

The Effect of Trade in Strategically Significant Sectors On Likelihood of Conflict

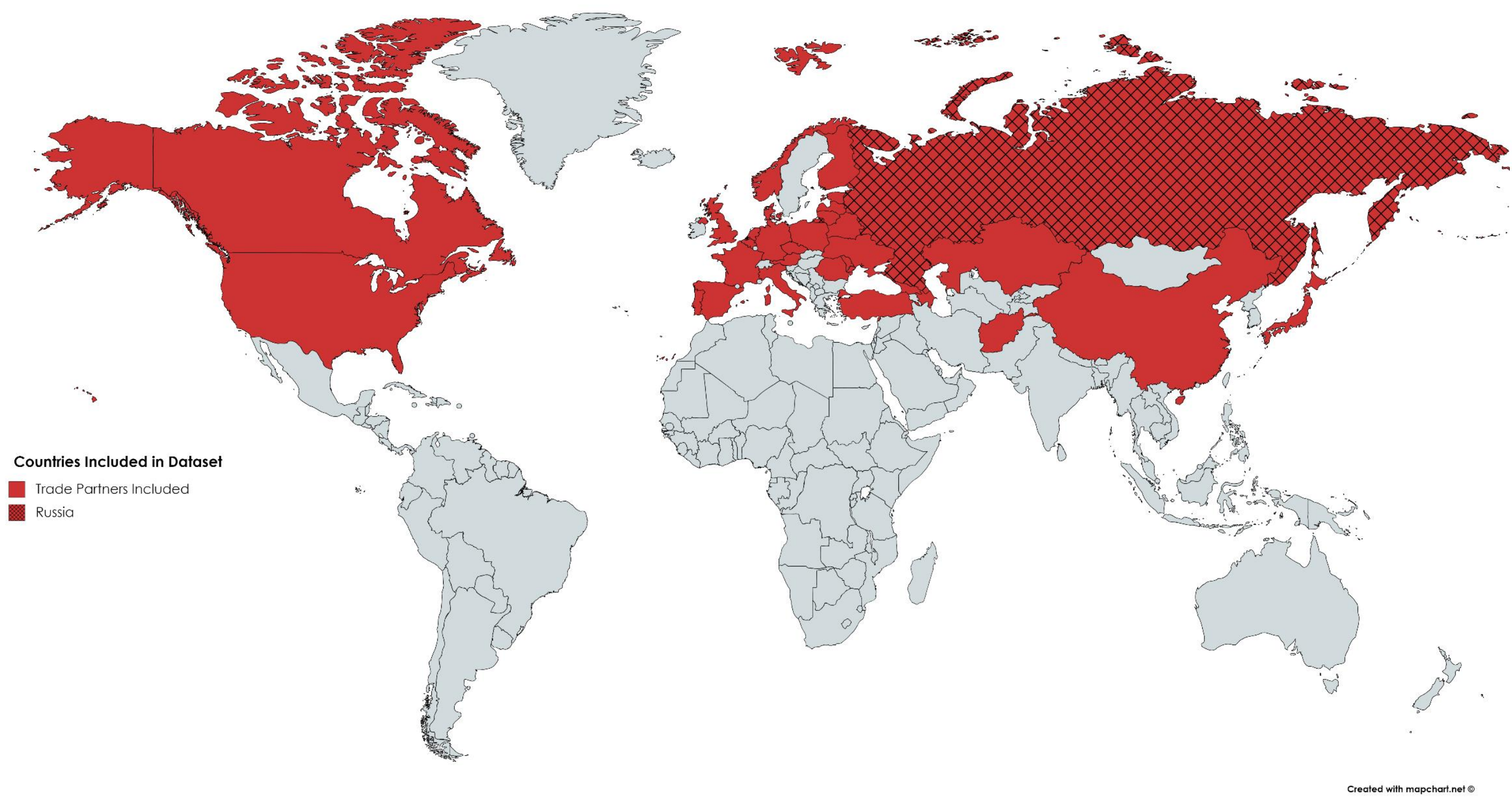
Victoria Cummings

Abstract

In the modern, globalized economy countries are becoming increasingly intertwined economically and this growing interdependence will have an impact on how foreign policy is conceived. This thesis analyzes the relationship between strategically significant trade and conflict by analyzing dyadic trade data between Russia and 31 countries from 1993 to 2009, specifically separating out trade in fuels such as oil and natural gas from trade as a whole to determine the effects of only strategically important resource trade. This paper aims to answer the question of whether high levels of trade in fuels decreases the likelihood of conflict and build on existing literature on the effects of trade on international relations. To test this claim, my model employed several control variables ranging from contiguity to trade dependence and used logistic regression to analyze the relationships between variables. Analysis showed that there is no statistically significant relationship between fuel trade and conflict in the sample used. Additionally my model found evidence to conclude that contiguity and NATO membership both have significant effects on the likelihood of conflict in the region studied. This topic would benefit greatly from further research; to continue from here I would expand my dataset to consider a greater time frame, a larger sample of dyadic relationships, and include further control variables that were not considered in this model.

Case Study

Why did Russia conflict with Ukraine over gas debts in 2009 and not 1998? In 1998 gas debts to Gazprom alone totaled 900 million current USD, while in 2009 the debt had fallen to 600 million USD. This case study argues that it is not fuel trade alone that causes conflict, but rather the increasing politicization of the energy sector in Russia and the use of economics as a cover for geopolitical strategy.



