Populism and War*

Andrea Mattozzi† EUI
Massimo Morelli‡ Bocconi University
Marcos Y. Nakaguma§ EESP - FGV

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Abstract

Populist rulers in economic superpowers have important effects on international relations, conflict risk and inequality. We show that the consequences for civil war risk and inequality are largely negative, while interstate conflict risk increases for dyads with sufficient asymmetry in terms of trade openness and relative military power.

Keywords: Populism, Protectionism, Strategic Disengagement, Conflict Risk, Inequality

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†EUI, Email: andrea.mattozzi@eui.eu.
‡Bocconi University and CEPR, Email: massimo.morelli@unibocconi.it.
§Sao Paulo School of Economics - FGV, Email: nakaguma@usp.br.

1 Introduction

In recent years, the world has witnessed a rise of populist political leaders in many western democracies, including the United States − the world's dominant superpower. We broadly refer to a populist leader as one who champions short-term protectionist policies, disregarding their long-term consequences and pandering to voters' fears and beliefs.[1] Another distinctive feature of populist governments is their disdain for traditional politics and both national and international institutions. A populist government concentrates resources domestically, choosing to strategically disengage from conflicts abroad. Trade wars, the unilateral imposition of tariffs, closing of borders and abrupt disengagement from international issues are among the measures that have been taken by populist leaders recently, in line with globalization blaming also emphasized by Rodrick [10].

In the United States, Trump administration's foreign policy has been notorious for aggressively resorting to "economic statecraft", i.e. the strategy of using economic means, particularly protectionism and economic coercion, to pursue foreign policy goals (Drezner [3]). The "trade war" initiated in 2018 is perhaps the biggest example of the use of such strategy.[2] Between January 2018 and November 2019, the trade war lead to a tripling of the average U.S. tariff on imports (Amiti et al. [1]), which in turn caused U.S. trading partners, particularly China, to retaliate by increasing tariffs on U.S. exports. The trade war resulted in a significant reduction in trade flows, disruption of global value chains and an overall increase in policy uncertainty, consequently leading to a reduction in global growth rates (Ikonen et al. [5]).

Alongside with economic statecraft, an additional feature of Trump's foreign policy has been the "pulling back" or strategic disengagement from conflicts around

[1]See *Encyclopedia Britannica* 2015: www.britannica.com/topic/populism. Among the many definitions of populism discussed in the literature, we chose this because primarily focused on the policy relevant consequences rather than on the causes. Since the focus of our paper is exclusively on consequences, we take the liberty to ignore the enormous debate on the political theory of populism.

[2]In March 2018, Donald Trump wrote on Twitter that: "*When a country (USA) is losing many billions of dollar on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down $100 billion with a certain country and they get cut, don't trade anymore − we win big. It's easy!*"

the world (Posen [8]), especially "unwinnable" foreign wars in the Middle East and Afghanistan, creating security vacuums and threatening regional stabilities and balances of power.[3]

This paper studies the implications of populism for international relations, focusing on the incidence of interstate and civil conflict across the world. We start our analysis from the premise that populism in a superpower dramatically increases the risk of protectionism and trade wars and leads to strategic disengagement ("America first"). The combination of these features could have terrible consequences. We show that the tendency to protectionism can increase the risk of war world-wide and increase inequality within and between countries. Neither the fear that disengagement of the U.S. could lead to war nor the fear that protectionism could lead to war are new. The novel contribution of this paper is to provide a simple unified game-theoretic framework to connect the consequences of these two different features of populism.

Our analysis provide an answer to the following questions: (1) Should we expect the consequences of populism to increase or decrease inequality and the risk of civil war in ethnically divided countries? (2) Should we expect populism to lead to a greater or lower risk of interstate wars? In order to examine these issues, we propose a flexible theoretical framework that can be adapted to study both civil and interstate wars.

In our model, a war may occur due to the realization of uncertainty over the cost of conflict. Basically, conflict is unavoidable if the cost of war is small enough for at least one of the parties involved in the conflict. Our framework allows us to show that protectionism and the associated reduction in the gains from international trade unambiguously increases the risk of civil conflict. In particular, a reduction in the gains from trade due to the choices of populist leaders in superpowers leads governments in ethnically divided societies to renegotiate the "social contract". This renegotiation amounts to a reduction of the share of resources offered to the ethnic group(s) not in power, yielding either a peaceful acceptance of greater inequality or a more likely war, or both. Our analysis leads to the novel insight that populism

[3]In October 2019, Donald Trump wrote on Twitter: "*The Endless Wars Must End!*"

causes inequality to spread across the world. Furthermore, a reduction in trade reduces the opportunity cost of interstate wars, especially in country dyads which were sufficiently asymmetric in terms of openness to international trade and of military power.

