



When does liberal peace fail? Trade and nationalism

Seung-Whan Choi

Department of Political Science (M/C 276), University of Illinois at Chicago, Chicago, IL, USA

ABSTRACT

Liberal peace research maintains that trade interdependence promotes interstate peace. In this study, I introduce nationalism as an important domestic factor and examine how it fares against trade as an explanation for war and peace and their interaction effects. I propose that when state leaders promote nationalism to bolster political legitimacy, they may not be incentivized to foster liberal peace through trade and instead may be willing to conflict with trading partners. A cross-national, time-series statistical analysis shows that nationalist leaders are likely to cause the pacifying effect of trade to fall apart and increase the likelihood of (fatal) militarized disputes, but not necessarily open warfare. These findings suggest that when politico-security interests of nationalist leaders collide with global economic interests, the former prevail over the latter in the context of low-level conflict, but not necessarily high-level conflict. Even nationalist leaders appear to be cautious of engaging in all-out bloody war with trading partners—the economic pain is greater than the gain. Nevertheless, the overall analysis indicates that liberal peace theory may be not as sure a safeguard as previously believed since it is ineffective in lowering the risk of dyadic disputes short of war in the era of rising nationalism.

KEYWORDS

Trade; nationalism; liberal peace; economic interdependence; international conflict; war

Studies of liberal peace maintain that economic interdependence reduces the likelihood of interstate conflict. In particular, these studies consider dyadic trade dependence as an agent of peace since the costs of severing prosperous economic relations are too high (e.g., Kim, 2014; Kinne, 2012; Kinsella & Russett, 2002; Martin et al., 2008; Oneal and Russett 1997, 1999; Polacheck & Xiang, 2010; Russett & Oneal, 2001; see also Gartzke et al., 2001; Mousseau, 2009; Peterson & Zeng, 2021). However, there is reason to doubt the validity of the liberal peace argument. The world's two largest trading partners, the U.S. and China, '[weaponize] trade as an instrument of economic coercion' and, more importantly, have no specific desire to avert military confrontations (Hopewell, 2022). For example, when the U.S. military carried out NATO operations during the Kosovo War, an Air Force B-2 stealth bomber dropped five bombs on the Chinese Embassy in Belgrade,

CONTACT Seung-Whan Choi  whanchoi@uic.edu  Professor Department of Political Science (M/C 276), University of Illinois at Chicago, 1007 West Harrison Street, Chicago, IL 60607-7137, USA

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killing three Chinese journalists and injuring 20 embassy personnel (Mizokami, 2019; Observer, 1999). In April 2001, an American spy plane collided with a Chinese fighter near the Chinese coast and killed the Chinese pilot (Militarized Interstate Dispute data collection). The U.S. responses to issues related to artificial islands in the South China Sea could bring tensions to a boiling point. While China constructed military and industrial outposts on the islands, Donald Trump doubled down on shows of force—sailing and training Navy warships near the islands (Ali, 2019).¹ These militarized disputes between the world's two largest trading partners are at odds with the liberal peace prediction that the U.S. should avoid risky security competition with China given the level to which the trade interests of the two states are intertwined.

Why would trading partners show such willingness to engage in military clashes? Park (2018) provides an insightful clue (see also Gelpi & Grieco, 2003). Analyzing the effects of economic interdependence and regime type on international conflict, Park demonstrates that trade decreases the likelihood of conflict for democratic countries while increasing it for autocratic countries. His findings suggest that trading partners get embroiled in conflict if political differences outweigh economic interests. Contending that not all economic relations are created equal, Barbieri (1996) considers when trade may promote rather than preclude armed conflict. She redefines trade relations into three distinctive forms: salience, symmetry, and interdependence. Her statistical analysis indicates that, while symmetry nurtures peaceful relationships, salience and interdependence are conflict-inducing factors. Her findings suggest that trading partners are not immune from engaging in conflict if the relationship is unequally formed. Chen (2021) takes a unique approach by analyzing liberal peace from a security alliance point of view. Chen argues that a challenger's trade relations with the defense-pact partners of the target lead to liberal peace since the military allies of the target may reduce trade with the challenger upon its aggression, disturb the trade capacity of the challenger with economic sanctions, or undermine the challenger's alternative market choices.

These three scholars have helped us better understand the origins of and threats to liberal peace. However, empirical scholars have so far overlooked the impact of variation in the nationalist orientation of political leaders. In this study, I explore the possibility that nationalist leaders' beliefs and values shape their conflict behavior. Donald Trump is a case in point, illustrating how leaders' nationalist commitments create a conflictual relationship with their trading partners. The U.S. and China trade war did not become highly contentious until Donald Trump came to power. The trade deficit that Donald Trump portrayed as a critical national security threat started long before his presidency, but his predecessors did not try to resolve it by fomenting a trade war with China. They instead appreciated the overall gains of trade with China while downplaying the trade deficit issue by underscoring that trade allows U.S. consumers to purchase inexpensive Chinese products. Donald Trump ignored this trade benefit in favor of challenging China. What sets Donald Trump apart from his predecessors is the strength of his nationalism. To boost his popularity on the domestic front, Donald Trump put 'America First' at the center of his rhetoric and policies (Noland, 2018; see also Fisher et al., 2019). By taking up the trade deficit issue with China, Donald Trump took a nationalist foreign policy stance to shore up political legitimacy.



Scholars of liberal peace have not yet performed a quantitative global test of whether nationalist leaders are less likely to appreciate dyadic trade and peace than non-nationalist leaders. Similarly, scholars of nationalism have paid little attention to the relationships among trade, nationalism, and conflict (Fetzer, 2020). My study bridges these two scholarships in its examination of whether nationalist leaders are conflict-prone even when their countries are economically interdependent. The availability of new V-Dem data on the nationalist orientation of political leaders provides me with an opportunity to conduct longitudinal data analysis to see how nationalism fares against trade as an explanation for war and peace and their interaction effects. For empirical testing, I collect a sample of 455,963 non-directed dyad-years (composed of 163 countries) during the period from 1900 to 2001. To further ensure the robustness of findings, I also employ directed dyad-years and take endogeneity concerns into account.

The overall results indicate that regardless of model specification and estimation methods, the nationalist commitments of leaders overwhelm the benefit of trade dependence, resulting in an increased likelihood of conflict. More specifically, when trade and nationalism interact with each other, low-level conflict is likely to occur, while this effect does not materialize in the case of high-level conflict. Nationalist leaders appear to become involved in (fatal) militarized disputes to gain concessions from trading partners. However, nationalist leaders appear to stop short of war since they wish to avoid catastrophic costs, which could reduce their tenure and reelection chances. It looks like nationalist leaders are compelled to take some military action against trading partners to follow through with their stated nationalist policy commitments without necessarily rushing into the most deadly form of conflict. These findings indicate that liberal peace theory may be not as powerful as previously believed since its effectiveness in lowering the risk of dyadic disputes short of war is undermined by rising nationalism.

This study is laid out as follows. The first section defines nationalism. Section two details a theoretical perspective of relationships among trade, nationalism, and interstate conflict. The third section builds a multiplicative regression model estimating the interaction of trade and nationalism and discusses empirical results. Section four summarizes the main findings and implications.

What is nationalism?

Although I do not deny that the masses sometimes desire more nationalist foreign policy (Conversi, 2007; see also Bush & Prather, 2020), I focus on nationalism expressed by political leaders because ‘politics is a matter for elites’ rather than average people (Snyder, 2000, 35; see also Choi, 2022b; Ko & Choi, 2022; Gallagher & Allen, 2014; McManus, 2017; Saunders, 2022). Nationalism becomes a contentious issue mostly when leaders use it to mobilize the masses rather than the other way around. A lack of data on mass nationalism is another reason for examining leader rather than mass nationalism. The former is more readily observable than the latter. ‘[The] view from below, i.e., the nation as seen not by governments and the spokesmen and activists of nationalist (or non-nationalist) movements, but by the ordinary persons who are the objects of their action and propaganda, is exceedingly difficult to discover’ (Hobsbawm, 1992, 11).

