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Working Paper

Foreign influence and domestic policy: a survey

CESifo Working Paper, No. 7567

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Aidt, Toke; Albornoz, Facundo; Hauk, Esther (2019) : Foreign influence and domestic policy: a survey, CESifo Working Paper, No. 7567, Center for Economic Studies and ifo Institute (CESifo), Munich

This Version is available at:

<https://hdl.handle.net/10419/198927>

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Impressum:

CESifo Working Papers

ISSN 2364-1428 (electronic version)

Publisher and distributor: Munich Society for the Promotion of Economic Research - CESifo GmbH

The international platform of Ludwigs-Maximilians University's Center for Economic Studies and the ifo Institute

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www.cesifo-group.org/wp

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Abstract

In an interconnected world, economic and political interests inevitably reach beyond national borders. Since policy choices generate external economic and political costs, foreign state and non-state actors have an interest in influencing policy actions in other sovereign countries to their advantage. Foreign influence is a strategic choice aimed at internalizing these externalities and takes many forms. We distinguish three broad types of intervention strategies, (i) voluntary agreement interventions between the intervening foreign power and the target country, (ii) policy interventions based on rewarding or sanctioning the target country to obtain a specific change in policy and (iii) institution interventions aimed at influencing the policy choice by changing the political institutions in the target country (with or without a civil war). We propose a unifying theoretical framework to understand when and which form of foreign influence is chosen and use it to organize and evaluate the new political economics literature on foreign influence along with work in cognate disciplines. Foreign intervention plays a more important role for a proper understanding of domestic policy choices, for institutional dynamics and for internal conflict than is commonly acknowledged in both empirical and theoretical research.

JEL-Codes: D700, D720, D740, F130, F230, F510, F530.

Keywords: foreign influence, international agreements, institutions, aid, sanctions, conflict.

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1 Introduction

In an interconnected world, where one nation's fortunes or misfortunes influence those of others, economic and political interests inevitably reach beyond national borders. The traditional international economics literature, with its focus on the causes and consequences of financial and commercial integration and cooperation, of course, recognizes this. New research in political economics, however, advocates that a broader perspective is needed and emphasizes that the fundamental factors that determine a nation's domestic policies, its institutions, or its level of internal conflict are not exclusively found within the confines of the nation itself. On the contrary, to fully understand policy choices, institutional dynamics, and conflict in a particular nation, it is necessary to study the different channels through which *foreign* state and non-state actors seek to influence all these outcomes. Foreign influence is too important to be ignored.

Economic and political history is littered with examples of foreign influence that illustrates why this is true. A wide raft of strategies are routinely deployed by foreign state and non-state actors to influence other countries. A non-exhaustive list of examples includes:

- **Policy-for-aid deals:** International organizations routinely attach conditionalities related to specific policies and “good governance” to aid and loan agreements in an explicit attempt to influence policy making in the recipient countries. “Votes buying” in the United Nations and other international organisations, such as the offer from the United States of “rich rewards” to rotating members in the UN Security Council in exchange for their support during the run-up to the 2003 invasion of Iraq, is another example of aid being used to influence what other countries do. The Marshall Plan after World War II is perhaps the best example of a successful and mutually beneficial policy-for-aid deal.
- **Economic sanctions:** Since 1945, there have been more than 1400 cases in which one or more countries have threatened and/or imposed economic sanctions on another country in an attempt to force it to change its policy or institutions ([Morgan, Bapat, and Krustev 2009](#)). Two recent examples are the sanctions imposed by Western countries on Russia in relation to the conflict in Ukraine or on Iran in relations to its nuclear program. The boycott of economic and social interaction with South Africa orchestrated by a mixture of state actors (such as the African National Congress) and civil society (such as the Anti-Apartheid Movement) undoubtedly contributed to end the apartheid system.
- **Coup d'état in foreign countries:** Regime change operations aimed at overthrowing foreign leaders or at changing political institutions abroad are not as common as sanctions but still widespread. Examples of US-backed coup d'état include Iran in 1953, Guatemala 1954, and Chile in 1973 ([Kinzer 2007](#)) but such operations are, of course, not exclusive to US foreign policy. For example, the 1974 coup d'état in Niger would not have been possible without the support of France ([Higgott and Fuglestad 1975](#)) and Britain was heavily involved in deposing Mosaddeq in Iran in 1953 ([Gasiorowski 1987](#)).
- **Influencing foreign elections:** Foreign actors routinely channel campaign funds to help their favourite candidate to win election in other countries. One example of this is the American politician, Jay Kim (Republican, CA), who obtained one-third of all donations to his 1992 campaign (illegally) from South Korean sources. Another example is the funds that Russia donated to the incumbent president, Kurmanbek Bakiyev, to boost his re-election chances in the 2009 election in Kyrgyzstan ([Bader, Grävingsholt, and Kästner 2010](#)). Social media have in recent years opened up new avenues

for meddling in elections in other countries and the evidence suggests that Russia sponsored various social media strategies to influence the outcome of the Brexit referendum in the United Kingdom in 2016 and the US presidential election the same year ([Gorodnichenko, Pham, and Talavera 2018](#)).

- **Interventions in civil wars:** Out of the 150 civil wars (intrastate wars) that [Regan \(2002\)](#) studies as many as 101 experienced some form of intervention from one or more foreign power. Military or technical aid is central to this but so are bases or sanctuaries on foreign soil such as those that Venezuela under Hugo Chávez offered to the Colombian insurgent group FARC ([Martínez 2017](#)).
- **Peacekeeping operations:** Since 1948, the United Nations (UN) has been involved in more than 71 peacekeeping operations and in the past decades, many other organizations than the UN have participated in such operations including North Atlantic Treaty Organization, the African Union, and the Economic Community of West African States ([Sandler 2017](#)). Some of these operations, such as the operation in Sierra Leone between 1999 and 2005, have been successful in establishing lasting peace agreements. Others, such as the attempt to create peace in Somalia which ended in 1995 with the UN withdrawing all peacekeeping troops, have failed.
- **Foreign lobbying and bribery:** Lobby groups, multi-national companies and other non-state actors are also involved in foreign influence activities. A widespread activity is lobbying of foreign governments by special interest groups and firms. The Foreign Agents Registration Act (FARA) gives a snap shot of these activities in the US: in 2007 there were approximately 1,700 lobbyists representing more than 100 countries before Congress, the White House and the federal government.¹ Another widespread activity is outright bribery. A recent OECD report, [OECD \(2014\)](#), documents how foreign firms often pay bribes to obtain public procurement contracts and to clear customs procedures and estimates that, on average, bribes equalled 10.9 percent of the total transaction value and 34.5 percent of the profits.

