

Peace Creation and Peace Diversion updated

Costas Hadjiyiannis* and Iraklis Pattas

Abstract

This paper revisits the investigation of the impact of Free Trade Agreements (FTAs) and Custom Unions (CUs) on bilateral Military Interstate Disputes presented in Hadjiyiannis et al. (2016). We extend the analysis in two ways. First, we incorporate new data from the Correlates of War Project released after the publication of that paper extending the time period under investigation by 10 years (2000-2010) which increases the sample significantly. We follow the same methodology, as Hadjiyiannis et al. (2016), to investigate the Peace Creation and Peace Diversion effects identified in the paper and confirm their results with the expanded dataset. Peace Creation is the decrease in the probability of conflict between two countries if they are part of the same Preferential Trade Agreement and Peace Diversion is the increase in the probability of conflict between members and non-members.

Moreover, we evaluate the impact on the probability of conflict between key players in the following hypothetical scenarios:

- 1) Interruption of the CU between Turkey and EU.
- 2) “Hard” Brexit
- 3) CU between EU and Ukraine
- 4) FTA between U.S.A and China

We assume that all the aforementioned hypothetical scenarios took place in the year 2000 and we use the actual data from 2000 to 2009 to check how the likelihood of MID changes under the hypothetical scenarios. Each scenario is estimated independently of the other ones. We then calculate the difference between the predicted probability under each hypothetical scenario and the estimated probability under the actual status quo.

In the first scenario, we find that the interruption of the CU between EU and Turkey increases the probability of war between Cyprus and Turkey by 31% initially and this increases to 188% in 2009. For the same scenario, the increase of the likelihood of conflict between Greece and Turkey is

* Corresponding author Address: Department of Economics, University of Cyprus, P.O. Box 20537, CY-1678 Nicosia, Cyprus. E-mail: costsh@ucy.ac.cy

19,67% on average for the whole period (2000-2009). Hard Brexit leads to an increase of the probability of dispute for the country-pairs U.K.-France and U.K.- Germany and at the same time decreases the probability of conflict between France and Germany. The signing of a CU between Ukraine and European Union increases the probability of conflict between Ukraine and Russia by 39,19% on average. Finally, a Free Trade Agreement between the US and China increases the probability of conflict between them initially but decreases the likelihood of conflict after 2004 as expected. Similar results apply for the couples China-South Korea and China-Japan.