Democratic vs. Capitalist Peace: A Test in the Developing World

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This paper aims to test the capitalist and democratic peace arguments within the developing world. Notwithstanding the theoretical arguments and empirical evidence which indicate two different dynamics of interstate conflict in the developing and the developed worlds, the proponents of both "democratic peace" and "capitalist peace" arguments did not take into account the distinction between developing and developed countries and tested their hypotheses within samples that included "all dyads" in different time periods. This study aims to fill this gap by testing capitalist and democratic peace arguments within the developing world. It tests the capitalist and democratic peace arguments through statistical analysis (logistic regression) of the militarized interstate disputes in the developing world between 1951 and 2000. The results support the "capitalist peace" argument and suggest that, within the developing world, economic development leads to interstate peace, whereas democracy does not. The findings are robust to different measures of conflict, democracy and economic development.

Keywords: *capitalist peace arguments, democratic peace theory, economic development, interstate disputes*

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Introduction

"Democratic peace" has been one of the most extensively studied phenomena of international relations in the last three decades. The proponents of the democratic peace theory argued that democratic norms and institutions have rendered militarized conflicts among democratic countries unprecedentedly rare, if not obsolete. Yet the theory has been criticized on a variety of grounds as well. Two recent challenges to the democratic peace theory are the "capitalist peace" and "non-universality" arguments. The former argues that it is capitalism, rather than democracy, that accounts for the rarity of conflicts among contemporary democracies, while the latter contends that democracy's peaceful effects on interstate relations are limited to Western Europe and North America.

This article aims to make a simultaneous test of these two challenges to the democratic peace theory as well as the theory itself. It tests the capitalist and democratic

peace arguments through statistical analysis of the militarized interstate disputes in the developing world between 1951 and 2000. In the remainder of this paper, I first provide a brief summary of the literature on democratic and capitalist peace. Then, I make a case for the need for separate statistical analysis of interstate conflict in the developing world. Subsequently, using logistic regression, I test democratic and capitalist arguments for peace through analyzing the dyadic militarized interstate disputes of developing countries between 1951 and 2000. Finally, I conclude with a summary of my findings and highlight their importance for future research.

Democratic vs. Capitalist Peace

Since Small and Singer (1976) reported that democracies have not fought each other in the modern era, numerous empirical studies have been published in influential political science journals to confirm this "democratic peace". By mid 1990s, some proponents of the democratic peace had already awarded the phenomenon a "law-like status" (Levy, 1994, p. 352). Even the critics of the democratic peace theory conceded that democratic peace has been the "preeminent nontrivial fact of international relations" (Mousseau, 2002, p. 137) and the democratic peace theory has been "probably the most powerful liberal contribution to the debate on the causes of war and peace" (Rosato, 2003, p. 585).

The "Kantian liberals" have introduced two alternative explanations for the relative peace among democracies: one *institutional* and the other *normative*. The institutional account of the democratic peace argued that the institutional structure of democratic countries restrains them from waging costly wars, in particular against other democracies, thereby leading the decision-makers to settle their international disputes peacefully (Bueno de Mesquita, Morrow, Siverson, & Smith, 1999; Lake, 1992; Russett, 1993). As Maoz and Russett explain it,

> due to the complexity of the democratic process and the requirement of securing a broad base of support for risky policies, democratic leaders are reluctant to wage wars, except in cases wherein war seems a necessity or when the war aims are seen as justifying the mobilization costs. (Maoz & Russett, 1993, p. 626)

The normative account, on the other hand, argued that democratic countries perceive each other as friends sharing common values and norms, and this mutual perception results in the peaceful resolution of conflicts (Maoz & Russett, 1992, 1993; Owen, 1994). In Owen's words, "once liberals accept a foreign state as a democracy, they adamantly oppose war against that state" (Owen, 1994, p. 95).

