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THE INTERPLAY OF DEMOCRACY AND TRADE: A COMPARATIVE STUDY OF CHINA AND THE EU IN EURASIAN RELATIONS***

Abstract

This paper investigates trade cooperation dynamics across the expansive Eurasian region, with a specific focus on the theoretical underpinnings of the democratic peace concept. It delves into the evolving trade and political relationships between 26 Eurasian countries and two prominent global actors – China and the European Union, spanning the period from 2007 to the Ukrainian crisis in 2022. Through an examination of statistical correlations between trade variables – namely, export and import – and factors such as free trade agreements, shifts in political regime types, institutional stability of Eurasian nations, and their membership within economic alliances, this research provides a nuanced perspective on the evolution of interactions between EU/China and Eurasia. The findings underscore a notable expansion in trade cooperation among the analysed cases since 2007, despite occasional tensions and divergent geopolitical

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interests involving China and the EU. Statistical analyses further reveal that the dynamics of export and import between the EU and Eurasian countries align with the stability of political regimes in Eurasia. Conversely, in the case of China, moderately negative correlations emerge. Importantly, trade patterns exhibit variations among individual countries, irrespective of their political regime dynamics, institutional stability, or membership in economic alliances – a phenomenon warranting in-depth exploration within the confines of this paper. The paper concludes by discussing how the findings challenge the postulates of commercial liberalism as part of democratic peace theory in the Eurasian context. The analysis clearly demonstrates that, with the EU and China as the two main global economic actors, these ideas need to be theoretically redefined to accurately capture the dynamics at play in the region in future.

Keywords: Democratic Peace Theory, China, EU, trade, Eurasia, political regime

INTRODUCTION

The European Union (EU) and China are emerging actors in the Eurasian space, where they exert significant influence each in its own way, especially nowadays in securing their slots for vast space in Central Asia. The EU's approach to integration, a common market, and foreign policy contributes to creating a sustainable framework for engagement in international affairs. Traditionally, the EU stands out with its diplomatic activity, economic strength, and promotion of human rights values, making it a significant player in global issues with specific values it promotes continuously. On the other hand, China has rapidly emerged as a global economic powerhouse and a key player in international relations. Its Belt and Road Initiative (BRI), along with the newly introduced initiatives, contributes to its "actorness" on the international stage. Through investments, trade, and infrastructure projects, China deepens its influence, especially in Eurasia, where it builds upon its connectivity strategy between Europe and Asia (Đorđević and Stekić 2022). Despite having different approaches and value foundations, both the EU and China share an interest in the stability and prosperity of Eurasia.

This paper explores the dynamics of trade cooperation between China and the European Union on one side, and the Eurasian countries on another, within the context of the theoretical premises of democratic

peace and commercial liberalism. Focusing on the period from 2007 to the ongoing crisis in Ukraine, the study examines the trade and political patterns that have emerged between China and the EU, considering the broader Eurasian region. We assert that the political regime type, as a significant factor in the international system, warrants thorough investigation. Thus, the objective is to examine whether the democratic European Union and the non-democratic China, as distinct poles in the international system, factor in this variable when determining trade patterns with Eurasian countries. Through a statistical analysis of trade agreements, economic interdependencies, and political factors, this paper aims to provide insights into the evolving relationship between China and the EU, highlighting the implications for regional stability and global economic governance. The research methodology combines a comprehensive review of existing literature with a qualitative analysis of primary and secondary data sources. By examining trade statistics, policy documents, and scholarly works, this study offers a nuanced understanding of the key events and developments that have shaped this relationship during the specified timeframe.

The evolving dynamics of the modern international system, particularly in the context of the growing multilateralism involving China and the EU, necessitate a reassessment of the classic premises of the democratic peace postulate. The democratic peace theory, which suggests that democracies are less likely to engage in armed conflict with each other (Doyle 1986), is facing new challenges in the era of increasing multilateralism and shifting global power structures. The need to understand the implications of these shifting dynamics on the prospects for peace and conflict in the international system is paramount. The institutional and economic interdependencies between the EU and China, as two of the world's largest trading partners, raise questions about how these relationships may influence the traditional assumptions of the democratic peace theory. In light of these developments, it is essential to conduct a comprehensive reassessment of the democratic peace postulate within the framework of the evolving multilateral dynamics involving China, the EU, and other major global players.

Thus, the first aim of this paper is to explore the existing research on trade and politics correlations and to debate how the EU and China, as main actors, cooperate with Eurasia regarding the variables – political regime type, institutional stability, and economic alliance membership. The second aim of this paper is to examine the behaviour of the EU and China as main actors in the Eurasian space. It is essential to consider how

their actions align with their proclaimed values in foreign trade policy. The EU has long emphasized the promotion of open, rules-based, and fair trade, reflecting its commitment to multilateralism and the pursuit of mutually beneficial trade relationships. However, recent developments, such as the EU's engagement in the Comprehensive Agreement on Investment (CAI) with China, have raised questions about the EU's ability to uphold its values in the face of geopolitical and economic interests. Similarly, China's growing influence in the Eurasian space, particularly through its Belt and Road Initiative, has sparked debates about the alignment of its trade policies with its proclaimed values of non-interference, win-win cooperation, and respect for sovereignty. In the context of the EU and China's trade policies in the Eurasian space, it is important to critically assess the extent to which their actions reflect their stated values. This debate requires a nuanced examination of specific trade agreements, investment projects, and geopolitical interactions to determine whether the EU and China are effectively translating their proclaimed values into tangible trade policy outcomes.

