Discussion of "Hegemonic Competition with Carrots and Sticks" by T.Meyer and N.Wesseler

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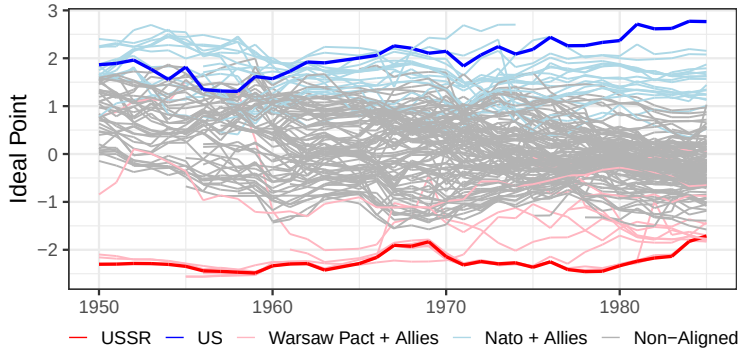
A Great Research Question!

Historical Drivers of Geopolitical Influence during the Cold War?

Figure 6: Ideal Point Across Countries



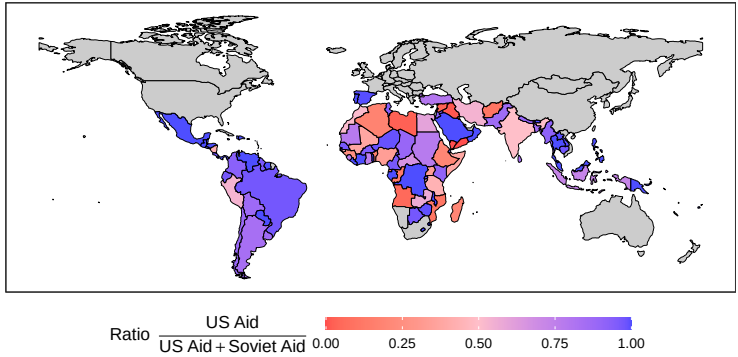
Measure of Alignment : UNGA votes (Bailey et al. 2017)

Empirical pattern → natural theoretical modeling of "intrinsic" geopolitical preferences $\pi_i \in [0, 1]$ with the two hegemons at each pole (this paper; Broner et al. 2025,)

Policy tool 1: Foreign aid

Get rid of the vague phrasing "carrots" and "sticks"? (all geoeconomics is about carrots and sticks!)

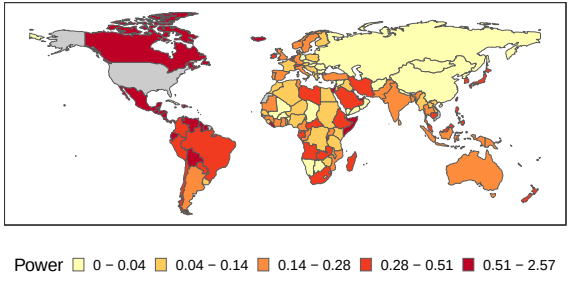
Figure 4: Country-Level Distribution



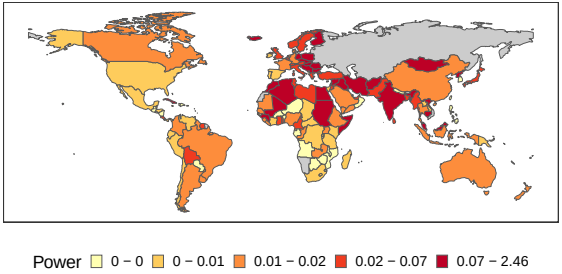
Aid is modeled as a transfer from the Hegemon to i conditional on ex-post costly alignment a_i (ex-ante being π_i)

Policy tool 2: threat of trade sanctions

Power of the two Hegemons, 1970 → clear gravity pattern!