Populism leads superpowers to strategically disengage from international conflicts. Which types of conflicts will a populist leader choose to disengage from? He will choose to disengage from conflicts where the likelihood of success is small and where it was previously backing the weaker side. Intuitively, these are the types of conflicts that are most costly and lead to little domestic benefits for the populist leader. Therefore, we expect disengagement from superpowers to cause the relationships between countries and between groups within a country to become more unbalanced, leading, as a consequence, to more internal inequality and to an increase in the risk of both interstate and civil conflict across the world.

This paper contributes to the literature on the formal theory of conflict, in that it characterizes the conditions under which the risk of war or bargaining break-down due to asymmetric information increases with protectionism and disengagement by a populist superpower leader.[4] Thus, our paper also relates to the literature on third party involvement in bilateral crises.[5]

Our analysis is consistent with other papers in the literature that have shown that the probability of civil war increases during economic downturns (Chassang and Padro-i-Miquel [2]). However, while previous studies have focused primarily on the direct impact of economic shocks on the opportunity cost of war, our analysis emphasizes the crucial role of endogenous inequality and bargaining between rebels and government as mechanisms linking adverse economic shocks and civil conflict.

2 Model

We divide the analysis of the consequences of populism in superpowers on inequality and risk of war in two parts, analyzing first the effects on them within countries and

[4]See e.g. Fearon [4] and Jackson and Morelli [7] for a survey of the literature.
[5]See, e.g., Powell [9].

then between countries.

2.1 Civil Wars

Consider first the effects within an ethnically divided country. The players are the government (G) and the rebels (R). The amount of resources at stake is $W > 0$, which represents the present discounted value of the country total revenue from natural resources or other forms of divisible surplus. When a conflict occurs the winning side obtains the control of the totality of the country's resources that are left ξW, where $\xi \in (0,1)$ represents the share of physical infrastructures and natural resources not destroyed in the conflict. The probability of the rebels winning the war is $\lambda \in (0,1)$. On top of the common value destruction of a war captured by ξ, each player incurs a cost c_i, $i = G, R$, which we interpret as war casualties or even civilian losses. We will assume for simplicity that c_G is common knowledge, whereas c_R is uncertain at the time G is called to play. For simplicity we will also assume that it is common knowledge that c_R is drawn from a uniform distribution with support $[0, \bar{c}]$.

The payoffs under peace depend on the fraction of resources $x \in [0,1]$ that the government commits to share with the rebels and are given by $u_R^P = xW$ and $u_G^P = (1-x)W$, where the superscript P stands for peace.

The timing of the events are as follows. First G chooses the concession level x under uncertainty about c_R; then R accepts or rejects, after observing the true realization of c_R. In case of rejection, conflict starts, and the expected payoffs from such a subgame are $u_G^C = (1-\lambda)\xi W - c_G$ and $u_R^C = \lambda \xi W - c_R$, where the superscript C stands for conflict.

2.1.1 Equilibrium Analysis

The solution concept we use is Subgame Perfect Nash equilibrium.

For any given x chosen by G at the initial stage of the game, peace is a continuation equilibrium if and only if:

$$c_R \geq (\lambda \xi - x) W$$

Given an offer x, it is optimal for the rebels to reject it if and only if:

$$xW \leq \lambda\xi W - c_R \;\Rightarrow\; c_R \leq \widehat{c}_R \equiv (\lambda\xi - x)\, W$$

Thus, assuming henceforth $\bar{c} > W$ for simplicity, the probability of war p given an initial choice of x is:

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

At the beginning of the game, the government chooses a concession level x that solves the following maximization problem:

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

Note that it can never be optimal for the government to choose $x > \lambda\xi$, for otherwise a reduction in x would increase the payoff of peace $(1-x)W$, while still keeping the probability of war at zero. We proceed our analysis by focusing on the case where the probability of conflict is interior, that is $0 < x < \lambda\xi$, in which case the optimal solution is characterized by:

$$p'(x)\left((1-\lambda)\xi W - c_G\right) - p'(x)(1-x)W - (1-p(x))W = 0,$$

which yields:

$$x^* = x^*(W, \lambda, \xi, c_G, \bar{c}) \equiv \frac{1-(1-2\lambda)\xi}{2} - \frac{(\bar{c} - c_G)}{2W}, \tag{2}$$

where $0 < x^* < \lambda\xi$ if assumption 1 below is satisfied:

Assumption 1: $\bar{c} \geq \max\{(1-\xi)W + c_G, W\}$.