The paper is structured as follows: following an examination of the theoretical foundations, particularly those pertaining to the democratic peace theory, and more specifically, commercial liberalism, the authors articulate the methodology and present the data employed in the research. The primary focus of the investigation centres on trade patterns, encompassing both exports and imports involving the EU and China. Subsequently, the authors expound upon the results obtained, engaging in a comprehensive discussion to ascertain the validity of commercial liberalism and the examination of whether the thesis positing a "similarity of trade" concerning political regimes proves substantiated or disproven.

THEORY AND METHOD

This research aligns to traditional postulates of democratic peace theory (DPT). Positioned at the middle level of theoretical systems, it faces vehement opposition primarily from realism proponents. However, supporters dub it an "empirical legality in international relations" and laud it as a potent liberal contribution to peace and war studies. The theory explores the link between a state's internal characteristics, particularly its political regime, and its foreign policy behaviour in the international system. Over the last four decades, scholars have intensively examined the "internal variable", focusing on the political regime's type

(Kegley and Hermann 1996). Investigations into the influence of domestic politics on decisions related to the use of force, election cycles, regime types, and public opinion's impact on executive power and military actions have also been conducted. However, these studies often suffer from methodological inconsistencies and limited time spans. Immanuel Kant's notion of "Eternal Peace" inspired the democratic peace concept indirectly. The modern academic domain's forerunner emerged during and after World War II, aiming to explain war's nature and the state's role. Early empirical efforts, such as Jason Watkins' 1942 research, did not conclusively establish a connection between political regime type and state behaviour in international relations. Two conflicting academic positions exist regarding the monadic relationship between political regime type and foreign policy behaviour.

One group argues that democratic states are warlike but primarily toward non-democratic states, while another contends that democracies are inherently more peaceful. Michael Doyle, a theory founder, suggests democracies are aggressive even towards non-democratic states (Doyle 1986), challenging the notion that democratic constraints alone can prevent war. Conversely, a second group, led by Rudolf Rummel, asserts that democracies are significantly more peaceful and less prone to initiating wars (Rummel 2017). Numerous empirical studies support the latter perspective. Despite ongoing debates and methodological challenges, the democratic peace theory remains a crucial and divisive subject in security studies.

Moving into commercial peace, some analyses of global geopolitical stability in terms of world trade network analysis, as presented by Papadopoulos and associates (Papadopoulos et al. 2023), provides valuable insights into the economic interdependence of countries and the potential impact of disruptions on the global community. The study's focus on network analysis, including network specification, density, degree, clustering, and other network indicators, offers a robust method for understanding the dynamics of global trade and its implications for geopolitical stability. The findings of this study align with the broader literature on the interconnectedness of trade and geopolitical outcomes. For instance, the work of Steil and Smith, as referenced in McBride and Chatzky (2019), emphasizes the economic implications of trade deficits and the complex interplay between trade relationships and broader economic stability. Furthermore, the textual analysis of geopolitical risk measures, underscores the importance of innovative techniques in

measuring and understanding geopolitical risks, which can be applied to the study of trade and politics correlations.

A specific trajectory of the DPT is an idea of commercial peace which promotes a postulate of democratic trade and that trade is a variable of an utmost importance for the political regimes and other variables (Bremer 1993; Simon and Gartzke 1997). Being among the world's top of trade, both China and the EU maintain high flow of trade with Eurasian countries. As per the World Bank, China holds the position of the second-largest global economy, trailing the United States and surpassing Japan. According to the UNCTAD World Investment Report 2023, China maintained its status as the world's second-largest recipient of foreign direct investment (FDI) inflows, totalling US\$189 billion in 2022, marking the sixth consecutive year in this position (HKTDC 2023). The United States led in FDI inflows with US\$285 billion during the same period. Additionally, the UNCTAD World Investment Report 2023 reveals that China ranked as the world's third-largest contributor to outward FDI flows, amounting to US\$147 billion in 2022 (HKTDC 2023). China's economic indicators for Q3 2023 depict a 4.9% growth in GDP. Notably, during January-November 2023, there was a 4.3% rise in added-value industrial output, a 2.9% increase in fixed assets investment, a 7.2% uptick in retail sales, and a 0.3% inflation surge. Despite this, China managed to maintain a substantial trade surplus of US\$748.1 billion during the period.

The pivotal study by Mansfield and associates (Mansfield et al. 2000) is fundamental for understanding how a country's political regime influences its international trade. Their research reveals that trade relations between two democratic nations are more open and feature higher trade levels compared to relations between a democracy and an autocracy. Specifically, trade volume is notably lower, about 15-20%, in the latter scenario. The study covers the period from 1960 to 1990. The authors distinguish between democratic and autocratic governments based on the presence or absence of a legislative power capable of effectively curbing executive authority. They argue that the presence of legislative "ratification" of commercial policy in democracies leads to a higher likelihood for pairs of democratic countries to agree on lowering trade barriers compared to a pair involving an autocratic nation (305).