These examples clearly show that economic and political interests are interconnected. Even what are essentially economic issues, such as international trade, can have political effects and might be politically motivated (e.g. [Martin, Mayer, and Thoenig 2012](#)). Similarly, interventions with a clear political motive can have economic effects such as when foreign CIA operations benefit US exporters ([Berger, Easterly, Nunn, and Satyanath 2013](#), [Bove, Elia, and Sekeris 2014](#)). In other words, foreign influence has political as well as economic dimensions. The examples also demonstrate that foreign influence operates through multiple channels and it is, in fact, common that a target country is subject to many types of interventions simultaneously, as the recent events in Venezuela illustrate.² Finally, a common feature of many of the examples is that the foreign intervention empowers groups in the target country with policy preferences aligned with the intervening foreign power. Accordingly, to fully understand foreign influence, its multiplicity and common elements, the phenomenon needs to be treated within a unified framework.

¹New York Times, May 30, 2007.

²In the attempt to induce a regime change, President Maduro's regime has been sanctioned, cut off from financial aid, the US has meddled in the 2018 presidential election supporting the election boycott and unsuccessfully threatening the leading opposition contender Henri Falcón with personal financial sanctions should he not withdraw his candidacy. Just two weeks after President Maduro was sworn in for a second term, the opposition leader, Juan Guaidó, declared himself the interim president on January 23rd 2019 and was quickly recognized as the legitimate head of state by the United States, Canada and many Latin American countries among others. The Trump administration announced it will send 20 million dollars in humanitarian assistance to the interim president. There is even talk about a military invasion and a civil war might be looming. The case for the international community to promote a regime change has recently been articulated by [Hausmann \(2018\)](#).

The aim of this paper is to take stock of the new political economics literature on foreign influence and to develop a unified framework within which to conceptualize foreign influence. We emphasize the methodological and theoretical contributions that the recent literature makes towards identifying the causes and consequences of different forms of foreign influence and towards specifying the associated mechanisms. The importance of foreign influence has long been recognized in related social sciences and throughout we relate the new literature to discussions in the fields of international organization, international political economy, conflict studies, and political science.³

The new political economics literature on foreign influence consists of various scattered contributions that deal with different aspects of a common, although not always explicitly stated, broader issue: how, why, and with what consequences do some nations, supra-national institutions or non-state actors seek to influence policies, institutions, and the level of conflict in other nations? An important aim of this survey is to organize these contributions within a *unified* theoretical framework and to incorporate them into a common narrative. To this end, we propose a new classification of different types of intervention strategies and develop a simply unifying model that provides insights into when, where, and why particular intervention strategies are adopted. We discuss the existing literature in the light of the model and identify fertile areas for future research. We also address the problems associated with and the possibilities offered by the available data and discuss the challenges involved in empirically identifying foreign influence and its political and economic effects.

The paper is structured as follows. Section 2 presents evidence on trends in some different observable types of foreign influence. Section 3 defines what we mean by foreign influence and presents a typology of different types of interventions. The typology highlights three types of foreign interventions: agreement interventions, policy interventions and institution interventions. Section 4 presents the unifying model of foreign influence that we use to structure the literature around the three intervention types. Section 5 discusses agreement interventions. Section 6 discusses policy interventions. Section 7 discusses institution interventions. Section 8 identifies challenges for future research and concludes. The online appendix contains an overview of the many data sources that are available for research on foreign influence.

2 Some trends in foreign intervention

Although many foreign influence activities are hard to quantify, some forms of foreign influence are associated with actions that are directly observed or become public after the declassification of formerly secret files. In these cases, we can trace the prevalence of such activities over time and space.

Figure 1 displays trends for four different forms of foreign influence for the period after World War II. In the upper left panel of Figure 1, we plot the number of CIA and KGB interventions per year during the Cold War (1947-1989) based on information drawn from declassified secret files by Berger, Easterly, Nunn, and Satyanath (2013) and Berger, Corvalan, Easterly, and Satyanath (2013).⁴ In the upper right panel, we plot the number of external (hostile) military interventions per year (1946-2005) based on the information reported in the International Military Intervention (IMI) dataset (Pearson and Baumann 1993, Pickering

³See, e.g., Putnam (1988), Garrett and Lange (1995), Frieden and Rogowski (1996), Drezner (2003), Gilardi (2012) and Cohen (2008).

⁴For details of the data construction and sources, see the online web appendix to Berger, Easterly, Nunn, and Satyanath (2013).

and Kisangani 2009).⁵ In the lower left panel, we plot the number of imposed sanctions and the number of sanction threats per year (1945-2005) as reported in the Threat and Imposition of Sanctions (TIES, version 4.0) dataset (Morgan, Bapat, and Kobayashi 2014).⁶ Finally, in the lower right panel, we plot three forms of “friendly” foreign interventions. These are aimed at inducing a policy change in the target country but in a non-coercive manner. The first form is conditional loans from the International Monetary Fund (IMF) to countries in financial stress. These loans are conditional on adopting policy reforms pre-scripted or negotiated with the IMF. We plot the number of such IMF loan agreements outstanding in each year from 1981 to 1990.⁷ The second “friendly” intervention form is preferential market access (PMA) programs, such as the Generalized System of Preferences (GSP), the African Growth and Opportunity Act (AGOA), and the “Everything But Arms” program (EBA), that give target countries, typically, in the third world preferential access to US or European Union (EU) markets. We plot, for each year, the number of countries that benefit from such PMA programs. The third “friendly” intervention form is preferential trade agreements (PTA). To track their importance over time, we plot, for each year, the average number of PTA partners per country.⁸