The democratic peace theory also had its dissidents since its inception and has been widely criticized on both theoretical and empirical grounds. Realist, Marxist, and power-transitionist scholars of international relations argued from different perspectives that it was convergence of interests and policy, rather than norms and institutions, which created a relative peace among Western democracies in the post-WWII era (see e.g. Barkawi & Laffey, 1999; Farber & Gowa, 1995; Layne, 1994; Lemke & Reed, 1996; Oren, 1995; Rosato, 2003; Spiro, 1994).

A recent challenge to the democratic peace theory is the argument that the correlation between democracy and peace is spurious and it is *capitalism*, rather than democracy, which has created a relative "zone of peace" among democratic countries (Gartzke & Hewitt, 2010; Gartzke, 2007; McDonald, 2010; Mousseau, 2009). According to the proponents of the capitalist peace theory, capitalism reduces the use of force in interstate relations by de-emphasizing land and minerals (Gartzke, 2007), establishing contract-intensive economies (Mousseau, 2009), and reducing the state's role in the economy (McDonald, 2010), thereby leading to "capitalist peace".

The "capitalist peace" argument currently suffers a weakness that the democratic peace argument suffered until recently, namely an unsubstantiated *universality* claim. Despite the presence of considerable empirical evidence which indicates that democracy's (and several other variables') effect on interstate conflict varies in developing and developed worlds (Goldsmith, 2006; Henderson, 2003, 2009; Mousseau, 2002), the proponents of the "capitalist peace" argument as well as the scholars who challenged them via statistical refutations (Choi, 2011; Dafoe, 2011) have not taken into account the distinction between developing and developed countries and tested their hypotheses within samples that included "all dyads" in different time periods. This article aims to fill this gap by testing capitalist and democratic peace arguments within the developing world.

Studying Interstate Conflict in the Developing World

The importance of *context* in international politics is well studied by scholars of International Relations (IR) (Diehl & Goertz, 2001; Goertz, 1994; Kacowicz, 1998). Contextual analysis of international relations refers to a study that takes into account the categorical differences between two or more "groups of states" and can be based on differences in region, history, regime-type, major-minor power status, economic development, and many others. The differences between the developed and developing states were one of the primary systematic differences that struck the critics of the mainstream IR

theories. Some (Bilgin & Morton, 2002; Jackson, 1993) have questioned the relevance of the very concept of "the state" to the developing world and argued that many third world states lack central features of a standard Western state, such as sovereignty, legitimacy, and self-sustenance. Wallerstein (1974) contended that whereas the economic development of the Western countries and the increasing wealth and power of the bourgeoisie were accompanied by the construction of "strong" states, the dependent situation of the Third World countries and their openness and vulnerability to the manipulations of the core countries resulted in the creation of "weak" states. Somewhat as an elaboration on these arguments, some others argued that the "*in*security dilemma", which derives from the internal "weakness" of the Third World countries, rather than the oft-argued security dilemma, shapes the security strategies of the Third World countries (Ayoob, 1995; Glenn, 1997; Job, 1992). There were also other scholars who problematized the "independence" of Third World states (Clapham, 1999; Escude, 1998; Hey, 1995) and maintained that the economic and political dependence of the Third World countries to the developed world render the "hierarchical" nature of the international system more relevant to the foreign policy behavior of developing states than its "anarchical" structure. Neuman (1998) makes an interesting summary of these arguments:

> For many LDCs [less developed countries], then, the realist focus on a sharp boundary between domestic "order" and international "anarchy" may be applicable, but in reverse. It is the hierarchical structure of the world that provides them with an ordered reality, and a "condition of unsettled rules" that afflict them at home. (p. 3)

In line with these theoretical concerns, some recent empirical research also suggested a categorical difference between certain regions of the world. Henderson (2003) and Goldsmith (2006) tested the regional contingency of the prominent democratic peace argument and found that democracy loses its conflict-dampening effect outside the developed West (Western Europe and North America). Similarly, other studies found democracy has no or miniscule peaceful effect in poor countries (Mousseau, 2000, 2002; Mousseau, Hegre, & Oneal, 2003). These empirical findings suggest that the purported categorical differences between the developed world and the developing world are not mere constructs of the minds of critical IR theorists. Thus, I believe that it is appropriate and necessary to make separate tests for the developing world if we are to gauge the effects of capitalism and democracy on international conflicts of developing countries.