Hence under assumption 1 the equilibrium probability of war is given by:

$$p^* = p^*(W, \lambda, \xi, c_G, \bar{c}) \equiv \frac{1}{2} - \frac{c_G + (1-\xi)W}{2\bar{c}}, \tag{3}$$

where $0 < p^* < 1/2$.

The comparative static results with respect to total resources W are stated in the following proposition:

Proposition 1. *If the range of potential costs of conflict for the rebel group is sufficiently large – i.e., if assumption 1 holds, then:*

$$\frac{\partial x^*\left(W,\lambda,\xi,c_G,\overline{c}\right)}{\partial W}=\frac{\overline{c}-c_G}{2W^2}>0$$

and

$$\frac{\partial p^*\left(W,\lambda,\xi,c_G,\overline{c}\right)}{\partial W}=-\frac{1-\xi}{2\overline{c}}<0$$

Thus, a reduction in W due to trade wars and other restrictions on global markets, causes both a reduction in the concessions made to rebels (hence higher inequality) and an increase in the probability of conflict. Therefore, we conclude that populism in superpowers exports inequality around the world and raises the likelihood of civil wars in ethnically divided societies.

To see the importance of inequality in our model, note that from (1) it follows that, for a fixed x, a decrease in W actually *reduces* the probability of war. Intuitively, ceteris paribus, a reduction in the size of the "prize" decreases the incentive for the rebels to attack. In equilibrium, however, the government takes this effect into account and responds by reducing the concessions made to the rebels. In fact, the reduction in x is large enough to make the probability of war go up. The intuition for the latter is that the difference between the government's payoffs under war and under peace diminishes as W decreases, so that the government becomes less concerned about appeasing the rebels.

Strategic Disengagement A common feature of a number of policies championed by populist governments is their national focus: concentrate resources domestically and strategically disengage from conflicts abroad. For example, as recent events have shown, a superpower such as the US may choose to remain internationally engaged only if this is convenient for its national interest, and instead may choose

to withdraw support to governments or rebel groups with low or negative return to domestic politics.

We can capture the effect of strategic disengagement on the probability of conflict through the parameter λ. Remember that λ is the probability that the rebels win in case of a war. Hence, if a super power is engaged on the side of the government, populism would lead to an increase in λ. If on the other hand it is engaged on the side of the rebels, populism would lead to a decrease in λ. Since x^* is increasing in λ and p^* is constant in λ (see equations (2) and (3) above) we can summarize our analysis in the following result

Result *Populism in the form of reduction in trade and disengagement raises the likelihood of civil wars in ethnically divided societies. Furthermore, if the super power is engaged on the rebels side, populism exports inequality. Otherwise, the overall effect on inequality in such a society is ambiguous.*

2.2 Interstate Wars

We now analyze the consequences of populism of superpowers on inequality and risk of war between countries.

The players here are two different countries denoted by $i = \{A, B\}$. The amount of resources at stake are now:

$$W_A = Y_A + T_{AB} + \alpha_A T$$

$$W_B = Y_B + T_{BA} + \alpha_B T,$$

where Y_A and Y_B are the total amount of domestic resources, and T_{AB} and T_{BA} represent the bilateral gains from trade between A and B. We also assume that the gains from trade that each country has with the rest of the world can be expressed as a fixed fraction of the global trade T, where the parameters α_A and α_B represent each country's exposure to international trade.