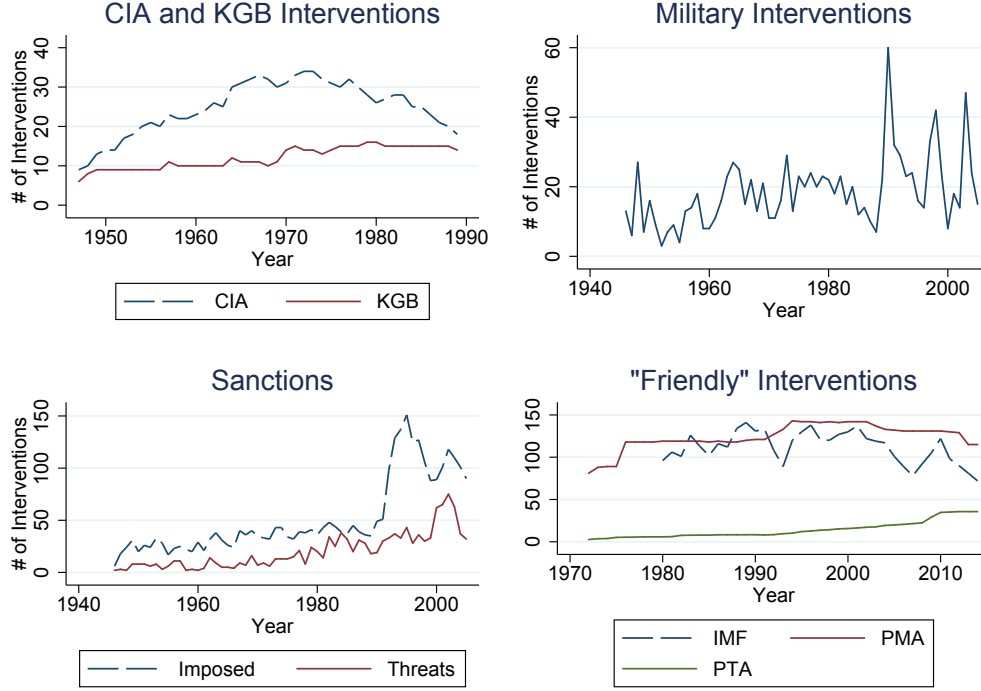
⁵As in Bader and Ianchovichina (2017), we code a dummy variable that takes the value of one if there was at least one non-neutral or non-humanitarian (hostile) intervention in a target country during the four years preceding the current year. We, then, count (and plot) the number of these interventions per year.

⁶The TIES defines sanctions as actions that one or more countries take to limit or end their economic relations with a target country as a tool to influence policy in that country.

⁷The source is the IMF Conditionality Dataset (Kentikelenis, Stubbs, and King 2016). The conditions imposed vary across different agreements. Quantitative conditions refers to macroeconomic variables under the control of state authorities, such as monetary and credit aggregates, international reserves, fiscal balances, and external borrowing. For example, a program might require that a state maintain a minimum level of net international reserves. Structural conditions refer to the requirement of reforms considered fundamental to achieving program goals. Examples include deregulation of the financial sector, fiscal adjustment, or privatization programs.

⁸This variable is more informative than the simple count of active PTAs as this would count bilateral PTAs as the same as multilateral PTAs (e.g., the European Union). The source is the Database on Economic Integration Agreements (April 2017) constructed by Scott Baier and Jeffrey Bergstrand, available at <https://www3.nd.edu/~jbergstr/DataEIAsApril2017/EIADatabaseApril2017.zip> (accessed January 25 2019).

Figure 1: Incidence of Different Forms of Foreign Interventions



Notes: CIA and KGB interventions: the number of operations per year by each of these organizations ; Military interventions: the number of external hostile military interventions per year reported by the global International Military Intervention (IMI) dataset; Imposed sanctions and sanction threats: the number of sanctions (imposed and threats) recorded in the Threat and Imposition of Sanctions (TIES) dataset; Conditional IMF loans: the number of outstanding loan agreements between the IMF and a country that impose quantitative or structural conditionalities recorded in the IMF Conditionality dataset; PMA: the number of countries with preferential access to the EU or US market under one of the following programs: GSP, AGOA or EBA; PTA: the average number of PTA partners per country as recorded in the Database on Economic Integration Agreements.

What can we learn from Figure 1? First, it is clear that these different manifestations of foreign influence are a widespread and persistent feature of international affairs, both during and after the Cold War. If anything, we observe that sanctions increased sharply after 1990. We also note that military interventions were more frequent after the end of the Cold War while CIA interventions abroad peaked in the 1970s.⁹ Second, “friendly” interventions (conditional loans, preferential market access, and preferential trade agreements) are the most common intervention form. In a typical year, at least 110 countries have an outstanding conditional loan agreements with the IMF or are enjoying preferential market access to the US or the EU. In contrast, the number of military interventions is below 25 for most years.

Table 1 reports the pairwise correlations between the different forms of foreign intervention.¹⁰ This is informative about the co-movement of the intervention strategies over time.

⁹The average number of military interventions per year was 17 during the Cold War and 26 afterwards.

¹⁰To reduce the size of the table, we do not report results for Sanction threats, which is highly correlated with Imposed sanctions (the correlation coefficient is 0.8) and PTAs, which are highly correlated with PMA (the correlation coefficient is 0.77).

Table 1: Pairwise correlation coefficients for different forms of foreign intervention

| | CIA interventions | KGB interventions | Military interventions | Imposed sanctions | Conditional IMF loans | PMA |
|------------------------|----------------------|----------------------|---------------------------|----------------------|--------------------------|------|
| CIA interventions | 1.00 | | | | | |
| KGB interventions | 0.59* | 1.00 | | | | |
| Military interventions | 0.46* | 0.39* | 1.00 | | | |
| Imposed sanctions | -0.01 | 0.31 | 0.24 | 1.00 | | |
| Conditional IMF loans | -0.68* | -0.71* | -0.26 | -0.20 | 1.00 | |
| PMA | -0.51* | 0.37 | 0.32 | 0.46 | 0.26 | 1.00 |

Notes: PMA is Preferential Market Access; * significant at the 5% level.

We observe that CIA and KGB interventions are positively correlated both with each other (a reflection of the Cold War rivalry) and with direct military interventions. They are negatively correlated with “friendly” interventions (in particular with conditional IMF loans). Sanctions and preferential market access (PMA) are not, with one exception, correlated with any of the other intervention forms. These correlations suggest that the different forms of foreign intervention are governed by their own internal logic, that they may be substitute tools and that they are used in respond to different restrictions or opportunities. The rest of the survey is devoted to a discussion of the logic underpinning different intervention strategies.

3 Definitions

Foreign influence necessarily involves at least two actors: the actor that seeks, actively or passively, to influence, and the actor towards which these efforts are directed. We refer to the actor seeking to influence as the *foreign power* and the actor subject to influence as the *target* country. The foreign power will, typically, be a state, a group of states, or an international organization but can also be a private multinational firm, a special interest group or some other non-state actor, while the target will be a subgroup of agents of a country (e.g., its ruler or government) or the country at large. Neither the foreign power nor the target country need to be a monolithic actor sharing a common interest. In fact, the political economics literature on foreign influence emphasizes the role played by internal conflict of interest (e.g., within a country between different social groups or different parts of the government apparatus), as well as the conflicts of interest that cross national borders. We define foreign influence as follows:

DEFINITION 1 (Foreign influence) *A foreign power (a state or a non-state actor) seeks to affect a policy outcome in a (possibly less powerful) target country that is de jure outside of its jurisdiction.*