(a) USA



(b) Soviet Union

Sanctions are modeled as $+\infty$ rise in bilateral trade barriers → off-equilibrium welfare loss, computed with a quantitative trade model (ACR 2012 formula):

$$power_{i,t} = 1 - \widehat{C}_i = 1 - \widehat{\lambda}_{ii}^{-1/(\sigma-1)}$$

Core specification

Model-based empirical specification

$$\log \frac{a_{i,t}}{1-a_{i,t}} = \underbrace{\beta \log(c_{i,t}) - \beta^* \log(c^*_{i,t})}_{\text{observed aid USA vs USSR}} + \phi \underbrace{(power_{i,t} - power^*_{i,t})}_{\text{simul. power USA vs USSR}} + \underbrace{\varepsilon_{i,t}}_{=\text{unobserved } \pi_i}$$

- Endogeneity bias: in the model, unobserved intrinsic geopolitical preference π_i drives aid $(c_{i,t}, c^*_{i,t})$, cost ofintensity of sanctions $(power_{i,t}, power^*_{i,t})$ and alignment $a_{i,t}$
- Shift share IV for foreign aid
- Gravity based IV for power

Questions:

- Explain better why $(power_{i,t}, power^*_{i,t})$ is endogenous
- Why flexible coefficients for aid (β, β^*) but one single coefficient for power ϕ?

Core results

baseline results in column 5: encouraging but still fragile (robust to alternative clustering?)

Table 3: Instrumental Variable Regression

	Log Odds Ratio: Support for US-led order				
	(1)	(2)	(3)	(4)	(5)
US Carrot	0.09**	0.15*	0.09**	0.07	0.16*
	(0.04)	(0.09)	(0.04)	(0.05)	(0.08)
USSR Carrot	-0.13***	-0.12***	-0.16**	-0.16***	-0.19***
	(0.03)	(0.03)	(0.06)	(0.03)	(0.07)
Δ Power	0.05	0.04	0.04	0.12*	0.12*
	(0.03)	(0.03)	(0.03)	(0.07)	(0.06)
KP-F		100.74	209.25	9.30	27.99
F-Stat (US Carrot)		100.74			94.86
F-Stat (USSR Carrot)			209.25		180.16
F-Stat (Power)				9.30	19.19
Weak-IV Robust CI		[.014, .287]	[-.249, -.062]	[.015, .265]	[.040, .284] [−.301, −.034] [.048, .247]
N	2587	2587	2587	1935	1935
Controls + FE	✓	✓	✓	✓	✓

Notes: This table reports estimates based on specification 13, which regresses alignment on U.S. and Soviet aid and power using the instrumental variables described in Section 4.2. Variables are standardized, the outcome is the log-odds ratio of alignment. Controls are as before. Rows below first-stage F-Statistics show Andrews (2018) weak-IV robust confidence intervals. Clustered (country) standard errors in parentheses. Significance codes: *** 0.01, ** 0.05, * 0.1.

Congrats!

- Fascinating research project by two PhD students; very promising JMP !
- Impressive showcase of (i) theory with data allowing for CF simulations; (ii) data collection effort (cold war aids); (iii) versatile, creative and compelling IV strategy; (iv) use of frontier technics in applied econometrics
- ...but still in progress: writing can be improved; model exposition not super transparent (microfoundations relegated to appendix do not help); interpretations and intuitions not super transparent
- A rich and insightful paper that speaks to current geoeconomic realities

Positioning of your theoretical contribution

- While your empirical contribution (historical analysis of cold war and CF simulations) is novel and appealing ... could you explicit the nature of your theoretical contribution?
  - ▷ Modeling of carrots and sticks echoes theoretical contributions of Clayton et al. (2024, 2025)
  - ▷ Modeling of two hegemons with alignment and trade sanctions as trigger-strategy echoes Broner etal. (2025)
- My perspective: Loss of realism vs gain in tractability
  - ▷ Your model can be seen as a special case of Maggiori et al. 2025 ("A theory of economic coercion and fragmentation") ...
  - ▷ ... that can be put to the data in a transparent way, with a theory-based empirical test, and then used to achieve CF simulations!
  - ▷ Not a small achievement!
- Am I right?
  - ▷ If yes: you may want to relegate your model to appendix (showcasing still matters in a JMP), use instead Clayton et al. (2025) framework and make explicit what are the assumptions you need to get your empirical specification.
  - ▷ If not, then explain better what are the differences btw the two frameworks