Populism has been spreading around the world in recent years, especially after the 2008 economic crisis. Without doubt, populism has become the electoral strategy—and guiding foreign policy ideology—of some parties in democracies (Quan, 2022; see also Breuning & Ishiyama, 1998). Populism is an idea closely related to mass nationalism. But populism is more domestically bounded than nationalism since it often grows out of average people's politico-economic concerns, despite its pervasive focus on immigrants and refugees. In addition, 'populism is a national political movement in democratic societies' (Jones, 2021, 4), so it is not ideal to analyze its effect in the context of my sample data which is composed of both democratic and non-democratic countries. Since the populism with which the literature is often concerned is a recent phenomenon in about 30 countries worldwide, it is also difficult to compare it with nationalism in the context of my sample which consists of 163 countries over 100 years. Therefore, I confine my inquiry exclusively to nationalism in this study.

In domestic politics, nationalism is a political ideology that emphasizes the normative congruity between the borders of the state and the borders of the nation (Gellner, 1983). In international politics, nationalist leaders promote the interest of their own nation-state and urge their national and political units to be united against foreign enemies (Jones, 2021; Mearsheimer, 2014). In this study, I define nationalism as a political ideology committed to the protection of national economic sovereignty from foreign influence. I use the term leader nationalism to refer to state leaders characterized by this nationalist ideology. I concur with liberals that in a world free of nationalist fervor, the spread of liberal peace is attainable through economic interdependence. However, this optimistic attitude may falter when leader nationalism treads the political boards.

When state leaders incite a strong sense of nationalism to bolster political legitimacy, they may not support foreign trade and instead may seek to promote domestic products, as indicated in such slogans as 'Buy American', 'British jobs to the British', and 'Priority to German investors' (Reznikova et al., 2018). When nationalist leaders advance the notion that domestic products are superior to foreign ones and that the national economy is being or has been invaded by foreign businesses, they commit themselves to nationalist economic policy. In doing so, they tie their hands with domestic audience costs; they will suffer *ex post* if they do not follow through on professed nationalist economic policy in times of crisis (Kim, 2014). As a result of this tied hands phenomenon, nationalist leaders may not value the peace-building effect of foreign trade, preferring to regain economic autonomy from trading countries and thereby reducing the capacity of trade to create peace. This prediction echoes the statement of 19th-century French economist, Frédéric Bastiat: 'when goods do not cross frontiers, armies will.'

The Japanese attack on Pearl Harbor in the Hawaiian Islands on December 7, 1941 is the archetype of the trade and conflict connection. Hideki Tojo, Prime Minister of Japan, was fully aware of his country's trade dependence on the U.S. The U.S. exported 80 percent of Japan's fuel products, more than 90 percent of its gasoline, more than 60 percent of its machine tools, etc. But as the U.S. imposed a series of increasingly stringent economic sanctions on Japan, the nationalist leader sought to manage their oil dependence by attacking and occupying the U.S. The nationalist leader ordered the Imperial Japanese Navy Air Service to launch a



surprise attack against the U.S. naval base at Pearl Harbor (Greaves, 2010; Mearsheimer, 2014).

However, it may be that nationalist leaders and nationalist sentiments are not exogenous. Nationalist leaders do not take office at random; various politico-economic factors may contribute to their emergence and create the potential for endogeneity issues. Nationalist leaders may come to power especially when their countries gained independence recently, undergo some trouble establishing democratic political systems, and/or suffer from ongoing conflict. Although the origins of nationalist leaders are not the main focus of this study, I further discuss their implications when examining the potential mutual causality between nationalism and conflict.

Trade, nationalism, and conflict

Trade

Although scholars still debate how trade dependence affects the likelihood of interstate conflict (e.g., Barbieri, 1996; Mearsheimer, 2014; Uchitel, 1993), liberals appear to have presented more persuasive evidence for the linkage than realists (e.g., Kinsella & Russett, 2002; Oneal & Russett, 1997, 1999; Russett & Oneal, 2001). For example, Hegre et al. (2010) successfully fend off the claim that trade does not reduce conflict. By incorporating the gravity model into their analysis of conflict, they demonstrate that trade indeed contributes to peace. Since this study does not argue over whether trade dependence exerts a pacifying effect, but instead draws attention to the question of how trade and nationalism together interact to shape conflict, I take the liberal peace proposition for granted—the conflict behavior of political leaders is constrained by bilateral trade dependence.

Trade Hypothesis: Trade is negatively associated with interstate conflict.

Nationalism

Political leaders understand that ‘nationalism is a theory of political legitimacy’ (Gellner, 1983, 1). By advancing nationalism as a prime political instrument, they commit to preserving national sovereignty and deterring international influence. When it comes to economic statesmanship, they prioritize the growth of national wealth over the welfare of other nations or supranational entities (Bonikowski and Gheihman 2015; Woodwell, 2007). As this nationalist economic statesmanship becomes public, state leaders are expected to stay the course—to uphold nationalism to legitimize power. These state leaders anticipate high levels of domestic audience costs—political sanctions from the public—if they do not follow through with their nationalist commitments (Fearon, 1997; Kim, 2014; Weeks, 2008; see also Hyde & Saunders, 2020; Wiegand & Choi, 2017). Accordingly, nationalist leaders lock themselves into their nationalist foreign policy agenda—repelling foreign influence and aggression and promoting national sovereignty (Mylonas & Kuo, 2018; Powers, 2022; see also Mylonas & Tudor, 2021). It is important to note that nationalist leaders make costly signals as soon as they are sworn into office—way before an international crisis begins. Leaders’ professed policy commitments tie their

hands, not security threats issued in times of international crisis. By publicly stating that they will do everything in their power to protect the interests of the national economy, they commit to engaging in conflict in times of crisis.²

Nationalism Hypothesis: Nationalism is positively associated with interstate conflict.

Three interaction effects between trade and nationalism

Following the literature on liberal peace and nationalism, I associate trade with peace and nationalism with conflict. What happens to leaders' conflict behavior when these two forces interact? This is an important question since many leaders face a series of conflict situations in which they must decide how to grow the national economy through foreign trade and protect national sovereignty from foreign influence. Since no authoritative formal theory delineating the three-way relationships of trade, nationalism, and interstate conflict exists, I take an agnostic position about whether the interaction between trade and nationalism exerts a significant impact on conflict and whether the interaction effect is positive or negative. This agnostic approach leads to three separate interaction-related hypotheses that are associated with two levels of conflict severity (low- and high-level conflict). Political leaders can respond to different politico-economic challenges with different levels of force and may care less about engaging in foreign military campaigns that do not involve casualties than about initiating war.

Studies supporting liberal peace theory find that trading partners are less likely to engage in interstate conflict due to shared economic interests (e.g., Oneal and Russett 1997, 1999; Russett & Oneal, 2001).³ They show that this finding is robust, whether it is low or high-level conflict. This finding may hold true even when nationalist leaders come to power. Although politicians invoke nationalist sentiments to win elections, they may digress from their campaign pledges once elected (Davis & Ferrantino, 1996; Hahl et al., 2018). Once politicians assume the powers and duties of the office as presidents or prime ministers, they may come to realize that they need to abide by the norms, regulations, and procedures set by international trade regimes. They may discover that they cannot opt out of international cooperation if they are to continue to grow the national economy. When they understand that economic autarchy in the globalized world is a utopian dream, they may shy away from interfering with foreign business transactions in the name of economic sovereignty.

