinction may not be so salient. Looking back on the history of the EU, sustained economic development plays an

important role to reinforce European countries' faith in democracy, cooperation, and trust building (Ripsman, 2005; Miller, 2005), and so further facilitates the evolving of EU's "thick" institution.⁴¹ As such, the conditional effect I demonstrated may suggest that ASEAN may be likely to move on toward the EU pattern as long as Southeast Asian countries are able to maintain stable economic growth, and *vice versa*.

⁴¹ For a more detailed discussion about the EU and ASEAN institution and institutionalization, see Johnston (2012).

CHAPTER 4

Latin American Peace: Hegemonic Stability during the Cold War and Capitalist Peace after the Cold War

Q: Why are there no coups d'état in the United States?

A: Because there is no U.S. embassy there.

----- An old joke in Latin America

1 Introduction

Since the end of World War II, the Latin American countries have enjoyed peaceful international relations for more than a half century (Kacowicz, 1995, 1998b; Holsti, 1996; Kacowicz et al., 2000; Ray, 2002; Buzan & Wæver, 2003a; Miller, 2005). According to the Correlates of War (COW) dataset, from 1950 to 2001, there were only 2 wars or 88 militarized interstate disputes (MIDs) among the total 9,880 Latin American dyad-years.⁴² In every aspect, the peaceful situation in the region is a phenomenon worthy of investigating, since it is a region that has never been in lack of war, civil conflict, coup d'état, and foreign great power intervention for hundreds of years (Hensel, 1994; Mares, 1997, 2001; Buzan & Wæver, 2003b).

⁴² The two wars are the 1967 Salvador-Honduras Football War and the 1995 Ecuador-Peru Cenepa Valley War. These two wars are included in the total eighty-eight MIDs. Another evidence to prove the Latin American peace is the fact that Southeast Asian countries have been known to experience peaceful international relations during the same period (1950-2001)(Acharya, 2001; Kivimäki, 2001; Tang, 2012), but there were 85 MIDs between the total 1,998 Southeast Asian dyad-years, compared to the 88 MIDs among the total 9,880 Latin America dyad-years.

According to literature, there are four main reasons that account for the Latin American peace. First, peace is achieved by the successful settlements of territorial disputes between enduring rivalries. Second, the progress of democratization and international integration since the 1980s largely reduces the Latin American leaders' incentive to deal with conflictual issues with force. Third, the cultural or constructive approach attributes peace to a construction of shared identity and values among the Latin American countries. And fourth, the most controversial one, is the role that the United States played in security management in the region.

While many studies acknowledge that the United States has a salient influence on the international relationship among the Latin American countries, whether the Latin American peace should attribute to the hegemonic stability trajectory lead by the United States is an unsolved puzzle. Generally speaking, there are three competing models about the United States' role in stabilizing the region: the hegemonic stability argument emphasizes the United States' peace keeping; the whirlpool model argues that the United States is only involved when its interests are compromised and disengages soon after the events are solved; and the radical argument contends that the United States is actually the one who provokes conflicts in the region. This problem remains unsolved because we can always find different empirical evidences that support or refute any of the three arguments about the role of the United States.

Given the two mainstream controversies in the literature about Latin American peace, the goal of this research is twofold. The first one is to find out what causes the discrepancies in different schools of literature regarding the role the United States played in the regional peace, and the second one is to explain what makes the regional peace

according to the contemporary IR theories. I argue that, during the Cold War period, Latin American peace should attribute to the hegemonic stability effect lead by the United States; however, this does not mean that the United States has sufficient ability to restrain conflict in each of the Latin American states. In countries that have higher degree of economic dependence on the United States, the United States has enough influence and economic leverage on the former to constrain the former from using force. Instead, in countries that have lower degree of economic dependence on the United States, the United States does not have sufficient policy leverage on the latter. As a consequence, the hegemonic stability effect of the United States' security management becomes less salient. Therefore, the hegemonic stability effect of the United States' leadership in the region is a conditional one, which hinges on whether the United States has enough economic leverage to influence a certain Latin American country's conflictual behavior. In sum, the United States actually played a positive role in maintaining the regional peace, but its ability of security management is a conditional one. But this hegemonic stability effect became less salient after the end of the Cold War. After the end of the Cold War when Latin America lost its strategic importance to the United States, the "capitalist peace" effect starts to become a prominent factor that explains the regional peace as well as the regional integration.

To demonstrate my argument, the structure of this research is as following. In the next section, I first discuss the competing arguments about the role of the United States in the region as well as the limitations of them; and then I propose my argument and the hypotheses to be further tested. I test the hypotheses derived from my argument in the third section, using data concerning the onset of militarized interstate dispute (MID)

among the total 20 Latin American countries from 1950 to 2001.⁴³ More detailed empirical results will be discussed in the fourth section. The last section is the concluding remark.

2 Regional peace and the role of the United States

In this section I first discuss what makes Latin America become a peaceful region after the end of World War II based on literature, highlighting the unsolved controversies regarding the role the United States played in the regional peace. I then investigate whether the liberal factors contribute to Latin American peace by analyzing the relationships between the number of MIDs and the Kantian peace factors – democracy, interdependence, and intergovernmental organizations, in which I find that none of them should have a substantive effect on conflict-constraining in the region. Since the liberal factors may not be the main reason to explain Latin American peace, I then turn to analyzing realists’ hegemonic stability argument to discuss the possible influences that the United States exerts on the regional peace.

2.1 What makes for Latin American peace?

According to literature, there are at least four explanations about how the region reaches a stable peace. The most popular explanation is that the region achieves a stable peace because of the successful settlements of territorial disputes between enduring rivalries. For example, Hensel (1994) finds that Latin American peace is due to the settlement of recurrent MIDs between the same adversaries. Kacowicz (1998a, 2000) highlights the importance of the conciliation between main regional powers, the “ABC

⁴³ The 20 Latin American countries included in this research are Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Triangle” of Argentina, Brazil, and Chile, as the main reason that stabilizes the region. Ray (2002) argues that the lack of war in the region is due to the fact that Latin American countries have enough states with definitive boundaries. Miller (2005) offers a slightly different argument that peace in the region is because the Latin American countries have reached a regional state-to-nation balance, where the demand for states does not exceed the supply of state thus avoiding wars of secession, and the supply of states does not exceed the demand for states thus avoiding wars of unification. However, Miller calls Latin American peace a “normal peace” instead of a “warm peace” because he thinks that although the main conflictual issues in the region had been resolved, contingency plans for war and possibility of return to war still exist due to limited degree of integration.

The second set of explanations is that the progress of democratization and international integration since the 1980s largely reduces the incentive of the Latin American leaders to deal with conflictual issues with force. For example, Kacowicz (1995) argues that democracy tend to be satisfied with the status quo, and with the settlement of territorial disputes and spread of democracy, Latin America gradually becomes a zone of peace. Miller and Elgün (2011) demonstrate that many international conflicts in the region result from leaders’ diversion due to the domestic threat of coup d’état, thus with the spread of democratic consolidation in the region, the number of conflicts decreases because the leaders’ survival is more secured in democratic regimes.

The third set of explanations is based on the cultural or the constructive perspective, which is partly related to the spread of democratization. One of the reasons that facilitates the Latin American countries’ settlement of territorial disputes is due to the commonly accepted principle of *uti possidetis*, which means that the Latin American

countries recognize the colonial borders as their post-independence international frontiers (Ireland, 1938; Child, 1985). Besides, there is also a common normative and cultural framework derived from a long practice of diplomatic management of resolution of international disputes between these countries (Ebel, Taras, & Cochrane, 1991). In addition, the establishment of the Organization of American States (OAS) in 1948⁴⁴ and *Mercosur* (the South America regional trade agreement) in 1991,⁴⁵ due to their commonly-shared identity as American or Latin American countries, also contributes to conflict management in the region.

Lastly, the fourth set of explanations about the role that the United States plays in the regional peace is the most controversial one. Most of the research about the Latin American peace either does not count on the influence of the United States as an important factor to the regional peace or questions the United States' intentions and consistency of peacekeeping in the region (Kacowicz, 1995; Mares, 1997, 2001; Buzan & Wæver, 2003b), although all of them recognize its peacekeeping endeavor during certain periods. The role of the United States in the regional peace is debatable due to two contradictory facts. One the one hand, successfully or not, it did try to punish regional aggression and mediated interstate conflict in the region, or endeavored to promoted the conflict management function of OAS; on the other hand, during the Cold War period it

⁴⁴ The Organization of American States (OAS) originated in the 1889-1890 First International Conference of American States which established the International Union of American Republics, renamed the Union of American Republics in 1910, and then was formally established in 1948 by the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), which highlighted the collective security function to facilitate the regional peace.

⁴⁵ *Mercosur* originated in 1985 when Argentina and Brazil signed the Argentina-Brazil Integration and Economics Cooperation Program (PICE) and then was established in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto.

even rewarded or provoked interstate conflict in the name of anti-communism (Mares, 1997, 2001), and the United States itself is also a source of threat to Latin American peace via a covert or overt intervention or coup d'état initiation (Rabe, 2010).⁴⁶ The United States' capricious behaviors toward the region make its role in the regional peace a controversial issue.

What we see in the previous literature is that, at the local level, Latin American peace can attribute to the conflict resolution between each of the enduring rivalries. However, at the system level, the relative explanatory power between the realists' hegemonic stability arguments and the liberals' peace theories is not clear. Are the liberal factors the main reason that contribute to the regional peace? Or is peace actually maintained by the United States' hegemonic security management? In the next part I will investigate both the liberal factors and the hegemonic stability factors, showing that the former may not be the main reason that contributes to the conflict resolution between the enduring rivalries during the Cold War period, and that the latter is a conditional one, which depends on whether the United States has sufficient economic leverage on the Latin American countries.

2.2 Do the liberal factors contribute to Latin American peace?

The liberal triangulating peace argument highlights the pacifying effect of trade, democracy, and intergovernmental organizations (Oneal & Russett, 2001). However, the explanatory power of these three Kantian factors in Latin America is not beyond question, given the facts that interdependence between the Latin American countries tends to be

⁴⁶ According to Rabe's (2010, p. 448) record, the United States tried and largely succeeded in overthrowing governments in Argentina, Bolivia, Brazil, Chile, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, and Nicaragua during the Cold War period, and it continued doing so in Panama, Haiti, and Venezuela after the Cold War.

low, that few of them are consolidated democracies, and that the number of MIDs does not decrease with the increase of their shared intergovernmental organization memberships.

In Figure 4.1 I demonstrate the number of MID onset between the six different regime combinations of all the 20 Latin American countries from 1950 to 2001, data from the MID 3.1 dataset (Ghosn, Palmer, & Bremer, 2004) of the Correlates of War database.⁴⁷ Figure 4.1 shows that, among the total 9,880 dyad-year observations, only 2,161 (21.9%) of them are composed of democratic countries. Besides, what is worthy of paying attention to is that, actually the probability of MID onset among the democratic dyads is higher than any other kinds of dyads except for the anocratic ones. Both the facts that democratic dyads are rather few among Latin America and that democratic dyads are not more peace-prone strongly suggest that the Latin American peace may not hinge on the democratic peace effect. This finding is in line with Mares' (2001) conclusion that in Latin America, democracies are not more peaceful than nondemocracies.

If Latin American peace is not maintained by the democratic peace effect, is it done by trade and intergovernmental organization, the other two pillars of the Kantian peace? The empirical evidences may suggest that neither of them work. Table 4.1 shows the highest average degrees of interdependence of the Latin American dyads during the half century. As we can see in Table 4.1, during the past fifty years from 1950 to 2001, interdependence among Latin American countries remains at a low degree. Among the total 190 non-directed dyads made by 20 Latin American countries, only 15 of them have

⁴⁷ I define the three different political regimes (democracy, anocracy, and autocracy) and the six different regime combinations (democracy-democracy, democracy-anocracy, democracy-autocracy, anocracy-anocracy, anocracy-autocracy, and autocracy-autocracy) as the definition of the *POLITY IV* dataset (Marshall et al. 2013).

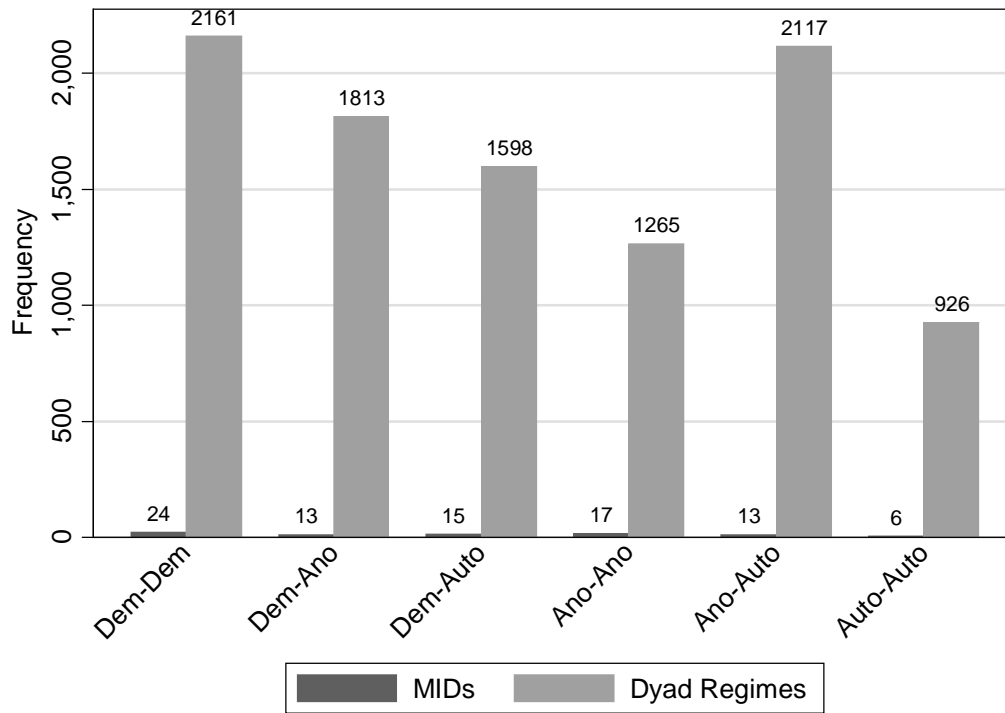


Figure 4.1 Different political regimes and MID onsets in Latin America (1950~2001, non-directed dyads)

Table 4.1 The highest average dependences of Country A on Country B from 1950 to 2001

Country A	Country B	Average dependence of Country A on Country B (%GDP)
Uruguay	Brazil	0.022 (2.2%)
Paraguay	Argentina	0.021 (2.1%)
Bolivia	Argentina	0.018 (1.8%)
El Salvador	Guatemala	0.017 (1.7%)
Paraguay	Brazil	0.016 (1.6%)
Panama	Venezuela	0.015 (1.5%)
Uruguay	Argentina	0.013 (1.3%)
Dominican Republic	Venezuela	0.013 (1.3%)
Chile	Argentina	0.012 (1.2%)
Guatemala	El Salvador	0.011 (1.1%)
Costa Rica	Guatemala	0.011 (1.1%)
Nicaragua	Costa Rica	0.010 (1.0%)
Argentina	Brazil	0.010 (1.0%)
Chile	Brazil	0.010 (1.0%)
Honduras	Guatemala	0.010 (1.0%)

trade flows with the other more than 1% of their gross domestic product (GDP), and the average interdependence among the 9,980 dyad-years is low at 0.0016 (0.16%) of their GDP. In addition, among the 15 most interdependent dyads, only three of them are composed of large economic entities, which means that except for these three dyads (in bold in Table 1), the high dependence of Country A on Country B may be due to the result of small scale GDP in the denominator. Given this low degree of interdependence in the region, the Latin American peace may not be well explained by the liberal commercial peace effect, either.

