# Populism and War

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# Introduction

- Commitment to protectionism and disengagement are the main commitments by Trump vis a vis international relations
- More generally, if populists win they are expected to close markets, close borders, nationalism, disengagement from "luxury" international affairs, and if this happens in superpower we have to be concerned about spillovers.
- Effect of disengagement on Ukraine and NATO in general is only the macro intuitive interstate first effect, but we need a framework to understand and analyze how all potential conflict areas are going to be affected.

# This paper

- We show that the consequences for civil war risk and inequality are largely negative, i.e. **more civil conflict risk** and **greater inequality**.
- Interstate conflict risk increases for symmetric country pairs and for asymmetric dyads in terms of trade openness and relative military power.

# Intuition for divided countries

- America first commitment will affect exporting countries almost everywhere, causing reduction of divisible surplus within each such country.
  $\rightarrow$ such a reduction of the cake should imply a decrease of greed incentives.
- **However,** we show that when the group(s) in power can alter the social contract, they react to lower divisible surplus with a cut of the share for opposition group(s)
  - $\rightarrow$ greater inequality if the revision is accepted
  - or conflict otherwise.
- Strategic disengagement also contributes to strengthen the position of governments in ethnically divided countries.

# Summary effects at interstate level:

- Protectionism and consequent trade wars can create interstate conflict risk for same reasons as emphasized in liberal theory (lower opportunity cost of conflict).
- We show that the risk of interstate wars goes up in symmetric country pairs and in pairs where the stronger country militarily is the one suffering the most from the cut in global trades.

# Model for civil conflict

Time line:

- First, the government $G$ offers a share $x > 0$ of the surplus $W$ for the opposition group $R$, under uncertainty about their cost of war $c_R$.
- Then $R$ observe the realization of $c_R$ and decide whether to accept the offer or reject it.
- If the offer is rejected, a civil war ensues.

# Payoffs

The expected payoffs under conflict are

$$u_R^C = \lambda \xi W - c_R$$

$$u_G^C = (1 - \lambda)\xi W - c_G$$

where $\xi \in (0, 1)$ is the percentage of the divisible surplus that survives to the conflict.
For any $x$, the offer is accepted if

$$xW \geq \lambda \xi W - c_R \Rightarrow \ c_R \geq (\lambda \xi - x)\, W$$

Assuming that the distribution of costs for $r$ is uniform from zero to $\bar{c} > W$, the probability of war as a function of $x$ can be expressed as:

$$p(x) = \begin{cases} \frac{(\lambda \xi - x)W}{\bar{c}} & \text{if } 0 \leq x \leq \lambda \xi \\ 0 & \text{if } \lambda \xi < x \end{cases} \tag{1}$$

# Government offer:

$G$ chooses $x$ to maximize

$$\max_{x \in [0,1]} p(x)\left((1-\lambda)\xi W - c_G\right) + (1-p(x))(1-x)W$$

- From the FOC we show that the equilibrium offer $x^*$ is **increasing** in $W$.

# Conflict risk:

In the absence of the possibility to revise $x$ when $W$ changes, conflict risk is increasing in $W$ (greed effect for any given mismatch); However, we show that when $x$ can be revised by the government then

- **The equilibrium probability of conflict is (weakly) decreasing** in $W$
  – strictly when $x^*$ is interior and for all $\xi < 1$.

# Main result:

**Proposition 1.** *Under assumptions guaranteeing interior solution, a reduction in $W$ due e.g. to a protectionism shock causes both a reduction in the concessions made to rebels – and hence to higher inequality – and an increase in the probability of conflict.*
Therefore, our analysis suggests that the election of a committed populist in a superpower *spreads inequality* around the world and raises the likelihood of civil wars in divided societies.

- More likely to happen in countries with low level of democracy and concentrated power.