Two important points need to be stressed about this definition. First, a necessary condition for foreign influence to be in the interest of the foreign power is that the policy choice of the target country affects its “welfare”. That is, there must be some *policy externality*. Examples of economic policies that involve transnational externalities abound: trade policy, environmental regulation, rules for foreign direct investment (FDI), fiscal and monetary policy, etc. But the externalities can also derive from broader geopolitical objectives. In short, policy externalities are the fundamental reason for attempts to exert foreign influence. Second, the foreign power may use different means to influence the target country’s policy choices and we make a distinction between three broad intervention strategies:

1. *Agreement interventions*: The foreign power seeks to influence the policy choice in the target country through a negotiated international agreement.
2. *Policy interventions*: The foreign power seeks to change the policy choice in the target country through rewards or sanctions or a combination of both but without seeking to change the institutional framework that governs policy making in the target country.
3. *Institution interventions*: The foreign power seeks to change the institutional framework that governs policy making in the target country in order to influence the target country’s future policy choices. We distinguish two subcategories: *regimes interventions* that do not result in (long-lasting) violent conflict and *conflict interventions* which either cause, prolong, or end a violent conflict.

This classification is different from the one typically adopted in the international organization literature which is organized around the concepts of *contracting*, *coercion*, and *imposition* (see e.g. [Krasner and Weinstein 2014](#)).¹¹ Contracting involves a voluntary agreement between the parties. Agreement interventions and policy interventions based on rewards fall into this category. Coercion occurs when the foreign power can credibly threaten to alter the status quo in ways that make the target country worse off but do not involve the use of direct force. Policy and institution interventions that involve sanctions fall into this category. Imposition involves the use of force or the threat of its use. Regime and conflict interventions typically are impositions but the mechanism might also involve contracting (foreign aid) or coercion (sanctions).

The advantage of our new classification of intervention strategies is that it makes it clear that the ultimate goal of all foreign interventions is to change the policy choice of the target country but that this can be achieved through three fundamentally different strategies. We can rank these interventions from less to more intrusive and we can nest them within a unifying theoretical framework where each intervention strategy represents a deviation from a “no-intervention” baseline. The unifying model is introduced in the next section, followed by a separate section on each of the three intervention strategies.

4 The unifying model

The aim of the model is to offer a unified framework that brings together different strands found in the literature on foreign intervention. It illustrates the most important mechanisms through which foreign intervention takes place, provides insights into when particular intervention strategies are adopted, and enables a rational organization of this vast literature. The framework builds on two fundamental assumptions. The first assumption is that policy choices are associated with cross-national policy externalities, so that one country is directly affected by the choices made by other countries. The second assumption is that one country’s preference over the policy choice in another country is more closely aligned to the preferences of certain groups within that country than to other domestic groups. The first assumption implies that foreign powers have a stake in *what* the policy choice in other countries is; the second assumption implies that foreign powers have a stake in *who* in the target country control the policy choice. Together, they give foreign powers an instrumental, economic reason to intervene in the decision making process in other countries.

¹¹[Drezner \(2003\)](#) adds a fourth category – *persuasion* – where the foreign power seeks to influence the internal values of the target country. We return to this possibility in Section 8.

4.1 Structure

We consider a two-country world with a *target* country (D) and a *foreign* country or power (F). Each country controls one policy instrument denoted t_D and t_F , respectively. The policy choices are associated with cross-national policy externalities. The target country is inhabited by two social groups ($i \in \{1, 2\}$) with conflicting policy preferences. The objective function of the target country's government is

$$W_D(t_D, t_F) = \beta W_{D,1}(t_D, t_F) + (1 - \beta) W_{D,2}(t_D, t_F), \quad (1)$$

where $W_{D,i}(\cdot)$ is the policy preference function of group $i \in \{1, 2\}$, which is a function of the policy choice at home and abroad. The institutions of the target country are represented by a reduced form bargaining game (see e.g., [Besley and Persson 2011](#)) where $\beta \in [0, 1]$ is the relative bargaining power of group 1. We interpret extreme values of β as autocratic institutions and intermediate values as democratic institutions.

The foreign country is the dominant power and its government or private agents domiciled in it – henceforth referred to as the “foreign power” – can devise various strategies to influence the policy choice in the target country. We assume that the preferences of the foreign power are aligned with the preferences of group 1 in the target country. It is, therefore, in the interest of the foreign power that β is as large as possible. The objective function of the foreign power (country F) is

$$W_F(t_F, t_D) = \gamma_F W_{D,1}(t_D, t_F) + w_F(t_F, t_D), \quad (2)$$

where $\gamma_F \geq 0$ captures the degree of alignment with group 1 in country D and $w_F(t_F, t_D)$ is the social welfare function (or the political support function) in country F itself. We assume that W_D and W_F are strictly concave functions. Policy externalities are present whenever the policy choice in the other country has a direct effect on W_D or w_F , respectively. Notice that the foreign power cares about the policy choice in the target country even in the absence of a policy externality operating through w_F because of its alignment with group 1 in the target country.

4.2 The no-intervention benchmark

The benchmark is a situation without any intervention. In this scenario, the two countries independently decide their optimal policy. This will be sub-optimal from a global perspective because the policy externalities are not internalized. It is straightforward to show that there is a Nash equilibrium with optimal policies, t_D^U and t_F^U , which yield payoffs $W_D(t_D^U, t_F^U) \equiv W_D(U)$ and $W_F(t_F^U, t_D^U) \equiv W_F(U)$. The two groups in country D get $W_{D,i}(t_D^U, t_F^U) \equiv W_{D,i}(U)$ for $i \in \{1, 2\}$.

4.3 Intervention strategies

The fundamental economic rationale for foreign intervention is the policy externality. It gives the foreign power a direct interest in the *policy choice* in the target country. Furthermore, the preference alignment with group 1 gives the foreign power an indirect interest in the *institutions* that govern the policy choice in the target country. Within this framework, we operationalize the three intervention strategies from [Section 3](#) as follows:

- **Agreement interventions (AI):** The two countries negotiate a policy agreement to facilitate policy coordination.
- **Policy interventions (PI):** The foreign power seeks to change the target country’s policy choice within a given set of institutions (captured by β). This can happen through
 - **Strategic rewards (SR)** or
 - **Strategic sanctions (SS).**
- **Institution interventions (II):** The foreign power seeks to change the target country’s institutions (increase β so that the aligned group gets more influence on policy), in order to change the policy choice in its favor. This can happen through
 - **Regime intervention (RI):** The intervention increases β without violent conflict in the target country.
 - **Conflict intervention (CI):** The intervention may increase β by triggering, prolonging, or stopping an ongoing violent conflict in the target country.