As for whether the intergovernmental organizations (IGO) promote peace in the region, I plot the average number of MID onset per year between each dyad against the average number of their shared IGO memberships in Figure 4.2, which explicitly shows that, despite the dyads that had never experienced any MID, for those who had at least one MID during the past half century, with the increase of shared IGO memberships actually comes more MIDs. Although the pacifying effect of shared IGO memberships (Dorussen & Ward, 2008) and the aggregated count variable of the sum of it (Boehmer, Gartzke, & Nordstrom, 2004) are called into question, it is obvious that Latin American peace is not achieved by their most important regional IGO, Organization of America States (OAS), which includes all the Latin American countries and whose core purpose is to solve conflictual issues among the Latin American states peacefully. So far, based on empirical evidences, we have seen that none of the Kantian peace elements has meaningful influence on the Latin American peace. Democratic dyads are few and actually have higher probability of conflict, trade interdependence between Latin American dyads is at a low degree by and large, and shared IGO memberships seem to go

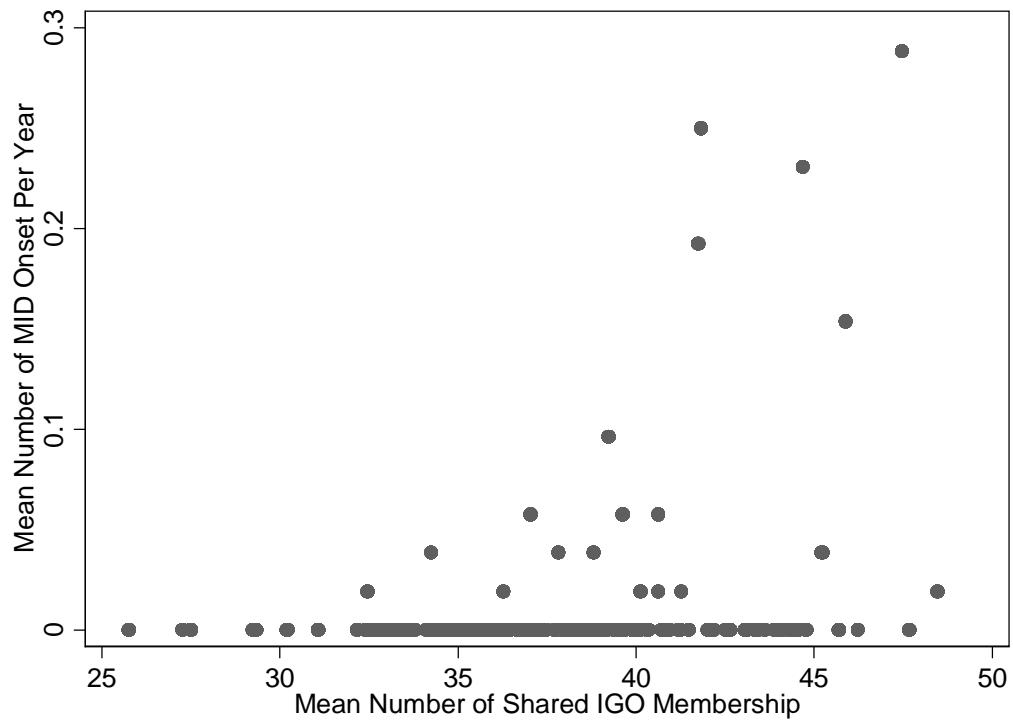


Figure 4.2 The mean Number of MID onsets per year and the mean number of shared IGO memberships of each dyad in Latin America, 1950~2001

with the increased frequency of conflict. Therefore, the results strongly suggest that Latin American peace is not promoted by the liberal peace components. Instead, there must be another concern that constrains the Latin American countries from the use of force as a dispute-constraining or dispute-resolving measurement. That is, I argue, the hegemonic stability effect of the United States' security management.

2.3 A hegemonic stability trajectory?

Early since the 19th century, the international relations between the Latin American countries have been known to be in the shadow of the power of the United States. Due to the interests concern of economy (to get the agricultural and mineral products) and geopolitics (to exclude the influence from the European great powers), the United States has played the role of "regional police" since the 1880s (LaFeber, 1995; Smith, 1996; Schoultz, 1998; Mace, 1999; Buzan & Wæver, 2003b; Walker, 2011). After the end of World War II, because of the decline of the European great powers, the surge of the United States, along with the threat of Soviet communism, the influence of the United States in the region reached a new peak (Atkins, 1999). In almost all regional security literature regarding Latin America, the influence of the United States is always the main part of the regional security (Lake & Morgan, 1997; Buzan & Wæver, 2003b; Kelly, 2007).

However, although few put into doubt the "regional police" role that the United States played, whether the regional peace attributed to the United States' hegemonic security management is an open question. Generally speaking, there are at least three different points of view in the literature regarding the role the United States played in the regional peace: the hegemonic stability argument emphasizes the United States' peace

keeping; the whirlpool model argues that the United States is only involved when its interests are compromised and disengages soon after the events are solved, a whirlpool-like trajectory; and the radical argument contends that the United States is actually the one who provokes conflicts in the region (Gilderhus, 1992; Friedman, 2003; Pastor & Long, 2010; Rabe, 2010; Walker, 2011; Schmidli, 2012).

Proponents of the hegemonic stability argument contend that the regional peace is due to the hegemonic stability effect led by the United States, because it restrains many small-scale local conflicts from escalating to large-scale warfare. Besides, the United States also promotes nonviolent conflict resolution in the region through the OAS. However, the others demonstrate that, according to the empirical evidences, the relationship between “the United States hegemony” and “the occurrence or nonoccurrence of war and MID” in the region is not significant (Mares, 2001, pp. 55–83). The mixed empirical evidences result from the inconsistency of the role the United States played in different Latin American countries. During the post-World War II period, the United States successfully constrained many disputes from escalating in some countries, while in another it failed to do so, and in the others the United States was even accused of instigating one country to use military measures against another, especially the anti-communist warfare in the 1960s and the 1970s.⁴⁸ These contradicting findings call into question the hegemonic stability argument about the role the United States played in the regional peace. For the hegemonic stability argument to be valid, we should see the United States not only constrained the Latin American states from engaging in militarized conflict, but also encouraged conflict as a means of proxy war or buck-passing to punish

⁴⁸ Refer to Rabe (2010) to see a more detailed review of these events.

the state not toeing the line. However, except for some successful “regime change” throughout the Cold War,⁴⁹ most of the time this “hegemonic security management” is not the case. After a scrutiny of all the Latin American militarized conflicts to see whether the use of force in Latin America “results from the unique influence of the United States,” Mares (2001) concludes that:

“Force is used when the U.S. wants it, and also when the U.S. opposes its use. The strongest evidence exists for the anti-communism argument. Indeed, the period of the Cold War sees increased military conflict in the region. However, though U.S. anticommunism matters, it fails to explain the use of force, since force is used before and after the Cold War, and during the Cold War on issues entirely unrelated to communism. Though the U.S. is uniquely powerful, it is not a hegemon that provides the collective good of peace among nations of the region which have their own interests” (Mares, 2001, pp. 82–83).

If neither the liberal factors nor the United States’ hegemonic security management worked in maintaining the regional peace, then the question becomes, how do we explain the reduction of conflict between the once-warlike Latin American countries in this half century? In the next section, I will demonstrate that Latin American peace does follow the hegemonic stability argument, while this effect is a conditional one – depending on whether the United States has enough economic leverage on the Latin American countries to influence the latter’s decision of conflictual behavior. I will also make

⁴⁹ According to Rabe's (2010) calculation, the United States “tried and largely succeeded in overthrowing governments in Argentina, Bolivia, Brazil, Chile, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, and Nicaragua” (Rabe, 2010, p. 448).

another argument that, the regional peace gradually follows a “capitalist peace” trajectory in the post-Cold War period.

2.4 A hegemony with conditional ability

Whatever the true motivation of the hegemon is, all the different hegemonic stability theories implicitly assume that the hegemon has all the ability to influence all the other countries on conflict-constraining, either through coercing or through leading, by the hegemon’s hard-power or soft-power (Kindleberger, 1973; Krasner, 1976; Gilpin, 1981; Lake, 1993; Ikenberry, 2011). However, although the hegemony may have sufficient power and ability to constrain all the others from engaging in large scale wars, this does not mean that it has the same ability (e.g. resource, time, etc.) to refrain all the others from having small scale skirmishes, just like the prediction of the whirlpool model which suggests that the United States only involves in when it feels that it is necessary to do so. So the questions becomes, why does the United States selectively involve in the Latin American interstate disputes? Specifically, what are the factors that determine whether the United States chooses to involve or not to involve? And, how could we explain why the United States successfully constrains the Latin American interstate conflicts most of the time but sometimes it fails to do so? In this research, I argue that Latin American peace is maintained by the United States’ hegemonic security management; however, this “hegemonic stability” effect is a conditional one, which is conditioned on whether the United States has sufficient economic leverage on the Latin American leaders to constrain their conflictual behavior.

I construct a game-theoretical model to demonstrate the conditional hegemonic security management of the United States in maintaining the regional peace. The game is

played by two actors: the aggressor, typically a certain Latin American state that has an incentive to initiate a militarized conflict against another Latin American target, and the United States. The aggressor has two options: to initiate a militarized conflict or not to initiate. And the United States, once seeing the aggressor initiated a conflict, has two options as well. The United States can choose to interfere or not. Therefore, there will be three different outcomes in the game. First, if the aggressor chooses not to initiate a militarized conflict, the outcome will be “the status quo.” Second, if the aggressor chooses to initiate a militarized conflict and the United States chooses not to interfere, the outcome will be “invasion,” which means that the aggressor invades the target. Lastly, if the aggressor chooses to initiate a militarized conflict and the United States chooses to interfere, the outcome will be “interference,” which means that the United States gets involved into the conflictual event. “Interference” includes both the successful and the unsuccessful United States’ interferences.

The payoff structure is as following. As for the outcome of “the status quo,” the aggressor gets a payoff of α because it enjoys the peaceful and harmony relationship with the target, and the United States gets a payoff of H because it enjoys the hegemonic status in the region as well as its strategic benefits, despite what the strategic benefits are. As the outcome of “invasion,” the aggressor get a payoff of $B - \alpha$, where B denotes the utility the aggressor can get by invasion and $-\alpha$ denotes the loss of the peaceful and harmony relationship with the target.

As for the outcome of “interference,” the payoff structure depends on whether the United States is able to punish the aggressor for invading. Let p denote the probability that the United States successfully punishes the aggressor, and $1 - p$ denotes the

probability that the United States fails to punish the aggressor. The aggressor gets $B - \alpha$ if the United States is not able to punish the aggressor and $-\alpha - C_{Aggressor}$ if the United States is able to do so, where $-C_{Aggressor}$ means the cost of the aggressor when being punished. The United States gets $H - C_{US}$ if it successfully punishes the aggressor and $-H - C_{US}$ if it fails to do so, where $-H$ means the United States' hegemonic status in the region is compromised and $-C_{US}$ means the cost the United States pays for exerting the punishment. Therefore, under the “interference” situation, the expected utility payoff of the aggressor is $(1 - p)(B - \alpha) + (p)(-\alpha - C_{Aggressor})$ and the expected utility payoff of the United States is $(p)(H - C_{US}) + (1 - p)(-H - C_{US})$. Figure 4.3 is the game-theoretical model.

My argument claims that, in Latin America, peace is achieved by two manners. First, the aggressor does not initiate militarized conflicts against other Latin American countries; and second, the United States goes to interfere aggressions and constrains the aggressor. I then solve the game-theoretical model according to these two situations.

I use backwards induction to solve this game-theoretical model. I start from whether the United States chooses to interfere or not to interfere. For the United States to choose to interfere, the payoff of “interfere” must be higher than the payoff of “not to interfere.”