Empirical Analyses: Militarized Interstate Disputes in the Developing World

Methodology.

This research aims to test the democratic and capitalist explanations of peace within the developing world by analyzing the dyadic conflict behavior of "developing states" only. Consequently, dyads with two "developed" countries will be excluded from my analysis. I analyze only dyads with two developing states and the ones that include a developing state and a developed one.

Identifying "developed" countries entails some degree of arbitrariness, especially when we study a long time period rather than a single point in time. Some of the 35 countries that are currently identified a developed country by the International Monetary Fund (IMF) were not developed countries in large sections of this study's time period and gained their "developed country" status towards the end of this period. Thus, I do not consider all current developed countries as a developed country in this study. Countries that have been identified as "developed" in this study are the Organisation for Economic Co-operation and Development (OECD) countries during the period I analyze except Czech Republic, Slovakia, Hungary, Poland, Mexico, Turkey, South Korea, Ireland, Portugal, Spain, and Greece. I considered the latter countries "developing states" given their relatively lower Gross Domestic Product GDP per capita and industrialization levels before the 1990s. As a general rule, I considered a country a "developed country" if its GDP per capita was at least 50 percent of the U.S. GDP per capita in more than half of the years between 1951 and 2000. Following the general practice, I did not consider oil-rich countries developed countries. Thus, the following countries are considered developed countries in this study: *the US*, *Canada*, *Britain*, *Netherlands*, *Belgium*, *Luxemburg*, *France*, *Switzerland*, *(West) Germany*, *Austria, Italy*, *Finland*, *Sweden*, *Norway*, *Denmark*, *Iceland*, *Japan*, *Australia*, *New Zealand, Andorra*, *Monaco*, and *Liechtenstein*. Any dyad that includes two of these developed countries was excluded from my analysis.

The temporal domain of this research is the period between 1951 and 2000. Rarity of "independent" states before 1950 as well as lack of reliable economic data for pre-1950 years resulted in the exclusion of earlier years from the sample. Also, because most developing states lack the capability to reach non-neighboring states, I analyzed contiguous dyads only in order to avoid possible estimation problems that might result from artificial inflation of the sample size with the inclusion of "irrelevant" cases. Two states are considered contiguous if they share a land border or are separated by less than 150 miles of water.

The Dependent Variable.

The dependent variable of this study is the *occurrence* of a militarized interstate dispute (MID) in a given dyad-year. Following Russett and Oneal (2001) and many others, onset and continuation of MIDs are treated the same. A MID is defined as an event where the government or citizens of at least one state threatened, displayed, or used forced against the government or citizens of at least one other state worldwide (Jones, Bremer, & Singer, 1996). The dependent variable equals 1 if in a given year a dyad involves a MID, 0 otherwise. I use Zeev Maoz's (2005) dyadic MID data, which is a refined version of the Correlates of War (COW) data on MIDs (Ghosn, Palmer, & Bremer, 2004). Given the dichotomous nature of the dependent variable, I use logistic regression (logit) in my estimations.

Explanatory Variables.

Economic Development: Economic development is the major component of the "capitalist peace". In measuring the economic development level of a country, I use its real gross domestic product *per capita* (GDPpc) measured in purchasing power parities (thousands) and constant (1996) dollars. Data availability becomes a serious problem in analyzing the economies of developing countries, though. In the most frequently used economic dataset *Penn World Table* (Version 6.1) (Heston, Summers, & Aten, 2002), economic data are unavailable sporadically for many countries and there is no GDP data at all for eleven countries until 1990s. Consequently, about 25% of observations in Penn World Table's GDPpc dataset are missing. However, Gleditsch (2002) introduces some measures to reduce the number of missing observations in Penn World Table's GDP as well as in International Monetary Fund's trade data and manages to have a complete dataset of GDP and GDP per capita for years between 1945 and 2000. I follow Dixon's (1993) "weak link" principle, which assumes that the likelihood of conflict is primarily a function of the degree of constraints experienced by the less constrained state in each dyad, and consider the level of development of the less-developed state for each dyad-year, a variable I call *development low*. To minimize the direction of causality problems, all data on economic development are lagged one year.