In the following sections, we develop the logic of each intervention strategy within this model framework and use it to structure the discussion of the literature related to each of them.

5 Agreement interventions

The policy externality implies that the “no-intervention” benchmark is inefficient. The foreign power may adopt a Coasian approach and seek to influence the policy choice in the target country by entering into an agreement that internalizes the externality. In the absence of side payments, however, any deviation from the benchmark must be to the mutual benefit of both countries. This has two implications. First, agreement interventions are consensual and voluntary: the target country cannot be made worse off by entering the agreement with the foreign power. Second, an agreement intervention requires either that the policy externality itself is multi-directional, i.e., the policy choice in one country affects the welfare in the other and vice versa, or, if not, that it is bundled up with other policies that are.

To gain a better understanding of what can be achieved through mutually beneficial agreements, we return to our model. To set the stage, we assume that the foreign power is sufficiently powerful that it can make a “take it or leave it” offer to the target country. This is the natural assumption given the asymmetry between the two countries. The assumption pins the agreement down to the point on the contract curve which is characterized by the solution to the following constrained maximization problem:

$$\max_{t_D, t_F} W_F(t_F, t_D) \text{ subject to } W_D(t_D, t_F) \geq W_D(U). \quad (3)$$

We denote the solution to this problem by t_D^{IA} and t_F^{IA} and the associated payoffs for the two countries as $W_D(t_D^{IA}, t_F^{IA}) \equiv W_D(IA) = W_D(U)$ and $W_F(t_F^{IA}, t_D^{IA}) \equiv W_F(IA) > W_F(U)$. This agreement is the best possible outcome for the foreign power (country F) and will dominate *any* other intervention strategy if enforceable. In practice, however, the two countries may not be able to commit fully to this agreement.

Assuming that the agreement is enforceable only with some probability $q_{IA} < 1$, the expected payoff to the foreign power is

$$W_F^e(IA) = q_{IA}W_F(IA) + (1 - q_{IA})W_F(U) \geq W_F(U). \quad (4)$$

It follows that $W_F^e(IA) \geq W_F(U)$ but by how much depends on q_{IA} , i.e., on how credible the agreement is. The lack of commitment power rules out a political Coase Theorem and opens the door for other intervention strategies to play a role (Acemoglu 2003). In the following sub-sections, we utilize the model to frame the discussion of two central questions about international agreements interpreted as manifestations of foreign influence: (a) what is the rationale for signing international agreements for the two parties, and (b) why do countries fail to reach such agreements?¹²

5.1 The rationale for signing international agreements

There exist three main rationales for entering into international agreements. The first rationale is, as in our model, to internalize multi-directional policy externalities. Such agreements eliminate beggar-my-neighbor policy choices in situations featuring a prisoners' dilemma, with policies that are unilaterally attractive but mutually destructive, and they are (weakly) beneficial to all parties. This can explain, for example, free trade agreements (FTAs), foreign investment protection agreements, tax treaties and some environmental agreements, but cannot explain why countries enter agreements where the policy externality is uni-directional and the policy of the target country affects the foreign power but not vice versa. However, we can interpret the multi-directional externality in our model as a combination of uni- and multi-directional externalities where the former type is integrated into the overall bundle through issue linking. This, then, enables agreements on policies that are not themselves associated with multi-directional externalities. This type of issue linking has become more common since the early 1990s both in relation to bilateral and multilateral agreements, and many trade agreements now incorporate non-trade issues like social, civil, and political rights, as well as clauses related to environmental protection.¹³ Ederington (2010) makes an important distinction between negotiation and enforcement linkage. The literature on *negotiation linkage* studies the impact of cross-issue linkages on the process of coalition building. The literature on *enforcement linkage* studies the possibility of cross-issue retaliation. This can enhance the credibility of agreements, e.g., by linking trade penalties or discriminatory import tariffs to environmental protection.¹⁴

The second rationale for signing international agreements on uni- and multi-directional externalities is that they can serve as a commitment device against future beggar-myself-policies. Free trade agreements (FTAs), for example, can neutralize pressure from protectionist lobby groups (Maggi and Rodriguez-Clare 1998; 2007), can lock-in domestic reform policies (Chaffour and Maur 2010, Baccini and Urpelainen 2014), can signal a politician's achievements to voters (Mansfield, Milner, and Rosendorff 2002) or consolidate democracy by destroying future protectionist rents and in that way lowering the incentives for autocratic groups to seek power (Liu and Ornelas 2014).¹⁵

¹²Surveying the huge literature on international agreements is beyond our the scope. For surveys dealing with this topic, see, e.g., Grossman (2016) and Allee and Elsig (2017) for trade agreements, Nordhaus (2015) and Marrouch and Chaudhuri (2016) for environmental treaties, and Dancy (2013) for human right agreements.

¹³Chaffour and Maur (2010) have, in the context of the World Trade Organization, labeled this WTO-extras.

¹⁴See, e.g., Kuhn, Pestow, and Zenker (2017), Nordhaus (2015) or Lechner (2016).

¹⁵In practice, the effect on democratic reform depends on the type of agreement. While trade agreements consolidate democracy and access to the World Trade Organization (WTO) helps consolidate "good" domestic institutions (Basu 2008), bilateral investment treatments may help autocratic leaders to survive. This is because such agreements improve the domestic investment climate and this reduces the likelihood that an autocratic leader is removed from office (Arias, Hollyer, and Rosendorff

The third rationale for entering international agreements – in particular on international trade – is to avoid interstate conflict. Arguably, it was one of the reasons why the European Union came into existence and, more generally, countries with a free trade agreement (FTA) are less likely to go to war with each other.¹⁶ [Limão \(2007\)](#) models such non-trade motivations for trade agreements by incorporating non-trade related to geopolitical factors into a model of bilateral trade negotiations. He provides evidence that the political importance of the target country for the foreign power is a decisive factor for economic integration.

These strategic motives for joining international agreements operate differently for the (dominant) foreign power and the (economically and politically weaker) target country. The former tends to weigh economic gains against political factors when signing international agreements and tends to pick the politically most important target countries as agreement partners ([Hinz 2017](#)). The target countries, on the other hand, tend to sign international agreements for defensive reasons: they fear exclusion or becoming too dependent on one foreign power ([Wesley 2008](#)).¹⁷

5.2 Why do countries fail to reach agreement?

What enables international agreements and what causes them to fail? As our model highlights, the fundamental problem is that each country prefers to free-ride and let the other country adopt its policy to reduce the externality. On top of that, domestic politics plays a key role for the success of international agreements and interacts with international politics to support or undermine their credibility. [Putnam \(1988\)](#) conceptualizes these domestic-international interactions as a two-level game. Level I consists of a bargaining phase with a tentative agreement between representatives of the countries involved. This agreement has to be ratified at level II by national parliaments. This approach highlights a serious agency problem: the representatives who negotiate on behalf of a country might misrepresent national and/or foreign interests to advance their own agenda.