$U_{The\ United\ States}(\text{Interfere} > \text{Not to interfere})$

$$\rightarrow (p)(H - C_{US}) + (1 - P)(-H - C_{US}) > -H$$

$$\rightarrow p > \frac{C_{US}}{2H}$$

Equation (1) shows that, for the United States to choose to interfere rather than not to

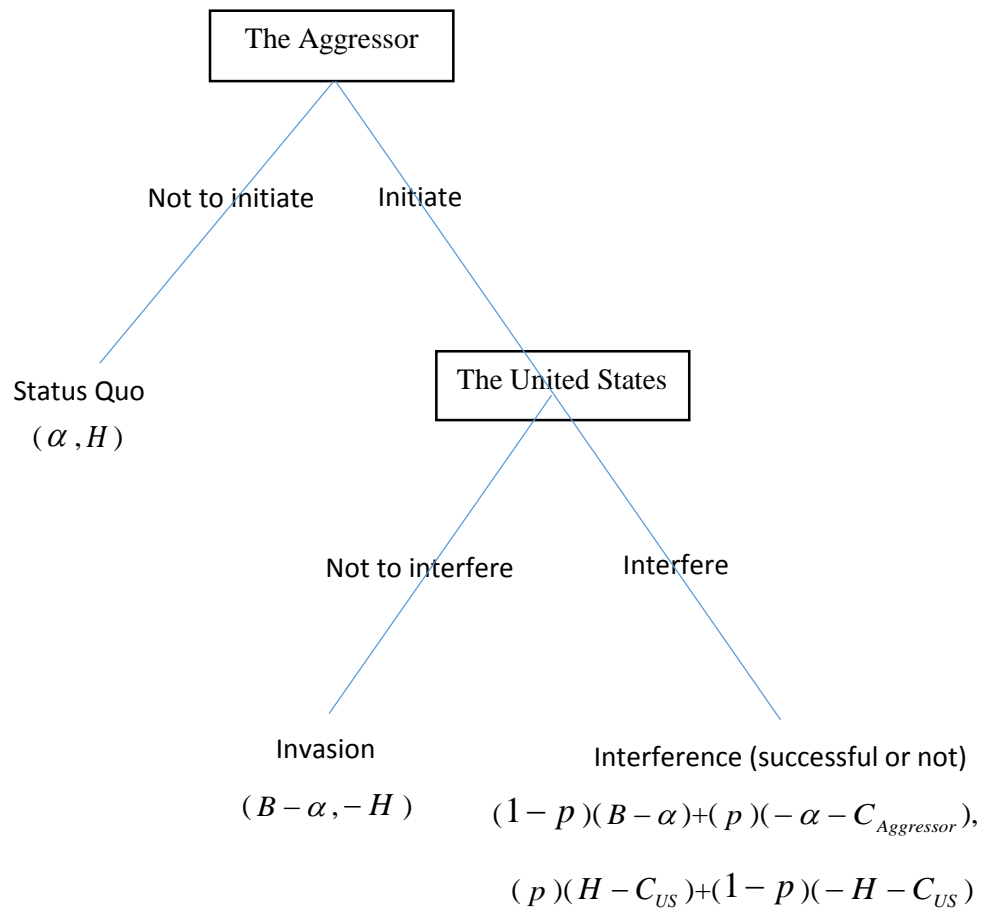


Figure 4.3 The game-theoretical model

interfere, the probability that it can successfully punish the aggressor must be higher than the cost divided by twice the benefit of keeping a hegemonic status in the region. That is, the smaller the cost and the higher the benefit of keeping a hegemonic status in the region, the more likely that the United States will choose to interfere in the conflictual events in Latin America.

In the second stage of the backwards induction, I compare whether the aggressor chooses to initiate or not to initiate. For the aggressor to choose not to initiate, the payoff of “not to initiate” must be higher than the payoff of “initiate.”

$U_{The\ Aggressor}$ (Not to initiate > Initiate)

$$\rightarrow \alpha > B - \alpha \quad \text{or} \quad \alpha > (1 - p)(B - \alpha) + (p)(-\alpha - C_{Aggressor})$$

$$\rightarrow \alpha > \frac{B}{2} \quad (2) \quad \text{or} \quad p > \frac{B - 2\alpha}{B + C_{Aggressor}} \quad (3)$$

Equation (2) and (3) show that, for the aggressor to choose not to initiate rather than to initiate, two preconditions must be matched: either that the peaceful and harmony relationship the aggressor enjoys with other Latin American countries is higher than at least half of the benefit the aggressor can get by invading them, or that the probability that the United States can successfully punish the aggressor must be high enough. For the probability that the United States can successfully punish the aggressor to be high enough, according to equation (3), both α (the benefit of the aggressor when enjoying a harmony relationship with the target) and $C_{Aggressor}$ (the cost of the aggressor when being punished) must be high enough.

In sum, Latin American peace is achieved by two manners: the aggressor does not initiate militarized conflicts against other Latin American countries, and the United States goes to interfere aggressions and constrains the aggressor. According to the solutions of

the game-theoretical model, five factors are important to the maintenance of the regional peace: the benefit of the aggressor to have a peaceful relationship with the target is high, the benefit the aggressor can get from invasion is low, the cost of the aggressor to initiate an aggression is high, the cost of the United States to interfere is low, and the benefit that the United States could get from maintaining a hegemonic status in the region is high.

Regarding the role the United States plays in the region, the game-theoretical model tells that, for the United States to have a strong incentive to deter or to interfere a militarized conflict, two preconditions must be satisfied: either *the benefit of being a hegemon in the region is high enough*, or *the cost of interfering the aggressive behavior is low enough*.

Typically, states have various policy tools to achieve their international goals. They can use diplomatic, economic, and/or military tools to persuade or coerce other states to behave in accordance with their goals. Among the different tools, military tools are usually the most expensive and regarded as the last resort. In addition, it is more difficult for leaders to avoid domestic pressure or audience cost by using military measures than by using diplomatic or economic tools, especially in democratic countries. As a consequence, most of the time leaders will prefer to achieve their international goals by using diplomatic or economic tools rather than by using force. This logic applies to the United States' hegemonic security management in Latin America. Whenever there is a conflict between two Latin American countries, the United States, on the one hand, prefers to manage the conflictual event to maintain its leadership status and strategic interest in the region, while on the other hand it does not want to get bogged down in the conflict and its own domestic pressure of using force. Therefore, whether the United States has sufficient diplomatic and economic tools to influence the Latin American

countries becomes an important factor to affect its ability as well as its willingness (Most & Starr, 1989) to manage the ongoing conflict. As long as the United States has enough diplomatic and economic leverage on the conflict initiator to constrain its conflictual behavior, the cost of interfering tends to be lower. So as long as the United States still values the benefit of being a hegemon and enjoying the strategic interest in the region, it will be more likely to deter or mediate the conflictual events in the Latin American states who are highly economically dependent on it because it has more leverage to constrain both sides from engaging in conflict. Instead, in the Latin American states who are not economically dependent on the United States, it lacks such a leverage to exert its influence, which makes the cost of interfering too high to be workable. As a consequence, the United States' ability and willingness of security management in these Latin American countries tend to be weak. This is the reason why we observe that the United States has played an ambiguous role in the regional peace and why most scholars support the whirlpool model when explaining the United States' Latin American policy. Thus the first hypothesis derived from my argument to be tested is:

Hypothesis 1: Latin American countries who have higher economic ties with the United States are less likely to engage in militarized conflict.

2.5 A capitalist peace trajectory: new development after the Cold War

The game-theoretical model predicts that when two preconditions are satisfied, the United States is more likely to engage in constraining Latin American leaders from having militarized conflict: either *the benefit of being a hegemon in the region is high enough*, or *the cost of interfering the aggressive behavior is low enough*. According to this prediction, two new phenomenon which arise in the region after the end of the Cold

War may change the path of the regional peace. The first one is that, after the collapse of the Soviet Union in 1989, Latin America as a region has lost the strategic value of geopolitics it used to have to the United States (Castañeda, 2003). When containing the spread of communism and the threat of the Soviet Union is no longer a priority after the collapse of the Soviet Union, the benefit of being a hegemon in the region for the United States is not as attractive as before. By the same token, the United States' incentive of interfering in conflictual events in the region should also become less and less salient after the end of the Cold War.

The second one is the rise of the concern of pursuing economic development in the region. Aside from the hegemonic security management of the United States, the market liberalization reform in the 1980s and 1990s in almost all the Latin American countries and the advance of international integration in the South America since the mid-1980s (Kacowicz, 1995, 1998a, 2000) strongly suggest that pursuing economic growth is a shared consensus among the Latin American leaders since the last years of the Cold War, which implies that a tendency of the capitalist peace may start to emerge.

The capitalist peace theories point out four arguments to claim that it is the capitalist's concerns rather than the democratic effects that lead to peace (Mousseau, 2010): peace through trade and free markets (Weede, 1996; McDonald, 2004), peace through market-intensive economy (Mousseau, 2000, 2002, 2003; Mousseau, Hegre, & O'neal, 2003; Mousseau, 2009, 2013), peace through financial openness (Gartzke, Li, & Boehmer, 2001; Gartzke, 2007), and peace through the limited proportion of governments' nontax revenue (McDonald, 2007, 2009). Despite which of the reasons is the main cause that contributes to the regional peace, Latin American countries since the

1980s did undergo economic reforms that contain all the four ingredients. For scholars who work on linking the internal and external factors to explain states' foreign policy regarding conflict and peace (Solingen, 2001, 2003, 2007; Bueno de Mesquita, Smith, Siverson, & Morrow, 2003; McDonald, 2004; Brooks, 2013), a state's economic policy is "not merely a projection of a leader's personal political calculations and interests, but rather it is a combination of political/economic interests and preferences (philosophy and prospects) shared by a leader, political officials, and a group of individuals within society about how to achieve national prosperity and growth" (Tang, 2012, p. 398). Based on this internal-external linkage, the adoption of economic liberalization reform and the progress of international integration among the once-warlike Latin American countries since the 1980s may also imply that there is a gradual change of the preference of these countries. After the end of the Cold War when Latin America lost its strategic importance to the United States due to the collapse of the Soviet Union, along with the rise of the capitalist peace concern in the region, we should see the influence of the United States in the region keeps decreasing. Therefore, I posit that, first, in the post-Cold War period, not only the United States' economic leverage but also the capitalist peace concern should have a significant pacifying effect on the regional peace; and second, the substantive effect of the latter should be more salient than the former since the strategic importance of the region is not as critical as it was during the Cold War period. Thus the second and third hypotheses to be tested are:

Hypothesis 2: Latin American dyads who have higher degree of development are less likely to engage in militarized conflict in the post-Cold War period.

Hypothesis 3: The substantive effect of the capitalist peace concern is larger than the substantive effect of the United States' economic leverage in the reduction of militarized conflict in the post-Cold War period.

In the coming third section, I will explain how I design the statistical models to test the three hypotheses derived from my argument, and the fourth section is the empirical results of the Latin American conflicts from 1950 to 2001.

3 Research design

3.1 Dependent variable: force MID onset

Following most of the literature on international conflict, I use the onset of a new MID between two Latin America states each year as the dependent variable because the dyadic design can better take different security threats that different countries face into concern. Thus the unit of analysis is dyad-year. I derive the MID data (Ghosn et al., 2004) from the Correlates of War database. A MID is defined as “a set of interactions between or among states involving threats to use military force, displays of military force, or actual uses of military force” (Gochman & Maoz, 1984, p. 586). Because of the fact that almost all the militarized conflicts between Latin American countries are recurrent ones from previous conflicts (Hensel, 1994), I look at only the MIDs that go to at least the levels of “use of force” and “war” to avoid the noisy information and coding problems pervasive in the low levels of conflicts,⁵⁰ especially among the Latin American dyads where “threats to use military force” is not an expensive concern for many of the nondemocratic leaders. Thus, the dependent variable I use is Force MID onset, a

⁵⁰ Relative discussion about the miscoding concern of low-level MIDs refer to Toset, Gleditsch, and Hegre (2000, p. 894), Souva and Prins (2006, p. 191), and Johnston (2012, pp. 56–58).

dichotomous variable coded 1 for the first year of a new force MID in a dyad and 0 otherwise. The subsequent years of the same force MID in the starting year is dropped from the data to reduce the problem of temporal dependence, because the statistical model I employ in this study, logit regression, assumes that the conflict events being analyzed are independent of each other. Because force MID onset is a time-series cross-sectional binary variable across time (years) and space (dyads), in order to produce accurate standard errors and consistent coefficients, I estimate the logit regression model with Huber/White robust standard error which assumes that observations within the same dyad across years are correlated but those between different dyads are uncorrelated, adjusting for clustering in dyads. I also adopt Carter and Signorino's (2010) method to include peace years, peace years' square, and peace years' cube into the model to control for temporal dependence.⁵¹ As most of the literature, I estimate all the models with dependent variable at time t and independent variables at time $t - 1$ to mitigate problems of reverse causality.

3.2 Independent variables

My theory predicts that it is the country that has less economic ties with the United States that determines the militarized conflict during the Cold War period, and that countries that are more developed are less likely to have militarized conflict after the Cold War, so my independent variables will include the countries' degree of economic links with the United States as well as their degree of development. I operationalize the former by measuring the Latin American states' degree of trade dependence on the United States in proportion to their gross domestic product (GDP), **Dependence on the**

⁵¹ I also estimate all the models using Beck, Katz, and Tucker's (1998) peace years and cubic splines to control for temporal dependence, the outcomes are almost identical.

United States, which represents how the former is economically dependent on the United States and how much economic leverage the latter has to influence the former. Data of the trade share is from the COW bilateral trade data, version 3.0 (Barbieri, Keshk, & Pollins, 2009; Barbieri & Keshk, 2012).

As for the degree of development, following most of the capitalist peace literature, I measure the Latin American countries' degree of development by their GDP per capita, **GDP/pc**, and log it to adjust the skewness. Data of GDP per capita is from Gleditsch's (2002) expanded trade and GDP data.

In the following models I estimate the independent variables following the “weak link” logic⁵² and include both the lower value (**Low dependence on the United States**) and the higher value (**High dependence on the United States**) of the two countries in each dyad-year.

3.3 Control variables

Also following most of the studies on international conflict, I control for the variables that are demonstrated to be influential. I control for both countries' degree of interdependence (**Dependence**),⁵³ degree of democracy (**Polity score**),⁵⁴ the number of their joint intergovernmental organization memberships (**IGOs**),⁵⁵ their power parity

⁵² The “weak link” logic is originally designed by Dixon (1994) and then followed by Oneal and Russett (1997) and many other following studies on international conflict, which assumes that “the likelihood of dyadic conflict is primarily determined by the less constrained of the two states in a dyad” (Oneal & Russett, 1997, p. 273).

⁵³ Data from Gleditsch (2002).

⁵⁴ Data from the Polity IV dataset (Marshall, Gurr, & Jaggers, 2013).

⁵⁵ Data from Pevehouse, Nordstrom, and Warnke (2004).

(Power parity),⁵⁶ whether they are contiguous (**Contiguity**),⁵⁷ and the distance between their capitals in logged miles (**Distance**).⁵⁸

Specifically for my theory, I also control for several rival explanations to demonstrate my independent variables are still valid even after taking these factors into concern. My theory predicts that whether the United States has enough economic leverage on the Latin American countries determines the latter's conflict propensity, but it is possible that the latter's degree of trade dependence on the United States is resulting from whether they have already been in a good relationship with the United States, or it is possible that it is the distance between them and the United States that determines their trade ties with it. Therefore, controlling for their interest similarity with the United States and their distance to the United States is necessarily for my argument to be persuasive. So I include the following two control variables: **Interest similarity with the US** is the difference of ideal points between the Latin American countries and the United States in terms of their voting pattern in the General Assembly of the United Nations, data from Strezhnev and Voeten (2013). **Distance to the US** is the distance between the two capitals in logged miles, data from the COW database.