In these and other cases, leaders may switch their focus to domestic affairs such as immigration and refugee policy to legitimize their power. Since how to handle immigrants and refugees whom many citizens perceive as ethnic others is the center of public debate and a policy priority, nationalist leaders may like to boost their popularity by portraying those people as serious harm to internal unity (Hjerm, 2001; Saideman & Ayres 2008). An example is Hungarian Prime Minister Viktor Orban, well-known for his nationalist politics. He has sought to legitimize his rule by demonizing migrants and refugees while advocating advancing Hungary's economic interests through bilateral trade relations (Visnovitz & Jenne, 2021). Despite his nationalist stance on domestic immigration issues, he is not interested in promoting a nationalist foreign policy agenda to legitimize his power since he believes that it would cripple economic relations with trading partners (McLaughlin, 2019).



Interaction Hypothesis₁: Trade reduces interstate conflict in the presence of nationalist rhetoric which is unaccompanied by foreign policy commitments, regardless of its intensity.

An alternative possibility to the first interaction hypothesis is that trade may serve as a perfunctory force of interstate peace when nationalist leaders discount its mutual benefits (Swanson, 2018; see also Leeds & Mattes, 2022). Baker (2005) observes this possibility: when a country is imbued with nationalist sentiments, the support for foreign trade decreases. Hostile nationalist attitudes toward other countries may undermine the peace achieved through tight commercial relations. Nationalist leaders tend to prioritize domestic companies over multinational corporations and international organizations (Jones, 2021). More importantly, nationalist leaders tend to reverse peace dividends accrued from foreign trade that non-nationalist leaders had accomplished through international cooperation by withdrawing from international cooperative organizations. This nationalist approach becomes feasible because ‘the disproportionate gains secured by developed economies provided economic nationalists with a powerful rallying cry’ (Bannerman, 2015, 48). The US’ UNESCO exit and Brexit are two unfavorable outcomes of increased nationalism (Choi, 2022a; von Borzyskowski & Vabulas, 2019; see also Hozić & True, 2017).

If nationalist leaders view foreign trade to be disadvantageous to the national economy—cheaper imports hurting the sale of domestic products, lowering prices for domestic goods, and raising unemployment—they are unlikely to promote it and likely to refuse cooperation with foreign businesses that impose limits on the policy options of the domestic governments. These nationalist leaders are unlikely to welcome multinational corporations and international organizations whose powers and resources often far exceed those of nation-states (Day & Thompson, 2004). When a crisis breaks out, these nationalist leaders are likely to act in defense of the domestic market at the expense of foreign entities, in line with their public commitments.

Nationalist leaders tend to perceive terms of trade to be unequal and unfair (Polacheck, 2011), and thus feel compelled to protect the national economy with protectionist measures such as tariffs, subsidies, quotas, and currency manipulation (Carbaugh, 2018; Colantone & Stanig, 2018; Fetzer, 2020; Heydon, 2020; Hopewell, 2019).⁴ These protectionist measures inevitably generate mutual hostility. The trading partner may choose to retaliate with similar or more aggressive protectionist measures. In these action-reaction processes (Richardson, 1939), both trading partners have an excuse to leverage nationalist feelings to gain domestic support, making interstate conflict more likely.

In recent years, Donald Trump’s ‘America First’ policy hurt the national pride of other countries. His imposition of high tariffs on imports from China, Canada, the E.U., India, Mexico, Turkey, and Russia triggered retaliatory tariffs. As of 2019, tariffs on U.S. goods in China were around 15–25%, 4–70% in Turkey, and 25–40% in Russia (Thoms, 2019). Not coincidentally, the U.S. has a long history of low-level conflicts with most of these trading partners. In addition, in times of crisis, countries that depend on other countries for strategic trade goods fear being cut off or blackmailed (Amodio et al., 2021). Consequently, nationalist leaders are eager to extend control over foreign trade to minimize sources of vulnerability. If this extension fails due to resistance from foreign powers, nationalist leaders may

consider escalating initial crises to further show their determination to settle economic grievances on their terms (Leng, 2004; Morrow, 1999).

Nationalist trade policy aims to increase relative economic power. Since countries may confront conflict situations at any time, they must build strong military power, which rests on industrial and financial power (Waltz, 1959, 1979). It is therefore not surprising that nationalist leaders pay attention to their absolute wealth less than their relative standing among other powers. Indeed, prominent economists have also promoted trade protectionism as an effective policy tool to protect the national economy from global encroachments. For example, Friedrich List vehemently opposed British free trade and its dominance in the world economy. List advocated for the imposition of high tariffs on products that competed with German infant industries (List, 1856, 437). Yet, when leaders do not subscribe to economic nationalism but believe in mutual benefits through free trade, they are willing to compromise national sovereignty to gain the benefits of cooperation with transnational and international organizations. These liberal leaders view cooperation with the WTO, the IMF, and the World Bank as necessary to expand economic prosperity and security.

When state leaders prefer economic sovereignty to global trade, they emphasize the primacy of the nation-state over international entities and of domestic peace over global peace. Nationalist leaders see promotion of their nation-state as the main way of gaining access to economic power. They understand that the relative military power of the nation-state is a necessary condition for their political and economic well-being in an anarchic and competitive international system. This makes them take steps to ensure that economic activities are in service to the goal of nation-building. Naturally, nationalist leaders favor state control over foreign trade since they believe that trading countries '[seek] to advance their own national economic interests by gaining unimpeded access to foreign markets through free trade' (Gilpin, 1987, 182). Similarly, analyzing a sample of 7,275 business acquisition deals in China during 1985–2010, Zhang and He (2014) found evidence that acquisition deals related to essential industries or state-owned enterprises are less likely to be completed when national security concerns are raised. Further, when nationalist leaders notice that foreign trade operates to disadvantage the national economy and domestic welfare, they may take retaliatory actions, engaging in intense mercantilist conflict over world market position and shifting trade problems to other economies (Gilpin, 1987; Pryke, 2012).

When nationalist leaders see economic interdependence as harmful to their economic sovereignty, they are less likely to seek peace through trade. In the event of a crisis, trading countries have fewer incentives to opt for peaceful resolutions when their leaders have already tied their own hands through nationalist foreign policy, committing to rectifying unfair trade practices by force. The question is how far nationalist leaders are willing to go to protect their domestic economic interests. I expect that they are willing to engage in low-level conflict but not necessarily high-level conflict.

Nationalist leaders desire to stay in office by elevating the economic well-being of their nation. These nationalist leaders tend to believe that remedying unequal and unfair trade deals is key to achieving this goal (e.g., Donald Trump). This nationalist approach inevitably leads to trade disputes. Wolf (2004), for example, notes that economic nationalism in the late 19th century dampened free trade and



increased the odds of conflict. Although McDonald (2004) does not look at nationalist leaders, he carefully shows that high levels of protectionism (tariffs, quotas, etc.) are associated with high risks of conflict, while countries that engage in free trade are less likely to engage in conflict. When nationalist leaders spur trade disputes, they are also willing to engage in low-level conflict to show off their bona fides—entertaining public expectations that leaders should follow through with their promised nationalist economic policy. Under this situation, nationalist leaders are prone to engage in low-level conflict since they are less interested in keeping lopsided business deals with trading partners.

Interaction Hypothesis₂: When the national economy is threatened, nationalist leaders may engage in low-level conflict with trading partners to avoid domestic audience costs.

While nationalist leaders may be more conflict-prone, they may still shy away from high-level conflict such as war because the opportunity cost associated is too high (Martin et al., 2008). War could leave thick scars on the national wealth that nationalist leaders strive to accumulate through nationalist foreign policy. In the worst-case scenario, nationalist leaders could lose their office due to military defeat and lost trade gains. Nationalist leaders are aware that they could suffer from high levels of domestic audience costs from citizens holding them accountable for war costs and trade losses (Fearon, 1994). In times of crisis, state leaders attempt to convince each other to yield to their demands by signaling their willingness to use force. Obtaining concessions from the target of their threat is the hoped outcome when state leaders launch low-level conflicts (Morrow, 1999). As Leng (2004, 51) points out, ‘more often than not, states are capable of controlling the escalatory process.’ Accordingly, nationalist leaders may consider conflict escalation if low-level clashes do not bring about desirable concessions from the other side (Powers, 2022). But they may come to realize that high-level conflict, especially war, is likely to leave them worse off since it could greatly disrupt economic activity and the flow of goods across supply chains to an extent that outweighs potential gains.⁵ When nationalist leaders are afraid of war costs, liberal influences may kick in and constrain the occurrence of high-level conflict (Kinsella & Russett, 2002).