Equation and Tables

$$\text{Conflict}_{cy} \sim \text{Trade}_{c(y-1)} + \text{Fuel}_{c(y-1)} + \text{Capability}_{ct} + \text{Interdependence} + \text{Asymmetry} + \text{Contiguity} + \text{Alliances} + \text{NATO} + \text{Year}$$

Table 1: Control Variable Equations

Trade Dependence
Interdependence
Trade Asymmetry
Capability Ratio

$$\frac{Imports_{ij} + Exports_{ij}}{GDP_i} = \frac{Trade_{ij}}{GDP_i}$$

Lower of Dependence_{ij} and Dependence_{ji}

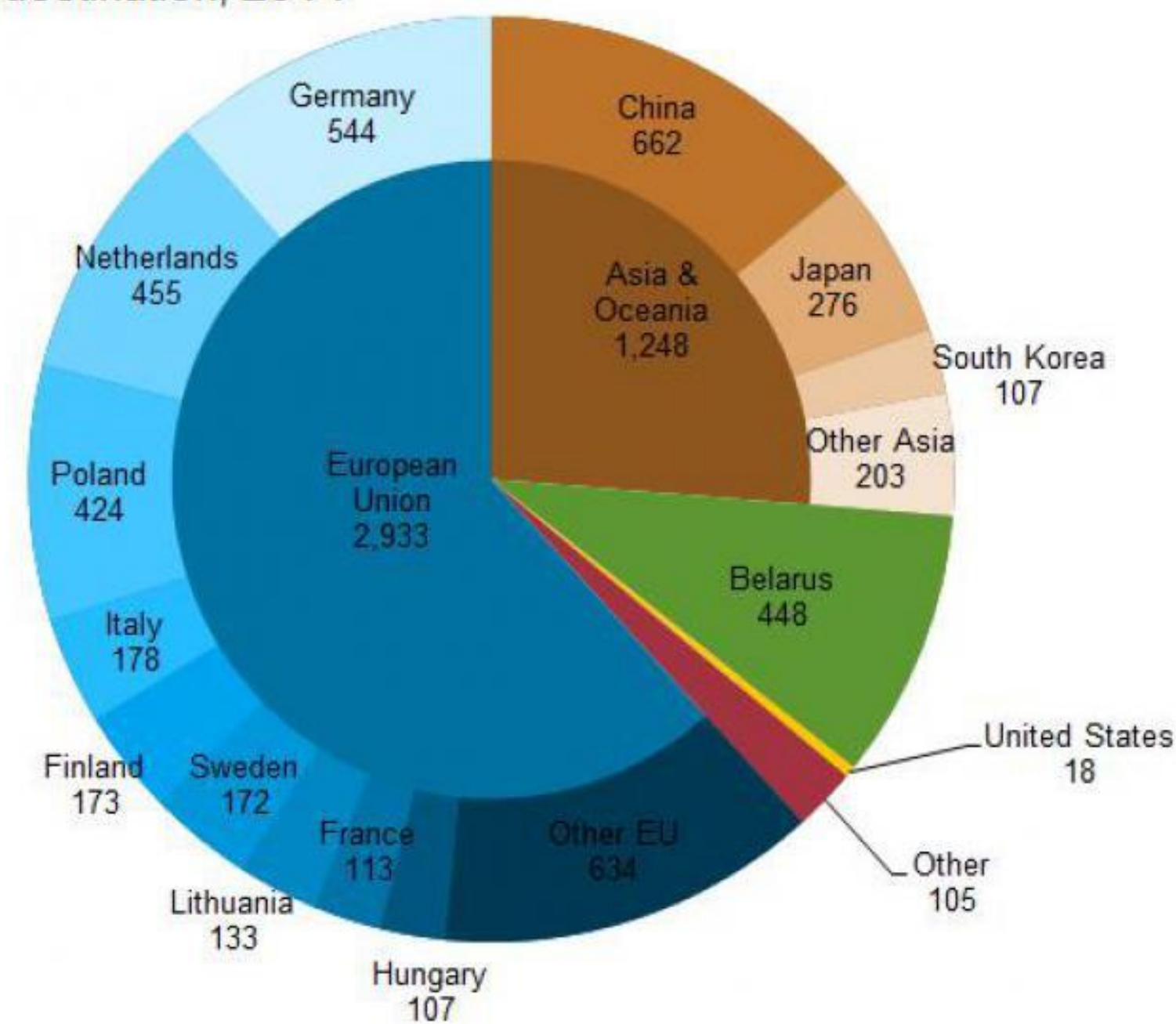
Higher Dependence_{ij} and Dependence_{ji}

$$LN\left(\frac{Higher\ CINC}{Lower\ CINC}\right)$$

Conclusions

These findings show that in my case of interest, i.e. dyadic relationships involving Russia from 1993-2009, trade does not have a significant effect on conflict. Furthermore trade in fuels had no statistically significant effects; this is a particularly notable conclusion in the case of Russian relations where fuels including oil and coal make up the top 3 export products making it a substantial portion of the economy. This result suggests that economic concerns do not play as large a role in Russian foreign policy as previously assumed. The lack of a relationship between trade and conflict means that conflict is likely due to factors outside of a desire for Russian oligarchs and others in leadership to profit from energy revenues and thus we should expect that interdependent trade relationships will not have a strong effect of deterring conflict as relations continue to grow closer. This result builds on the in depth look at Russian-Ukrainian relations by adding to the theory that even in conflicts ostensibly spark by economic concerns, disputes are typically underscored by political motivations and geopolitical calculations rather than economic cost-benefit analyses.

Figure 3. Russia's crude oil and condensate exports by destination, 2014



Source: U.S. Energy Information Administration based on Federal Customs Service of Russia and reporting countries' import statistics, Global Trade Information Service