4 Empirical results

4.1 Basic analysis

Table 4.2 shows the results of the three models I estimate. Model 1 is the full model which includes the whole sample space from 1950 to 2001. My theory predicts

⁵⁶ Data from Singer (1988).

⁵⁷ Data from Stinnett, Tir, Diehl, Schafer, and Gochman (2002).

⁵⁸ Data generated by the Eugene software, Version 3.204 (Bennett & Stam, 2000).

that the probability of conflict decreases with the increase of Latin American countries' dependence on the United States during the whole sample period. The result of Model 1 confirms my argument that it is the Latin American country that has less economic ties with the United States that determines the probability of conflict, while all the other realism and liberal factors do not have significant effects on conflict-constraining. Model 2 shows the result during the Cold War period from 1950 to 1989, and my theory predicts that during this period the most important factor that promotes the Latin American peace is whether the United States has enough economic leverage on the Latin American countries to constrain their conflictual behavior. The result of Model 2 confirms my argument that Latin American countries who have higher economic ties with the United States are less likely to engage in conflict. Again, all the realism and liberal factors seem to be irrelevant in the reduction of the probability of conflict. Model 3 contains only the samples after the end of the Cold War from 1990 to 2001, and my theory predicts that after the end of the Cold War both the United States' economic leverage and the capitalist concern are the key factors to the regional peace. The result of Model 3 confirms my claim that, after the Cold War, the higher the United States' economic leverage on the Latin American countries and the more developed they are, the less likely they engage in conflict. The substantive effects (in the next section) also demonstrate that since 1990 economic development becomes the most important conflict-constraining factor in the region. Latin American countries gradually walk from the path of hegemonic stability toward the capitalist peace trajectory.

As for the results of the rival explanation variables and the control variables, as we can see from Table 4.2, except for one variable, none of them has a consistent effect

Table 4.2 Determinants on force MID onset between Latin American countries

[Dependent variable t]	Force MID onset		
	Model 1	Model 2	Model 3
	Full Model 1950~2001	During the Cold War 1950~1989	After the Cold War 1990~2001
[Independent variables t_{-1}]			
Low dependence on the United States	-22.893*** (6.326)	-25.970* (13.619)	-27.515** (10.783)
High dependence on the United States	2.065 (3.262)	6.167 (5.069)	-2.753* (1.612)
State A's GDP/pc	-0.130 (0.501)	0.640 (0.486)	-2.393*** (0.578)
State B's GDP/pc	0.261 (0.693)	0.868 (0.686)	-1.632** (0.702)
[Control variables t_{-1}]			
State A' Interest similarity with the United States	0.367 (0.267)	0.690* (0.365)	0.240 (1.057)
State B' Interest similarity with the United States	-0.449** (0.189)	-0.861** (0.368)	-0.204 (0.698)
State A's distance to the United States	0.497 (1.166)	0.462 (1.384)	-0.471 (1.512)
State B's distance to the United States	-1.628 (1.021)	-1.925* (1.152)	-1.486 (2.021)
State A's dependence on State B	46.354*** (17.811)	61.551*** (17.024)	43.406 (31.231)
State B's dependence on State A	-41.419* (24.082)	-66.700** (27.596)	22.220 (41.984)
State A's polity score	-0.022 (0.030)	-0.030 (0.033)	0.007 (0.101)
State B's polity score	-0.018 (0.030)	-0.013 (0.032)	-0.059 (0.099)
IGOs	0.075*** (0.028)	0.064* (0.035)	0.176** (0.071)
Power parity	0.342 (0.662)	0.721 (0.644)	0.567 (1.135)
Contiguity	2.476*** (0.813)	4.331*** (0.624)	0.314 (0.607)

Distance	-0.336 (0.221)	-0.391 (0.239)	0.328 (0.863)
Cold War	0.546 (0.365)		
Peace years ¹	-0.174*** (0.066)	-0.153 (0.111)	-0.096 (0.148)
Peace years ²	0.006 (0.004)	0.008 (0.009)	0.001 (0.009)
Peace years ³	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Constant	2.353 (4.789)	-7.352 (6.672)	34.726** (13.752)
Pseudo R-squared	0.373	0.411	0.479
Log likelihood.	-234.314	-161.725	-51.286
Chi-squared	1288.293	708.848	552.647
Probability > Chi-squared	0.0000	0.0000	0.0000
Number of dyads	190	190	190
Number of observations	9,462	7,410	2,052

Note: Standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.01. The total number of observations of the 20 Latin American countries from 1950 to 2001 should be 9,880, from 1950 to 1989 should be 7,600, and from 1990 to 2001 should be 2,280.

on the probability of force MID across the three different time periods. The only one variable which has a consistent effect on force MID onset between Latin American dyads is one of the Kantian peace factors – the number of shared intergovernmental organization memberships (**IGOs**), and it is positive with the probability of conflict.

In sum, all the empirical result confirms the two points I make. First, Latin American peace is mainly maintained by the hegemonic stability effect of the United States' security management, and this American hegemonic stability effect is conditioned on whether the United States has enough economic leverage on the Latin American countries to constrain their conflictual behavior. Second, after the end of the Cold War, pursuing for economic growth and development becomes the most important reason that reduces Latin American leaders' incentive to engage in conflict.

4.2 Substantive effects

To further demonstrate the substantive effects of the independent variables, in Table 4.3 I list the predicted probabilities of force MID onset when each of the independent variables moves from its minimum to maximum, holding all other continuous variables at their means and assuming contiguity. In sum, during the half century, the most important and consistent factor that promotes the regional peace is Latin American states' degree of dependence on the United States; and after the end of the Cold War, the capitalist peace concern, states' degree of development, becomes the dominant effect that reduces the probability of conflict in the region.

5 Concluding remark: capitalist peace and its threats

In this research I propose an argument to explain the ambiguous role the United States has played in the regional peace, that is, a hegemony who maintains the regional

Table 4.3 Substantive effects of the independent variables

Variable (Min→Max)	Model 1 1950~2001	Model 2 1950~1989	Model 3 1990~2001
Low dependence on the United States	-0.0201724	-0.0222253	-0.0025403
High dependence on the United States			-0.0006865
State A's GDP/pc			-0.0473534
State B's GDP/pc			-0.0291378

Note: The predicted probabilities of force MID onset are calculated by holding all the continuous variables at their means and assuming contiguity. The baseline probability of force MID onset is 0.0061 (46 conflicts out of 7,600 dyad-years) before the Cold War and 0.0075 (17 conflicts out of 2,280 dyad-years) after the Cold War.

peace with conditional ability. In countries that have higher degree of economic dependence on the United States, the United States has enough influence and economic leverage on the former to constrain the former from using force. Instead, in countries that have lower degree of economic dependence on the United States, the United States does not have sufficient policy leverage on the latter. As a consequence, the hegemonic stability effect of the United States' security management becomes less salient in these countries. Therefore, the hegemonic stability effect of the United States' leadership in the region is a conditional one, which hinges on whether the United States has enough economic leverage to influence a certain Latin American country's conflictual behavior.

My argument also demonstrates that after the Cold War, Latin American peace largely follows the capitalist peace trajectory. Moving toward this path, as long as the Latin American countries are able to keep the pace of economic growth, the regional peace may be able to evolve, in Miller's (2005) phrase, from the "normal peace" of conflict resolution to the "warm peace" of deep international integration. However, when the United States has lost its strategic incentive to afford the cost for maintaining the regional peace since the end of the Cold War, the capitalist peace concern may become the only salient factor that reduces the Latin American leaders' incentive in solving their disputes with force. Thus, whether the Latin American countries can sustain their economic performance may become the key to the regional peace. If it is the case, then two sources of threats to the regional economic development may be critical to the international relations among the Latin American countries.

The first one comes from the international. In the past decades, Latin American economy has been sensitive to the world economic circle as well as to the reoccurring

financial crises. Therefore, the probability of militarized conflict in the region may increase when the regional economy is affected by the negative turbulences of the world economy. The second one comes from the domestic. Many Latin American countries are notorious for having a highly-unequal society and an unstable democracy. Thus the potential unrest resulting from domestic redistribution issues may arise when the Latin American countries are not able to keep their growth pace, which may further compromise their peaceful international relations based on sustainable economic performance.

CHAPTER 5

The Embedded Liberalism and the International Relations between the European Union Countries

1 Introduction

Since the end of World War II, the European Union countries have been the most developed, democratic, and peaceful region in the world. This long and salient peace between the European Union countries is composed of many factors that mutually reinforce as a virtuous circle. According to realisms, the North Atlantic Treaty Organization (NATO) collective security and their common enemy – The Union of Soviet Socialist Republics (USSR) – maintain the peaceful situation between the European Union countries. For the liberals, the peaceful relationship attributes to their democratic regimes, high degree of interdependence, and successful international integration through the European Community. As for the constructivists, they highlight the contribution of the constructive process of security community. In any perspective, the European Union countries are the most peaceful region in the world after World War II.

Although the European Union countries are the most peaceful region in the world, this does not mean that there is not any conflict happened between them. However, previous research on this regional peace seldom discusses the variations of the international relations between the European Union countries. One of the reason, I argue, is due to the limitation of data availability. The most popular conflict data in

contemporary international relations research, militarized interstate dispute (MID) of the Correlates of War database, records only the data of militarized conflict. As a consequent, if researchers look at the international relations between the European Union countries, there is no variation in the dependent variable because there are simply too few militarized conflicts happened between them, especially that there is not a single MID occurred so far since the end of Cold War.⁵⁹ The lack of militarized conflicts between the European Union countries precludes researchers from further investigating the variations of their international relations.

However, even though there is a lack of militarized conflict, especially after the end of Cold War, non-militarized conflicts do occur among the European Union countries from time to time. What are the reasons that cause the variations between the international relations among the European Union countries? Why do conflicts still exist in a region that is the richest, the most democratic, and the most integrated place in the world? In this research, I make an argument to link the logic of the embedded liberalism with international relations between the European Union countries. I argue that the main conflictual issues among the European Union countries mainly result from trade and international integration, which involves the struggle between their domestic internationalizing and backlashing coalitions on market opening issues. Due to the market opening and international integration concerns, countries who participate in the regional integration deeper and simultaneously maintain higher domestic compensation (in terms of social expenditure) tend to have less conflicts with other countries. This is because of two main reasons. The first reason is that, people in countries with higher domestic

⁵⁹ The last militarized interstate dispute occurred between the European Union countries is the 1986 fishery dispute between the United Kingdom and Spain.

compensation have less risks due to a larger safety net. Therefore, they are more likely to support for market opening and international integration, thus reduce the number of conflict resulting from these two issues. The second one is that, higher domestic compensation also means that the governments are more responsive to domestic demands, and these kind of governments are less likely to act belligerently against others. Due to these two reasons, among the European Union countries, those who have higher interdependence on the others tend to have more conflicts with the others, and those who have higher domestic compensation tend to have less conflicts with the others. The interaction between these two factors, the degree of interdependence and the degree of domestic compensation, accounts for the number of conflicts between the European Union countries. Thus, my argument explains the variations of the international relations in the most peaceful region in the world.

To proceed my argument, the structure of the research is as following. The second section is the theory, in which I explain how the logic of the embedded liberalism can help predict European Union countries' international relations in terms of the number of different kinds of interstate conflict. I proceed this argument by looking at both the pacifying effect and the conflictual effect of trade and domestic compensation. The goal of this section is to demonstrate that trade and domestic compensation are the most important political issues among the European Union countries, establishing the base for the following analysis. Then, in the third section I propose the research design to test my argument, in which I lay out how I apply the 10 million international dyadic events (IDE) dataset to conceptualize different levels of interstate conflicts to perform the empirical tests. The fourth section is the statistical analysis. The data I use to test my argument

includes conflicts between the total 15 European Union countries from 1990 to 2004. The 15 European Union countries include Germany, Netherland, Belgium, Luxemburg, France, Italy, Denmark, the United Kingdom, Ireland, Greece, Spain, Portugal, Sweden, Finland, and Austria. Lastly, the final section is the concluding remark. The contribution of this research is, on the one hand, to conceptualize different levels of interstate conflict between the European Union countries by applying a useful dataset, and on the other hand, to supplement the insufficient literature about the missing part of the international relations in the most peaceful region in the world. The finding of this research confirms Garrett (1998), Pitruzzello (2004) and Ruggie's (1982) conclusions that, since the end of World War II, the embedded liberalism has been and will still be an important concern of international security in this highly globalized world.

2 Embedded liberalism and international relations

In this part I first explain my argument about why we can predict the international relations between the European Union countries by looking at their degree of interdependence and degree of domestic compensation, and then I point out the hypotheses derived from my argument to be further tested in the next section. I begin with a discussion about the post-WWII development of their arrangement of economic system at both the domestic level and the international level, and then posit the possible causal mechanisms that link this post-War arrangement to their international relations. In brief, the post-WWII development of the embedded liberalism, the consequence of interdependence, and the reasons that states do domestic compensation, together form an internal-external linkage as the domestic explanations of international relations between

the European Union countries, the most democratic, developed, and integrated place in the world.

I build my argument by answering three related questions: First, why trade, international integration, and domestic compensation are the most important political issues among the European Union countries? Second, what are the consequence in terms of states' international relations if they are highly interdependent? Third, what are the reasons that the states maintain a high or a low degree of domestic compensation? The answers of these three questions suggest four hypotheses about the variation of their international relations.

2.1 The balance between the two contradictory goals of each state and the post WWII peace between the European Union countries

The first question is, why trade, international integration, and domestic compensation are the most important political issues among the European Union countries? The answer to this question can be traced back early to the French Revolution and the Industrial Revolution which set up the grand socioeconomic background and party alignment in the West European countries (Lipset & Rokkan, 1967; Boix, 1999; Cox, 2001; Cusack, Iversen, & Soskice, 2007; Kreuzer, 2010; Cusack, Iversen, & Soskice, 2010; Boix, 2010). Here I only focus on the post-WWII arrangement because it is more directly related to the trade and international integration issues today among the European Union countries.

