Macroeconomic Implications of Peace: Some Clarifications from a Worldwide Perspective

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Peace has important implications for socioeconomic outcomes domestically as well as globally. Present study observes macroeconomic implications of peace at global level. By utilizing global statistics from various data sources including Global Peace Index published by institute of Economics and Peace, the impact of peace on different macroeconomic variables is estimated. Exports, international trade, inflation and bribery are considered as variables to perceive macroeconomic implications. Descriptive statistics and some panel data techniques are used. Overall findings of this study depict that different aspects of peace violation have adverse consequences for macroeconomic condition. Increasing peace by reducing violence and conflict is helpful to improve macroeconomic condition among the countries and within countries of the world.

1. Introduction

Peace is the product of prosperity, harmony, truthfulness, happiness, better income, and justice in society. Peace gives birth to economic and social prosperity. The more peaceful the country is, the better the socioeconomic indicators show a better picture of societal development. In this paper, we determine the relationship between peace and macroeconomic variables. The answer should be found in how economic factors influence the peace. The study used trade, inflation, political right, and gross national product indicators. Trade and peace are correlated; each increase in one leads to a rise in the other. Peace has enhanced the bilateral trade and caused a reduction in differences among the countries. McKenna, (2005); Bandyopadhyay and Sandler, (2014); Bandyopadhyay et al., (2013). In the absence of peace, it gives birth to terrorism, which also negatively affects trade and economic growth. (McKenna, 2005).

Peace is also increasing globalization. Globalization has been a source of free capital inflow, data, innovation, products, and enterprises, and work has profited the more noteworthy economies extensively, coordinating themselves in monetary, political, and social affiliations (Iqbal et al., 2023). It creates international peace and develops the channel that paves the way to trade and positively impacts economic growth. Subsequently, this interconnectedness prompted the advancement of peace, freedom, opportunity for contemplation, and discourse among the majority. Be that as it may, the story does not end here because on the one side, where this trans-patriotism has changed over the world into a global town' and aided in lessening starvation and enhancing the expectation for everyday comforts of individuals of the world yet on opposite side this has expanded the dangers to the security-related issues of the countries. Since flexibility of articulation, simple migration approaches, and obligation-organized commerce have made it advantageous to enjoy the status of globalization (Fei, 2025). It ensures peace and economic prosperity.

Countries fall prey to violence and poor law and order, which makes them vulnerable to terrorism, causing a smaller GDP size of the economy (Eldor and Melnick,2004). Thus, peace can be considered a standout amongst the most critical main thrust for rousing the financial players to begin some action. Exchange is a dynamic segment of any economy that manages two noteworthy monetary on-screen characters, i.e., exporters and imports. Both are exceptionally touchy to the political and financial security concerns concerning their venture designs. On the one side, global administrations like WTO, World Bank, and IMF are attempting to offer such arrangements to developing countries, for simple access to the world markets (Lawal, 2024). Be that as it may, on the opposite side, distinctive clashes and wars started by developed economies, for their advantage, are making frailties in their internal market structures, which are demonstrating perils for their survival.

Bhagwati and Srinivasan (2002) have portrayed that when a country opens to unconditional trade, it displays a high development rate and helps to mitigate radicalism in society. More peace implies fewer fear-based oppressor assaults, more agreeable relationships among neighboring countries, and fewer clashes. Additionally, financial relationships significantly lessen the odds of

contentions among states. Likewise, it is contemplated that trade among states hinders military clashes.

2. Literature Review

Previous research depicted the relationship between peace and different economic variables. However, countries differ from each other in many socioeconomic aspects. But world peace leads to prosperity and economic welfare. These studies explored how a peaceful atmosphere in the region paved the way for trade and cooperation. In this section, we briefly discuss the literature regarding peace and economics.

Wani et al. (2023) investigated the impact of peace on bilateral trade and its macroeconomic implications. Many researchers have explored globalization's effect on increasing trade among countries by minimizing conflict. It has had a profound impact on the development process. This study. In literature, exhaustive research covers the aspect of environment favorability, enhancing economic progress through theoretical models. Few empirical studies have been conducted to determine the implications of peace in economics. They used a panel of 155 countries to examine the nexus between these variables. Trade is considered an essential development feature and is a result of peace and social stability. This study employed the panel cointegration technique to determine the findings.

Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS) models, which expressed both parametric and non-parametric variables (Georgescu et al., 2025). Data was taken from the World Bank and Economic Institute of Peace from 2008 to 2014. Results showed that countries with a large trade volume had fewer conflicts and more harmony. Trade performance is expected to increase bilateral trade and the overall level of trade. Countries that are victims of conflicting issues practice less trade and harmony. Further, the effect of lack of peace and enhanced situation of violence, conflicts and warfare on the trade was explored using a panel of 200 countries. They analyzed the nexus between peace and trade, employing data from 1960 to 1993. Findings showed terrorism and violence negatively affect trade and disturb the macroeconomic indicators. It caused a decrease in bilateral trade and reduced trade among the countries. Empirics also expressed that if a terrorist attacks, bilateral trade increases by 4 percent. Other researchers found different dimensions of peace. Morales-Casetti et al. (2024) determined that peace and democracy correlated and significantly impact each other. He stated that increasing democratic process ensure peace. This confounding variable has had many economic implications.