Each country may unilaterally decide whether to initiate an interstate conflict or instead maintain peaceful relations. When a conflict occurs the winning side obtains the control of both countries' resources and, as before, $\xi \in (0,1)$ represents the share of total resources not destroyed in the conflict. In addition, we assume that the bilateral gains from trade are completely wiped out in the case of a conflict. The probability of country i winning the conflict is $\Lambda_i \in (0,1)$, with $\Lambda_A + \Lambda_B = 1$, independently on whether country i initiated the conflict or it was attacked.[6]

Each country incurs a cost c_i of initiating an interstate conflict and a cost of d_i of being attacked by surprise, which could be thought of as war casualties as in the civil wars case. The costs c_is are drawn from a uniform distribution with support $[0, \overline{c}]$ and we assume that $d_i > \overline{c}$.

The payoff under peace is $(1-x_i)W_i$, where we assume that the two countries are not engaged in civil war on the domestic front and that the distribution of resources between rebels and government in each country, captured by x_A and x_B, are fixed and known by both sides.[7]

The timing of the events are as follows. First the cost parameters are realized and become common knowledge. After that, under complete information, the two countries decide simultaneously whether to initiate an interstate conflict or instead maintain peaceful relations. If a conflict starts, the expected payoffs from such subgame are $\Lambda_i \xi W_i^C - c_i$ in case both countries decide to attack or $\Lambda_i \xi W_i^C - d_i$ if country i is attacked, where $W_i^C = (1-x_i)(Y_i + \alpha_i T) + (Y_j + \alpha_j T)$. Notice that, for simplicity, we assume that the government's commitment to share domestic resources with minority groups (x_i) does not apply to the additional resources resulting from winning the conflict.[8]

[6]This assumption can be easily relaxed.

[7]The case of a dispute where one country is also involved in domestic crisis and where therefore x is the equilibrium x of the previous section could also be studied.

[8]This is an extreme version of the political bias discussed at length in Jackson and Morelli [6]. Our results would continue to hold even with weaker forms of political bias.

2.2.1 Equilibrium Analysis

Given a realization of each country's cost of war, we have a simultaneous game of complete information and we solve for Nash equilibrium in pure strategies.

First note that if one country decides to unilaterally initiate a conflict, the best response is always to fight back since $d_i > c_i$. Thus, both countries choosing to initiate a conflict is always a Nash equilibrium. Furthermore, choosing to attack is a dominant strategy for country i if and only if:

$$\Lambda_i \xi W_i^C - c_i \geq (1 - x_i) W_i$$

Re-arranging, we obtain the following condition:

$$c_i \leq \hat{c}_i \equiv \max\{0, \min\{\Lambda_i \xi W_i^C - (1 - x_i) W_i, \overline{c}\}\} \tag{4}$$

where $\hat{c}_i > 0$ for some $i \in \{A, B\}$, that is, at least one country may have an incentive to initiate a war, if assumption 2 below is satisfied:

Assumption 2: $\max_i\{\Lambda_i \xi - (1 - x_i) \frac{W_i}{W_i^C}\} > 0$.

If $c_A \geq \hat{c}_A$ and $c_B \geq \hat{c}_B$, then the simultaneous game features two possible equilibria, in which case we assume that players coordinate on the peaceful equilibrium. Otherwise, the game has a unique equilibrium in dominant strategies leading to an interstate war.

Under assumption 2, the ex-ante probability of war is given by:

$$\begin{aligned} p &= \Pr\left(c_A \leq \hat{c}_A \text{ or } c_B \leq \hat{c}_B\right) \\ &= 1 - \left(1 - \frac{\hat{c}_A}{\overline{c}}\right)\left(1 - \frac{\hat{c}_B}{\overline{c}}\right) \end{aligned} \tag{5}$$

It is intuitive and immediate to see that an interstate conflict will be less likely to occur if it would entail a relatively large destruction of resources (small ξ) or in the presence of large bilateral gains from trade (high T_{ij}).[9]

[9] An increase in domestic resources Y_i has an ambiguous effect on p since it reduces the incentive

Regarding the impact of a change in global trade T, since

$$\frac{\partial p}{\partial T} = \frac{\partial \hat{c}_A}{\partial T}\left(1 - \frac{\hat{c}_B}{\overline{c}}\right) + \left(1 - \frac{\hat{c}_A}{\overline{c}}\right)\frac{\partial \hat{c}_B}{\partial T} \tag{6}$$

and

$$\frac{\partial \hat{c}_i}{\partial T} = \Lambda_i \xi \alpha_j - (1 - x_i)(1 - \Lambda_i \xi)\alpha_i, \tag{7}$$

the overall effect is ambiguous and depends on the characteristics of both countries. In particular, note that an increase in T makes both countries richer and, while an increase in country i's resources reduces its willingness to attack, an increase in the opponent's resources raises its incentive to initiate a conflict. It turns out that the sign of the overall effect depends on the degree of symmetry between the two countries.

