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Effects of Economic Climate on Internal and External Conflicts:

A Panel Data Analysis

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Abstract

This study explores the econometric investigation, how social economic conditions, political stability, law and order situation, demographic accountability, the role of military in politics and some other factors affect the external and internal conflicts of the 28 low income countries for the period of 1984 to 2011. International relations among these countries have been analyzed in this study. Feasible Generalized least Square method has been used to explore this panel data analysis. FGLS with cross sectional heteroskedasticity model has been used for all these variables. All the variables are significant. The findings indicate that foreign factors associated with the conflicts are different from the internal factors associated with conflicts. The data has been collected from international country risk guide for the period of 1984 to 2011. The general theory of conflict has also played its role to explain and analyze the findings and results

Key words: Internal conflict, External Conflict, theory of conflict, FGLS

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I. Introduction:

The study reviews the research on the relationship among the conflicts and the economic factors of low income and developing countries and these factors make a base for the global world to differentiate from each other. There are many economic factors but some of the factors which are playing their role and causing external and internal conflict are social economic conditions, government stability, law and order situation, role of religions in politics, role of military in politics and demographic accountability. All these factors are the key economic factors and differentiate one economy from others. The role of political stability cannot be denied because this stability can provide the foreign assistance and strengthen the foreign relations which are helpful in reducing the barriers and hurdles in the economic war.

Law and order situation within the country and outside the country promote or demote conflicts according to its geographical and demographic position. The terrorist and unethical activities become the reasons for conflicts. Law and order in India, Pakistan, Syria, Egypt, Sri Lanka, Bangladesh and other low income countries has not been so good and this is the reason for their category in the low income countries in the world because the ratio of conflict is so high and having stagnant or low growth rate due to these terrorist activities. Terrorist activities in countries of middle east and south east region has enhance the level of conflict among these countries and this is reason the growth is influenced in these countries due to these war and terror conditions but in the 20th century the ratio of prosperity has also been determined by other economic factors because the other factors like socio-economic changes making the growth unbalanced. The role of military in politics is also one of the factors that affects the economic condition of that region. Many countries in which the military and establishment is involved in the political issues like the countries in the Middle East and southeast. The involvement of the establishment in the political issues and politics disturb the foreign affairs and domestic affairs of the region.

Demographic changes, increase in the population level makes the global growth and internal growth unbalanced and causes the domestic and external conflicts. The inequality in the society and environment due to such demographic changes makes unbalanced and unusual things in the regions and these inequalities are not correlated in any way

II. Background of the study:

Keeping in view that macroeconomic problems and conflicts are usually the part of economic policies in the low income and developing countries because of the different issues. The analysis

of the conflicts shows that the controversial political instability lead to the macroeconomic problems, government was unable to resolve the domestic and foreign issues and stabilize its economy but this historic analysis now helps the government to make policies for these domestic and international conflicts. A lot of spending on the war and terror in most of the regions has also disturbed the economic balance of the government that leads to unbalanced behavior of within and outside the country because a lot of energy has been used in making policies for the defense to stabilize the government. In most of the regions of middle east and south east countries like India, China, Afghanistan, Pakistan, Bangladesh, Syria, Sudan, Egypt and many other countries have disputed territories on which a lot of budget has been consumed to strengthen the defense which on the other hand shift the budget from the economic sector to the defense sector as well as become the cause of international conflicts.

Because of this reason, the role of military in these territories and regions has become so important and to some extent, military also take part in some political activities and interfere in the government issues that make sometimes political instability in the countries and these types of instabilities violate the rules and regulations of foreign policies and affairs. This is sometimes also because of poor performance of the foreign affair department and poor administration of the government that leads to domestic and international conflicts. The religion in politics is another factor of the analysis which shows that democracy and political stability is possible with the involvement of the religious organizations.

After all these factors, the importance of demographic changes cannot be denied and it is the most important element to make a balance economy. Population level and geographical position are also conflict inducing factors in the economy. The strong administrations overcome such situation and make a balance in the economy to avoid such type of conflicts and issues.

III. Motivation of the study:

The outcomes of this exercise would be essential for strategy-makers to cover economic variables within parameters. It will guide policy-makers towards the establishment of policies to enhance and strengthen the political and financial relationship among countries.