De Bruijn (2014) tested these assumptions in a study that covered 167 countries in the period 1992-2012. He confirmed that autocratic country pairs trade on average 7.86-18.8% less in comparison to democratic country pairs, which is consistent with the findings of Mansfield et al.

(2000). However, contrasting prior expectations, De Bruijn's research did not consistently show lower bilateral trade levels between mixed pairs and democratic ones. This study highlights a positive relationship between democratization and increased trade, yet its results lack the solidity observed in earlier research, suggesting the need for further examination of the interplay between democracy and trade (De Bruijn 2014, 19-23).

Christopher Balding (2011) employed a bilateral gravity trade model across 150 countries from 1950 to 1999. His research indicates that "although the democracy variables have a statistically significant impact on trade, the economic impact is minimal" (592). Additionally, transitioning from autocracy to democracy does not necessarily boost trade, whereas a shift from democracy to autocracy correlates with decreased trade. Thus, Balding concludes that the connection between democracy and trade is not robust (599).

Pollins's research (Pollins 1989) empirically tested how diplomatic relations between states affect bilateral trade. The sample included 25 countries of different levels of development observed in the period 1960-1975. His findings demonstrate that states' friendships or enmities influence their trade flows. The author concluded that countries adjust their trade ties concerning security and economic welfare, complementing Polachek's work, which showed how states adapt their conflict or cooperation behaviour to achieve the goal of economic welfare (Polachek 1980, 758).

Regarding the trade-conflict relationship, aforementioned Polachek's work (Polachek 1980) has been influential. His model illustrates how trade can enhance cooperation between states, as trading partners might refrain from conflict to avoid jeopardizing trade gains. This model was later expanded to include factors like foreign aid, contiguity, tariffs, and country size (Polachek et al. 1999).

Until now, only a limited number of studies have applied the principles of commercial liberalism to examine the trade dynamics between the EU and China in the Eurasian region (Zhanakova and Shulenbaeva 2016; Wilson 2018; Rothacher 2021). Examining trade patterns between China and the European Union (EU) across 26 countries in Eurasia, the research is prompted by the increasing importance of the vast Eurasian region in global politics and the economy.¹ Data for the analysis will be drawn from diverse sources, including the Varieties of Democracy

¹ Namely: Afghanistan, Bangladesh, Brunei, Bhutan, Cambodia, India, Indonesia, Japan, Kazakhstan, Kyrgyzstan, South Korea, Lao PDR, Malaysia, Myanmar,

(V-Dem) dataset for political indicators, World Bank Data for macroeconomic metrics such as GDP, Uppsala Conflict Data Program for dispute intensity at the dyadic level, and the sScore Index for additional political stability metrics. Trade-related data will be sourced from UN Comtrade Database, WTO Stats, or Trade Map (ITC). Rigorous cross-verification and validation processes are to be applied to ensure data accuracy. Political regime type will be assessed using the Varieties of Democracy (V-Dem) dataset as the primary data source, with a particular focus on its Liberal Democracy Index (LDI). The selection of the LDI is informed by its proximity to a measurable instrument for democracy assessment, enabling a precise evaluation of democratic principles. V-Dem defines LDI as the adherence to liberal principles in a democracy, focusing on safeguarding individual and minority rights against both state and majority tyranny (V-Dem 2021). It evaluates the quality of democracy by assessing limitations on government power, achieved through constitutionally protected civil liberties, a robust rule of law, an independent judiciary, and effective checks and balances, along with the level of electoral democracy to determine the extent of liberal democratic practices (V-Dem 2021).

Temporal domain of this paper stretches between the 2007 global economic crisis and the 2022 Ukraine crisis. This time frame is relevant as it encapsulates the significant global economic downturn in 2007 and the geopolitical complexities associated with the 2022 Ukraine crisis.² Methodologically, the research employs statistical analyses, including descriptive statistics to offer a summary of key characteristics and trends, correlation analysis to examine relationships between variables, and logistic regression to model and analyse probabilities related to political stability, economic performance, or trade dynamics.

In general, that trade promotes peace is the main postulate of democratic peace idea (Hegre et al. 2010). Given that *de lege ferenda*

Mongolia, Nepal, Pakistan, Philippines, Russian Federation, Singapore, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan, and Vietnam.

² The choice to focus on the 2007 global economic crisis is grounded in its significant repercussions on the global economy, shaping political and economic dynamics across diverse regions, including Eurasia. This period marked the EU's encounter with an economic shock due to the Global Economic Crisis that peaked in 2009. Concurrently, China heightened its economic engagement in global trade, particularly post the 2008 Olympics. The selection of the 2022 Ukraine crisis is motivated by its geopolitical importance, potential economic implications, and its capacity to impact the Eurasian countries under scrutiny.