Democracy: To determine national levels of democracy and autocracy, I use Polity IV (Marshall & Jaggers, 2004) data, which has become the standard for measuring institutional democracy, particularly in the study of international conflicts. The Polity IV dataset provides an 11-point scale (0-10) of autocracy and an 11-point scale (0-10) of democracy. To determine the "net" democracy score of a country, I subtract its autocracy score from its democracy score, which yields a range of -10 to 10. I add 11 points to each score and

construct a scale of 1-21. I adopt the "weak link" principle in determining the effects of regime type on conflict as well and create a *democracy low* variable. As in the economic development variable, all data are lagged by one year.

Control Variables.

Capability ratio: To determine the capabilities of each country, I use the Correlates of War (COW) data (Singer & Small, 1995), which gauges the National Capabilities of states from their population, industry, and military forces. Capability ratio is calculated by taking the ratio of the stronger state's military capability index to that of the weaker member in each dyad. A higher score indicates higher power discrepancy, or less power parity, in a dyad. The final variable *Logcapratio*, is the natural log of the capability ratio in a dyad.

Alliance: The variable alliance equals one if countries A and B are formally allied through either a defense pact, entente, or non-aggression pact; it is zero otherwise. I use COW's data on alliances.

Major power: To control for the higher conflict-proneness of major powers, I use a *major power* variable, which equals 1 if a dyad includes at least one major power and 0 otherwise. The US, the USSR, Britain, France, and China are considered as major powers for the entire period I analyze; Germany and Japan are regarded as major powers after 1989.

State age (longevity): Several developing countries gained their independence during the time period covered by this research. Younger states are expected to focus on state building and internal problems and to avoid external conflicts. To control for lower conflict propensity in early statehood, I create a *state age* variable, which equals the number of years since independence for each state. As in other variables, I use the state age of the younger state in each dyad. The COW's "state system" data specifies the dates for each state's entry into the international system.

Developed state: Lastly, to control for the possible distinct relationship between all-developing-state dyads and the mixed (developing-developed) ones, I include a developed state dummy, which equals 1 if a dyad includes a developed state and 0 otherwise.

Because my data have a cross-sectional time-series nature, I introduce measures to correct or relieve temporal autocorrelation and cross-sectional heterogeneity. Following Beck, Katz, and Tucker's (1998) suggestion to correct temporal dependence and using Tucker's (1999) *btscs* program, I created a *peaceyears* variable, which counts the years since the last MID, and three cubic splines. Finally, I report robust standard errors clustered on

dyad.

Thus, my final equation on militarized interstate disputes of developing countries is as follows:

$$MID_{ij\,t} = a + b_1\,DEVlow_{t-1} + b_2\,DEMlow_{t-1} + b_3\,LogCAPRATIO_{ij\,t} + b_4\,ALLIANCE_{ij\,t}$$
$$+ b_5\,DEVELOPED_t + b_6\,MAJOR_t + b_7\,STATE\text{-}AGE_t + b_8\,Peaceyears_t + b_9\,Splines +$$
$$e.$$

Results.

Table 1 displays the results of the logistic regression analysis of the probability of a militarized interstate dispute in a developing-state dyad. To start with the control variables, all but the *developed-state* variable have statistically significant effects on the relations within a developing-state dyad. Whereas formal dyadic alliances of developing states and increasing power discrepancy in a developing-state dyad were found to decrease the likelihood of a MID, inclusion of a major power or an older state in a developing-state dyad was found to increase the likelihood of a dyadic MID.