Early since the end of the Napoleonic War in 1816, after every systemic war the victorious countries will convene a conference to design a new post-war international system, and the goal of this new post-war system is to avoid the causes of the war from

happening again (Ikenberry, 2000). The Bretton Woods System was designed by the same reason (Ikenberry, 2000, p. 163-214). One of the main causes of World War II is due to the trade competition between the European countries resulting from two contradicting goals: *the economic nationalism* and *the liberalism of the gold standard and free trade* (Ruggie, 1982, p. 393). The economic nationalism emphasizes the priority of domestic policy, neglecting the fact that pursuing domestic policy may cause negative externalities to other countries and therefore leads to international conflict. A good example is that, in the 1930s the European countries one another adopted policies of raising their trade barriers and devaluating their currencies in order to protect their domestic markets, which resulted in international disputes and became the main cause of World War II (McDonald, 2004; McDonald & Sweeney, 2007). The liberalism of the gold standard and free trade pursues the stability of exchange rate in order to facilitate trade, neglecting the importance of domestic social stability, therefore makes the state not able to use fiscal and monetary policies to adjust their trade deficit or implement Keynesian policies to stimulate economic growth. As a consequent, the state will undergo social instability, and social instability will further force leaders to adopt economic nationalism, which draws the state into a vicious circle of international conflict.

In order to avoid international conflicts resulting from these two contradicting goals, how to find a balance between these two contradictory goals of each state in participating in the global market is the key to peace. In order to fulfill this goal, the designers of the post-World War II order set up the so-called “Bretton Woods System.” Bretton Woods System constructed a multilateral international regime, the International Monetary Fund (IMF), to supervise and coordinate member states’ trade and monetary

policies. If a state has trade deficit, IMF can either offer loans or approve the state of changing its exchange rate to adjust its trade deficit by other member states' agreement. As a consequence, the member states do not necessary have to use trade barriers or devaluate their currencies to alter their trade deficit, therefore avoid international conflict resulting from the struggle between the economic nationalism and the liberalism of gold standard and free trade. Due to the fact that the European countries' economy was severely destroyed by the war, the United States took the responsibility to take over the leadership of the new international system (Kindleberger, 1981; Keohane, 1984; Gilpin, 1987).

After World War II, the Bretton Woods System successfully brought peace and economic prosperity to advanced industrial countries for more than thirty years. The Success of the Bretton Woods System makes many people think that trade and market openness is indispensable for countries who struggle for economic growth. Therefore, when it comes to helping the underdeveloped and the developing countries, they drum for free trade and liberalized financial and monetary policies, the “the Washington Consensus” (Williamson, 1989). But the paradox is that, the reason of the success of the Bretton Woods System is not due to unlimited free trade, but the limitation of trade (Gilpin, 1987, 2001). Free trade and unlimited market openness is never the goal of the Bretton Woods System designers. The designers of the Bretton Woods System set up trade statues which leaves huge amount of policy space for each member countries to build their own capitalisms according to their different political economic environments, which includes their distinct approaches to corporate governance, labor markets, tax regimes, business-government relations, and welfare state arrangements (Hall & Soskice,

2001; Hancké, 2009). As Rodrik's (2011) description, the original goal of the most important international regime of the Bretton Woods System globalization, the General Agreement on Tariffs and Trade (GATT), is designed to:

“...leave each trading nation room to pursue its social and economic objectives relatively unencumbered by external constraints, albeit with a loose framework of international cooperation. When trade threatened domestic distributional bargains, trade would give way.....GATT's purpose was never to maximize free trade. It was to achieve the maximum amount of trade compatible with different nations doing their own thing” (Rodrik, 2011, pp. 48-49).

In other words, GATT gives each member state the priority to deal with their own domestic issues. States can choose to open their market to the degree that they are well-prepared for the impact caused by trade. Before they open their specific industries, they are able to have enough policy space to handle the social risks of market opening such as unemployment, distribution, welfare, and infant industries. Garrett (1998) concludes the reason why globalization under the Bretton Woods System is so successful is due to its policy of fixed exchange rates with capital controls:

“Bretton Woods facilitated the twin goals of trade liberalization and domestic compensation by combining fixed exchange rates with capital controls. Fixed rates promoted trade by stabilizing expectations about future price movements. Capital controls gave governments the macroeconomic autonomy to smooth business cycles through countercyclical demand management” (Garrett, 1998, p. 797).

The way the Bretton Woods System facilitate trade globalization and economic prosperity is called “the embedded liberalism” by (Ruggie, 1982, 1994). The embedded liberalism is a compromise between the extreme nationalism and the extreme liberalism, in which neither of them are able to bring long-term stability and prosperity to international relations. In Ruggie’s own words,

“The task of postwar institutional reconstruction.....was to maneuver between these two extremes and to devise a framework which would safeguard and even aid the quest for domestic stability without, at the same time, triggering the mutually destructive external consequences that had plagued the interwar period. This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties, it would be multilateral in character unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism” (Ruggie, 1982, p. 393).

The spirit of the embedded liberalism is just like the concept of “the double movement” emphasized by Polanyi (1944) when he discussed about the emergence of industrial democracies in the 19th century, which means that the state fulfills two components simultaneously:

“One component was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez faire and free trade as its methods; the other was the principle of social protection, aiming at the conservation of man and nature as well as productive organization,

relying on the varying support of those most immediately affected by the deleterious action of the market, and using instruments of intervention as its methods” (Polanyi, 1944, p. 132).

That is, the state opens its domestic market and supports free trade, while at the same time compensates those who are hurt by market opening with welfare policies, therefore, people can enjoy the economic prosperity from free trade and the losers of trade do not necessarily go against market openness.

The logic of the embedded liberalism is further empirically confirmed by Cameron (1978), Katzenstein (1985), and Rodrik (1998). Looking at 18 advanced capitalism countries, Cameron (1978) found that except for those with large domestic market or those far away from their main trade partners, countries with higher degree of market openness have larger public sectors. This is the reason, he claimed, that the public sector of these countries expanded so quickly after World War II. Katzenstein (1985) investigated the trade policy of seven small states in Europe, finding that in order to survive in the volatile world economy, those European small states chose to largely participate in the world market, and meanwhile increased their government spending to compensate for the harmful effects of market openness, which made the economic growth more insured. Rodrik (1998) further verified the causal mechanisms between market openness and public sector expansion. Because the domestic economy is very sensitive to international economy dynamics in an open economy, therefore, people in democratic countries require the government to compensate the risks of market opening. In order to fulfill this kind of demand, government in an open economy builds a large scale social security network.

In sum, by market opening and domestic compensation, countries on the one hand enjoy the benefits of globalization, and on the other hand compensate the losers of trade by part of the revenues from the benefits. This “Keynesian welfare state” approach gives countries a “win-win” situation by social insurance and social expenditure, and this so-called “the compromise of embedded liberalism” is the reason that makes globalization under the Bretton Woods System and economic integration between the European Union countries run so successfully. As a consequence, trade, international integration, and domestic compensation become the most important political issues and conflicts in the European Union countries since the end of WWII (Kriesi et al., 2008, 2012).

2.2 The consequence of high degree of interdependence: pacifying and conflictual effects

Due to the successful liberal factors – interdependence, democracy, international regimes and international integration, the European Union countries become the most peaceful region in the world after the end of WWII (Mitrany, 1948a; Deutsch, Burrell, Kann, & Lee, 1957; Haas, 1958; Deutsch, 1961; Haas, 1964a; Mitrany, 1966; Adler & Barnett, 1998; Miller, 2005). According to the most popular conflict dataset, the militarized interstate dispute (MID) dataset (Ghosn, Palmer, & Bremer, 2004, p. 3) of the Correlates of War database, there are only 1 dyadic MIDs happened without any fatality⁶⁰ among the total 2,154 non-directed dyad-year observations of the 15 European Union countries from 1950 to 2001. And till today there has not been any single MID happened between the European Union countries since 1986 when the last MID occurred. Although there is a lack of militarized conflict among the European Union countries, they do

⁶⁰ That is the 1986 Britain-Spain fishery dispute.

cooperate and compete with each other day by day. The lack of militarized conflict is by no means equal to saying that there is no variation in their international relationship.

Some countries have more conflictual issues with others, while some have less, although these conflictual issues never escalate to the degree that involves the use of force. If their international relations do vary, how do we explain the variation of the international relations between the European Union countries? What are the factors that drive the relationship between the world's most developed, democratic, and integrated countries? The answers to the rest two of the three questions, I argue, can help explain the variations of the international relations between the European Union countries, where trade and international integration are the most important issues in their political arena.

The second question is, what are the consequences in terms of states' international relations if they are highly interdependent? According to the liberal commercial peace theories, generally speaking, trade can promote peace in terms of the reduction of militarized interstate disputes (Oneal & Russett, 1999; Maoz, 2009; Hegre, Oneal, & Russett, 2010). This is due to three causal mechanisms (Kastner, 2005). The constraint arguments state that as interdependence increases, the cost of military conflict also increases due to the loss of valuable assets and trade flows (Papayoanou 1996; Oneal and Russett 2001a; Gelpi and Grieco 2003; Smith 2014). The informational arguments claim that interdependence enables states to signal more efficiently their true level of resolve through threatening to use costly economic sanctions, therefore reducing the likelihood of dangerous miscalculations about each other's resolves (Fearon, 1995; Gartzke, 1999; Morrow, 1999, 2003; Gartzke, Li, & Boehmer, 2001; Powell, 2002; Gartzke & Li, 2003; Gartzke, 2003; Stein, 2003). The transformative arguments posit that interdependence can

reduce the probability of conflict by reshaping the underlying states' interests and preferences, either through changing the states' core international objectives or through changing the balance of domestic political coalitions (Mitrany 1948; 1966; Haas 1958; 1964; Deutsch et al. 1957; Deutsch 1961; Adler and Barnett 1998b; Solingen 2001; 2003; 2007; Simmons 2003). Therefore, as their degree of interdependence increases, the European Union countries should enjoy the peace in terms of the lack of militarized interstate disputes.

However, in addition to this pacifying effect, trade has a conflictual effect as well. This is due to two main reasons. The first reason is that, as Chapter 2 in this research has demonstrated, the pacifying effect of trade is only limited to the reduction of militarized conflicts that cause fatality. When it comes to “militarized conflicts that do not cause fatality” or “other non-militarized conflicts,” trade actually increases them.⁶¹ This is because trade, or the degree of interdependence, is also a measurement of the interaction density between both sides. Therefore, the more frequently countries interact, the higher the probability that they will have conflictual issues simply due to frequent interaction.

The second reason that trade brings conflicts to states is that, trade brings both the positive impacts as well as the negative ones to the society. Besides the pacifying effect at the state level as I discussed above, trade has also the distributive effects at the individual level. Although trade generally provides aggregates benefits to both states, this does not mean that all the people in both states can also enjoy the benefits resulting from trade (Kleinberg & Fordham, 2010; Fordham & Kleinberg, 2011). The reason is, no matter how beneficial trade is to the society, there will always be winners and losers due

⁶¹ Similar findings refer to Beck, Katz, & Tucker (1998), Zorn (2001), Pevehouse (2004), and Hegre (2009).

to their different factor endowments or their different positions in the economy. Based on the Heckscher-Ohlin model, Stolper and Samuelson (1941) demonstrate that the relative price increase of a certain product leads to the increase of the reward and the actual price of this certain product intensively-used when producing, which decreases the reward and the actual price of another factor. That is, although trade may increase the total welfare of the society, it increases the income of some people with a certain factor while simultaneously decreases the income of the other with another factor. In other words, trade always creates losers as well as winners in the society. Also based on the Heckscher-Ohlin model, Rogowski (1989) demonstrate that trade and the different return of factors caused by trade will further push people to form political coalitions and thus lead to the consequent political conflict. Aside from the Heckscher-Ohlin model, other different models have different conclusions about who the winners or losers are. The Heckscher-Ohlin model claims that those who possess abundant factors are the winners and those who possess scarce factors are the losers (Ohlin 1933); the Ricardo-Viner-Jones model claims that who the winners and losers are is determined by class-cleavage instead of factor-cleavage (Jones 1971; Samuelson 1971); and the Krugman-Helpman model contends that firms who have economies of scale are the winners of market openness and those who do not are the losers (Krugman, 1996). Although different models have different predictions about who the winners and losers are, it is beyond controversy that trade will create domestic winners and losers despite how beneficial it is to the state.

What will the winners and the losers do? If we model them as rational actors who want to maximize their profits, the winners will try to maintain the trade policy that makes them rich and the losers will try to change the trade policy that is not in favor of

them. Typically, the winners of trade want more openness, for they are very competitive and a more opened market simply gives them more chance to make money, and the losers want to reduce the degree of market openness since it hurts them and want more welfare expenditures to compensate their loss caused by trade. If the government takes good care of the losers by welfare expenditure such as compensation and education, the country can enjoy the benefits from trade without sacrificing the social cost. Instead, if the government does not take good care of the losers, trade will cause severe social problems such as unemployment, inequality, class opposition, social and political polarization, etc., so that sows the seeds of future conflict. Besides, these social problems caused by trade may well further enhance the strength of the backlash coalitions in domestic politics (Solingen, 2001, 2003), so that raise trade barriers and attenuate the country's inclination of joining in the international market (Alt et al, 1996, pp. 35–36), and both of them are found to increase the probability of militarized conflict (McDonald, 2004; Brooks, 2013). In addition, once this “globalization promised” economic development does not come true, the enduring conflict between “the Lexus and the olive tree” (Friedman, 2000) may escalate,⁶² and many people and politicians may resort to nationalism and blame their trade partners for hurting their economy. All of these trends monadically become a vicious circle that compromises the pacifying effect of trade. Therefore, whether the state is able to well manage the negative impact of trade on the society and simultaneously take advantage of the profits from trade determines the effectiveness of the pacifying effect of trade.

⁶² The conflict between the Lexus and the olive tree is similar to the conflict between the internationalizing coalition and the backslashing coalition (Solingen, 2001, 2003) in the political arena.

In sum, interdependence should have both the pacifying effect as well as the conflictual effect in international relations, and the logic of the embedded liberalism strongly suggests that the balance between these two opposite effects should be a conditional one, which hinges on the degree of domestic compensation. In the next part, I will discuss how the degree of domestic compensation may condition the pacifying effect of trade. This will be done by answering the third question.

2.3 The reasons of high degree of domestic compensation: pacifying and conflictual effects

The last question is, what are the reasons that the states maintain a high or a low degree of domestic compensation? According to literature, there are many explanations that account for the causes and the dynamics of domestic compensation responding to trade, and these explanations are also found to have influence on international relations. The main reason is that, the degree of domestic compensation is also a measurement of how responsive the states' are to the needs of their societies. And this kind of responsiveness have both the pacifying effects as well as the conflictual ones on international relations.