I. Financial Period Under-Consideration for Analysis:

Financial year for analysis is from 1984 to 2011

II. Objectives of Study:

This study will highlight the following objectives.

- To analysis the role of political stability and socio-economic condition across countries
- To find out the relationship between domestic and external conflict
- To explain policy implications by considering statistical significance of results about internal and external conflicts and its effects on economy of low income countries.

IV. Research Questions:

The researcher has developed following research questions according to the statement of the problem:

Q1. How does the political stability and socio-economic conditions play role in international affairs?

Q2. Does internal and external conflict associate with each other's?

Q3. Do the policies help in the conflict preventions?

I. Research Hypotheses:

Researcher basis on these research questions developed following hypothesis:

H1: improvement in political stability and socio-economic conditions improve conflicts

H2: Internal and external conflicts associate with each other

H3: There is strong relationship between demographic changes and international conflicts

II. Contribution of Term paper:

This study will provide empirical examination of effects of all mentioned economic variables on external and domestic conflicts. It will also clear the role of economic policies that have significant role in determining the internal and external conflict.

V. Literature Review:

Marc Howard Ross (1985) found that Internal and external conflicts have an enough, affirmative association and both of these conflicts are independent. These conflicts are different in case of different countries and fluctuate according to the societies and culture. (Thomas S. Mowle, 2003) explore that the Western democracies express the complications insistent with liberalism and realism under the situational and systemic circumstances that has been predicted in case of international relationships. This states will explore the problem representations reliable with a liberal world view. While Busse and Hefeker (2006) explored the relations among political risk, institutions, and foreign direct investment inflows and

identified government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy are the indicators that matter most for the activities of multinational corporations. M. Taylor Fravel (2010) tested diverting hypothesis which offered a powerful alternative to rationalist explanations of war based on the state as a unitary actor by examining the Argentina's seizure of the Falkland Islands and Turkey's invasion of Cyprus found surprisingly little empirical support for the hypothesis, raising doubts about its wider validity as well as the relationship between democratization and war. Birger Heldt (1997) reviewed the theories of the dependent variable of domestic external conflict relationship and found no convincing support for the hypotheses that actual use of armed force is within dependent variable domain.

While Morgan and Anderson (1999) analyzed the diversionary theory of international conflict and found that this theory failed to document the phenomenon but he has significantly refined the argument and empirical evidence supporting the revised theory has been presented. There is a potential path to democracy that ameliorates the perils of democratization, and democracy assistance programs can play a significant positive role in this process. (Savun and Tirone, (2011).Field Essay (2015) conducted a study on revolution and war to find the linkage between internal and external conflicts found that it is possible to study conflict with a common structure and set of concepts with contingencies in the relation of revolution and war.

Harvey Starr (1994) explains that there is a relationship between the internal and external factors in international politics that affect the foreign policy. He explains the internal and external association of economy of countries. Gupta, Clements, Bhattacharya and Chakravarti (2004) analyzed the relationship between the armed conflict and terrorism in case of low income and middle income countries and their findings show that terrorism, law and order increase the defense expenditure of the country which ultimately decrease the growth and increase the domestic and external conflicts. Basedau and Lay (2009) investigate that demographic changing and use of natural resources make a base for a conflict which late become the cause of economic instability. He explains that use of natural resources and generate revenue from these resources can reduce the conflict.

Gleditsch, N. P., Wallenstein, P., Eriksson, M., Sollenberg, M., & Strand, H. (2002) studied data for the period of 1946 to 2001 in which there 225 armed conflicts and results showed that

there were serious problems in the economy of the countries which are the results of the internal and external armed conflicts

VI. Methodology:

I. Data Source:

In this part, Data of all variables External and internal conflict, government Stability, socioeconomic changes, military in politics, religion in politics, and demographic accountability is taken from the international country risk guide (ICRG) provided by Political Risk Services (PRS) group for the period 1984 to 2011 of 28 countries who have low incomes which explain the impact of all these variables in case of external and domestic conflicts.