# The role of disengagement:

If in most countries disengagement of US implies lower $\lambda$, then this second feature of populism further spreads inequality.
So the overall picture is summarized as follows:
**Proposition 2.** *Populism in the form of protectionism and disengagement raises the likelihood of civil wars in ethnically divided countries that are net exporters. Furthermore, if the super power had been engaged on the rebels side, populism exports inequality through both channels.*

# Interstate relations

Consider a pair of countries $A, B$ – perhaps neighbouring countries involved in whatever dispute.
Resources for $A$ are
$W_A = Y_A + T_{AB} + \alpha_A T$
$W_B = Y_B + T_{BA} + \alpha_B T$
where $Y$ refers to domestic product, $T_{ij}$ denotes the net gains from bilateral trades for $i$ with $j$, and $\alpha_i$ are parameters representing the exposure or openness to take part of global trade revenues $T$.
Conflict takes place as soon as expected utility of war dominates the above corresponding peace payoff for one of the two countries in the dyad.
In case of war the winner obtains $\xi W^C$, where

$$W^C = Y_A + Y_B + (\alpha_A + \alpha_B) T$$

# Assumptions on conflict:

- Prob of winning is $\lambda_i$ regardless of whether $i$ attacks or is attacked;
- casualties costs differ: $c_i$ if $i$ is the attacker is drawn from uniform from zero to $\bar{c}$, whereas if attacked then $d_i > \bar{c}$, with $d_i$ and distribution of $c_i$ common knowledge.

$\rightarrow$ war payoffs: $\lambda_i \xi W^C - c_i$ if a country decides to attack, regardless of the other country's decision, or $\lambda_i \xi W^C - d_i$ if this country chooses peace and the other country attacks.

# Equilibrium analysis

Country $i$ has a dominant strategy to attack iff

$$c_i \leq \hat{c}_i \equiv \lambda_i \xi W^C - W_i$$

$\hat{c}_i$ captures how aggressive can be $i$ in the relations with $j$.

- If $c_A, c_B$ are observed at the time of the dispute game, then we can assume that they coordinate on the peaceful equilibrium whenever $c_i \geq \hat{c}_i \quad \forall i$; while
- if $c_i < \hat{c}_i$ for some $i$ then unique equilibrium is attack attack.

# Probability of interstate conflict $AB$:

Assuming $\hat{c}_i < \bar{c}$ the probability of conflict is interior:

$$p^* = 1 - \left(1 - \frac{\hat{c}_A}{\bar{c}}\right)\left(1 - \frac{\hat{c}_B}{\bar{c}}\right)$$

- Any shock changing domestic outputs or trade revenues may affect the probability of conflict through the effect on $\hat{c}_i$, especially on the higher of the two if asymmetric.

# Results:

**Proposition 3:** If the two countries are asymmetric, with $\hat{c}_i > \hat{c}_j$, then the impact of a shock to a variable of interest on the risk of conflict is predominantly determined by its effect on the more aggressive country. Conversely, if the two countries are symmetric, with $\hat{c}_i = \hat{c}_j$, then the impact is determined by how the shock affects the sum of the countries' thresholds.

**Implications:**

- If the geopolitical changes induced by the protectionism and disengagement shift determine a reduction in the domestic product of one of the two countries, or a reduction in $T$, then the probability of conflict in the dyad increases, and more likely so if it affects disproportionately the more aggressive country – and even more so if the more affected country has both higher $\lambda$ and higher $\alpha$.
- Israel may be impacted that way, and has high $\lambda$ and $\alpha$ wrt opponents in disputes, hence probability of conflict in such dyads can increase.

# Other implications

- Effects on reduction of bilateral trades have standard conflict risk increase consequences.
- Contrast with Martin et al who claim that lower multilateral trade could decrease conflict because increase bilateral dependence.
- We are in line with Ahsan et al 2020 who studied positive effects of transatlantic trade on reduction of inter european conflicts.
- Disengagement by the US inducing more hawkish Russia is also captured by our model.

# Predictions

- **Civil war risk:** Taking the intersection between the set of countries with power mismatches between ethnic groups and the set of countries whose export-to-GDP ratio exceeds the regional median (25.7%), we identify the countries that, according to our theory, are most likely to experience an escalation in their risk of civil conflict arising due to a populist shock.
- **Interstate level:** Israel and Russia should be expected to become more hawkish with Trump, and not only for reasons related to political connections. Moreover, countries in south Asia or south America which could suffer a multilateral trade shock could become more hawkish in their bilateral disputes.

# Prediction Map: High Risk of Civil Conflict