Interaction Hypothesis₃: Nationalist leaders may be reluctant to engage in high-level conflict with trading partners since war costs and lost trade gains are too high.

An empirical analysis of 455,963 Dyad-Years

This section explains statistical model building and discusses empirical results.

1. Building a Standard Model of Interstate Conflict

Testing the interaction-related hypotheses requires multiplicative regression modeling. I build my model based on a canonical conflict model proposed by Oneal and Russett (2005). I utilize Oneal and Russett’s conflict model because I can compare their results of trade dependence with my results of the trade and nationalism interaction without much concern for model misspecification, and because it has been used as a reference model for a long time. I develop a

multiplicative regression model of the relationship between trade and nationalism as follows:

$$\begin{aligned} \text{Interstate Conflict}_{ijt} = & \alpha_1 + \alpha_2 (\text{Trade}_{ijt-1}) + \alpha_3 (\text{Nationalism}_{ijt-1}) \\ & + \alpha_4 (\text{Trade} * \text{Nationalism}_{ijt-1}) + \alpha_5 (\text{Democracy}_{ijt-1}) \\ & + \alpha_6 (\text{Geographic Distance}_{ijt-1}) + \alpha_7 (\text{Relative Capabilities}_{ijt-1}) \\ & + \alpha_8 (\text{Alliance}_{ijt-1}) + \alpha_9 (\text{Contiguity}_{ijt-1}) + \alpha_{10} (\text{Major Power}_{ijt-1}) \\ & + \alpha_{11} (\text{System Size}_{ijt-1}) + \varepsilon_{ijt1} \end{aligned}$$

The subscripts of the equations indicate that the sample data is structured in a cross-national, time-series format. I test the multiplicative regression model on a sample of 163 countries consisting of all interstate dyads, which is a conventional approach in the study of conflict processes. The study period starts from 1900 since the main variable, nationalism, is available only from that year on, and ends in 2001 since I compare my findings with Oneal and Russett's conflict model whose sample period ends in that same year. I lag all independent variables one year to alleviate problems of reverse causality, again a standard approach.

Dependent variable

Most conflict studies often rely on only one type of violence,⁶ but I operationalize the dependent variable, Interstate Conflict, in three forms, allowing me to test the theoretical expectations on low and high-level conflict. The first measure is dichotomized for the onset of a militarized interstate dispute (MID), regardless of severity. 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, 587). To circumvent temporal dependence and focus on dispute onset, I do not include the dyad years in which a pair of states are engaged in an ongoing conflict. The second measure is dichotomized for the onset of a fatal MID where at least one soldier is killed per dyad-year. As Oneal and Russett (2005) note, the way political leaders respond to military fatalities continues to stimulate scholarship. I introduce the first two measures to capture low-level conflict since they do not involve a large number of deaths. The third and final measure represents high-level conflict since it is operationalized as a dichotomous variable, coded as '1' for the onset of wars that involved at least 1,000 deaths in battle (Ghosn & Bennett, 2007). These three measures are constructed based on the Militarized Interstate Dispute data collection compiled by the Correlates of War Project.⁷

Interaction-related variables

1. Trade

Liberal peace studies assert that trading partners are less likely to conflict with each other (Oneal & Russett, 1997, 2005). Since violent conflict hurts trade ties that produce various financial and commercial benefits, political leaders are less inclined to engage in conflict in times of crisis. I operationalize the economic importance of

dyadic trade dependence by calculating the sum of exports and imports relative to their GDPs. Dyadic trade dependence is one of the most widely used measures of economic relationships in liberal peace studies. Final scores for the trade variable are calculated using the conventional assumption of a weak link (Dixon, 1994). This means that I take the state with the lower trade-to-GDP ratio as the greater influence in determining whether peace arises in each dyad. The stronger trade ties are for a state in a dyad, the more constrained from engaging in interstate conflict the leadership of each country will feel and, consequently, the more peaceful the dyad will become. Trade data come from Gleditsch's (2002) data on trade and gross domestic products for the post–World War II period, and Russett and Oneal (2001) economic data for the years before World War I and the interwar years.

2. Nationalism

The notion that the rising tide of nationalism may induce interstate conflict is popular in mass media, but it has not yet been put under systematic empirical scrutiny because 'nationalism is hard to measure in a way that facilitates cross-country comparisons over time' (O'Leary & Sambanis, 2018, 420). I utilize a nationalism variable that was constructed through latent variable analysis for cross-national, time-series country expert-coded data by the 2019 Varieties of Democracy (V-Dem) Project.⁸ This variable captures the extent the top leadership promotes nationalism to bolster his or her political power on the domestic front. The V-Dem Project constructs the variable from expert survey responses to the question: 'to what extent does the current government promote a specific ideology or societal model (an officially codified set of beliefs used to justify a particular set of social, political, and economic relations; for example, socialism, nationalism, religious traditionalism, etc.) to justify the regime in place?' This question is followed by another related question: 'how would you characterize the ideology/ideologies identified in the previous question?' Given that these wordings are constructed to appraise nationalist sentiments across countries and years, they have little to do with the occurrence of conflict. Country experts rate the level of nationalism of the regime's leader. They do not assign a high or low score before or after a crisis. For example, Margaret Thatcher receives a score of 0.667 for her entire term as prime minister. Her score was neither increased nor decreased before or after the 1982 Falklands War with Argentina. The V-Dem Project then turns the survey responses into a continuous index.⁹ Among the different ideologies, I choose nationalism, which is a continuous index, fluctuating from 0 (lowest nationalism) to 1 (highest nationalism) across countries and across years to convert the monadic data into a dyadic format.

I employ three measures for nationalism: low nationalism, joint nationalism, and three nationalism-related variables. First, I create a low nationalism variable by calculating the final scores for the nationalism variable based on the weak link assumption. I assume that the likelihood of conflict is primarily a function of the level of nationalism expressed by the lower nationalist state in each dyad. All it takes is one nationalist party to increase the odds of conflict in an interstate dyad. As the less nationalist party's score increases, the risk of conflict increases. To paraphrase, dyads are more likely to engage in conflict as the lower nationalism of a

state in the dyad increases. The lower nationalism variable goes from 0 to 1 with a mean of 0.345 and a standard deviation of 0.257.

Second, I create a joint nationalism variable. It is dichotomous, coded as '1' for high levels of nationalism whose score is greater than mean plus one standard deviation and '0' otherwise. Third, I create three nationalism-related variables. I enter the nationalism score for the stronger country in the pair (called country a), that of the weaker country (b), and the multiplicative interaction term between the two (ab). These three variable specifications follow Hegre (2009), who assumes that the stronger country in the dyad always is the one that is 'least constrained.'

Though constructed differently, those three measures produce similar results—nationalism is a cause of conflict. Because the first measure is the most popular and canonical in the conflict literature, I discuss its effect in the following section to economize space.

3. Trade and Nationalism Together

To test the hypothesis of an interaction effect, I combine the two variables of interest by multiplying Trade by Nationalism.

Confounding variables

In the multiplicative interaction model, I add a set of confounding variables that have performed consistently well in previous conflict studies: democracy, geographic distance, relative capabilities, alliance, contiguity, major power, and system size. The inclusion of confounding variables is essential to gain the most accurate assessment of whether trading partners are vulnerable to conflict despite rising nationalism in the leadership.