At most of the time, high degree of domestic compensation, which means high degree of states' responsiveness to society, has a positive effect on international relations. This is due to several reasons. First, higher domestic compensation means better safety net for people who are hurt by market opening, thus increasing people's support for trade (Hays, Ehrlich, & Peinhardt, 2005; Burgoon, 2009). As a consequence, there will be less conflicts resulting from the negative impacts of trade (Ruggie, 1982).

Second, high degree of domestic compensation also reflects the weight that governments place on aggregate social welfare versus private interests (Grossman & Helpman, 1994, 1996, 2005; Gawande, Krishna, & Olarreaga, 2009; Taydas & Peksen, 2012). Given the fact that most of the society favor a peaceful situation rather than conflict, this kind of governments are less likely to initiate conflicts for some narrow private interests (Danilovic & Clare, 2007; Brooks, 2013).

Third, high degree of domestic compensation could also be a result of effective input from the society to the government. For example, Hicks and Swank (1992) find that countries that have voter turnout, powerful central and left parties, high strength of democratic oppositions, and neocorporatist institutions are more likely to have higher welfare spending. These factors are also demonstrated as the same conditions that make leader more constrained and less likely to engage in international conflict (Schultz, 1999, 2001; Bueno de Mesquita, Smith, Siverson, & Morrow, 2003).

Due to these reasons, the increase of domestic compensation should have a pacifying effect in the reduction of international conflict. This pacifying effect has been demonstrated by empirical evidence using the MID data from 1950 to 1992 (Peet & Simon, 2000). In sum, the literature suggests that the reasons that states maintain a high degree of domestic compensation are also the same reasons that reduce the probability of international conflict.

However, like trade can bring about both the positive impacts and the negative ones, high domestic compensation also has negative effects on international relations. When the degree of interdependence increases, the increase of domestic compensation is associated with the reduction of conflict resulting from the negative impacts of trade.

However, when the degree of market openness or interdependence is at a low level while domestic compensation keeps increasing, the probability of conflict could increase due to the following reasons. First, low level of market openness or interdependence with high level of domestic compensation means that there is an over-input of domestic demand for protection, and protectionism is found to be related to the increase of the probability of conflict, either due to trade dispute or due to a conflict-prone domestic coalition (Solingen, 2001, 2003; McDonald, 2004). Second, low level of market openness or interdependence with high level of domestic compensation could also mean that the government is transferring a disproportional amount of money to certain interest groups that are not hurt by trade, which means that the government is less responsive to the most of society in general and is more responsive to some narrow private interests. This effect is similar to leaders with a relative small winning coalition in terms of the logic of political survival (Bueno de Mesquita et al., 2003). Under this situation, conflict is more likely to happen either because that the interest groups urge the leaders to defend their interests internationally or because that the leaders are less constrained after they successfully provide interests to their winning coalition. In sum, whether high degree of domestic compensation contributes to more harmonious international relations should depend on its balance against the degree of interdependence.

2.4 Synthesizing the effects

The discussion about the influences of interdependence and domestic compensation suggests that, trade brings both the pacifying effect and the conflictual effect to both sides, and that the relationship between trade and domestic compensation affects the balance between these two opposite effects. When both the degree of

interdependence and the degree of domestic compensation are at a high level, the number of dyadic conflicts will be few due to the success of the embedded liberalism. On the contrary, when both the degree of interdependence and the degree of domestic compensation are at a low level, the number of dyadic conflicts will be few as well, this is due to two reasons. First, low degree of interdependence means both sides interact not very frequently, so the number of conflicts will be few due to their low interaction density. Second, low degree of interdependence also means that, although the conflictual effect of trade will be low, the pacifying effect of trade will be low as well. Thus we should see that there may be few, but not none, conflicts occurred between both sides. Therefore, the first set of hypotheses to be test are:

Hypothesis 1 (the positive interaction effect): Among the European Union countries, all things being equal, countries whose degree of interdependence and domestic compensation are both at a high level will have the least number of conflicts with their trade partners.

Hypothesis 2 (the passive interaction effect): Among the European Union countries, all things being equal, countries whose degree of interdependence and domestic compensation are both at a low level will have few number of conflicts with their trade partners.

How will the international relations be “when the degree of interdependence is high and the degree of domestic compensation is low” or “when the degree of interdependence is low and the degree of domestic compensation is high”? My argument hypothesizes that, first, when the degree of interdependence is high and the degree of domestic compensation is low, the conflictual effect of trade will increase due to the

negative impacts of trade on society. As a consequence, the number of conflict will increase as well. And second, when the degree of interdependence is low and the degree of domestic compensation is high, it denotes the situation that the pacifying effect of trade is low, the degree of protectionism is high, and the power of backlashing coalition is strong. As a consequence, the number of conflict will increase as well. However, high degree of domestic compensation also means the governments are responsive to their social purpose, thus the number of conflict should not overtake the number of conflict under the previous situation where the degree of interdependence is high and the degree of domestic compensation is low. Therefore, the second set of hypotheses to be test are:

Hypothesis 3 (the interdependence effect): Among the European Union countries, all things being equal, countries who have high degree of interdependence and low degree of domestic compensation will have the most number of conflicts with their trade partners.

Hypothesis 4 (the protectionism effect): Among the European Union countries, all things being equal, countries who have low degree of interdependence and high degree of domestic compensation will have a few number of conflicts with their trade partners.

Table 5.1 demonstrates the four situations that the four hypotheses propose. In short, we should see that the number of conflict should be the most when interdependence is high and domestic compensation is low; the number of conflict should be the second most when interdependence is low and domestic compensation is high; and the number of conflict should be the least when both interdependence and domestic compensation are low or high. In the next section, I will test these four hypotheses using data of dyadic conflict onset between the total 15 European Union countries from 1990 to 2004.

Table 5.1 The influences of interdependence and social expenditure on the number of international conflicts

		Domestic compensation	
		Low	High
Interdependence	Low	Number of conflicts: Few (The passive interaction effect) <i>Hypothesis 2</i>	Number of conflicts: A Few (The protectionism effect) <i>Hypothesis 4</i>
	High	Number of conflicts: The most (The interdependence effect) <i>Hypothesis 3</i>	Number of conflicts: The least (The positive interaction effect) <i>Hypothesis 1</i>

3 Research design

Given the fact that the European Union countries are the richest, the most democratic, and the most developed countries in the world, with the highest degree of interdependence, the most successful alliance (NATO), and multiple shared international organizations, they are the least-likely ones to have interstate conflicts according to international relations theories. Therefore, looking at the European Union countries per se is similar to applying the least-likely case design (McKeown, 1999) to test my argument. The research design and model specification are as following.

3.1 Dependent variable

Regarding the dependent variable of interstate conflict, I do not adopt the popularly-used militarized interstate dispute (MID) data (Ghosn et al., 2004) for two reasons. The first reason is that, as I have discussed above, there is a lack of militarized interstate dispute between the European Union countries since the end of WWII, and there is not a single MID occurred between them after 1986. So if we look at MID data, the dependent variable does not vary simply due to no militarized conflict. But this does not mean that the European Union countries do not have any non-militarized levels of conflict. Therefore, dataset that contains the information of non-militarized conflicts must be concerned.

And here comes the second reason. My argument contends that high interdependence is correlated with more conflicts simply due to frequent interactions, so a dataset that contains both the information of “the number of non-militarized conflict events” as the dependent variable and “the number of status quo events” as the control variable will be the most ideal one to match my theoretical need. According to my theory,

in short, countries that have high degree of interdependence or emphasize on domestic compensation tends to have more disputes with other countries due to intensive economic interaction and domestic pressure, while at the same time have less conflicts due to the fact that domestic compensation enhances trade's pacifying effect. Therefore, I need both the information of the number of conflict events and the number of non-conflictual dyadic interaction events. I find Gary King and Will Lowe's (2003) "10 Million International Dyadic Events (IDE) data" perfectly matches this theoretical requirement.

The IDE data uses machine coding to code all the events reported by Reuters in a daily base. According to King and Lowe, the coding method is that "(e)ach event is summarized in the data as 'Actor A does something to Actor B', with Actors A and B recording about 450 countries and other (within-country) actors and 'does something to' coded in an ontology of about 200 types of actions" (codebook). King and Lowe adopt Goldstein's (1992) modification of McClelland's (1979) World Event Interaction Survey (WEIS) categories to categorize all the recorded events in the IDE data into sixty-one different categories, and then assign each event a "Goldstein score" to denote how conflictual or cooperative the event is. In Goldstein's (1992) conflict-cooperation scale, each dyadic event is assigned a Goldstein score ranging from -10 (the most conflictual) to 8.3 (the most cooperative). I adopt Crescenzi's (2003, 2005) criteria to distinguish **Low-level conflict** from **High-level conflict** to further investigate whether my argument is sensitive to different kinds of international conflict. According to Crescenzi's definition, **Low-level conflict** includes the use of diplomatic and economic tools by one state in an attempt to persuade or coerce another state, and **High-level conflict** includes the use of military tools to do so (Crescenzi, 2005, pp. 46-47). I count only the number of events in

which both sides are reported as “state actors.” The IDE data records observations in a daily base. Therefore, in order to transfer it into the dyad-year unit of analysis to match with other dyad-year variables, I sum up how many low-level conflicts and high-level conflicts there are between two states in each dyad-year to be the “dyad-year event counts” dependent variables. Besides, given the fact that not all dyads have conflictual events in every year, I fill in the missing values of the number of dyadic conflictual events with 0 if there is not any conflictual events reported by the data in any dyad-year.

Because the two dependent variables, the number of low-level conflicts and high-level conflicts per year, are time-series cross-sectional count variables across 15 European Union countries and 15 years,⁶³ I adopt the negative binomial model for event counts (Long, 1997) and the general estimating equation (GEE) model which allows the modeling of temporal (year) and within-panel (dyad) correlations (Zorn, 2001). The combination of these two models is a general estimating equation with a negative binomial functional link. To account for the possibility that the count of disputes in previous year affect the count in subsequent years, I model the data assuming a first-order autoregressive process (AR1) as most time-series research did. In addition, to adjust for clustering in dyads, I use the Huber/White robust standard error clustered on each dyad which assumes that observations within the same dyad across years are correlated but those between different dyads are uncorrelated. Lastly, as most literature on conflict study, I estimate all the models with the dependent variables at time t and independent variables at time $t - 1$ to mitigate problems of reverse causality.

⁶³ Maybe the biggest flaw of the IDE data is its short span. The IDE data only contains dyadic events from 1990 to 2004, only 15 years.

3.2 Independent variables

My theory predicts that the pacifying effect of trade interdependence in European Union countries is conditioned on their domestic compensation for the losers of trade. Therefore, my independent variables should be composed of three variables. The first one denotes the degree of interdependence between the two countries in each dyad, the second one denotes the degree of domestic compensation the governments endeavor to do, and the third one is the interaction term between the previous two variables.

Regarding the degree of interdependence, following the most research in the relationship between trade and conflict, I adopt **High dependence**, the higher ratio of the sum of State A's imports from and exports to State B over State A's GDP, to measure the economic importance of interdependence between the two countries in each dyad (Dixon, 1994; Oneal & Russett, 2001, 1997), following the "weak link" logic (Dixon, 1994; Oneal & Russett, 1997, 2001) which assumes that "the likelihood of dyadic conflict is primarily determined by the less constrained of the two states in a dyad" (Oneal & Russett, 1997, p. 273). In Dixon (1994) and Oneal and Russett's (1997) research, their liberal peace theories suggest that it is the country with the lower degree of dependence that determines the likelihood of dyadic conflict. However, different from their liberal peace theories, my argument contends that in the European Union countries, it is the country with higher degree of dependence that determines the likelihood of dyadic conflict. Therefore, I adopt "high dependence" as my independent variable instead of their "low dependence." I calculate **High dependence** in each dyad-year observation by using the Bilateral Trading Data 3.0 from Barbieri et al. (2009) and Barbieri and Keshk (2012) as well as the GDP data from the 2013 World Development Indicators (WDI) of

World Bank. I also include **Low dependence**, the lower ratio of the sum of State A's imports from and exports to State B over State A's GDP, to the model to have full information about both sides' economic ties with the United States.

The second independent variable is the degree of domestic compensation. I use the portion of states' social expenditure over their GDP to measure the degree of their domestic compensation. Data of social expenditure is from the Organisation for Economic Co-operation and Development's (OECD) website. Following the same "weak link" logic, I adopt the lower social expenditure value in each dyad-year observation to construct the independent variable **Low social expenditure**, because my theory predicts that it is the country with lower degree of social expenditure that determines the likelihood of dyadic conflict.

Since both the interdependent variable and the domestic compensation variable are defined, their interaction term, **High Dependence** × **Low social expenditure**, is my main independent variable. According to my theory, the interaction term should be statistically significant with a negative sign, which means that trade's pacifying effect is increased with the increase of domestic compensation.

3.3 Control variables

Following most research on dyadic international conflict, I control for contiguity, distance, alliance, power, development, and major power status, all of which are demonstrated to have an influence on international conflict. I do not control for states' polity scores (Marshall, Gurr, & Jaggers, 2013) since all the European Union countries are highly democratic states with polity scores more than 9 (out of 10) in my sample space from 1990 to 2004. **Contiguity** is a dummy variable which denotes whether the

two countries of the dyad are contiguous by land, predicted to be positively correlated with conflict onset. **Distance** is the logged distance (in miles) between capitals of the two states in each dyad, predicted to be negatively related with conflict onset. **Alliance** is a dummy variable with a value of 1 if the two states in each dyad have signed a defense pact, neutrality, or entente in the year, and with a value of 0 if otherwise. Among the European Union countries in my sample period, **Alliance** actually denotes whether the both countries are joint NATO dyad. **Power parity** is the weaker state's CINC score (Singer, 1988) divided by that of the stronger state to generate a power ratio which ranges from 0 (total preponderance) to 1 (exact parity between the two states). Data of **Contiguity, Distance, Alliance, and Power parity** are from the Correlates of War (COW) database. Development is also found to have a pacifying effect (Rosecrance, 1986, 2010; Hegre, 2000; Mousseau, Hegre, & O'neal, 2003), so I include both countries' GDP per capita (**GDP/pc**) which is their logged GDP per capita to control for development. Because major power countries are more prone to involve in international disputes (Bremer, 1992; Xiang, Xu, & Keteku, 2007), I create a dummy variable **None major power dyad** to control for this influence of power, taking a value of 1 if both states in the dyad are none major powers, and 0 if otherwise (if including Britain, France, and Germany in the dyad).