When countries are completely symmetric it is straightforward to show that a reduction in global trade due to protectionism reduces the probability of war.[10] Interestingly, however, the sign of $\partial p/\partial T$ can be negative, implying that protectionism may increase the probability of war, if the two countries are sufficiently asymmetric in terms of *both* trade openess and military power. To see why this is true, consider a situation where one country is relatively open to international trade, while the other is relatively closed, that is, consider the case of α_A sufficiently large and α_B sufficiently small and fix all other parameters. In this case

$$\frac{\partial \hat{c}_A}{\partial T} = \Lambda_A \xi \alpha_B - (1 - x_A)(1 - \Lambda_A \xi)\alpha_A < 0$$

and

$$\frac{\partial \hat{c}_B}{\partial T} = \Lambda_B \xi \alpha_A - (1 - x_B)(1 - \Lambda_B \xi)\alpha_B > 0$$

From equation (6) it then follows that $\partial p/\partial T < 0$ as long as $\hat{c}_A$ is large enough relatively to $\hat{c}_B$, i.e. country A must be relatively more aggressive than B. Note that

for country i to attack and at the same time it makes country j more aggressive.

[10] When $\Lambda_i = 1/2$ and all parameters are symmetric so that $\hat{c}_A = \hat{c}_B = \hat{c}$, it follows that $\partial p/\partial T = 2(1 - \hat{c}/\overline{c})((2 - x)\xi/2 - (1 - x))\alpha$, which is negative if and only if $\xi < 2(1 - x)/(2 - x)$. This is impossible since assumption 2 requires that $\xi > 2(1 - x)(W/W^C) > 2(1 - x)/(2 - x)$.

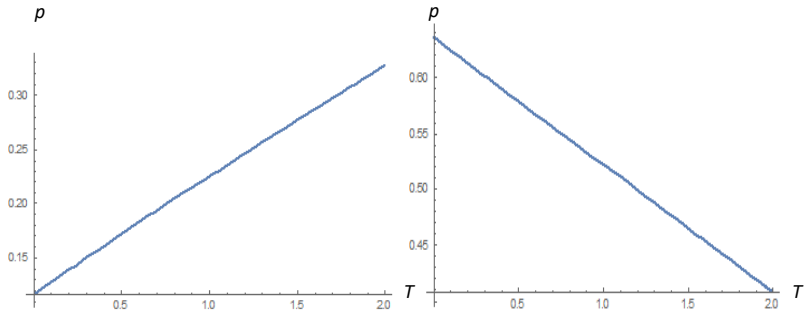
this situation is more likely to occur when the probability of A winning the conflict is sufficiently large, since $\partial \hat{c}_i / \partial \Lambda_i > 0$.

Intuitively, a reduction in international trade T due to protectionism increases the willingness of relatively more open countries to initiate a conflict ($\partial \hat{c}_A / \partial T < 0$) and conversely it makes relatively more closed economies less willing to attack ($\partial \hat{c}_B / \partial T > 0$). The main mechanism here is due to the fact that a reduction in T impacts more heavily the resources of the open economy, making country A relatively poorer with respect to country B and thus more aggressive, since it has less to lose in a conflict. This effect will be larger the larger the military power of country A. Thus, the trade wars caused by populism can lead to more interstate conflict around the world between countries that are asymmetric in terms of openness to international trade and military power. The next proposition summarizes this result.

Proposition 2. *When assumption 2 holds, the impact of a change in global trade on the probability of an interstate conflict is in general ambiguous. However, if countries are sufficiently asymmetric in terms of openness, that is α_i is sufficiently large relatively to α_j, and sufficiently asymmetric in terms of military power, that is Λ_i is large enough, then $\partial p / \partial T < 0$.*

Figure 1 provides a qualitative representation of the results discussed above by showing how the probability of interstate war varies with the level of international trade for the cases where the two countries are completely symmetric (panel a) and asymmetric in terms of both openness and military power (panel b).