Conflict studies maintain that democratic institutions exert a constraining effect on the conflict behavior of states (e.g., Choi, 2011, 2016; Choi & James, 2003, 2007; Conconi et al., 2014; James et al., 2006; Oneal & Russett, 2005; Sullivan & Gartner, 2006; see also Kadera, Crescenzi, and Shannon. 2003; Mitchell, 2002). Drawing on the weak link assumption, I operationalize a democracy variable—I take the score for the less democratic state in a dyad to be the stronger determinant of international peace. To be consistent with democratic peace studies, I turn to the Polity Project for the democracy variable, which is a composite index on a scale of -10 (least democratic) to 10 (most democratic) (see Marshall et al., 2016).¹⁰ Geographic distance between two states in a dyad is likely to impact the likelihood of conflict. Scholars anticipate that the farther two states in a dyad are from each other, the less likely they are to fight. Thus, I include geographic distance as a control variable, measured as the natural logarithm of the great circle distance between national capitals. Similarly, when two states in a dyad share a border or when at least one state in a dyad is a major power, I can expect a higher chance of interstate conflict (Chiba et al., 2014). Accordingly, I incorporate contiguity and a major power into the model.

Previous studies show that an asymmetric power relationship between two states in a dyad is negatively associated with the onset of conflict. To control for this effect, I include a relative capabilities variable in the model. Using the COW

composite capabilities index, I operationalize the relative capabilities variable as the logarithm of the ratio of the stronger state's capability index to that of the weaker state. I also include an alliance variable to account for the argument that military alliances lower the probability of conflict (Edry et al., 2021; Leeds, 2003). I code it as '1' if two states in a dyad are allies through a mutual defense treaty, a neutrality pact, or an entente based on the COW Alliance Dataset and '0' otherwise. System size is the last control variable: it accounts for the dramatic growth in the number of nation-states since World War II.

Estimation methods

Given that the dependent variable is dichotomous, I choose standard logistic regression as my main estimation method. To further check the robustness of results, I also implement two more advanced statistical methods: generalized estimating equations (GEEs) and rare event logit. Logistic regression controls for temporal dependence with cubic polynomial approximation, whereas GEEs implement correction for first-order autocorrelation as well as heteroscedasticity. Considering that interstate conflict is relatively uncommon and absent, I also employ rare event logit that deals with the presence of excessive non-events in the sample data. Note that Schneider et al. (2003, 22) warn that fixed-effect logit 'does not seem ideal for binary dependent variables whose outcome represents a rare event.' When I incorporate country, year, and dyad fixed-effects, I lose too many observations. Because the loss of too many observations is not random and thus violates the fundamental statistical assumption of random sampling, I forego the control for those fixed-effects in the analysis.

Robustness checks with reduced models

To verify the main findings of this study and reduce potential complications of estimation, I design a reduced form of the multiplicative regression model after excluding four control variables (democracy, geographic distance, relative capabilities, and alliance). This reduced model specification recognizes a principle articulated by Achen (2002), namely, that too many controls may 'spoil the broth.' Out of the seven confounding variables, contiguity, major power, and system size remain in the reduced model since they are essential in studying the conflict behavior of major powers as well as the rapidly increased number of minor dyads in the international system.

I expect that leader nationalism impacts international conflict; however, it is possible that the advent of nationalist leaders may be a result of international conflict, among other factors. This possibility suggests that the causal flow may also run from conflict occurrence to the nationalist orientation of political leaders. This could cause endogeneity bias that may lead to inconsistent estimates and incorrect inferences. To account for endogeneity bias, I introduce a system generalized method of moments (GMM) model developed by Arellano and Bover (1995).

As noted above, I employ three different measures of nationalist leaders: low nationalism, joint nationalism, and three nationalism-related variables. To further check the robustness of the findings, I investigate whether dyads are more prone to

engage in conflict as the more nationalist state's score increases. I also evaluate how the change in the nationalist orientation of political leaders influences the likelihood of interstate conflict. I also perform additional data analysis with a sample of directed dyads where the dependent variable is the initiation of interstate conflict.

2. Empirical Results

I first show results of multiplicative logit regression models and then move on to GEEs, rare event logit, and a GMM model.

Trade and nationalism

Table 1 contains an analysis of full conflict models. To examine how trade and nationalism affect the likelihood and intensity of conflict, I estimate the models for three levels of severity: all militarized disputes in Models 1 to 4, fatal militarized disputes in Models 5 to 8, and wars in Models 9 to 12. Models 1, 5, and 9 examine the liberal peace pertaining to trade dependence; Models 2, 6, and 10 evaluate the impact of leader nationalism; Models 3, 7, and 11 are additive models in which I pit trade against nationalism for comparison purposes; and Models 4, 8, and 12 are multiplicative models built to analyze whether the effect of trade on conflict depends on the rise and fall of nationalism.

Regardless of the severity of conflict, the coefficient on Trade is significantly different from zero across the board, except for Model 12, and the sign is in the expected direction. This implies that two states in a dyad with extensive commercial ties are less prone to conflict, confirming the trade hypothesis: trade is an agent of interstate peace. The coefficient of Nationalism achieves significance with a positive sign in Models 2, 3, 4, 6, 7, and 8, but not in Models 10 through 12. As hypothesized, nationalist leaders are positively associated with higher risks of (fatal) militarized disputes. Since state leaders are afraid of being punished domestically if they back down from their previously-made nationalist commitments, they are locked in aggressive foreign policy.

The same conflictual effect does not show up for interstate wars. This finding is not in line with the nationalism hypothesis: nationalist leaders are associated with high risks of wars. It appears that nationalist leaders are willing to engage in limited military campaigns but unwilling to engage in a full-scale war. Since waging war would—particularly if it is lost—lead to devastating political and economic consequences rather than help elevate national wealth and pride, even nationalist leaders appear to be fearful of the potential costs of war. In additive Models 3, 7, and 11, trade and nationalism exert independent influence when competed against each other. While the former is an agent of peace, the latter is an agent of conflict.

When trade and nationalism are combined in Models 4, 8, and 12, I observe a mixed synergistic effect. Increased nationalism attenuates the relationship between trade and peace, but the effect varies. The coefficient on Trade * Nationalism emerges as a significant and positive predictor for (fatal) militarized disputes, but not wars. Yet, interaction-related coefficients resulting from a multiplicative regression model need cautionary interpretations. In particular, one must be careful with



Table 1. Trade, nationalism, and liberal peace: Logit.

Variable	All MIDs				Fatal MIDs				Wars			
	1	2	3	4	5	6	7	8	9	10	11	12
Trade _{it-1}	-37.428** (13.647)				-36.554** (13.398)	-63.737*** (17.145)	-129.432*** (38.600)		-126.990*** (38.517)	-195.100*** (63.149)	-156.484* (75.998)	-155.363* (76.190)
Nationalism _{it-1}	0.487** (0.161)				0.384* (0.163)	0.384* (0.170)	56.976** (18.055)	0.824*** (0.212)	0.630*** (0.228)	0.415 (0.422)	0.366 (0.419)	0.366 (0.479)
Trade * Nationalism _{it-1}					-0.043*** (0.009)	-0.053*** (0.009)	-0.045*** (0.009)	-0.044*** (0.019)	-0.075*** (0.019)	-0.096** (0.019)	-0.077*** (0.019)	-0.076*** (0.035)
Democracy _{it-1}					-0.290*** (0.064)	-0.264*** (0.068)	-0.299*** (0.067)	-0.303*** (0.067)	-0.471*** (0.096)	-0.424*** (0.100)	-0.487*** (0.101)	-0.442* (0.173)
Geo Distance _{it-1}					-0.279*** (0.040)	-0.258*** (0.040)	-0.280*** (0.040)	-0.285*** (0.040)	-0.403*** (0.055)	-0.358*** (0.057)	-0.405*** (0.056)	-0.407*** (0.117)
Relative Capab _{it-1}					-0.106 (0.117)	-0.069 (0.119)	-0.060 (0.118)	-0.302 (0.117)	-0.450* (0.184)	-0.343 (0.184)	-0.339 (0.177)	-0.589 (0.177)
Alliance _{it-1}					1.176*** (0.184)	1.183*** (0.188)	1.229*** (0.186)	1.230*** (0.185)	1.052*** (0.258)	1.129*** (0.267)	1.128*** (0.265)	-0.749 (0.263)
Contiguity _{it-1}					1.069*** (0.163)	1.060*** (0.168)	1.167*** (0.165)	1.172*** (0.164)	1.160*** (0.240)	1.315*** (0.247)	1.312*** (0.248)	2.421*** (0.446)
Major Power _{it-1}					-0.463*** (0.043)	-0.461*** (0.043)	-0.449*** (0.043)	-0.449*** (0.043)	-0.463*** (0.067)	-0.468*** (0.066)	-0.439*** (0.067)	-0.496*** (0.114)
System Size _{it-1}					-0.384 (0.488)	-0.874 (0.489)	-0.582 (0.491)	-0.504 (0.484)	-0.310 (0.723)	-1.186 (0.762)	-0.563 (0.756)	-1.731 (1.379)
Intercept					2624.71 (0.000)	2564.82 (0.000)	2633.60 (0.000)	2718.40 (0.000)	1191.15 (0.000)	1093.71 (0.000)	1192.01 (0.000)	1207.71 (0.000)
Wald χ ²					0.36 455,963	0.36 455,963	0.36 455,963	0.28 455,963	0.28 455,963	0.28 455,963	0.28 455,963	0.28 455,963
Prob > Wald χ ²					0.455,963	0.455,963	0.455,963	0.455,963	0.455,963	0.455,963	0.455,963	0.455,963
Pseudo R ²												
N												