Equally important, the fact that any agreement has to be ratified, opens the door to a range of other strategic considerations. On the one hand, domestic veto players - whose approval is necessary to change the policy status quo - must be satisfied. As a consequence, they will be decisive not only for ratifying an agreement but also for specifying its content ([Allee and Elsig 2017](#)). Who these veto players are varies across countries and this influences what can be agreed upon at level I, as well as the likelihood of ratification of any agreement at level II. On the other hand, in democratic societies, electoral considerations play a crucial role. First, a non-binding international agreement allows political parties to differentiate their political campaigns. For example, one party might campaign to implement an agreement while the other might not ([Battaglini and Harstad 2016](#)). Second, if treaties are negotiated prior to an election but ratification occurs afterwards, the content of the international agreement will be strongly influenced by the negotiators' ex ante calculations of how the agreement will play with domestic political interests ([Brown and Urpelainen 2015](#)). The details

2018). The effect of signing human right agreements is unclear. [Hollyer and Rosendorff \(2012\)](#) argue that signing such treaties makes it easier for autocratic leaders to stay in office. [Dancy \(2013\)](#), in contrast, suggests that, in the longer term, the constraints imposed by human rights treaties make it harder for autocratic leaders to stay in power.

¹⁶[Martin, Mayer, and Thoenig \(2008\)](#) show theoretically and empirically that countries with more bilateral trade have a lower probability of engaging in conflict with each other. [Martin, Mayer, and Thoenig \(2012\)](#) show that the “peace motivation” plays an important role in explaining why trade agreements are formed. For further studies on trade and peace, see [Vicard \(2012\)](#) and [Hegre, Oneal, and Russett \(2010\)](#).

¹⁷[Chen and Joshi \(2010\)](#) develop a model to show that the decision to enter a free trade agreement (FTA) depends on the participating countries' existing FTA relationships with third countries. [Baldwin and Jaimovich \(2012\)](#) develop a FTA contagion index and demonstrate empirically that defensive FTAs, signed to reduce discrimination created by third-nation FTAs, are important.

of the agreement can, in particular, induce or discourage interest group mobilization which, in turn, affects domestic support and opposition for the agreement. Third, an international agreement, typically, leads to a loss of sovereignty (Bagwell and Staiger 2018, Rodrik 2000). This restriction on future sovereignty is itself an act of sovereignty and, hence, can be rescinded. Accordingly, even if an agreement is ratified before an election, new information may come to light afterwards. This can trigger a renegotiation (Buisseret and Bernhardt 2018) even if this possibility is taken into account in the design of the initial agreement (Maggi and Staiger 2015). The model developed by Richardson and Stähler (2018) shows that the possibility of future exit from an agreement makes it harder to achieve cooperation in the present and that exit can be an equilibrium outcome. Ex post exit is, therefore, not necessarily a sign of a failed ex ante negotiation.

In our model, enforceable international agreements are, as already noted, the best intervention strategy to deal with multi-directional externalities for a foreign power that is sufficiently powerful that it can extract all the surplus from the agreement. An implication, then, is that it is the lack of enforceability, the lack of bargaining power or the inability to bundle uni-directional policy externalities that motivate a foreign power to consider other intervention strategies. We discuss these alternatives in the next sections, but note that these alternative strategies, in particular those that influence the institutional framework that governs policy choices in the target country (institution interventions), are sometimes combined with an agreement intervention strategy. This could be the case if institution interventions enhanced the foreign power's bargaining position which, in turn, would enhance its incentive to enter an international agreement (see, e.g., Bonfatti 2017, Antràs and Padró i Miquel 2011).

6 Policy interventions

This section studies the strategies other than international agreements that foreign powers use to influence *policy* decisions in other countries. While international agreements involve states and international organizations, some of these other strategies are open not only to governments, but also to non-state actors such as multinational corporations and special interest groups. The legality of these activities varies from case to case and country to country, but they are mostly peaceful and in accordance with international and national law. Examples of policy interventions include: conditionalities attached to trade agreements, aid and loans, foreign lobbying, or outright economic sanctions and boycotts.

We distinguish three categories of policy interventions. First, *strategic rewards* involve a voluntary transaction between the foreign power and the target country, and the target country can refuse to accept the reward. Second, *strategic sanctions* involve coercion in that the foreign power unilaterally threatens to alter the *status quo* in a way that harms the target country if it does not adjust its policy. These two categories have in common that the intervening foreign power makes a clear policy demand and, thus, they are strategic. Third, in contrast to this, *unconditional aid* does not require that the foreign power demands an explicit policy change. Yet, this type of intervention often leads to (arguably) unintended policy changes. We organize the literature according to these three distinct categories and use our model to illustrate the underlying logic of each.

6.1 Strategic rewards (SR)

We conceptualize the relationship between the foreign power and the target country as a principal-agent relationship. The foreign power (the principal) offers the target country (the agent) a reward in exchange for adjusting its policy. This strategy is non-coercive and the target country is free to refuse the offer. Suppose that the foreign power offers the target country the reward function $C(t_D; t_F)$, which specifies what the reward is as a function of policy choice t_D . The objective functions of the two parties, respectively, are

$$W_F(t_F, t_D) - C(t_D; t_F), \quad (5)$$

$$W_D(t_D, t_F) + C(t_D; t_F), \quad (6)$$

where $W_F(\cdot)$ and $W_D(\cdot)$ are defined in equations (1) and (2), respectively. Incentive compatibility requires compensating the target country for any deviation from the no-intervention policy, such that $W_D(t_D, t_F) + C(t_D; t_F) \geq W_D(U)$. The least costly, incentive compatible reward function is¹⁸

$$C(t_D; t_F) = \max\{0, [W_D(U) - W_D(t_D, t_F)]\}, \quad (7)$$

where the target country is exactly “compensated” for the welfare loss of moving away from the uncoordinated policy choice. Due to the associated externality, the policy choice of the foreign power affects indirectly the cost of rewarding the target country for adjusting its policy. Bearing in mind equations (5) to (7), the foreign power’s “ideal” policy (for the two countries) maximizes the sum of the two countries’ objective functions:

$$\{t_D^{SR}, t_F^{SR}\} = \arg \max_{t_D, t_F} W_D(t_D, t_F) + W_F(t_F, t_D). \quad (8)$$

This intervention strategy enables the foreign power to induce a policy in the target country that is better than both the no-intervention policy and that which could be reached through an international agreement.¹⁹ The downside is the monetary cost of the reward. In practice, this strategy may not be credible. For this reason, we assume that the reward is, in fact, paid with probability q_{SR} only. Thus, with probability $(1 - q_{SR})$, both countries revert to the no-intervention situation. The foreign power’s expected payoff from the reward strategy, therefore, is

$$W_F^e(SR) = q_{SR}(W_F(t_F^{SR}, t_D^{SR}) - C(t_D^{SR})) + (1 - q_{SR})W_F(U). \quad (9)$$

We note that the expected value of the strategic rewards strategy increases with the foreign power’s ability to commit to pay out the reward. If it cannot commit to this at all, the strategic reward strategy is no better than the no-intervention benchmark.