Counterfactual simulations

- Structural interpretation of their empirical estimates $\rightarrow$ simulate the model to study the consequences of the USAID shutdown for the modern U.S.-China geopolitical competition
- Cool approach! Simulation results: China responds by decreasing its aid. We learn form the model!
- Still, is it reasonable to estimate the model on cold war and perform CF simulation on US-China in the 2010s?
- More discussion on assumptions required for this extrapolation to be valid (contextual similarities, stability of the parameters, etc.)

Two unaddressed channels

- Trade dependencies: both the theoretical and empirical models are silent on trade policy as a geoeconomic tool
  - ▷ In the model: $power_{i,t} = 1 - \widehat{s\lambda}_{ii}^{-1/(\sigma-1)}$ is exogenous; the threat cutoff $\hat{a}_i$ is endogenous
  - ▷ In reality, trade dependencies affect the gap between inside option (on-equilibrium trade regime) and outside option (off-equilibrium trade sanction)
  - ▷ Hence, trade policy is used by hegemons to rise this gap (=greater power) and by countries to reduce it
  - ▷ Can you discuss how this omission affects your analysis? Causal inference, horse-race with foreign help, ...
- Conflict risk: historically did this carrot and stick competition between USA and USSR contribute to diffuse tensions and maintain the war "cold" ?
  - ▷ Answer requires to endogenize the probability of conflict and assess its elasticity to aid and sanctions

Geopolitical impact of trade dependencies

Mayer, Mejean & Thoenig (2025), "The Fragmentation Paradox: De-risking Trade and Global Safety"

- ▷ MMT (2025): A quantitative framework for geoeconomics with empirical applications
- ▷ Models the two-way causation between trade policy and peace diplomacy
- ▷ Trade dependencies quantitatively affects geopolitical bargaining power and conflict risk
- ▷ Bilateral dependency = higher bilateral over multilateral sourcing

→ Ambiguous geopolitical consequences:

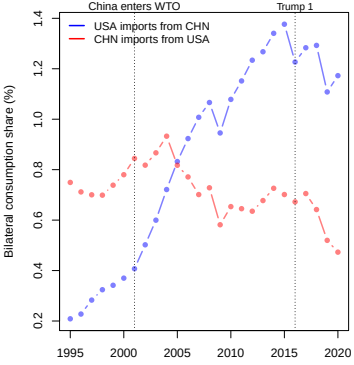
- (a) ↓ diplomatic bargaining power
- (b) ↑ cost of war
- (c) ↓ probability of war

- ▷ (a) + (b) vs (c): Security dilemma of trade dependence vis-a-vis geopolitical rivals

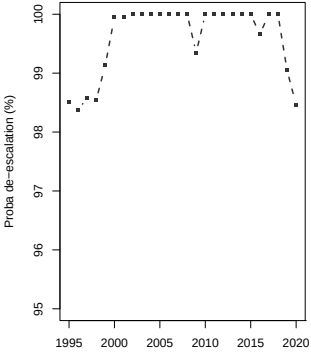
Geopolitical impact of trade dependencies

The geoeconomics of the US-China pair

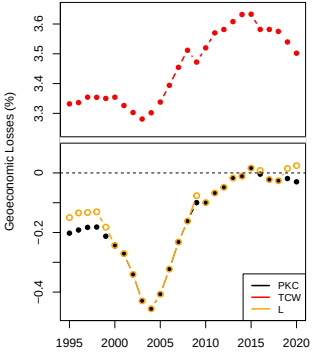
(a) Asym. trade dependence



(b) Probability of de-escalation



(c) Geoeconomic Loss (USA)



⇒ **Between 1995 and 2018, US lost 0.2 percent of real consumption as a result of decreased bargaining power in diplomatic discussions**