Notes: Robust standard errors are in parentheses. * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$, two-tailed tests.
 t , t^2 , and t^3 do not appear to economize space.

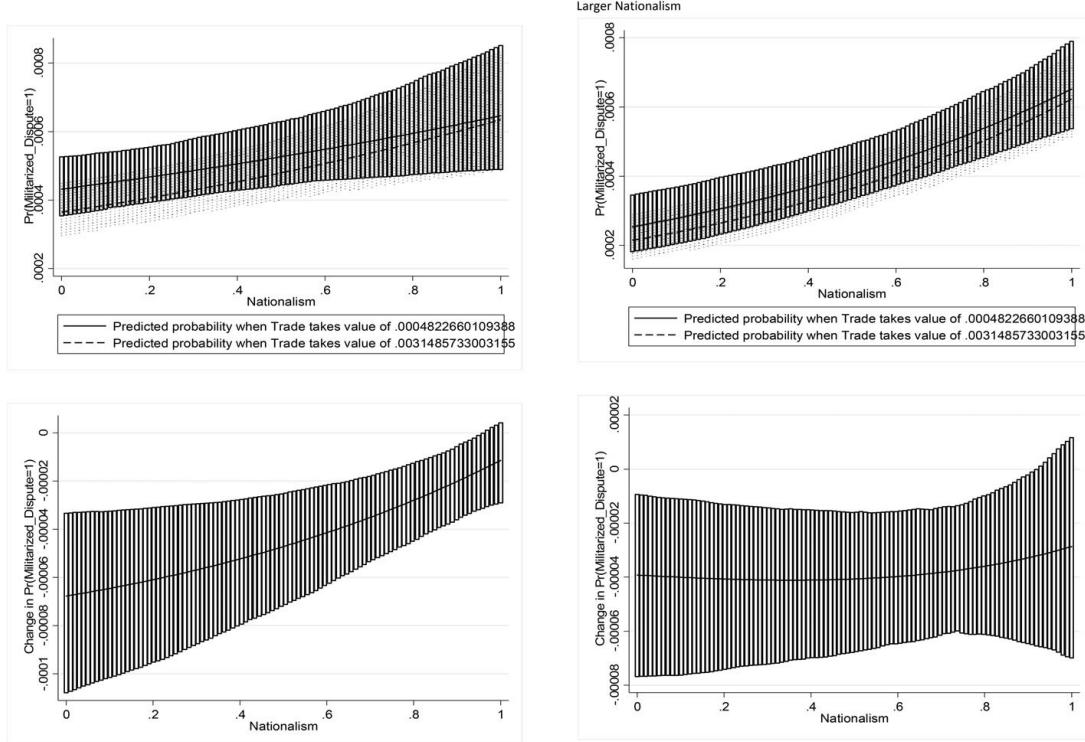


Figure 1. Interaction effect between trade and nationalism: All militarized disputes.

the interpretation of an interaction term in a logit model because its effect is non-linear and dependent on each of the constitutive terms. For easy interpretation, I visualize the interaction effect using the graphic approach developed by Zelner (2009).

Based on Model 4 of Table 1 where the dependent variable is all militarized disputes, I draw the top graph in Figure 1 displaying the predicted probabilities and confidence intervals. The graph includes two predicted lines: solid and dotted. These lines represent two levels of bilateral trade dependence, low and high, respectively. I draw the solid line and its confidence intervals for low levels of trade whose sample mean is 0.000482; the dotted line and its confidence intervals display high levels of trade set to the sample mean plus one standard deviation (0.003149). I examine the solid line representing low trade pairs. It appears that as nationalism increases, the likelihood of all militarized disputes also increases. I observe the same upward but stiff increase with high trade pairs (see the dotted line). As nationalism increases, the likelihood of all militarized disputes quickly increases. Both solid and dotted lines are statistically significant and the distance between the two lines becomes narrower as nationalism reaches its highest level. These results support the second interaction hypothesis: high trade pairs may become as hawkish as low trade pairs when their leaders are imbued with nationalism.

The graph at the bottom depicting the difference in predicted probabilities associated with an increase in trade—the vertical distance between the low and high level of trade ties appears in the top graph—confirms the hawkish tendency of trading dyads. The confidence intervals in the bottom graph begin to include zero as nationalism gets closer to the highest level, indicating little to no difference in the conflict between trading partners and non-trading partners. At the height of nationalist fervor, leaders tend to press on a nationalist foreign policy position,

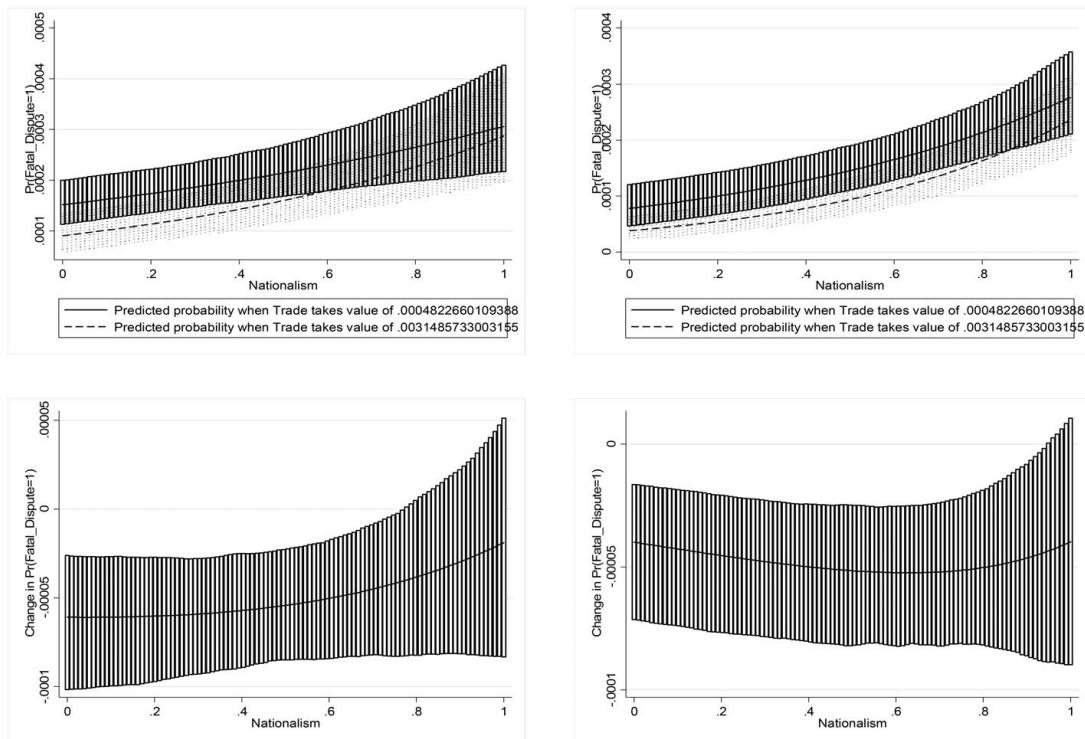


Figure 2. Interaction effect between trade and nationalism: Fatal militarized disputes.

regardless of how heavily two states in a dyad are connected through commercial interests. The two graphs in Figure 1 strongly suggest that nationalist trading partners are as conflict-prone as nationalist non-trading ones and that the probability of a dispute goes as high as possible for all dyads when faced with unbridled nationalism. These results shed new light on the findings of liberal peace studies which fail to warn of the danger of nationalism.