– democracies are expected to trade more with other democratic states, rather than with autocratic states, and vice versa. There comes the commercial liberalism. The interdependence created by trade provides economic incentives to maintain peaceful relations. Countries with strong economic ties are more likely to prioritize economic cooperation over military confrontation due to the potential disruption of trade (Polachek 1980). Other significant assumption suggests that foreign aid plays a significant role in contributing to peacebuilding efforts between nations (Collier and Hoeffler 2002). This is achieved through the support of recipient countries' development and stability, thereby addressing socio-economic disparities and mitigating grievances that might otherwise lead to conflict. Investment in key areas such as education, healthcare, infrastructure, and governance is posited as a means to foster stronger and more stable societies, consequently diminishing the potential for violence and conflict. Furthermore, the Aid, Trade, and Peacebuilding Synergy hypothesis contends that foreign aid and trade are interconnected elements capable of mutually reinforcing peacebuilding initiatives.

With a specific focus on the EU, it is hypothesized that the EU's engagement in trade with Eurasian states positively correlates with the promotion of democratic principles and political stability. The EU's commitment to democratic values and economic cooperation is anticipated to contribute to the establishment of robust diplomatic ties, fostering a climate of political stability within the EU-Eurasian trade relations. Conversely, concentrating on China's interactions with Eurasian states, it is posited that China's trade activities within the region may demonstrate a nuanced approach to democratic principles. While trade interdependence may contribute to economic stability, China's engagement is expected to exhibit a lesser inclination towards promoting democratic values. Nevertheless, it is hypothesized that China's economic interactions will positively correlate with regional stability, albeit with a distinctive emphasis on non-democratic political regimes.

In light of all the above, following the logic of the basic premises of DPT and commercial liberalism (Oneal and Russett 1997), a common assumption would be that the EU will trade more with more democratic regimes, while China will trade more with more autocratic regimes. However, considering the geopolitical importance of the Eurasian region for the EU and China, as two significant trade poles in the multilateral context, the assumption of this paper is that the EU and China do not factor in the political regime type variable in the conduct of their trade relations with Eurasian countries.

THE INTERPLAY OF DEMOCRACY AND TRADE – PATTERNS OF EURASIAN TRADE WITH CHINA AND THE EU

Trade agreements and trade strategies

Driven by the goal of strengthening strategic alliances with emerging economies, and gradually transitioning from an exclusively multilateral approach, the EU prioritized Asia in its 2006 trade strategy Global Europe (Garcia 2010, 499). The EU has concluded free trade agreements (FTAs) with four out of 26 Eurasian states studied in this paper – South Korea, Singapore, Japan, and Vietnam. Trade relations between countries are governed by Partnership and Cooperation Agreements or the Generalised Scheme of Preferences (GSP). GSP facilitate political dialogue, trade, and investment, as well as cooperation in areas like culture and technology. The Generalised Scheme of Preferences grants reduced or zero tariff rates to goods from developing countries entering the EU market. Within this scheme, the Everything But Arms (EBA) initiative ensures duty-free and quota-free access to the EU market for all products from least developed countries, except weapons and ammunition.

Regarding the Association of Southeast Asian Nations (ASEAN), the EU's third-largest trade partner outside of Europe (following the US and China), negotiations for a region-to-region trade agreement commenced in 2007. However, negotiations paused, leading to the decision to pursue bilateral agreements instead (European Commission n. d.). The ASEAN region is of particular importance to the EU due to its sizable market of 680 million consumers and its strategic significance *vis-à-vis* the People's Republic of China. Despite the delayed conclusion of FTAs in this region, the EU primarily concentrated on negotiations with countries demonstrating substantial growth potential and those that have already established agreements with its competitors, the US and China (Garcia 2010, 509). Free trade agreements with Singapore and Vietnam have already entered into force, while the negotiations have been ongoing with Indonesia (2016), Thailand (2015) and the Philippines (2013). Negotiations with Malaysia have been on hold. Cambodia, Myanmar, and Laos benefit from the Everything But Arms scheme, while Brunei lacks a formal trade agreement with the EU, nor is it part of the EBA scheme (European Commission n. d. a).

In 2002 China concluded the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation. By the end of the

decade, the Agreement on Trade in Goods (2005), Agreement on Trade in Services (2007) and Agreement on Investment (2009) came into force. China has maintained its status as ASEAN's largest trading partner since 2009 (ASEAN n. d.). In 2001, China joined the Asia Pacific Trade Agreement – the oldest preferential trade agreement in the region. In addition to the aforementioned, free trade agreements with Pakistan, Thailand, South Korea, Cambodia and Singapore have also been in force. On January 1, 2022, the Regional Comprehensive Economic Partnership came into effect, encompassing ASEAN members, Japan, South Korea, Australia, New Zealand and China, creating the largest trade bloc in history. The fifteen signatories of this agreement collectively represent nearly a third of the world's population (29.65%) and contribute to 28.7% of the world's GDP (Francois and Elsig 2021, 6).

