



Contents lists available at ScienceDirect

Journal of Comparative Economics

journal homepage: www.elsevier.com/locate/jce

The global arms trade network 1950–2007

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ARTICLE INFO

Article history:

Received 22 November 2013

Revised 7 February 2014

Available online xxx

JEL classification:

F19

F51

F59

P51

Keywords:

Arms trade

Network formation

Polity

Cold War

ABSTRACT

Akerman, Anders, and Seim, Anna L.—The global arms trade network 1950–2007

Using SIPRI data on all international transfers of major conventional weapons 1950–2007, we study the relationship between differences in polity and arms trade. To study whether states tend to trade arms within their political vicinity we estimate gravity models of the likelihood of trade at the bilateral level and study the evolution of the global network over time. We find a stable negative relationship between differences in polity and the likelihood of arms trade for the duration of the Cold War, but not in recent years. In line with these results, the global arms trade network changes drastically over the sample period in several respects: it grows more dense, clustered and decentralized over time. The differences between the NATO and Warsaw Pact sub-networks that we find corroborate the common perception that the Warsaw Pact was more strongly centralized around the USSR than NATO around the UK, the US and France. *Journal of Comparative Economics* xxx (xx) (2014) xxx–xxx. Stockholm University, SE-106 91 Stockholm, Sweden.

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1. Introduction

The arms trade is surrounded by great controversy. The nature of arms and the possibility to hold governments accountable for irresponsible trades makes the issue politically charged. In recent years, the propensity of many democratic governments to sell arms to autocracies and human-rights violators has stirred great public discontent. Yet, little empirical research has been devoted to the political economics of arms trade.

In this paper we focus on the relationship between political regimes and arms trade and study whether countries tend to trade arms within their political vicinity. We study the choices of key arms exporters, provide evidence on the determinants of arms trade at the bilateral level, study the evolution of the global arms trade network 1950–2007 and document key differences between the NATO and Warsaw Pact sub-networks during the Cold-War era.

The issue of polity as a potential determinant of arms trade is of great policy relevance. The post Cold-War era has been characterized by a self-proclaimed shift towards more ethical arms trade policies on the part of Western leaders, but proponents of international regulation have questioned the ability of states to act responsibly. The issue has been hotly debated in recent years and in April 2013, the UN passed its long-awaited but controversial Arms Trade Treaty (ATT). In addition to the prevention of arms flows to unstable regions and the objective to curb illicit trades, the respect for human rights is among

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the key principles of the treaty. Understanding how arms contracts are established and the structure of the global network may help us identify which features to emphasize in future ATT:s and other regulatory measures.

There are several reasons countries would prefer to trade arms with states with similar polity. To fix ideas, we focus on the perspective of democracies in what follows, but similar arguments may be applied to autocracies.²

First, democracies may favor other democracies for reasons of *security*. The literature on arms races, comprising Schelling (1960), Aumann et al. (1968), Intriligator (1975), Brito and Intriligator (1981), Ayanian (1986), Levine and Smith (1995) and Baliga and Sjöström (2004), suggests that the possibility of reciprocity may be a strong deterrent when exporting arms. Moreover, the vast literature on the *Democratic Peace Theory* suggests that, while democracies are roughly as prone as non-democracies to go to war, they are unlikely to engage in violent conflict with other democracies, see for instance Maoz and Russett (1993) and references therein. This implies that a strategy of trading with kindred states is unlikely to backfire.

Second, governments may choose to trade with states with similar polity because it generates various types of *political rents*. Such rents may arise domestically, if ethical arms trade policies are rewarded by the electorate so that trading with other democracies helps governments stay in power.³ As noted by Perkins and Neumayer (2002), many Western governments have pledged to take human rights and democratic conditions into account in their arms trade decisions, but whether this is empty rhetoric is an open question. Blanton (2005) notes that in the post-Cold-War era, the US has claimed human rights and democratic conditions to be key determinants of US arms export eligibility. Estimating a two-stage model of US arms exports to developing countries over the period 1981–2001, she finds that democracies are more prone to receive arms and, in addition, more likely to receive large amounts of arms. This result is, however, contested by Perkins and Neumayer (2002), who study the export decisions of France, Germany, the UK and the US over the period 1992–2004, and find that these states have not discriminated against human-rights abusing or autocratic countries during this period. Indeed, Perkins and Neumayer claim to expose the “organized hypocrisy” of these supplier states and argue that arms have been exported to countries serving their economic and security interests.

Political rents may also arise internationally, if selling arms to similar states is a way to maintain strong international relations. Arms trade linkages may then be viewed as proxies for political ties and the global arms trade network should reflect constellations of political allies.

While security and political rents are likely to motivate democratic states to trade with other democracies, the lure of *economic rents* may render these objectives mute. The large fixed costs and technological constraints involved in the production of arms imply that exporting may be essential for rents to arise and for the survival of the weapons industry in many economies. If economic rents are a key driving force, governments may choose to export to any market where there is excess demand.⁴

A challenge when trying to uncover the determinants of arms trade, is that the aforementioned mechanisms may yield similar outcomes. If we find evidence that democracies prefer other democracies, we would like to know whether this is for reasons of security or for reasons of political rents. However, it is not obvious how to gauge these factors, and even if they were directly observable, they are likely to be endogenously affected by arms transfers and therefore difficult to incorporate in a statistical model. This raises the question of whether there is some research design that can help us reveal the underlying preferences of governments.

One idea is to exploit the fact that the political landscape has changed drastically in the last 25 years. The end of the Cold War, marked by the collapse of the Soviet Union in 1991, caused substantial shifts in the global market for arms and changed the incentives for arms trade. This exogenous shock may be used to discriminate between different hypotheses about the underlying incentives for arms trade. While the literature on arms races suggests that, if democracies were to discriminate against autocracies during the Cold War, they would do so for reasons of security, Perkins and Neumayer (2002) and others suggest that, if democracies were to choose other democracies in recent years, they would do so to gain political rents. Evidence that polity mattered during the Cold War, is thus consistent with the hypothesis that the security motive dominated the prospect of economic rents in that period while evidence that polity has mattered after the Cold War, is an indication that political rents have dominated economic rents in recent years.

We address the relationship between polity and arms trade from several perspectives. First, we provide some indicative evidence by documenting the polities of the export destinations of six key economies. Second, we formalize the argument by estimating the relationship between differences in polity and the likelihood of arms trade in a bilateral specification of the gravity type. Third, we approach the subject from a novel perspective by studying the evolution of the global arms trade network over time. In addition to looking for clusters of political allies in the network graphs, we document how the network's characteristics have changed over time. Fourth, we exploit the fact that the two main defence alliances during the Cold War, NATO and the Warsaw Pact, mainly comprised democratic and autocratic states, respectively. Comparing the properties of these two sub-networks, may shed some light on whether there are any differences in how democratic and autocratic arms trade networks function.

² Throughout the analysis, we classify states as democratic or autocratic but an ideological distinction between left- and right-wing governments within each polity is beyond the scope of the paper. Comola (2012) studies how changes in political conditions affect the quantity of major conventional weapons exported by democracies and finds that right-wing governments tend to export more.

³ It is of course also possible that governments are altruistic and choose other democracies for this reason, rather than to remain in office.

⁴ On a related note, Antràs and iMiquel (2011) and Berger et al. (2010) argue that political influence leads to more trade bilaterally. If exporting arms is conducive to political influence in the receiving country and this leads to more intensive trade, economic rents from other trades may thus increase as well.

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