The theoretical and empirical literature document a number of specific ways in which a foreign power can reward a target country for a policy change. We draw an important distinction between state and non-state actors. Non-state actors include foreign or international special interest groups such as trade or industry organizations, unions, or environmental groups and large multinational corporations. For these actors, the

¹⁸We follow the common agency literature and assume that the reward function everywhere compensates the agent for the deviation from the *status quo* (Grossman and Helpman 2001; Chapter 7).

¹⁹Agreements between the two countries must be contained in the core defined relative to the no-intervention policy vector. With strategic rewards, it is possible for the foreign power to achieve policy outcomes that are outside this core.

“reward instruments” include contributions to political campaigns, information lobbying, as well as outright bribery. For state actors, the “reward instruments” include foreign aid, and subsidized loans. State actors may act openly in their own name or hide behind an international institution in which case “rewards” are channeled through international agencies and organizations.²⁰

Non-state actors

Non-state actors often lobby to influence policy outcomes in other countries. Legal restrictions on political donations by foreign lobby groups are common. According to the International Institute for Democracy and Electoral Assistance’s Political Finance Database, 41 countries, including the USA, the UK, France and Brazil, ban or restrict foreign donations to political parties in other ways. Still, many loopholes exist. Other countries, including Australia, Denmark, and Colombia, do not impose bans on foreign donations. Rather than seeking to influence election outcomes or to use political contributions to “buy” post-election access to key politicians, foreign lobby groups can hire professional lobbyists from the lobbying industry to get their point of view across to the relevant policy makers (Blanes i Vidal, Draca, and Fons-Rosen 2012).

In the context of our model, foreign lobby groups are willing to pay to influence policy outcomes in the target country because of the policy externality. Empirical evidence shows that they are often successful in bending policy in their favor. For example, Desbordes and Vauday (2007) show that lobbying generates substantial fiscal and regulatory benefits for foreign firms operating in 48 different less developed countries and Gawande, Krishna, and Robbins (2006) show that foreign lobbying influences US trade policy.²¹ From a global social point of view, a potential benefit of foreign lobbying is that it can help internalize cross-national externalities. In fact, if all parties affected by the policy choice can lobby and all governments are equally receptive to the rewards offered by foreign and domestic lobby groups, then foreign lobbying can *fully* internalize the policy externality (Conconi 2003, Aidt and Hwang 2008; 2014). The more important policy question, however, is if the target country would want to ban foreign lobbying and in this way to insulate itself from this type of foreign influence. The answer depends critically on whether the foreign lobby groups have objectives that are aligned with *unorganized* domestic groups that are under-represented in the political calculus of the target country. If this is the case, then allowing foreign lobbying can increase the target country’s social welfare because it corrects a pre-existing political distortion (Aidt and Hwang 2014). In other words, foreign influence of this type can be second best optimal for the target country. This benefit arguably has to be traded off against the real or perceived loss of democratic legitimacy.

Foreign special interests can also “buy” influence on the policy choices in the target country through bribery (Rose-Ackerman 1999, Aidt 2003). Since bribery is illegal, its extent is not directly observed, but survey evidence from, for example, the World Bank’s Doing Business survey suggests that it is widespread in many places and multinational companies in the arms trade, the pharmaceutical industry, and in resource

²⁰When state actors seek to indirectly influence policy in the target country through international organizations, these institutions have to internalize, at least partially, the objective of the country that seeks to influence the policy in the target country. Andersen, Harr, and Tarp (2006) develop a principal-agent model to show how one dominant country (the USA) can influence the decision making of an international lender (the IMF) and thereby force borrowing countries to give concessions that benefit the dominant country in exchange for loans. In general, influence via an international organization may proceed through formal or informal channels. On the one hand, the organization and hierarchical structure of the international institution might permit formal channels of influence e.g., through voting power. On the other hand, influence might be informal and operate outside the predetermined organizational structures via information disclosure, hiring practices, or the location of the international institution’s headquarters.

²¹Kee, Olarreaga, and Silva (2007) show how foreign lobby groups can buy market access and Gawande, Maloney, and Montes Rojas (2009) show how information provided by foreign special interests can enhance tourism.

extraction have regularly been caught in corruption scandals (OECD (2014) or Zhu (2017)). In contrast to lobbying for a policy change (say, low import tariffs on goods) which benefits all foreign exporters in an industry (at the expense of domestic producers), bribes are used to buy *private* benefits such as a government procurement contract and it is doubtful if the externality argument that can be advanced to support allowing foreign lobbying is applicable here.²²

State actors

While firms and other foreign special interest groups lobby, state actors – governments acting alone, in groups or through international institutions – can use conditional aid or loans to reward target countries for changing their policy.²³ Qian (2015) and many others show that foreign aid is often politically motivated and not solely determined by the needs of the recipient countries. Conditional aid, in particular, reflects strategic considerations of the donor country, including the prospect of economic and commercial benefits²⁴ and geopolitical considerations.²⁵ Colonial past and political alliances are also important determinants of foreign aid.²⁶ The economic impact of aid on the target country and the credibility of aid conditionality depend on the underlying motivation for giving it. In particular, aid given for political reasons is generally less effective than other types of aid (Dreher, Eichenauer, and Gehring 2018).²⁷

From a foreign influence perspective, the key question is: what does aid “buy” the foreign power that gives it? The evidence points to three specific benefits – votes in international organizations, beneficial policy concessions, and political survival – and to a set of more diffuse and hard to quantify (potential) benefits coming from the effect that aid has on the economy of the target country more generally.