Figure 1. Interstate War and Trade



Panel a. Symmetric Case **Panel b.** Asymmetric Case

Notes. These figures represent the relationship between the probability of interstate conflict (p) and international trade (T), assuming the following parameter values: $\xi = 0.9, \bar{c} = 1, x_A = x_B = 0.4, Y_A = Y_B = 1, T_{AB} = T_{BA} = 1$. *Panel a* represents the case of a completely symmetric pair of countries, with $\alpha_A = \alpha_B = 0.5$ and $\Lambda_A = 0.5$, whereas panel b represents the case of an asymmetric pair of countries, with $\alpha_A = 1, \alpha_B = 0$ and $\Lambda_A = 0.9$.

Strategic Disengagement The effect of strategic disengagement of superpowers can be captured in the context of interstate wars through changes in the parameter Λ_i for some i. Note that, under assumption 2, we have:

$$\frac{\partial p}{\partial \Lambda_i} = \frac{\partial \hat{c}_A}{\partial \Lambda_i}\left(1 - \frac{\hat{c}_B}{\bar{c}}\right) + \left(1 - \frac{\hat{c}_A}{\bar{c}}\right)\frac{\partial \hat{c}_B}{\partial \Lambda_i},$$

where

$$\frac{\partial \hat{c}_i}{\partial \Lambda_i} = \xi W_i^C$$

$$\frac{\partial \hat{c}_j}{\partial \Lambda_i} = -\xi W_j^C$$

Thus, in general, the effect of disengagement is ambiguous, since it makes the previously supported country less willing to attack, while the other country becomes more aggressive. Interestingly, note that starting from a completely symmetric situation, where $\hat{c}_A = \hat{c}_B$ and $W_A^C = W_B^C$, we have $\partial p / \partial \Lambda_i = 0$. Furthermore, if countries are comparable in terms of resources, in the sense that $W_A^C = W_B^C$, $W_A = W_B$ and

$x_A = x_B$, then:

$$\frac{\partial p}{\partial \Lambda_i} = \xi W^C \left(\frac{\hat{c}_i - \hat{c}_j}{\overline{c}} \right),$$

and substituting $\hat{c}_i = \Lambda_i \xi W^C - (1-x) W$, we obtain:

$$\frac{\partial p}{\partial \Lambda_i} = \xi W^C \left(\frac{\Lambda_i \xi W^C - \Lambda_j \xi W^C}{\overline{c}} \right)$$

Re-arranging and using the fact that $\Lambda_j = 1 - \Lambda_i$, we get:

$$\frac{\partial p}{\partial \Lambda_i} = -\frac{\left(\xi W^C\right)^2}{\overline{c}} \left(1 - 2\Lambda_i\right),$$

which is negative if and only if $\Lambda_i < \frac{1}{2}$. Therefore, when countries are economically symmetric, *disengagement from the side of the militarily weaker country increases the risk of conflict.*

More generally, if the two countries are asymmetric, it is possible to show that $\partial p / \partial \Lambda_i$ will be negative as long as they are sufficiently asymmetric in terms of the payoff associated with winning the war. In particular, we need that W_i^C is sufficiently smaller than W_j^C, i.e. *disengagement from the side of the country that has less incentive to attack increases the risk of war.* Note that this situation is more likely to occur when country i is resource-rich and open to international trade relatively to country j, i.e. $Y_i > Y_j$ and $\alpha_i > \alpha_j$.

Result *Reduction in trade and disengagement may increase the likelihood of interstate wars, especially when the two countries are very asymmetric. In particular, trade wars may lead to conflict among country-dyads where one country is open to international trade and militarily powerful whereas the other is relatively closed and weak. Strategic disengagement, on the other hand, may increase the risk of conflict when a superpower disengages from the side of a militarily weak, resource-rich and open economy.*

3 Concluding Remarks

Even though the economy and domestic policies in general count much more than foreign policy issues in US presidential elections (and in most elections anywhere) – "...it's the economy, stupid!" –, the truth is that in terms of consequences of an election of a populist president the order is reversed. For domestic policies the US Congress controls the agenda, whereas in foreign policy the two big changes discussed in this paper, namely aggressive economic statecraft and strategic disengagement, were not subject to Congress filtering. This paper therefore shows that the consequences of populism that matter the most are those in international relations, strangely understudied. The election (or re-election) of a populist president in a superpower has important spillovers for civil and interstate conflict risk and inequality between and within countries.

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