Table I: Logit Estimates of the Probability of a *Militarized Interstate Dispute* in a Developing-state Dyad, 1951-2000

Variables	Coefficient	Robust SE
Democracy_low	-0.0096	0.0113
Development_low	-0.0743***	0.0238
Capability ratio (*log*)	-0.1597***	0.0451
Alliance	-0.5023***	0.1311
Major Power	0.2940*	0.1677
Developed	0.0063	0.2019
State age_low	0.0070***	0.0015
Peaceyears	-0.1089***	0.0272
N	12175	
Log likelihood	-3108.8653	
Wald chi^2(11)	552.26	
Prob>chi^2	0.0000	
Pseudo R^2	0.2365	

P-values are based on two-tailed significance test. ***$p<0.01$; **$p<0.05$; *$p<0.10$.
Robust standard errors are clustered on each dyad. Three splines are not reported to save space.

As for the theoretical variables in Table I, *development low*'s coefficient had a negative sign and is significant at 99% significance level ($p<.002$). However, the effect of

democracy low was statistically insignificant even at 90% level. Thus, higher economic development is found to decrease the likelihood of a dyadic MID in the developing world, whereas democracy's effect on the same likelihood was insignificant. These findings counter the democratic peace argument and support the central argument of the more recent "capitalist peace" literature, which contends that it is capitalism, rather than democracy, that leads to peace among states.

Table II displays the substantive effects of *development (low), capability ratio, alliance*, *major power*, and *state age (low)* variables on the probability of a dyadic MID in a developing-state dyad. An increase from 3,000 dollars (mean value) by a standard deviation of 3,150 dollars in the GDPpc of the poorer country in a developing-state dyad decreases the likelihood of a MID in that dyad by almost 20%. Graph I below displays the marginal effect of economic development (low) in the probability of a MID in a developing-state dyad. The likelihood of a militarized interstate dispute, which is almost 7% when the GDPpc of the poorer state in the dyad is 1,000 US dollars, declines to below 2% when the GDPpc of the poorer state in that dyad reaches to 20,000 US dollars.

Table II: Changes in the Predicted Probability of a MID in a Developing-state Dyad.

Variable	Change in p(MID)
economic development	- 19.8 %
capability ratio	- 25 %
alliance	- 38 %
major power	+ 31.5 %
state age	+ 30 %

* Changes in predicted probabilities are changes from the base predicted probability of a dyadic militarized interstate dispute in Table I (which was 0.06). In this and all other calculations of predicted probabilities, the dyad is assumed to be non-allied and include no developed country or major power; all other variables are set at their mean values.

As for the control variables, a dyadic alliance reduces the probability of a dyadic MID by 38%, whereas major power inclusion increases the same probability by 31.5%. When power disparity in a dyad is doubled from its mean value, the probability of a MID in that dyad decreases by 25%. Lastly, doubling of the age of the younger state in a dyad from 40 (mean value) to 80 increases the probability of a dyadic MID by 30%.