Table 1. Free Trade Agreements (in force February 2024) between Eurasian countries and China and the EU respectively

PARTNER	CHINA	EUROPEAN UNION
BANGLADESH	Asia Pacific Trade Agreement (APTA)	
BRUNEI	ASEAN-China FTA	
CAMBODIA	China-Cambodia FTA (2022) ASEAN-China FTA	
INDIA	APTA	
INDONESIA	ASEAN-China FTA	
JAPAN		EU-Japan Economic Partnership Agreement (2019)
SOUTH KOREA	China-Korea FTA (2015)	EU-Korea FTA (2011)
LAO PDR	APTA ASEAN-China FTA	
MALAYSIA	ASEAN-China FTA	
MYANMAR	ASEAN-China FTA	
PAKISTAN	China-Pakistan FTA (2007)	
PHILIPPINES	ASEAN-China FTA	
SINGAPORE	China-Singapore FTA (2009) ASEAN-China FTA	EU-Singapore FTA (2019)
SRI LANKA	APTA	
THAILAND	ASEAN-China FTA	
VIETNAM	ASEAN-China FTA	EU-Vietnam FTA (2020)

Source: Processed by the authors (MOFCOM n. d. and European Commission n. d. c)

The markets of Japan and South Korea play a significant role in expanding China's free trade agreements network. While the trade agreement with South Korea has been operational since 2015, the negotiations for Japan-Republic of Korea-People's Republic of China Free Trade Agreement commenced in 2013 and are ongoing.

As regards the Eurasian Economic Union, China signed a Trade and Economic Cooperation Agreement with this economic organization in 2018, but it has not yet entered into force. As for the relationship between the EU and the EEU on the other hand, the European Commission held regular technical dialogues with the Eurasian Economic Commission until the Russian invasion of Ukraine in 2022. Treaty of Good-Neighbourliness and Friendly Cooperation Between the People's Republic of China and the Russian Federation (2001) represents the basis for Sino-Russian trade and economic cooperation, while the economic cooperation between Central Asian countries and China is structured by the Belt and Road Initiative. The Central Asian region's significance to China and the BRI extends beyond enhancing trade routes to encompassing access to energy resources critical for domestic economic development and maintaining stability in the Xinjiang region (Gajić and Rajić 2023, 189). Based on data from *The World Factbook (2021)*, China's FTAs currently in force in Eurasia region cover a population of 2,499,583,604 people. When Japan, Australia, and New Zealand (signatories of the RCEP) are included in the calculation, that number exceeds 2,6 billion. In opposition, the European Union's FTAs in Eurasia cover a market of 285,058,192 consumers (CIA n. d.).

In comparing the trade strategies of China and the EU, the following stand out as key characteristics of each actor. In the initial conversations, China is only negotiating the liberalization of trade in goods, under relatively flexible conditions. Subsequent negotiation rounds encompass broader aspects such as services and investments, as evidenced in agreements reached with ASEAN. Conversely, the EU has been pursuing more comprehensive (deep) agreements from the outset, which, in addition to the economic dimension, also include political aspects, notably through the clauses on the rule of law, respect for human rights and democratic reforms. Consequently, the EU's free trade agreements are regarded as instrumental in advancing its normative agenda (Meunier and Nicolaïdis 2005). Sampson and Theuns (2023) characterise China's approach to negotiating trade agreements as gradualist. Their perspective posits that China primarily seeks economic advantages by leveraging free trade agreements for negotiation purposes (2-13).

Concerning the motives for entering into FTA, both trade actors are motivated not only by economic gains but also by political considerations. For the EU, as previously highlighted, the pursuit of commercial interests is closely linked with political factors, mainly through conditionality clauses (Sampson and Theuns 2023, 5). China's economic rationale revolves around supplying goods, maintaining a stable regional market and facilitating trade, while political aims encompass persuading neighbouring countries of its peaceful rise, garnering support for the One-China policy and fostering the necessary trust to uphold its leadership position in the region (Garcia 2010, 502-503).

Trade and political regimes

This section of the results explores the impact of EU/China trade dynamics, encompassing both imports and exports, to three distinctive variables: political regime type, the political stability of Eurasian nations, and the membership status of Eurasian countries in economic unions. Table 2 presents panel regression results between trade variables (Export and Import) and these three distinctive variables for a sample of countries from the Eurasian regions. The table shows the direction and intensity of the impact of selected variables on exports and imports.

Table 2. Correlation between trade and political regime type
– EU/China and Eurasian countries

Variable	China		EU	
	Export	Import	Export	Import
Political regime type	4.984***	7.758***	4.983***	5.229***
	0,67	1,119	0,717	0,891
Stability of democratic institutions	-0.113**	-0.254***	-0.112*	-0.125*
	0,056	0,093	0,06	0,074
Alliance membership	1.911***	3.396***	1.307***	2.395***
	0,275	0,459	0,294	0,366
R-squared	0,283	0,284	0,212	0,228
Observations	213	213	213	213

With standard errors ***p<0.01, **p<0.05, *p<0.1

Source: Processed by the authors.

For exports to China, the beta coefficient is notably high at 4.984 (highly significant at the 0.01 level), indicating a substantial positive impact of the intensity of exports and a specific political regime type. Importantly, this positive impact is similarly observed in the context of imports from China, with a coefficient of 7.758 (highly significant at the 0.01 level), suggesting a robust positive association between import levels and the identified political regime type. Analogous patterns are discernible in trade interactions with the EU, where both export and import relationships display significant positive correlations, with coefficients of 4.983 ($p < 0.01$) and 5.229 ($p < 0.01$) respectively. The standard errors associated with these correlation coefficients offer insights into the precision of the estimates. Additionally, the R-squared values ranging from 0.212 to 0.284 indicate a moderate to relatively high goodness of fit for the regression models, underscoring the explanatory power of the political regime type in elucidating the variance in trade variables.