Comparing the interaction effect in the context of fatal militarized disputes in Figure 2 with all militarized disputes in Figure 1, I do not observe much difference. Based on Model 8 in Table 1 where the dependent variable is fatal militarized disputes, I draw the top and bottom graphs in Figure 2. The graphs exhibit a significant positive interaction effect between trade and nationalism. This second visual analysis points me to similar inferences about the conflict behavior of nationalist leaders: at the height of nationalist sentiments, a pair of trading partners is likely to jump into the fray even though their military campaigns may involve bringing several body bags to the homeland.

However, when examining the interaction of trade and nationalism on interstate wars that have 1,000 or more battle-related deaths, I find no significant results. The interaction effect is neither negatively nor positively associated with an increase in interstate war. Trade and nationalism appear to counterbalance each other; nationalist trading partners appear to be neither shy of full-scale military confrontations nor commit ‘suicide for fear of death’ (cited in Jervis, 2003, 370). In a way, these findings lend credence to the third interaction hypothesis pertaining to the intensity of conflict.

I draw the two graphs in Figure 3 based on war Model 12 in Table 1. The top graph shows a slight hint of a significant and positive interaction effect between trade and nationalism at the height of the nationalist tide. The probability of wars is

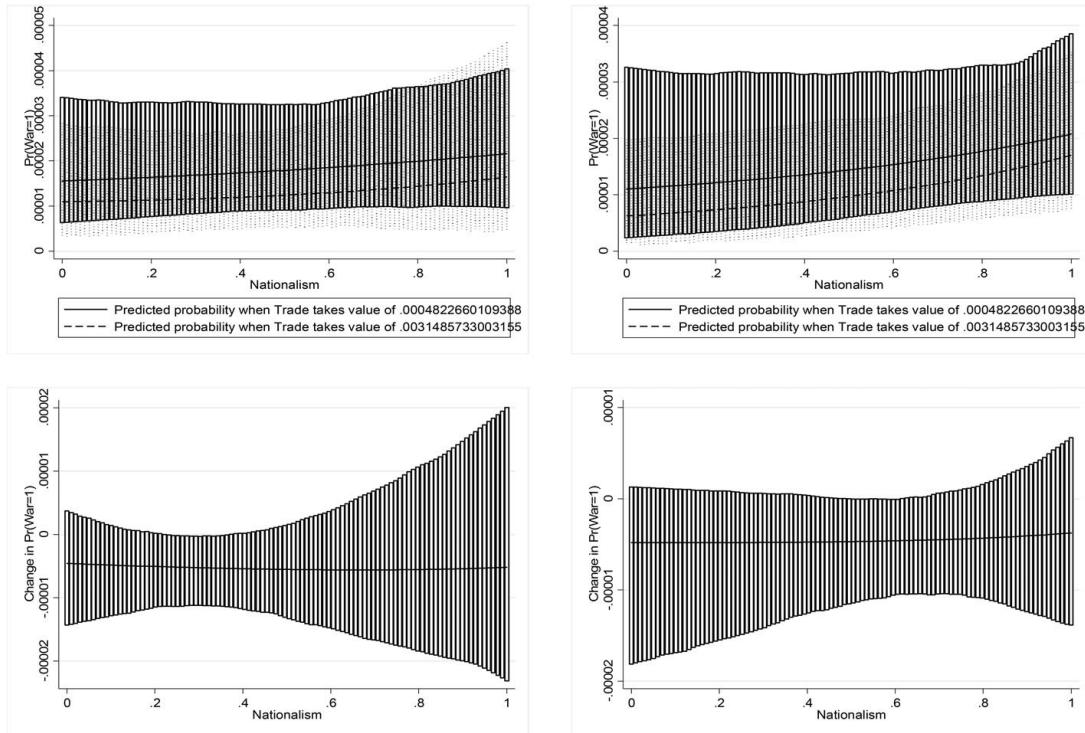


Figure 3. Interaction effect between trade and nationalism: Wars.

extremely slim—a little over 0.00001—compared to 0.00006 for all militarized disputes and 0.0003 for fatal militarized disputes. But the bottom graph displays that the difference in predicted probabilities is insignificant, as its confidence intervals contain zero for the full range of nationalism. Although political leaders may feel compelled to act according to their nationalist policy position, they are unlikely to commit themselves to a full-scale war that would result in devastating consequences in financial and commercial sectors. It seems that trading partners know how to avoid biting off more than they can chew, even if their politics revolves around nationalism.

All confounding factors except two achieve significance across the models in Table 1: democracy, geographic distance, relative capabilities, major power, and system size. The democratic peace phenomenon appears to be real as the democracy variable achieves significance across the board. As expected, the likelihood of conflict reduces as the physical distance between two states in a dyad increases. Similarly, as the power disparity between two states widens, they are less likely to experience conflict. However, if a major power is one of the two parties in a dyad, the likelihood of conflict is higher. On the other hand, an increasing number of states in the international system is associated with a reduced likelihood of interstate conflict. Alliance fails to achieve significance across the board. The significance of the contiguity variable is not as consistent as expected. It produces a conflictual effect on (fatal) militarized disputes, but not wars. This pattern coincides with that of the trade and nationalism variable.

Reduced models

For the sake of parsimony, I introduce a reduced multiplicative regression model that selects only three out of the seven confounding variables. Appendix Table 1

displays the estimated results which are similar to those of [Table 1](#). The reduced models exhibit significance and a sign, which is similar to the full models for the three interaction-related variables. I notice the disrupting interaction effect of trade and nationalism when the dependent variable is (fatal) militarized disputes. But I do not observe the same disrupting effect for interstate wars, whether the explanatory variable is related to Trade, Nationalism, or Trade * Nationalism.

For easy interpretation of the coefficient table, I again employ a graphic analysis, displayed in [Appendix](#) Figure 1. The visual presentation is consistent with the coefficient table. I find a significant positive interaction effect of trade and nationalism on (fatal) militarized disputes, but not wars.

As additional checks for robustness, I estimate GEEs in [Table 2 \(supplementary material\)](#) and rare event logit in [Table 3 \(supplementary material\)](#). GEEs are adjusted for first-order autoregressive correlation (AR1) within each dyad, in conjunction with heteroscedasticity consistent standard error estimates that consider the clustering of dyadic data. Results from GEEs reproduce supporting evidence for the disrupting interaction effect between trade and nationalism on (fatal) militarized disputes, but not wars. The maximum likelihood estimation of standard logit may suffer from small-sample bias. The degree of bias is dependent on the number of cases in the less frequent of the two categories. I implement rare event logit to consider the fact that all militarized disputes occurred in only 0.36 percent of all dyads, fatal militarized disputes happened in less than 0.11 percent, and war in 0.02 percent. These final additional robustness tests produce estimated results that are in line with those of standard logit and GEEs. I observe the disrupting interaction effect of trade and nationalism on (fatal) militarized disputes, but not wars.