II. Methodological framework:

The relationship among the external and internal conflict with government stability, socio-economic conditions, law and order situation, military in politics, religion in politics, and demographic accountability can be explained by the following equation

$$Extconf = \beta_1 + \beta_2 GOST + \beta_3 SCEC + \beta_4 LAO + \beta_5 MIP + \beta_6 RIP + \beta_7 DEMOACC$$

$$intconf = \beta_1 + \beta_2 GOST + \beta_3 SCEC + \beta_4 LAO + \beta_5 MIP + \beta_6 RIP + \beta_7 DEMOACC$$

Where

Extconf= External conflict

intconf= Internal conflict

GOST= Government Stability

SCEC= Socio-economic conditions

LAO= Law and Order

MIP= Military in politics

RIP= Religion in politics

Demoacc=Demographic accountability

III. Estimation Methods:

The estimation has been preceded in these steps. Feasible Generalized least Square method has been used to explore this panel data analysis. FGLS with cross sectional heteroskedasticity model has been used for all these variables which shows the significance level for all variables with respect to external and internal conflicts and for supporting participation, there is also an association of scatter plots with fitted values have been used for the graphical representation.

VII. Results and Interpretations:

Feasible generalized least square model has been used for the explanation for the relationship among external conflict with macroeconomic variables and internal conflict with macroeconomic variables. All these variables are significant at 5% level of significance. Data of 28 countries has been analyzed for the period of 1984 to 2011 consists of 28 years which is a balanced data.

Table 1: FGLS model findings: External and Internal Conflicts Relation with Macroeconomic Variables

<u>External Conflict</u>	Standardized regression coefficient	Standard Error
Government Stability	0.17	0.025
Socio-economic conditions	0.054	0.038
Law and Order	-0.146	0.047
Military in Politics	0.31	0.035
Religion in Politics	0.28	0.064
Demographic accountability	0.57	0.051
<u>Internal Conflict</u>		
Government Stability	0.38	0.024
Socio-economic conditions	0.07	0.037
Law and Order	0.19	0.048
Military in Politics	0.31	0.032
Religion in Politics	0.73	0.61
Demographic accountability	0.24	0.045

NOTE: Sample size is of 28 countries for 28 years. A balanced data, no Autocorrelation has been found statistically significant at 0.05 level.

In case of external conflict, the government stability, socio-economic conditions, military in politics, religion in politics and demographic accountability have positive effects with external

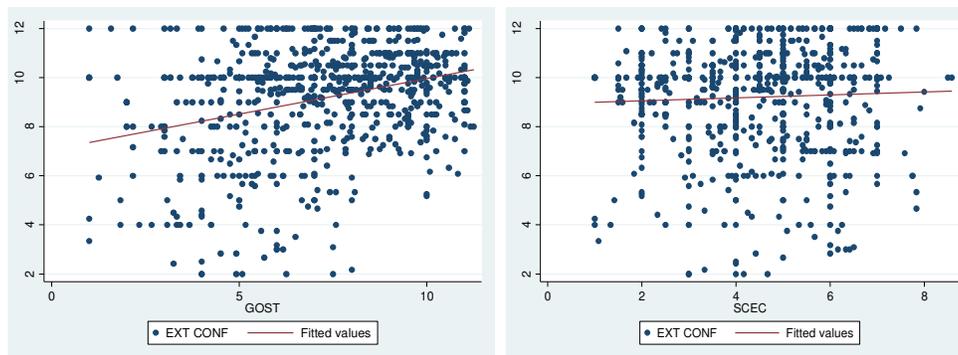
conflict. 1% increase in the government stability will increase the external conflict by 0.17%. 1% increase in the socio-economic condition will increase the external conflict by .054% and 1% increase in military involvement in politics will increase the external conflict by 0.31% and so on. All these variables have positive correlation with external conflict which shows that increase in the problems in such variable will create a conflict in external affairs.