Graph I: Marginal effect of *economic development* in the probability of a MID in a developing-state dyad.
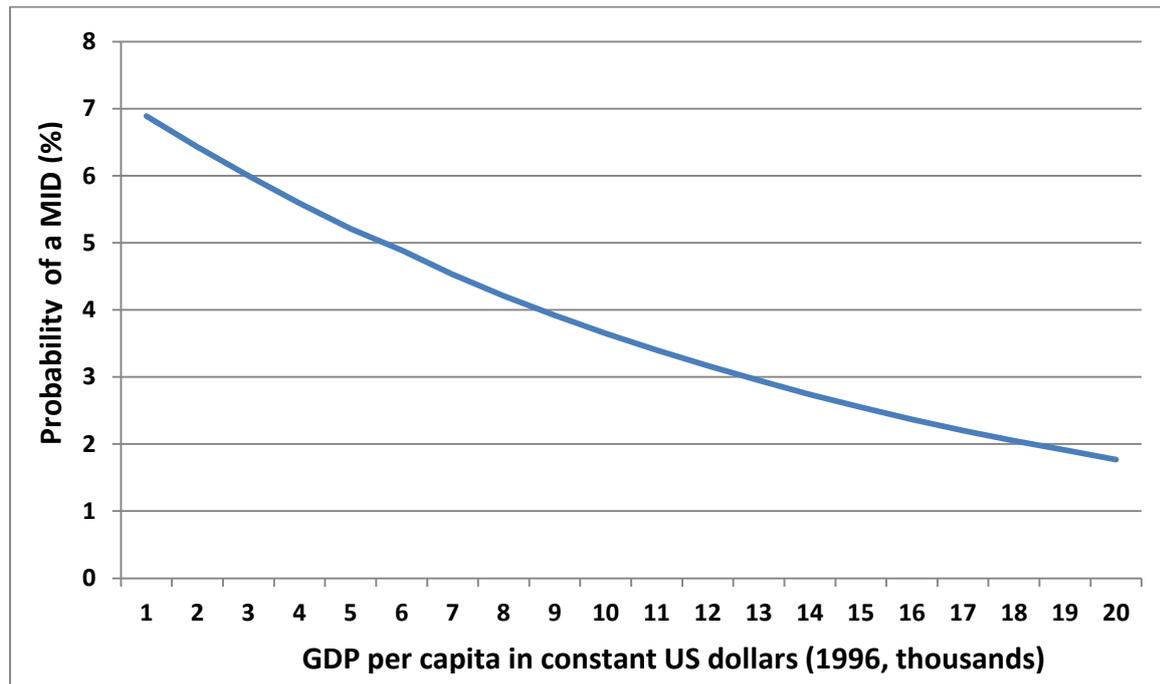
Robustness Tests.

The results of statistical analyses are sensitive to choices regarding variables, sample, and measurement. To test the robustness of my findings above, I reran my original model with different dependent variables, different measurements of the explanatory variables, and within different sub-samples. Table III displays these six replication models. Model 1 in Table III is a replication of the original model, which treated the onset and continuation of MIDs as the same, with *onset* MIDs only. Model 2 is a replication with a severer and more specific dependent variable: MIDs in which *use of force* materialized. Not all MIDs have equal seriousness and violence. Some remain as mere threats, some include actual use of force, and some escalate to full-scale wars. The dependent variable -*useforce*- equaled 1 if a dyad in a given year had a MID in which military force was actually used, and 0 otherwise. Model 3 replicates the original model within a sample that includes developing countries only. Dyads with a developed country are excluded. Model 4 is a replication of the original model within a smaller sample, which excludes dyads that include two of the six Middle Eastern *oil-rich* states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Oil-rich countries are rich but mostly not industrialized and therefore might deserve special attention when testing "capitalist peace" arguments. Model 5 is a replication with a *dichotomous* measure of democracy. A group of scholars argue that democracy should

be measured dichotomously, rather than continuously (see Elkins (2000) for a discussion of continuous vs. dichotomous measures of democracy). In Model 5, a state is considered a democracy if it had a "democracy – autocracy" score of 6 or higher in the original scale (or 17 or higher in my converted scale). Finally, Model 6 replicates the original model with a *relative*, rather than absolute measure of development. Nominal values of indicators such as gross domestic product per capita in time-series settings might be problematic because even when using constant dollars we cannot avoid the problem of "rising average". In measuring relative economic development, I accepted the US GDP per capita as baseline (100) and compared other states' development levels with that of the US, i.e. Relative Development$_a$ = (GDPpc$_a$/ GDPpc$_{us}$)*100.

Table III: Replications of the original model.