Generalized method of moments controlling for endogeneity

Although I theorize that leader nationalism affects the likelihood of international conflict, this causal story may run in reverse. I deal with the possibility of reverse causality by lagging all the predictors one year behind the outcome variable. Lagging is a standard approach in the literature when researchers try to establish a correct causal time order. I further look at the endogeneity issue by introducing an advanced estimation method. I employ a system generalized method of moments (GMM) model developed by Arellano and Bover ([1995](#)). Since a GMM model can effectively handle the problem caused by endogenous variables by using their lagged levels as instruments for the difference equation and lagged differences as instruments for the level equations, it has been used by political scientists to test for endogeneity bias (e.g., Dreher et al., [2010](#); Haber & Menaldo, [2011](#)). I treat nationalism and conflict as endogenous but all other regressors in the model as exogenous. [Table 4 \(supplementary material\)](#) displays the estimated results that are obtained after controlling for endogeneity. The results are consistent with those in previous models: nationalist leaders are likely to aggravate (fatal) MIDs, but not wars.

Additional robustness tests

As discussed earlier, I test three measures of leader nationalism (low nationalism, joint nationalism, and three nationalism-related variables), and find the results

similar across the different measures. I test the third measure based on Hegre's (2009) argument: it is the stronger country in the dyad that is 'least constrained.' The third measure consists of three components: the nationalism score for the stronger country in the pair (called country a), that of the weaker country (b), and the multiplicative interaction term between the two (ab). In the spirit of Hegre's insight, I conduct an additional test in which I focus exclusively on the question of whether dyads are more prone to engage in conflict as the more nationalist side's score increases. Models 1 to 3 in Table 5 ([supplementary material](#)) show the estimated results. The relationships between nationalism and conflict turn out to be similar to those in previous models though weak. The effect is weak because the nationalism score cannot move up when the dyadic pair is already recorded as '1', the highest nationalism score assigned by the data collector.

It is interesting to examine how changes in the nationalist orientation of political leaders affect conflict. I estimate Models 4 to 6 in Table 5 ([supplementary material](#)) after replacing the lower nationalism score with its change (first difference). The results do not deviate from those produced by previous multiplicative regression models. Note that although the change in leader nationalism appears to heighten the risk of war in the table format (Model 6), its graphic analysis indicates no significant interaction effect.

Consistent with previous studies of liberal peace (e.g., Russett & Oneal, 2001), I employ non-directed dyads to 'study the onset of militarized disputes or wars without focusing on who started the conflict' (Bennett, 2006, 319). This research design provides a level playing field for me to effectively compare my results with previously reported ones. Nonetheless, I create a sample of directed dyads where the dependent variable is the initiation of interstate conflict, and perform a robustness test in Models 7 to 9 in Table 5 ([supplementary material](#)) to see whether the main findings of this study hold. They do.

Conclusion

In this study, I probe an unexplored research area—relationships among trade, nationalism, and interstate conflict. Liberal peace research asserts that bilateral trade dependence exerts a peace-building effect on conflict. However, the literature makes this assertion without considering leaders' political orientation—specifically with regard to nationalism. When state leaders legitimize their power through nationalist appeals, they may introduce protectionist economic policies such as tariffs, subsidies, quotas, and currency manipulation. This economic nationalism is likely to precipitate a trade war, which in turn may spill over into the use of military force. Having portrayed themselves as the sole protector of economic sovereignty, state leaders tie their hands with domestic audience costs. Since audience costs lock political leaders into following through on stated nationalist foreign policy, they are prone to engage in militarized conflict in times of crisis in spite of trade relations. My empirical analysis shows that trade faces reductions in its capacity to discourage conflict in the context of nationalist leaders, who care more about politico-security interests than global economic interests.

More specifically, the results show that nationalist leaders are, in times of crisis, willing to engage in low-intensity conflict such as verbal threats and shows of force despite their target's status as trading partners. Yet, leader nationalism is not



associated with the outbreak of a full-scale war either negatively or positively. This war-related finding supports the third interaction hypothesis. Nationalist leaders appear to be highly cautious as they assess the potential negative consequences of losing a war. Nationalist leaders tend to think twice about waging war since negative war outcomes will hurt their nationalist commitments and credibility, crippling the national economy and undermining the foundation of nation-building, while the leader will suffer from low public support. This war-related finding is in line with Fearon's (1997, 84) argument: 'leaders often may shy away from absolute commitment due to the perverse effects this can have on [domestic politico-economic prospects].' As discussed in [Appendix](#) Case 1, I also find the same pattern of mixed-effects from the U.S. and China example: when political leaders in the U.S. and China play the nationalist card, they are more likely to engage in low-level conflict, but not high-level conflict. One may assert that due to nuclear weapons, the U.S. and China are unlikely to engage in an all-out conventional war, but are more prone to limited conflict (Mearsheimer, 2014). Considering the strong and consistent evidence suggested by the U.S. and China case study and confirmed by the longitudinal data analysis of 163 countries over 100 years, it is difficult to assert that the effect of weapons of mass destruction is the only effective explanation. My analysis suggests that liberal peace through trade can persist only if the rising tide of nationalism is curbed.

The findings of this study are novel and offer two implications. First, liberal peace researchers are right in the sense that conflict between trading partners remains less intense, generally stopping short of war in the absence of nationalist leadership. However, this liberal peace is unlikely to withstand challenges from nationalist leaders. This is the second implication of this study. Nationalist leaders are, on average, more conflict-prone than non-nationalist leaders. At the same time, nationalist leaders may be not as hawkish as they are sometimes perceived; they know how to use nationalism for political gain while being aware of their state's limitations regarding the use of military force. After all, nationalist leaders seem to be skilled politicians, trying to maximize gains through trade and minimize loss through low levels of military engagement against foreign influence.

Notes

1. In US history, Donald Trump was not the only president who took a nationalist foreign policy stance. For example, "Ronald Reagan and George W. Bush started their presidencies with anti-UN rhetoric – less toxic than Trump's, but hostile – along with vigorous unilateralism in other aspects of foreign policy" (Weiss, Forsythe, & Coate 2019, 501).
2. Though not based on the theory of audience costs, Schrock-Jacobson (2012) links ethnic nationalism to high risks of war; Bertoli, (2017) finds a positive relationship between World Cup nationalism and state aggression; and Gruffydd-Jones, (2017) demonstrates that countries are more prone to initiate militarized disputes in the two months following national holiday celebrations.
3. However, realists disagree with liberals since they deem foreign trade to be a source of vulnerability and thus a cause of conflict. For example, Waltz, (1979) asserts that economic interdependence is a form of vulnerability that states in anarchy seek to escape through war. Following up on Waltz, Copeland, (2015) asserts that trading partners do not relish mutual benefits when frictions arise over which side gains more from trade or when one side perceives the other side to be exploiting asymmetric trade relations, exposing trading partners to high risks of interstate conflict.

4. See also <https://www.thebalance.com/what-is-trade-protectionism-3305896>.
5. An exception is Adolf Hitler. When economic powers turned protectionist by raising tariffs and trade barriers in the 1930s, Adolf Hitler's response was hostile, which ultimately helped set the Second World War in motion (Adorney, 2013).
6. A notable exception is Oneal and Russett (2005) who link trade to three different forms of conflict: all militarized disputes, fatal militarized disputes, and wars.
7. See <https://correlatesofwar.org/data-sets/MIDs>.
8. The website of the V-Dem Project provides detailed sources and explanations of how nationalism is conceptualized and measured (<https://www.v-dem.net/en/>).
9. The index captures neither how the public judges the legitimacy of their rulers whose governance is anchored to nationalism nor why national leaders come to power in the first place.
10. The use of V-Dem high-level democracy indices produces similar results.

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Notes on contributor

Seung-Whan Choi is Professor in the Department of Political Science at the University of Illinois, Chicago. His research interests include nationalism, terrorism, and international conflict. He is the author of four books and 53 journal articles. His work has also appeared in popular media such as the National Interest and the Hill.

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