In the analysis of political stability, specifically the stability of democratic institutions, and international trade with China and the European Union (EU), the results reveal noteworthy patterns as well (Table 2). For exports to China, a statistically significant weak negative correlation coefficient of -0.113 ($p < 0.05$) implies that as the stability of democratic institutions decreases, exports to China tend to increase. Similarly, imports from China exhibit a highly significant negative relationship with a correlation coefficient of -0.254 ($p < 0.01$), suggesting a stronger association between decreased democratic stability and increased imports from China. Regarding trade with the EU, both export and import relationships also demonstrate weak negative impact to democratic stability, indicated by coefficients of -0.112 ($p < 0.1$) and -0.125 ($p < 0.1$), respectively. The standard errors accompanying these coefficients provide insights into the precision of the estimates. Furthermore, the R-squared values ranging from 0.212 to 0.284 across the regression models indicate a moderate to relatively high goodness of fit, suggesting that democratic stability explains a substantial proportion of the variance in trade variables.

The examination of the correlation between economic alliance membership and trade dynamics with China and the EU is also elucidated through the findings presented in Table 2. The coefficients signify the strength and direction of the relationship between export and import variables and economic alliance membership. Notably, for exports to China, a significant positive coefficient of 1.911 (highly significant at

the 0.01 level) implies that nations participating in economic alliances tend to exhibit increased export volumes to China. A similar trend is observed in imports from China, where the coefficient is 3.396 (highly significant at the 0.01 level), suggesting a robust positive association between economic alliance membership and import levels from China. Analogously, in the context of trade with the EU, both export and import relationships exhibit significant positive correlations, with coefficients of 1.307 ($p < 0.01$) and 2.395 ($p < 0.01$) respectively. The standard errors associated with these coefficients provide insights into the precision of the estimates. Additionally, the R-squared values ranging from 0.212 to 0.228 indicate a moderate to relatively high goodness of fit for the regression models, emphasizing the explanatory power of economic alliance membership in understanding the variance in trade variables.

WHY COMMERCIAL LIBERALISM FAILS IN EURASIA

Patrick J. McDonald (2004) posits that peace is fostered not merely by trade, but by free trade. The argument centres on the removal of protective barriers in international commerce, which, in turn, diminishes the capacity of free-trading interests to curtail aggression in foreign policy. Moreover, free trade is argued to generate political support for the state. McDonald employed a series of statistical tests to substantiate the assertion that heightened levels of free trade correlate with a reduction in military conflict between states. The study delves into the historical context of World War I, utilizing it as a case study to potentially validate the core tenets of commercial liberalism. In making a theoretical distinction between trade and free trade, this author tested the hypothesis that increased protectionism augments the likelihood of interstate conflict through statistical analysis of the relationship between protectionism and conflict (McDonald 2004).

The examination of the correlation between trade dynamics and political regime types revealed a relatively uniform dispersion, particularly concerning import and export activities. The analysis of political regime quality based on *V-Dem* indicators reveals notable discrepancies across several countries in the measured period. In Afghanistan, Bangladesh, Cambodia, Indonesia, Japan, Kazakhstan, Kyrgyz Republic, Lao PDR, Mongolia, Pakistan, Philippines, Russian Federation, Singapore, Tajikistan, Turkmenistan, and Uzbekistan, no significant variations in political regime quality were observed during the measured period. However,

Bhutan experienced a shift in 2007-2008, and the Republic of Korea consistently displayed discrepancies throughout the entire period. India witnessed a relative decrease from 0.37 to 0.31 in the measured period, while Malaysia exhibited a relative increase from 0.2 to 0.34. Myanmar experienced a noticeable shift from 0 to 0.3. In Nepal, significant variations exceeding 0.4 were observed. Sri Lanka displayed considerable fluctuations, and Thailand's political regime quality showed variability.

Thus, it will be observed only the countries experienced variations in their political regime type quality. Bhutan experienced variations from autocracy to anocracy with democratic qualities. However, no significant statistical correlations were registered even though they were moderate. Export and import ratio from this country to the EU has varied with export from the EU dominating over the years and multiplying. In absolute number, the EU increased its export to Bhutan from 10 million USD in 2007 to 82 million USD in 2022 (European Commission n. d. d). Until 2010, trade between Bhutan and China was almost non-existent, while in the recent years it arose to over 100 million US dollars (WITS n. d.). The export between the EU and Sri Lanka manifests a negative moderate correlation. It is noteworthy that as Sri Lanka underwent a process of democratisation, there was a discernible reduction in the EU's export activities to the aforementioned country, as indicated in Table 2. Export from China to Sri Lanka rose from modest 1,3 million USD in 2007 to more than 50 million dollars in 2022 (WITS n. d.). The analysis yielded a noteworthy observation that there exists an almost negligible or limited number of correlations between trade patterns and political regime types, indicating that both China and, somewhat counterintuitively, the European Union exhibit a lack of discernible influence from the internal political regimes of Eurasian countries. An exception to this trend is notable in the case of Sri Lanka and the EU.