In his analysis, war and fatal conflicts lead to social unrest (Mousseau, 2013). These studies showed that a democratic structure gave a better law and order situation. A perception-based survey was used to measure democracy and peace. Data was collected from the period 2015 to 2025. Findings showed the strong correlation between peace and democracy. Further, Gartzke & Li (2003) determined how social interactions and credible contact among the society's member increase the economic activities and ultimately create harmony. Markets of global integration are also influenced by peace and the democratic structure of the observed country. It defined social

and political stability. This study also revealed the impact of leaders' preferences, which help to reduce the probability of war. It displayed the globalization cause to decrease the likelihood. Trade is also perceived as the outcome of peace. A peaceful environment leads to a country in trade and a better economic situation.

McKenna (2005) examined the link between cross-regional terrorism and trade. He postulated that terrorism hurts economies and disturbs industry. He suggested that democratic and peaceful conditions may be vital to improving trade and economies. In addition, Bandyopadhyay et al., (2013) also explained the impact of terrorism on economic variables. They analyzed that terrorism burdened the economy. They used 78 developing countries in the analysis. Data has been taken from 1984 to 2008. Findings showed that terrorism badly hit a country's economic situation, like national income losses, alienating growth, blocking foreign direct investment, and reducing trade (Hussain et al., 2023). If the terrorist attacks increase, it will cause a considerable reduction in foreign direct investment. Developing countries fall prey to terrorism easily. The study suggested that the absence of peace gives birth to violence and terrorism. To bring economic prosperity, hard steps should be taken to encounter terrorism. Bandyopadhyay and Sandler (2014) determined the relationship between peace and trade. They used the factor supply approach to identify the influence of social unrest on economic elements. Findings proposed that it is inevitable to counter terrorism to ensure it is a way to economic progress.

3. Theoretical Framework and Methodology

Peace is an essential factor that affects macroeconomic situations. Trade is an important factor responsible for the country's macroeconomic condition. With time, every nation accepts the importance of peace. Peace is used as a catalyst in the global economy nowadays. The peaceful countries are hot cake for the investors. GDP tells us the economic prosperity of the nation. Inflation and peace have a negative relationship, which is essential for the financial stability of a country. Bribery is a very inimical factor for peace. Many other factors also have a significant relationship with peace, like bribery, black market exchange rate, health, and other socioeconomic variables. In this study, we excluded many variables due to incomplete data.

In this study, we have used proxies of the variables as inflation rate (INF) for inflation, peace index (P) for peace, Exports, bribery (BR), and trade (TR) for trade during 2015 to 2025.

3.1 Methodology

In this study, we used panel data from 2015 to 2025 from 53 different countries of the world. We have used RE and FE in the panel data study to determine the results. Many econometrics studies showed empirical results displayed in panel data through OLS, Fixed Effect, and Random Effect, which allowed for a decrease in omitted variable bias. In different countries, analysis compensated for the time-invariant differences in unobserved characteristics in a cross-country analysis. Use of explanatory variable as an attempt to measure the unobserved characteristics of a country. The panel data estimation techniques RE and FE do not check the time variant and omitted

variables, as well as unobserved factors involved, such as tariff, government regulation, corruption, culture, and people's abilities regarding human capital.

Many econometrics books suggest that results of OLS, along with RE and FE (Forbes 2000). OLS is first just an approximation, and random effect (RE) and fixed effect (FE) are sufficient depictions of analysis.

3.2 Data Analysis

This study uses panel data from 2014 to 2024 from 53 different countries. Countries are selected based on data availability. In a panel data study, we use RE and FE to determine the results, and we further use the Disc kray method for improved results. In our main model, we have used GLS for more efficient results. Many econometrics studies showed that empirics were found through OLS, followed by fixed effect and random effect.

Panel data allows for the decrease of omitted variable bias. In different countries, analysis compensated for the time-invariant differences in unobserved characteristics in a cross-country analysis. Use of explanatory variable to measure the unobserved characteristics of a country. The panel data estimation techniques RE and FE do not check the time variant and omitted variables, as well as unobserved factors involved, such as tariff, government regulation, corruption, culture, and people's abilities regarding human capital.

Many econometrics books suggest that results of OLS, along with RE and FE (Forbes,2000). OLS is first just an approximation, and RE and FE are sufficient depictions of analysis. Generalized least squares (GLS) by Orellana and Bond (1991) is one of the essential techniques to determine the results. In GMM, lagged values depict variation found in dependent variables. In many studies, GMM was used with FE and RE to examine the association of explanatory and explained variables (Forbes,2000)

3.3 Model

We used the global peace index as a dependent variable and exports, trade, inflation, and bribery as independent variables.

$$P = f \ (EXP, TRADE, INF, BR)$$

Equation 1

$$P_{it} = \alpha_0 + \alpha_1 Tr_{it} + \alpha_2 INF_{it} + \alpha_3 Ex_{it} + \alpha_4 Br_{it} + \mu_{it}$$

Equation 2

We have expressed the relationship between peace and macro-economic variables in the above model. There are many other factors that may affect the world's economic situation. To consider reasonable control variables being chosen based on empirical evidence. In the data collection process, many variables are collected for study. In the model-specifying process, many variables

are excluded from our final model. We mainly focus on choosing the final model variable rather than considering excluding other variables. In this model, we believe in checking the effect of peace on macroeconomic situations of the world.