I also control for both countries' import-to-GDP ratio because high domestic compensation is demonstrated as a salient result from high import-to-GDP ratio (Cameron, 1978; Garrett, 1998; Rodrik, 1998). I control for the import-to-GDP ratio instead of trade openness (trade-to-GDP ratio) because imports and exports should have opposite effects on government spending. According to (Hays et al., 2005), "Rising

imports create losers – displaced workers in import competing industries – that may have to be compensated, rising exports do not” (Hays et al., 2005, pp. 476–477).⁶⁴ **Import-GDP ratio** is simply the percentage of import share of the countries’ total GDP. Data of **Import-GDP ratio** is from Penn World Table 8.0 (Feenstra, Inklaar, & Timmer, 2013).

To further make sure the number of dyadic conflicts does not intermingled by their interaction density, I control for several variables that demote how frequently the two countries interact (Hegre, 2009). Because dyads with more population are more likely to interact more intensively than those with fewer population, so the former tend to have more conflicts than the latter simply due to more interactions. Therefore, I control for both countries’ **Population**, their number of population in millions after logged.⁶⁵ Data of **Population** is from Penn World Table 8.0 (Feenstra et al., 2013). Both countries’ degree of development also affects their ability of interaction, and I already have both countries’ GDP per capita as the control variables. Lastly, I include the variable **Total number of non-conflictual events** as well to control for the dyadic interaction density revealed by the IDE data. This variable is simply the total number of all the recorded dyadic events in the IDE data that are coded as status quo events according to the Goldstein conflict-cooperation scale. This variable offers the information about how many events happened in each dyad-year, the frequency of dyadic interaction density.

⁶⁴ By the same token, “falling exports are harmful to domestic employment in a way that declining imports are not” (Hays, Ehrlich, & Peinhardt, 2005, p. 477).

⁶⁵ I add 1 to each observation of population in millions before taking log to avoid negative values, because some countries have the number of population less than 1 million.

4 Empirical analysis

4.1 Basic analysis

Table 5.2 includes all the models with different levels of conflicts as the dependent variables. The first dependent variable is **Low-level conflict**, which includes the use of diplomatic and economic tools by one state in an attempt to persuade or coerce another state. Model 1 looks at the influences of **High dependence** and **Low social expenditure** on the number of dyadic low-level conflict, and Model 2 includes both the two independent variables as well as their interaction term. Model 1 shows that, as my argument predicts, both the increase of the degree of high dependence and the degree of low social expenditure increase the number of low-level conflict. However, Model 2 shows that, this conflictual effect of both the degree of high dependence and the degree of low social expenditure will be compensated by their interaction term. That is, although high degree of interdependence and social expenditure will incur more low-level conflicts between the dyad, deeper interdependence with sufficient domestic compensation will have a strongly pacifying effect on bilateral relationship, in terms of the reduction of the use of diplomatic and economic tools by one state in an attempt to persuade or coerce another state.

The second dependent variable is **High-level conflict**, which includes the use of military tools by one state in an attempt to persuade or coerce another state. Model 3 looks at the influences of **High dependence** and **Low social expenditure** on the number of dyadic high-level conflict, and Model 4 includes both the two independent variables as well as their interaction term. The result of Model 3 partially supports my argument that, only the increase of the degree of high dependence increases the number of high-level

Table 5.2 GEE negative binomial models of different levels of international conflicts between the European Union countries, 1990~2004

[Dependent variable $_t$]	Low-Level Conflict		High-Level Conflict		All Conflict	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
[Independent variables $_{t-1}$]						
High dependence	0.049* (0.023)	0.173*** (0.029)	0.087** (0.034)	0.352*** (0.071)	0.058* (0.026)	0.217*** (0.032)
Low social expenditure	0.031* (0.021)	0.083*** (0.022)	0.006 (0.032)	0.135** (0.049)	0.035* (0.019)	0.100*** (0.023)
High dependence × Low social expenditure		-0.006*** (0.002)		-0.013** (0.004)		-0.008*** (0.002)
[Control variables $_{t-1}$]						
Total number of non-conflictual events	0.005* (0.002)	0.005* (0.002)	0.001 (0.003)	-0.000 (0.003)	0.005* (0.002)	0.004* (0.002)
State A's Import-GDP ratio	-0.004* (0.004)	-0.000 (0.004)	-0.001 (0.011)	0.005 (0.010)	-0.003 (0.005)	0.001 (0.005)
State B's Import-GDP ratio	0.000 (0.004)	-0.000 (0.003)	-0.010* (0.009)	-0.011* (0.009)	-0.002 (0.004)	-0.003* (0.004)
State A's GDP/pc	0.044 (0.301)	-0.077 (0.310)	-0.051 (0.585)	-0.327 (0.629)	0.031 (0.278)	-0.126 (0.290)
State B's GDP/pc	-1.116*** (0.307)	-1.131*** (0.329)	-1.366* (0.844)	-1.338* (0.870)	-1.077*** (0.306)	-1.066** (0.325)
State A's Population	0.767*** (0.131)	0.786*** (0.132)	0.600* (0.264)	0.629* (0.247)	0.732*** (0.130)	0.747*** (0.128)
State B's Population	0.612*** (0.122)	0.638*** (0.120)	0.442* (0.266)	0.513* (0.278)	0.557*** (0.117)	0.589*** (0.114)
Contiguity	0.227 (0.373)	0.272* (0.352)	0.017 (0.337)	0.034 (0.355)	0.185 (0.351)	0.255* (0.325)
Distance	-0.403*** (0.108)	-0.416*** (0.110)	-0.485* (0.223)	-0.545* (0.266)	-0.411*** (0.114)	-0.423*** (0.119)
Alliance	0.040 (0.193)	0.124 (0.191)	-0.302 (0.478)	-0.024 (0.464)	0.027 (0.198)	0.147* (0.190)
Power parity	0.772** (0.284)	0.742** (0.288)	1.786*** (0.449)	1.696*** (0.461)	0.969*** (0.271)	0.927*** (0.269)
None major power dyad	-0.206* (0.223)	-0.237* (0.220)	-0.402* (0.349)	-0.460* (0.339)	-0.233* (0.197)	-0.282* (0.194)
Constant	7.456* (3.601)	7.591* (3.681)	11.529* (6.116)	11.189* (6.494)	7.619* (3.306)	7.555* (3.428)
Chi-squared	726.654	747.589	202.167	345.531	709.785	723.589
Probability > Chi-squared	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Number of clusters (dyads)	105	105	105	105	105	105
Observations per cluster: Min	7	7	7	7	7	7
Observations per cluster: Mean	12	12	12	12	12	12
Observations per cluster: Max	14	14	14	14	14	14
Number of observations	1,257	1,257	1,257	1,257	1,257	1,257

Note: Standard errors in parentheses. * p<0.05, ** p<0.01, *** p<0.001.

conflicts. However, Model 4 shows that, when both the two independent variables and their interaction are taken into concern, the two independent variables both have conflictual effects, and their conflictual effects will be compensated by their interaction term. That is, although high degree of interdependence and social expenditure will incur more high-level conflicts between the dyad, deeper interdependence with sufficient domestic compensation will have a strongly pacifying effect on bilateral relationship, in terms of the reduction of the use of military tools by one state in an attempt to persuade or coerce another state.

The third dependent variable is **All conflict**, which is the sum of the total number of both the low-level conflict and the high-level conflict. Model 5 looks at the influences of **High dependence** and **Low social expenditure** on the total number of dyadic conflict, and Model 6 includes both the two independent variables as well as their interaction term. The results of Model 5 and Model 6 are similar to previous models.

Overall, all the model results of Table 5.2 suggest that, whether which kinds of conflict we are looking at, high degree of interdependence or social expenditure will incur more conflicts between the dyad, deeper interdependence with sufficient domestic compensation will have a strongly pacifying effect on bilateral relationship, in terms of the reduction of the events where one state attempts to persuade or coerce another state. In sum, the results support the general idea of the embedded liberalism, which emphasizes on the point that whether states can balance the two different goals of economic nationalism and liberalism is the key to harmony international relations.

4.2 Substantive effects

Table 5.3 records the substantive effects of variables that are statistically significant on each of the three dependent variables.

To further demonstrate how well the empirical evidences fit the prediction of my argument in Table 5.1 (about the four situations), in Figure 5.1 I show the 3-dimensional plots of the influences of **High dependence** and **Low social expenditure** concerning their interaction effect on the predicted numbers of each of the three dependent variables, holding all other variables constant. Figure 5.1 shows that, when looking at **Low-level conflict**, the predicted number of conflict perfectly match the prediction of my argument. That is, the number of conflict is few when both independent variables are at their high levels or at their low levels, the number of conflict increases a little bit when interdependence is low and domestic compensation is high, and the number of conflict is the most when interdependence is high and domestic compensation is low.

However, my prediction is differing a little from the empirical evidences when looking at only the **High-level conflict** in Figure 5.2. Figure 5.2 shows that, high-level conflicts only occurred between European Union countries when interdependence is high and domestic compensation is low, which matches the prediction of my theory. The difference is in the situation when the degree of interdependence is low and the degree of domestic compensation is high. My theory predicts that there will be a small number of conflict in this situation, while empirical evidences show that the number of conflict is as low as the situations when both variables are at their high levels or at their low levels. Although a little different from the prediction of my theory, this should not be a real threat to my argument since high-level conflict, which means that countries use military

Table 5.3 Substantive effects of variables that are statistically significant on each of the three dependent variables

Variables	Min	Max	Model 2 Low-level conflict		Model 4 High-level conflict		Model 6 All conflict	
			IRR	Min → Max	IRR	Min → Max	IRR	Min → Max
High dependence	0.039717	35.14153	+ 17.8%	+624.8%	+ 40.8%	+1432.2%	+ 22.1%	+ 775.8%
Low social expenditure	12.5	30.7	+ 8.7%	+158.3%	+ 14.2%	+ 258.4%	+ 10.4%	+ 189.3%
High dependence X Low social expenditure	0.7665377	800.8185	- 0.6%	-480.0%	- 1.3%	-1048.1%	- 0.72%	- 576.0%
Total number of non-conflictual events	0	272	+ 0.2%	+ 54.4%			+ 5.8%	+1577.6%
Stata A's Import-GDP ratio	17.58554	113.0623						
Stata B's Import-GDP ratio	17.58554	113.0623						
Stata A's GDP/pc	9.453781	11.10362						
Stata B's GDP/pc	9.453781	11.10362	- 65.3%	-107.7%			- 62.2%	- 102.6%
Stata A's Population	0.3229708	4.425138	+111.3%	+456.6%	+ 85.7%	+ 351.6%	+104.0%	+ 426.6%
Stata B's Population	0.3229708	4.425138	+ 85.0%	+348.7%			+ 77.4%	+ 317.5%
Contiguity	0	1						
Distance	4.682131	7.644919	- 34.4%	-102.0%	- 41.8%	- 123.8%	- 34.4%	- 101.9%
Alliance	0	1						
Power parity	0.168211	0.9994754	+ 96.4%	+ 80.1%	+401.3%	+ 333.6%	+128.0%	+ 106.4%
None major power dyad	0	1						

Note: Only the variables that reach statistical significance at 95% level (two-tails) are listed in the table. IRR refers to incident rate ratio.

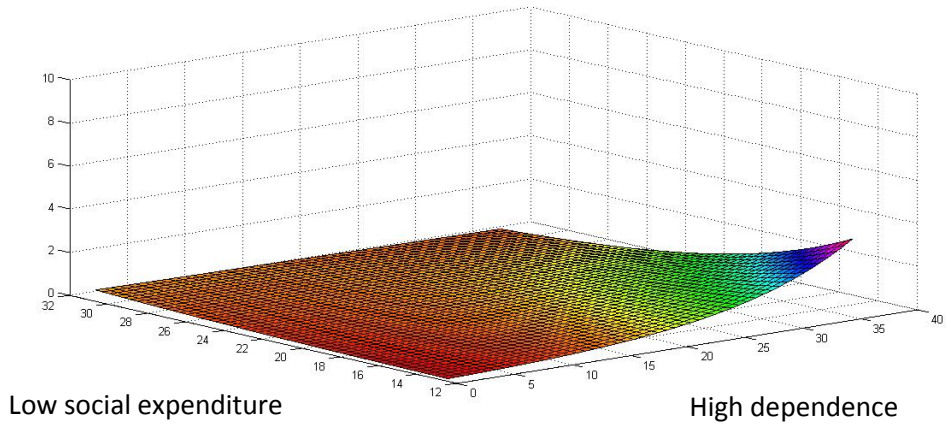


Figure 5.1 Predicted mean number of **Low-level conflict** per dyad-year

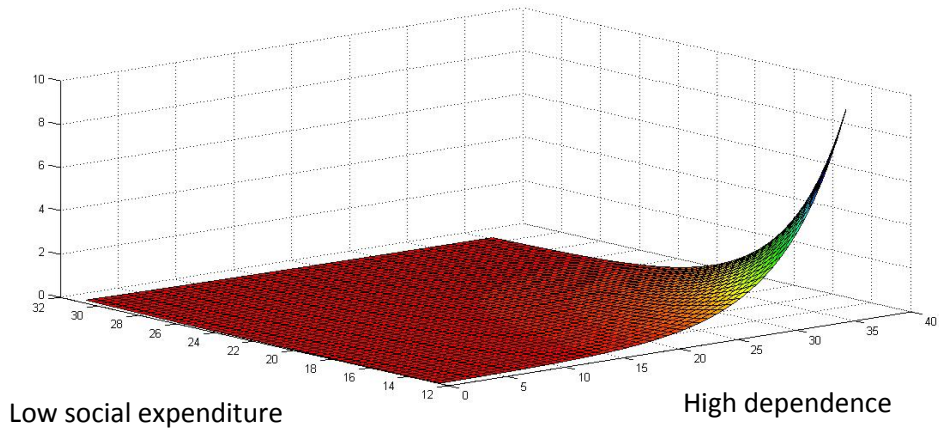


Figure 5.2 Predicted mean number of **High-level conflict** per dyad-year

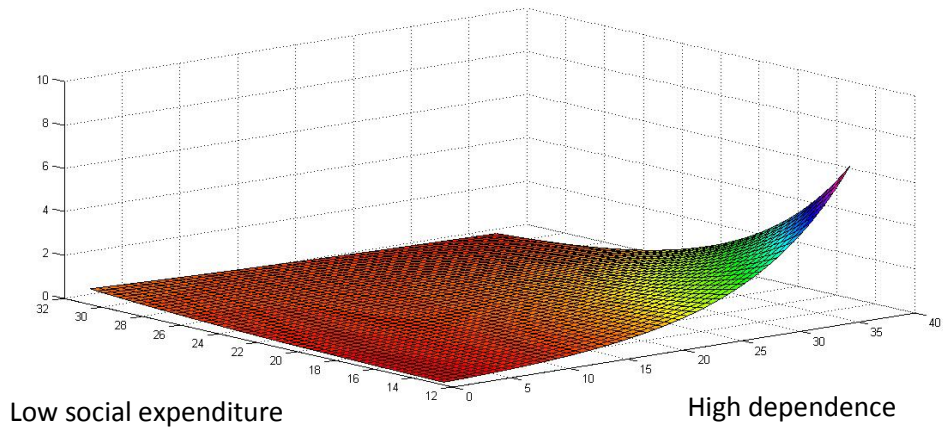


Figure 5.3 Predicted mean number of **All conflict** per dyad-year

Note: The unit is % GDP for the independent variables, and number of conflict for the dependent variable.

tools to persuade or coerce others, is a very rare event among the European Union countries given their very peaceful nature. Among the European Union countries, conflicts that result from the protectionism effect (Hypothesis 4) do not escalate to the level of the use of force.