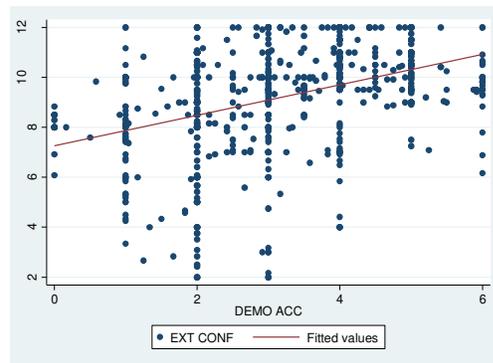
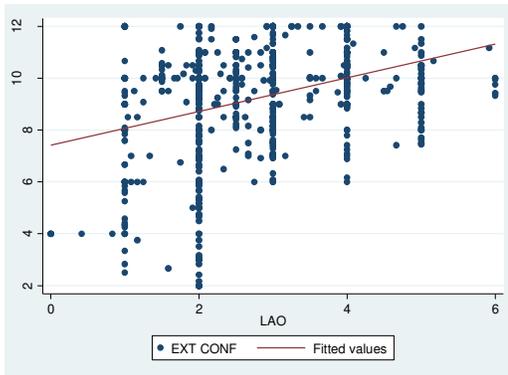
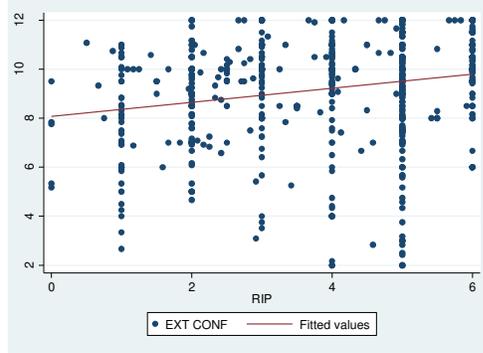
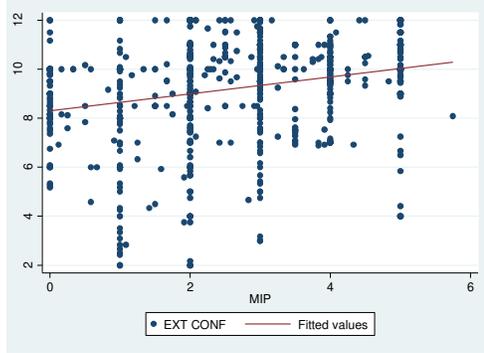
Similarly, in case of internal conflict, the government stability, socio-economic conditions, law and order, military in politics, religion in politics and demographic accountability have positive effects with internal conflict. 1% increase in the government stability will increase the internal conflict by 0.38%. 1% increase in the socio-economic condition will increase the internal conflict by .07% and 1% increase in the Law and order will increase in the internal conflict by 0.19% and 1% increase in military involvement in politics will increase the internal conflict by 0.31% and so on. All these variables have positive correlation with internal conflict which shows that increase in the problems in such variable will create a conflict in internal and domestic affairs.

There is no evidence of autocorrelation in this analysis and all the variables are statistically significant at 5% level of significance.

I. Graphical representation of External conflict:

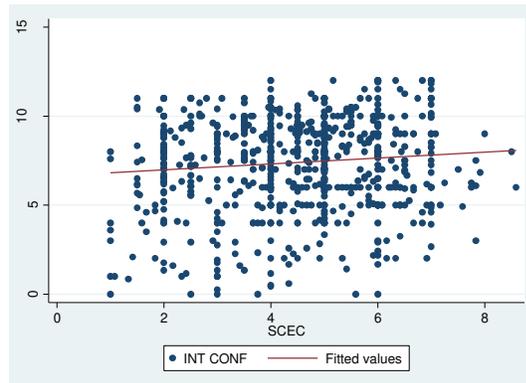
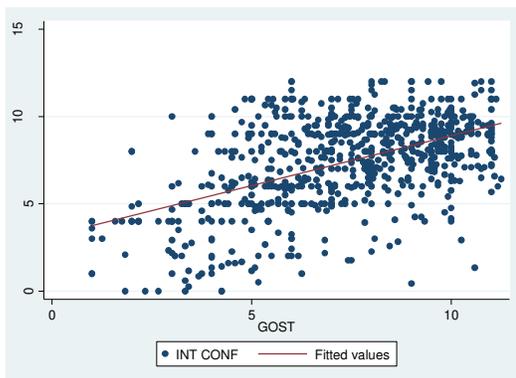
It has been cleared from the graphical analysis that all the variables have positive correlation and positive effects with external conflicts. Government stability, socio economic conditions, law and order, military in politics, religion in politics and demographic accountability all these variables are showing positive graphs. There is upward movement of fitted values that shows the increase in the external conflict due to these variables.