3.4 Description and Construction of Variables Used in This Study

Table No 1: Variable Description

Variable	Abbreviation	Description	Source
Peace	P	Peace index	Global peace index
Inflation	Inf	Inflation rate	wdi
Bribery	br	Bribes	Fraser Institute of Economic Freedom
Exports	exp	Exports volume ($million)	WDI
Trade	Trade	Trade ($million)	WDI

3.5 Data Source

The data for this study consists of two main components: peace and macro-economic indicators. Macro-economic indicators, we would ideally like to have a choice of indicators including inflation, exports, trade, and bribery. However, the difficulty lies in gaining such measures for the total 53 countries during 2005 to 2015. We collected this data from World Bank indicators and Fraser Institute of Economic Freedom.

4. Empirical Results and Discussions

Peace and Macroeconomic Determinants

Table No 2: Peace and Macroeconomic Determinants

Variables	FE	D AND K FE
	(0.626)*	(0.000)*
Trd	.000569	.0032229
	(0.201)	(0.000)*
Exp	-8.55e-13	8.66e-13
	(0.038)**	(0.066)**
Brb	-.0386303	. -.0220212
	(0.581)*	(0.000)*
Inf	-.0013819	.0178234
	(0.000)*	(0.000)*
CONSTANT	2.221764	1.707422
Diagnostic and Model Specification Tests		

Wooldridge test for Autocorrelation	Ramsey RESET Test	Modified Wald test for Group-wise Heteroscedasticity	Hausman Test
(0.0000)*	(0.0000)*	(0.0000)*	0.00

Dependent Variable: Peace (gpe)

The impact of peace and macro-economic variables has been determined, and results have been reported in this section. In our study, we determine the relationship between peace and macro-economic variables, taking 53 countries and 11 years of data from countries of the world.

In this model, the relationship between peace, trade (trd), Exports (exp), bribery (Br), and inflation(inf) is evaluated. Different studies showed a relationship between trade and peace. McKenna,2005; Bandyopadhyay and Sandler,2014; Bandyopadhyay et al., ,2013).

The analysis is carried out through fixed effect and fixed effect models with standard error using the Drisck and Kraay test. Using a fixed-effect technique, the relationship among the peace, trade, exports, inflation, and bribery is estimated. An insignificant positive relationship is found between trade and peace; however, the coefficients' signs of inflation and exports are negative and are unimportant in the FE effect model.

The results of the fixed effect model with standard error and the Drisck and Kraay model have explained the relationship more clearly. Trade, exports, and inflation significantly impact peace. Increase in cause to raise exports and trade. On the other hand, enhanced trade and exports are vulnerable to global peace. Although bribery negatively and significantly affects peace. Bribery is a social issue that increases corruption and destroys the country's peace.

Diagnostics results have shown a problem of heteroscedasticity and serial correlation, as the p-value shows.

5. Conclusion and Policy Implications

This study examined the macroeconomic implications of peace. Peace was considered a proxy of absence of violence, and the study used control variables: trade, inflation, exports, and bribery. Empirical findings were reported using panel data, and countries were taken as sections. Analysis was made on five hundred and eighty observations. Observations were conducted in fifty-three countries over eleven years. Econometrics models were constructed by using peace and other control variables. Fixed effect panel data technique used to determine the relationship between peace and other control variables. A fixed effect was chosen based on the Hausman test. Empirical findings revealed that exports, trade, bribery, and inflation play a vital role in examining implications of peace from the perspective of cross countries.

The model results showed that the first hypothesis stated that trade did not affect human peace. It was rejected against the alternative hypothesis that trade positively affected peace. Similarly, exports and inflation also enhance the peaceful environment in the countries. Trade was positively related to peace. An increase in trade brought about peace in countries (McKenna,2005); (Bandyopadhyay & Sandler,2014; Bandyopadhyay et al., 2013). Bribery harms the peace. Empirical results indicated that all our null hypotheses were rejected for the worldwide panel of 53 countries. Findings showed that exports, trade, and inflation were positively affected. Bribery negatively affects peace. Increased bribery among countries may enhance corruption, ultimately impacting people's welfare and choices. Consequently, it is harmful to social welfare by restricting

the choices of some proportion of people. So, policy measures aimed at reducing bribery through steps that cause little harm to growth and peace. Results suggested that countries should enhance trade and exports to achieve prevalence of peaceful conditions. Empirics proposed that such policy measures should be adopted to ameliorate the peace.

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