As a comparison, Figure 5.3 shows the predicted number of the sum-up of both the low-level and the high-level conflicts. The outcome of Figure 5.3 is similar to Figure 5.1 when looking at only the low-level conflicts. Overall, generally speaking, the analyses of the substantive effects support the prediction of my argument.

4.3 Robustness checks

To make sure my models are not sensitive to various concerns, I do some robustness tests to see whether they change the outcomes of my models. These robustness checks include adding in a lagged dependent variable, concerning only the politically active dyads, taking states' different ideal points into concern, and implementing the zero-inflated Poisson regression model to control for the under-estimate of zero given the fact that more than 66.7% observations of the dependent variables are zero.⁶⁶ All the models for robustness checks are shown in Table 5.4 with a replication of Model 6 in Table 5.2 as the original model to be compared.

Although Achen (2000) demonstrates that including a lagged dependent variable may suppress the explanatory power of independent variables, many previous research use a lagged dependent variable when dealing with time-series cross-sectional data to control for the threat of autocorrelation. In Model 7 I include a lagged dependent variable into the model to test whether my argument still holds. Model 7 shows that the inclusion

⁶⁶ Specifically, 69% of **Low-level conflict** observations are zero, 90% of **High-level conflict** observations are zero, and 67% of **All conflict** observations are zero.

Table 5.4 Robustness checks models of **All conflict** between the European Union countries, 1990~2004

[Dependent variable $_t$]	All conflict				
	Model 6	Model 7	Model 8	Model 9	Model 10
		Lagged Dependent Variable	Politically Active Dyads	Distance of Ideal Points	Zero-Inflated Poisson Model
[Independent variables $_{t-1}$]					
High dependence	0.217*** (0.032)	0.200*** (0.031)	0.220*** (0.032)	0.186*** (0.032)	0.081* (0.036)
Low social expenditure	0.100*** (0.023)	0.099*** (0.022)	0.105*** (0.023)	0.101*** (0.022)	0.002 (0.024)
High dependence × Low social expenditure	-0.008*** (0.002)	-0.007*** (0.002)	-0.008*** (0.002)	-0.006*** (0.002)	-0.004* (0.002)
Lagged dependent variable		0.057** (0.021)			
Politically active dyads			1.504 (0.774)		
Distance between ideal points				0.699*** (0.212)	
Constant		6.590* (3.274)	6.083 (3.455)	3.215 (3.649)	11.367*** (3.132)
Chi-squared	723.589	870.549	741.052	937.719	502.44
Probability > Chi-squared	0.0000	0.0000	0.0000	0.0000	0.0000
Number of clusters (dyads)	105	105	105	105	105
Observations per cluster: Min	7	7	7	7	
Observations per cluster: Mean	12	12	12	12	
Observations per cluster: Max	14	14	14	14	
Number of observations	1,257	1,257	1,257	1,257	1,362

Note: Standard errors in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. Other control variables are all included in all the models, but not shown for brevity.

of the lagged dependent variable does not cause a significant change of the result. All the independent variables remain similar effects on the dependent variable.

There is a possibility that looking at conflict between all European Union countries is misleading. According the logic of “opportunity and willingness” (Most & Starr, 1982, 1989), although the European Union countries are located in the same region, it does not mean that each of them has the opportunity to have a dispute with all of the others. For example, the insular Ireland would never have a dispute with the inland Austria or Luxembourg. Therefore, controlling for this “opportunity” or “necessary condition” is necessary. I adopt Quackenbush’s (2006) definition of “politically active dyads” and include a dummy variable **Politically active dyad** into the model to denote whether the dyad is capable of having a dispute.⁶⁷ Although among the total 105 dyads in European Union countries, only 5 of them are defined as none politically active, I still put **Politically active dyad** into concern to further demonstrate that the outcomes do not change. Model 8 shows that all the independent variables remain similar effects on the dependent variable.

In addition, the number of interstate conflict may also result from the interest (dis)similarity between both sides. To exclude this threat to my argument, I control for the distance between both countries’ ideal points. I adopt Strezhnev and Voeten’s (2013) “Dynamic Ideal Point Estimates from United Nations General Assembly Votes” dataset

⁶⁷ According to Quackenbush (2006), a dyad is defined as a politically active one if at least one of the following six characteristics applies: (1) The members of the dyad are contiguous, either directly or through a colony; (2) One of the dyad members is a global power; (3) One of the dyad members is a regional power in the region of the other; (4) one of the dyad members is allied to a state that is contiguous to the other; (5) one of the dyad members is allied to a global power that is in a dispute with the other; or (6) one of the dyad members is allied to a regional power (in the region of the other) that is in a dispute with the other (Quackenbush, 2006, p. 43).

to measure the distance of the two countries' ideal points in each dyad-year. They measure countries ideal points each year according to their voting behavior in the United Nations General Assembly and assign each of them a score, which can be interpreted as states' positions towards the U.S.-led liberal order. I construct the variable **Distance between ideal points** by calculating the absolute value of country A's ideal point score subtracting country B's ideal point score in each dyad-year to measure their interest difference. Model 9 shows that, the inclusion of the **Distance between ideal points** variable largely increase the explanatory power of my original model (judging by the increase of the Chi-squared value). However, even though the influences of all my independent variables do not change significantly.

Lastly, there is a concern that, given the fact that most of the dyad-year observations of the number of interstate conflict are zero, the GEE negative binomial regression model may not be a proper choice to estimate the dependent variable. According to my data, among the total 1,380 dyad-year observations from 1990 to 2004, 953 (69%) of the number of low-level conflict are zero, 1,239 (90%) of the number of high-level conflict are zero, and 920 (67%) of the number of all conflict are zero. To model the possibility that the zero and non-zero observations are generated by different process, I use the zero-inflated negative binomial (ZINB) regression model (Long, 1997, pp. 243–249) to re-run model 6 to see whether this changes the result. The limitation of the ZINB model is that it cannot assume an AR1 process when dealing with the time-series cross-sectional data, although the Huber/White cluster standard error is still workable in the ZINP model. The outcome is shown in Model 10. Generally speaking, although the coefficients and significances of my independent variables change in a great

deal, the direction of the influences of them still hold. Given the fact that the ZINP model does not control for temporal dependence, we should not read too much into Model 10.

In sum, all the robustness checks demonstrate that the influences of my independent variables on the number of all interstate conflict between the European Union countries are not sensitive to various potential threats.

5 Conclusion

By investigating the logic of the embedded liberalism – the balance between states’ degree of interdependence and degree of domestic compensation – as well as applying the IDE dataset, in this research I construct an argument that explains the variations of the international relations between the European Union countries, a missing part of previous literature. I demonstrate that the European Union countries are most peaceful when their degree of interdependence and degree of domestic compensation are both at a high level or both at a low level, that the number of dyadic conflict will increase when interdependence is low and domestic compensation is high, and that conflict will be the most likely to occur when they have a high interdependence and a low domestic compensation. The finding of this research confirms Ruggie (1982), Garrett (1998), and Pitruzzello’s (2004) conclusions that, since the end of World War II, the embedded liberalism – states open their market while simultaneously compensating the losers of trade – has been and will still be an important concern of international security in this highly globalized world.

CHAPTER 6

Conclusion

The findings in previous chapters demonstrate how regions become peaceful and how to explain the within-region variation of the regional international relations in the viewpoint of trade. In this concluding chapter, I summarize all the findings in this project and then discuss how they could contribute to the understanding of the rise of China, the most important issue in the study of international relations of our time, as a theoretical implication of this research.

1 Summarizing the findings

In Chapter 2 I construct a theory which states that trade's pacifying effect should be simultaneously conditioned on the degree of democracy and the degree of development. Therefore, trade's pacifying effect is stronger in regions with more democratic and more developed countries and weaker in regions with less democratic and less developed countries. Besides, the three-way interaction model also suggests that, all things being equal:

1. With the increase of trade:

- (1) Poor-democratic dyads are more likely to have fatal conflict.
- (2) Poor-autocratic dyads are less likely to have fatal conflict.
- (3) Rich-democratic dyads are less likely to have fatal conflict.

- (4) Trade's effect on fatal conflict is not evident in rich-autocratic dyads.
2. With the increase of democracy:
- (1) Poor-and-highly-interdependent dyads are more likely to have fatal conflict.
 - (2) Trade's effect on the occurrence of fatal conflict is not evident in all the other three situations.
3. With the increase of development:
- (1) Development has a stable and consistent pacifying effect in reducing the occurrence of the fatal conflict in all the four scenarios, especially in rich-democratic dyads.
 - (2) The capitalist Peace effect and the democratic peace effect are mutually reinforcing rather than mutually exclusive.

In Chapter 3 I demonstrate that ASEAN's ability of security management in Southeast Asia is conditioned on whether the Southeast Asian countries are able to maintain their economic performance, which solves a long-lasting debate about whether the regional peace should attribute to ASEAN's successful security management. Thus my argument puts into doubt the argument that a non-Western international relations theory is necessary to understand the international relations of the Asia Pacific. My argument also predicts that before they have reached "democratic consolidation" (Huntington, 1991), the future of ASEAN and whether it will evolve to an Asian edition of the European Union should hinge on whether the Southeast Asian countries are able to maintain their economic performance.

In Chapter 4 I demonstrate that the hegemonic stability effect of the United States' security management in Latin America is a conditional one, which hinges on whether the

United States has sufficient economic leverage to influence Latin American leaders' conflictual behavior. This explanation of conditionality accounts for why the United States seemed to have an ambiguous attitude toward the Latin American countries and why most scholars support the "whirlpool" model when explaining the role that the United States played in the region. My argument also predicts that after the end of the Cold War when the region gradually moves toward a "capitalist peace" trajectory, whether the Latin American countries are able to maintain their economic growth and sustainable redistribution is the key to the regional peace.

In Chapter 5 I demonstrate that among the European Union countries, the interactive effect between market opening and domestic compensation will affect their international relations. According to the findings, my theory predicts that as long as the European countries maintain a good balance between these two factors, a more harmony and deeper degree of international integration is an expectable future of the European Union. However, this situation can also be a reversed one if the governments of the European Union countries are not able to maintain a good balance between these two factors resulting from the power imbalance between their internationalizing and backlashing domestic coalitions.

In sum, trade plays slightly different roles in moderating the variation of the regional peace in different regions according to their different main domestic political issues. The theoretical framework in the viewpoint of trade I proposed is demonstrated as a useful one to understand regional peace and to predict regional international relations.

2 About the rise of China

Since China adopted the “reform and open” policy in 1979, the rise of China has been the most important issue in contemporary studies of international relations. Will China rise peacefully? Or a large-scale conflict is eventually unavoidable between China and the United States or between China and other East Asian countries? While most of the realists argue that it is very unlikely for China to rise peacefully due to the reasons such as security dilemma, imbalance of power, or power transition dynamics, the liberals believe that the gradually-increased economic ties between China and other major powers will make China’s rising peacefully (Friedberg, 1993, 2005, 2011; Christensen, 2006; Goldstein, 2013; Khong, 2013). Based on the debate between the realists and the liberals, two important questions are worthy of investigating. First, will the increased economic interdependence between China and the US make conflict less likely to happen? Second, will the increased economic interdependence between China and other East Asian countries bring peace to the region? My research may offer some answers to these two questions.

According to the findings of Chapter 2, there are bad news as well as good news regarding China’s rising and international security. The bad news is, although the degree of interdependence between China and the United States or other East Asian countries keeps increasing, high degree of interdependence may not help to reduce the probability of militarized conflict between China and those countries. This is because the degree of interdependence is also the degree of interaction density, so countries that interact more frequently are also more likely to have disputes. However, this is only half of the picture. According to my theory, the good news is, although the degree of interdependence

between China and the United States or other East Asian countries may not help to reduce the probability of militarized conflict, it is very likely that it will decrease the probability for those militarized conflicts to cause fatality.

Besides, my findings also point out two possible scenarios regarding how the change of development and democracy may affect whether China will have a peaceful rise. First, based on the point of view of development, as long as China keeps its economic growth, East Asia may enjoy at least a “negative peace” since my theory predicts that development has a very strong pacifying effect despite the degree of democracy and the degree of interdependence. Second, based on the point of view of democracy, the situation will be more dangerous if China undergoes democratization and becomes a newly-democratic regime before it gets rich enough, because my theory predicts that poor-and-democratic dyads are more likely to have fatal conflict with the increase of interdependence and that poor-and-highly-dependent dyads are more likely to have fatal conflict with the increase of democracy. This prediction is somehow in accordance with the literature about the conflict propensity of the new democracies (Mansfield & Snyder, 1995; Wolf, Weede, Enterline, Mansfield, & Snyder, 1996; Ward & Gleditsch, 1998; Bueno de Mesquita, Smith, Siverson, & Morrow, 2003, pp. 215–272). Therefore, for China to have a peaceful rise, becoming democratized or becoming more economically tied with other countries is not as important as becoming richer. By the same token, the United States and the East Asian countries should not emphasize too much on relying upon democracy and interdependence if they want to “guide” China to rise peacefully. According to my findings, accommodating China and letting it enjoy the

growth with the help of the existed system is the most ideal policy for the United States and for the East Asian countries.

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