In terms of membership in economic alliances, 10 of 26 observed countries are members of ASEAN, while three (Russia, Kazakhstan and Kyrgyzstan) are members of the Eurasian Economic Union (EAEU). The membership of the first-mentioned countries in ASEAN is a constant in the time period covered by our article. As for Russia, Kazakhstan and Kyrgyzstan, these countries created the Eurasian Customs Union in 2010, and since 2015 they have been part of the aforementioned economic union. In the case of the ASEAN countries, the changes in trade relations with the EU and China cannot be related to the membership of

the economic alliance, considering that it is a constant in the given period. Regarding the EAEU members, the trade data shows the following.

Concerning the EU and China trade with Kazakhstan, during 2015 and 2016 there was a decline in both imports and exports in the case of both trading partners. In the case of Kyrgyz Republic, China has recorded a trend of growth in exports to this country since 2015, with the exception of 2020. In the observed period, EU exports to Kyrgyzstan marked a significant decline during 2015 and 2016. Exports fell from the previous 400 million euros in 2014 to 269.9 million in 2015 and 237.8 million in 2016 (European Commission n. d. d; WITS n. d.). From 2010, China recorded a growth trend in its exports to Russia which was interrupted in 2015, after which continuous growth followed again until 2021. In the EU-Russian trade relations, there was a noticeable decline in the Union's exports and imports from Russia in the period 2013–2016 (European Commission n. d. d; WITS n. d.).

China's trade with the EAEU witnessed a significant decline in 2015–2016 and a somewhat milder decline during 2020 (Statista Research Department 2023). The EU and the EAEU trade turnover in the period 2008–2019 marked a sharp decline in 2009, after the world economic and financial crisis, while it reached its peak in 2012, followed by a downtrend (Luptáková 2021, 227–228). Given that Russia represents the largest share of trade relations between the EU and the EAEU, the trade barriers that the EU introduced to Russia in 2014 affected the deterioration of the trade turnover of these two economic unions (233).

The extra-EU trade flows, encompassing both imports and exports, exhibited notable dynamics within the EU. In 2019, the total trade value amounted to €4,072 billion, a twofold increase from the 2002 figures (Eurostat 2023). However, the COVID-19 pandemic led to a temporary contraction in 2020, reducing the value to €3,650 billion. Encouragingly, by 2022 and 2023, the trade rebounded significantly, reaching €4,307 billion and €5,575 billion, respectively (Eurostat, 2023). Despite the EU's considerable intra-market trade, where transactions occur within member states, the share involving non-member countries remained relatively stable. From 2002 to 2022, it marginally increased from 39.8% to 40.1% of the total trade. Notably, in 2022, key export destinations for EU goods comprised the United States, the United Kingdom, China, and Switzerland (Eurostat 2023).³

³ The top 10 export markets also included Türkiye, Japan, Norway, South Korea, Russia, and Mexico, showcasing the EU's diversified and robust trading relationships.

Commercial liberalism posits that free trade and economic cooperation is more stable and on increase if there exist political regime similarities among the trading partners. However, the findings of this paper suggest nuanced deviations from this premise, particularly concerning the trade strategies of China and the EU. China's trade strategies characterized by a gradualist approach to negotiations and a focus on economic advantages, challenge conventional commercial liberalism principles. While China initially emphasizes the liberalization of trade in goods, it gradually extends negotiations to encompass services and investments (Zakić 2020). This incremental approach underscores China's strategic use of free trade agreements (FTAs) primarily for economic gains rather than promoting broader liberal values such as human rights and democratic reforms. According to Mitić (2023), the broadening scope of Chinese statecraft beyond the Asia-Pacific region, alongside other concurrent developments such as the diminishing influence of other great powers which has a potential to lead to a transition from the "unipolar moment" to a state of multipolarity.

The pursuit of economic advantages aligns with commercial liberalism principles but diverges from the EU's normative agenda, which integrates political aspects into trade agreements. In contrast, the EU's approach to FTAs reflects a normative agenda that intertwines economic cooperation with political considerations. The EU seeks comprehensive agreements that encompass not only economic dimensions but also political values such as the rule of law and respect for human rights. This integration of political conditions into trade agreements reflects the EU's commitment to promoting liberal democratic values globally, aligning with commercial liberalism's emphasis on the interdependence of economic and political factors in fostering peace and stability. It is for these reasons that traditional postulates of commercial liberalism are fading in case of Eurasia.

CONCLUSION

This paper analysed trade cooperation across the expansive Eurasian landmass, with a particular emphasis on the theoretical underpinnings of democratic peace. The exploration spans the period from 2007 to the Ukrainian crisis in 2022, shedding light on the evolving dynamics between 26 Eurasian countries and the global actors, China and the EU. Through a meticulous examination of statistical correlations between

trade variables and political factors, this study provided a nuanced understanding of the multifaceted relationship between Eurasian nations, China, and the EU. One of the notable findings of this research is the substantial expansion of trade cooperation among the examined cases over the studied period. Despite occasional geopolitical tensions and divergent interests, the empirical evidence suggests a growing interdependence between Eurasian countries, China, and the EU. This trend underscores the resilience and adaptability of trade relationships in the face of geopolitical challenges, pointing towards a shared recognition of the mutual benefits derived from economic cooperation. The statistical analysis revealed insights into the correlation between trade dynamics and the political landscape in Eurasia. Specifically, the study demonstrated that the dynamics of export and import between the EU and Eurasian countries align closely with the stability of political regimes in the latter. This alignment suggests that political stability in Eurasian nations contributes to the development of sustained trade relations with the EU. However, the relationship with China exhibited moderately negative correlations, indicating a more complex interplay between political factors and trade dynamics in this context. The nuanced nature of these correlations highlighted the need for further investigation into the specific factors influencing trade patterns in each case. Furthermore, it is evident that trade patterns between the analysed countries and China and the EU are not homogenous. Despite shared economic alliances or political regime dynamics, variations exist at the individual country level.