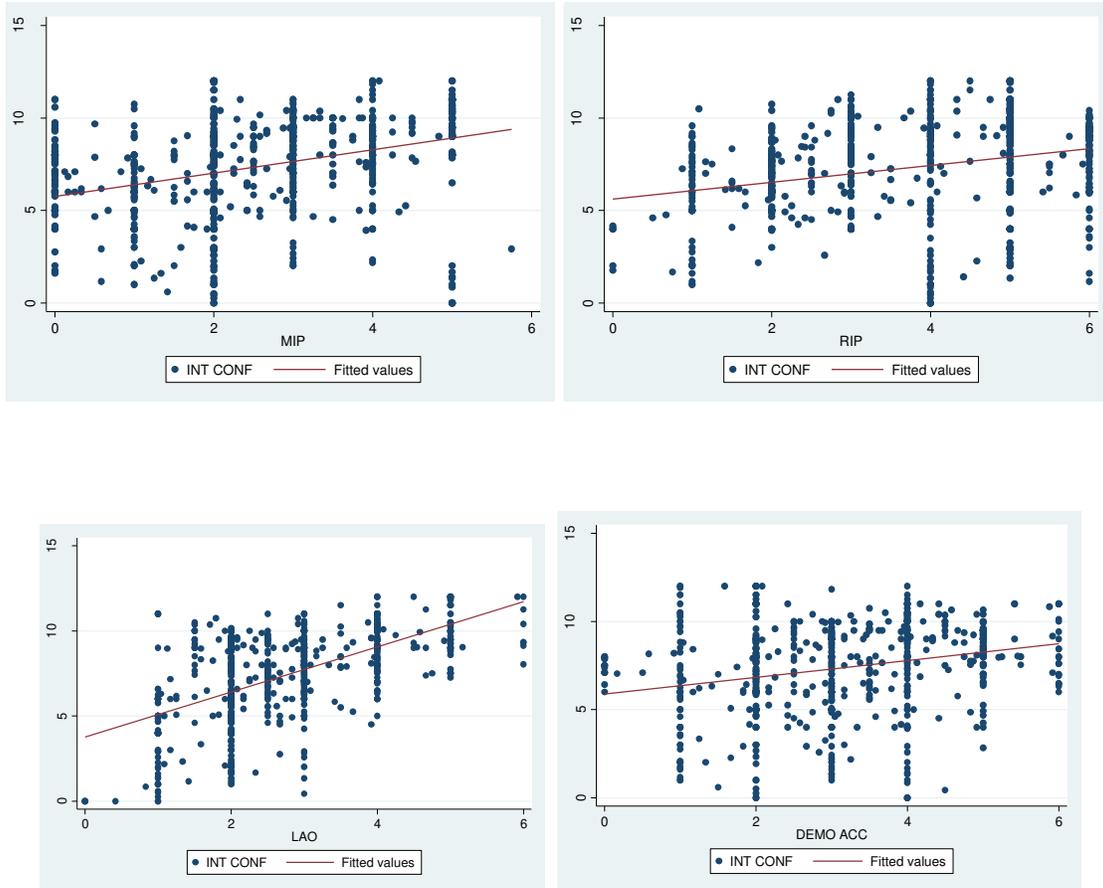




II. Graphical representation of internal conflict:

It has been cleared from the graphical analysis that all the variables have positive correlation and positive effects with internal conflicts. Government stability, socio economic conditions, law and order, military in politics, religion in politics and demographic accountability all these variables are showing positive graphs. There is upward movement of fitted values that shows the increase in the internal conflict due to these variables.





VIII. Conclusion & Policy Implications:

The findings of this study explore that all countries selected for this analysis show the disturbance in law and order situation will increase the problems and conflicts internationally as well as domestically that's why it shows the positive relationship with internal conflict. Similarly, in socio-economic conditions and role of military in politics and religion in politics also show the positive correlation with external as well as internal conflict. Demographic factor also play an important role in the economic sector. Increase in the level of population limits your resources and become the cause of conflict domestically because people fight for their survival. War and terror situation in some disputed territories increase the conflict and that is the reason for lowering the income of such countries. All the countries selected for this panel data analysis have low income countries which shows that selected macroeconomic variable have positive relationship with conflicts and maybe the reason for low income.

There are some economic policies should be adopted during the period of conflict. There is a need of stabilize the democracy and politics. Government should be stabilized and complete its tenure. Social economic activities like health should be facilitated in the period of conflict. Increase in the facilities will reduce the problems.

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