Variables	CONFLICT TYPE & SEVERITY		SAMPLE		MEASUREMENT	
	(1)	(2)	(3)	(4)	(5)	(6)
	D.V.: *Onset* only	D.V.: *Use of force*	NO Developed	NO *Oil-rich* Dyad	*Dichotomous* Democracy	*Relative* Development
	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient	Coefficient
Democracy$_{low}$	-0.0041	-0.0133	-0.0070	-0.0111	-0.1594	-0.0146
Development$_{low}$	**-0.0517***	**-0.1052***	**-0.0669***	**-0.0656**	**-0.0745***	**-0.0163***
Capability Ratio (log)	-0.1124***	-0.1474***	-0.1514***	-0.1600***	-0.1619***	-0.1595***
Alliance	-0.3092***	-0.5841***	-0.4989***	-0.4887***	-0.4979***	-0.4876***
Major Power	0.3559**	0.0611	0.2007	0.2948*	0.2992*	0.2760*
Developed	0.1670	0.1430		-0.0164	0.0066	0.0388
State Age$_{low}$	0.0063***	0.0067***	0.0069***	0.0068***	0.0069***	0.0070***
Peaceyears	-0.0484***	-0.1122***	-0.1077***	-0.1084***	-0.1091***	-0.1081***
N	12175	12175	10991	11933	12175	12175
Log likelihood	-2698.4385	-2651.4177	-2806.9213	-3091.1491	-3109.0604	-3108.604
Wald chi^2(11)	476.72	508.40	462.39	554.40	561.21	552.46
Prob>chi^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo R^2	0.1289	0.2331	0.2312	0.2346	0.2365	0.2366

P-values are based on two-tailed significance test. ***$p<0.01$; **$p<0.05$; *$p<0.10$.
Robust standard errors are clustered on each dyad. Three splines are not reported to save space.

The results did not show any substantial change in any replication model so far as the two explanatory variables are concerned. The signs and the statistical significance (or lack thereof) of the *development* (*low)* and *democracy (low)* variables remained the same in all six models in Table III. *Development (low)*'s effect on the likelihood of conflict was always negative and statistically significant in all models; whereas that of *democracy (low)* never achieved statistical significance even at 90% level. Thus, the earlier findings in Table I are found to be robust. Within the developing world, economic development leads to interstate peace, democracy does not.

Concluding Remarks

Notwithstanding the theoretical arguments and empirical evidence which indicate two different dynamics of interstate conflict in the developing and the developed worlds, the proponents of both "democratic peace" and "capitalist peace" arguments did not take into account the distinction between developing and developed countries and tested their hypotheses within samples that included "all dyads" in different time periods. This study aimed to fill this gap by testing capitalist and democratic peace arguments within the developing world.

My empirical results provided support to the "capitalist peace" argument and countered the "democratic peace" argument. Economic development was found have a negative, substantial, and statistically significant effect on the likelihood of dyadic MID in the developing world. By contrast, democracy's effect on the likelihood of dyadic MID never achieved statistical significance even at 90% significance level. These findings were robust to different measures of conflict, democracy and economic development. Thus, within the developing world, it seems economic development leads to interstate peace, whereas democracy does not. This result suggests that, in the developing world, economic development is not just an issue of economic or humanitarian concern, but also a fundamental security issue. To achieve sustainable global peace, policies that would foster economic development in the developing world ought to be encouraged and supported.

This finding counters the "law-like status" argument for democratic peace (Levy, 1994) and supports the earlier research which suggested that the peaceful effect of democracy is limited to Western Europe and North America (Goldstein, 2006; Henderson, 2003). As such, what has so far been theorized as "democratic peace" might actually be "*developed* democratic peace." Thus, current overly-confident expectations about the peaceful consequences of democratization in the developing world should be re-evaluated.

Democratization in the developing world does not seem to bring international peace unless it is coupled with economic development.

A major implication of this study for future research is that there seems to be some qualitative differences between developing countries and the developed ones and it seems these differences matter so far as involvement in militarized interstate disputes are concerned. There is no reason to not expect that the qualitative differences between the developing and the developed world would be relevant to other research programs in the field of international conflicts, such as the purported peaceful effects of international trade or international organizations. Scholars of international conflict are advised to be more cautious in pooling all dyads and making universal claims.

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