This heterogeneity underscores the importance of considering country-specific factors, such as historical ties, geographical proximity, and economic structures, in understanding the nuances of trade cooperation within the Eurasian context. As we reflect on the findings of this study, it becomes evident that trade relations are not solely determined by political alliances or institutional stability. Instead, a myriad of factors, including historical legacies and economic structures, shape the evolving landscape of Eurasian trade cooperation. This paper thus set the initial groundwork for future research to delve deeper into these factors, providing a basis for a more comprehensive understanding of the interplay between politics, more specifically political regime type and trade in the Eurasian region.

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ИГРА ДЕМОКРАТИЈЕ И ТРГОВИНЕ: КОМПАРАТИВНА СТУДИЈА КИНЕ И ЕУ У ЕВРОАЗИЈСКИМ ОДНОСИМА

Резиме

Ово истраживање се бави истраживањем трговинске динамике између Кине и Европске уније са једне, и 26 земаља Евроазије, са друге стране. Заснована на постулатима демократског мира и комерцијалном либерализму, студија истражује да ли и на који начин политички режими, институционална стабилност и чланство у економским савезима евроазијских држава утичу на међународне трговинске односе. Користећи мултиметодски приступ који укључује квалитативну анализу трговинских споразума и квантитативну анализу емпиријских података, истраживање има за циљ да открије обрасце и импликације на регионалну и глобалну геополитику. У сржи истраживања лежи теоријски оквир демократског мира који поставља да је мање вероватно да ће демократије улазити у оружане сукобе са другим демократијама. Ова темељна теорија сугерише да присуство демократских институција подстиче мирне односе између држава, наглашавајући демократске норме као што су транспарентност, одговорност и учешће грађана. Његова подваријанта, комерцијални либерализам проширује ову идеју предлажући да трговина подстиче економску међузависност, подстичући нације да дају предност економској сарадњи у односу на војну конфронтацију. Ове теорије служе као теоријска основа за анализу трговинских образаца и динамике унутар евроазијског региона. Методологија коришћена у овом истраживању укључује и

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квалитативну и квантитативну анализу. Квалитативно, студија испитује трговинске споразуме и стратегије које користе Кина и ЕУ у својим интеракцијама са евроазијским земљама. Ова квалитативна анализа пружа увид у мотиве и карактеристике трговинских односа, бацајући светло на шире циљеве и стратегије ових трговинских актера. Поред тога, квантитативна анализа укључује статистичке технике као што је статистичка регресија зарад испитивања корелације између трговинских варијабли (извоза и увоза) и типа политичког режима, демократске стабилности и чланства у економском савезу. Подаци се добијају из различитих извора, укључујући базу података Варијетети демократије (*Varieties of Democracy – V-Dem*), податке Светске банке, као и базе података УН Комтрејд, што обезбеђује свеобухватну анализу.

Кључни налази истраживања откривају значајне позитивне корелације између обима трговине Кине и ЕУ са Евроазијом, као и типа политичког режима, што указује да су одређени типови режима повезани са вишим нивоима обима трговине. Конкретно, демократски режими показују већи обим трговине у поређењу са ауторитарним режимима, усклађујући се са постулатима демократског мира и комерцијалног либерализма. Међутим, истраживање такође открива слабу негативну корелацију између институционалне стабилности и динамике трговине, што сугерише да како демократске институције постају мање стабилне, нивои трговине са Кином и ЕУ имају тенденцију да расту. Када је у питању чланство у економском савезу, ова варијабла је у позитивној корелацији са обимом трговине, што указује да нације које учествују у економским савезима учествују у вишим нивоима трговине са Кином и ЕУ. Аутори су потом транспоновали ове налазе у теоријску матрицу комерцијалног либерализма и дискутовали о суженој примени коју ова теорија има на примеру односа држава Евроазије са Кином и са Европском унијом. Због иницијалних напора за утврђивањем образаца трговине у периоду 2007-2022, ово истраживање допринело је дубљем разумевању сложене интеракције између демократије као значајне варијабле међународних односа, те трговине у евроазијском региону. Испитујући трговинске обрасце, споразуме и емпијске податке, студија је пружила увид у факторе који обликују међународне трговинске односе и њихове импликације на регионалну и глобалну геополитику. На крају, истраживање нагласило је важност разматрања политичких и економских фактора у анализи

динамике трговине и промовисању мирних међународних односа, посебно у евроазијском региону.

Кључне речи: теорија демократског мира, Кина, ЕУ, Евроазија, политички режим

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