First, international agencies and organizations – like the United Nations (UN), the World Bank, and the International Monetary Fund (IMF) – provide states with tools to influence the behavior of target countries with decision making power in the respective institution. For example, temporary assignment to the UN security council (by lottery) of countries outside the group of permanent members gives a country voting power and the major donor countries can use aid to buy the votes of temporary members in need of it. The evidence is clear: an aid-receiving country temporarily serving on the UN security council receives greater inflows of aid and financial assistance than when it is not on the council *if* it votes in line with the donor country’s interest.²⁸ Both direct aid and aid given by international institutions are also used for vote buying in the UN general assembly.²⁹ Rommel and Schaudt (2015) argue that aid-for-votes deals are commonly used to signal “political friendship” between newly appointed or elected leaders in either the recipient or the

²²Van Long and Stähler (2009), however, argue that foreign participation in rent-seeking contests that allocate government procurement contracts can reduce wasteful domestic rent-seeking and in that way be beneficial.

²³Zhu (2017) presents a formal model of how one donor (the principle) can obtain policy concessions from multiple recipient countries (many agents) by structuring conditional aid as an all-pay auction.

²⁴See, e.g., Barro and Lee (2005) and Dreher, Nunnenkamp, and Schmaljohann (2015).

²⁵See, e.g., Stone (2004) and Dreher, Nunnenkamp, and Schmaljohann (2015).

²⁶See, e.g., Alesina and Dollar (2000).

²⁷Dreher, Eichenauer, and Gehring (2018), for example, investigate whether foreign aid given to temporary members of the United Nations Security Council (UNSC) is less effective in promoting growth than aid given at other times. They concentrate on African countries since these follow the strictest norm of rotation on the UNSC, thus UNSC membership can be regarded as exogenous. Moreover, Bearce and Tirone (2010) show that Western aid promoted economic growth in the recipient countries only during the post Cold War period. The reason suggested is that aid conditionality became more credible after the Cold War when many of the geopolitical reasons for giving aid that had been present during the Cold War disappeared.

²⁸See, e.g., Kuziemko and Werker (2006) for evidence that temporary members get more US and UN aid, Dreher, Sturm, and Vreeland (2009) for World Bank programs. Vreeland (2011) provides evidence of vote buying by Switzerland in relation to elections to various executive boards of the Bretton Woods Institutions.

²⁹See, e.g., Barro and Lee (2005), Dreher and Jensen (2007), Carter and Stone (2015), Andersen, Harr, and Tarp (2006).

donor country.

Second, policy concessions also matter for the allocation of aid. [Riaño-Rodríguez \(2014\)](#) model such aid-for-policy deals. He shows that as long as the government in the target country derives political benefits from aid, then the foreign power can effectively set its policy agenda. It does so by attaching aid to the issues that it wants on top of the agenda. The target country is willing to give these issues priority because the aid reduces the cost of addressing them. Empirically, [Andersen, Harr, and Tarp \(2006\)](#) show that the probability that a country gets a loan from the IMF goes up if it moves its actual domestic policy away from its own “ideal” policy and towards the policy preferred by the USA.³⁰

Third, although aid-for-policy deals may not explicitly aim at entrenching or replacing political leaders, the deals often affect the political survival of incumbent leaders, who will take this effect into account when offering or accepting foreign aid. The logic can be captured by integrating foreign aid into the selectorate model of political survival ([Bueno de Mesquita and Smith 2009](#)). To stay in power, a politician needs to retain sufficient support (forming a winning coalition) from the subset of the population with the power to oust him (the selectorate). In the target country, the politician will, therefore, strategically use some of the “reward” received from the foreign power to maintain the required level of support and stay in office. In the foreign power, the donor government can use aid strategically to enhance its re-election chances ([Carter and Stone 2015](#)). Aid-for-policy deals can, therefore, improve the chance of survival for the leaders in both countries. While the welfare effects for the leaders are clear, the welfare effects for the target country in general are ambiguous; even more so, since aid might help autocratic leaders to perpetuate themselves in power. The political economy of the target country is also crucial for the effectiveness of aid-for-policy deals in advancing the policy objectives of the foreign power. One reason is that implementing a reform agenda requires coalition building and governments on the left and on the right of the political spectrum often encounter different political constraints and have different objectives ([Beazer and Woo 2016](#)). If these reforms are part of an aid-for-policy deal, then their success depend on the colour of the government.

Finally, aid or international lending have a range of economic and social consequences that are often caused by or at least mediated by the policies that the target country adopts in response to aid or loans. Some of these consequences may have been intended by the foreign power but it is difficult to evaluate the extend to which they were and many of them were probably “unintended” (we return to this later in Section 6.3). It is difficult to make this judgement because the literature, in general, struggles to identify what the economic consequences of aid are for at least two reasons.³¹ First, the benefits of aid-for-policy deals are often very specific and studies that focus on aggregate measures of aid will, as [Qian \(2015\)](#) points out, confound a bundle of different and potentially offsetting effects. This makes it difficult to develop credible identification strategies. Identification is easier with a narrower set of aid policies but remains complicated.³² Second, it is hard to distinguish the economic effects of aid or of a lending program from the effects of economic conditions on the probability of benefiting from it. [Barro and Lee \(2005\)](#) exploit the details of the IMF’s internal political and institutional procedures for approving financial assistance to correct for self-selection of countries in crisis into IMF programs. They find that agreements with the IMF, not only had a negative effect on economic growth, but also had negative effects on the quality of democracy and on income distribution.

³⁰See also [Dreher and Jensen \(2007\)](#) .

³¹See [Qian \(2015\)](#) for an overview aid effectiveness literature and [Doucouliagos and Paldam \(2008\)](#) for a meta study of the effect of aid on economic growth.

³²Further complications are generated by the fact that aid data often lack important details, such as information on the cost structure or the method of delivery, which are important when evaluating the impact of aid.

To assess the consequences of aid properly remains an empirical challenge that must be overcome to fully understand the economic and political logic of aid-for-policy deals.

6.2 Strategic Sanctions (SS)

An alternative to “rewards” that the intervening foreign power can use to influence policy making in a target country is sanctions (or the threat of sanctions). Sanctions can be used by state actors and take many forms: trade sanctions (tariffs, export controls, embargoes, import bans) or financial sanctions (freezing assets, cutting off financial aid and bank lending and access to SWIFT) or the removal of aid.³³ Often the *threat* of sanctions is sufficient to induce the target country to acquiesce.

We conceptualize the role of strategic sanctions within the same principal-agent framework we used to study strategic rewards in Section 6.1. In this framework, the foreign power – the principal – seeks to induce the target country – the agent – to adopt a particular policy. This is done by threatening to impose a costly sanction on the target country should it deviate from the foreign power’s desired policy, denoted t_D^{SS} . The size of the sanction is a function of the policy choice implemented by the target country t_D and is represented by $S(t_D; t_F^B(t_D))$ where $t_F^B(t_D)$ is the foreign power’s best (uncoordinated) response to the policy adopted by the target country. The objective functions of the two countries are

$$W_F(t_F, t_D) - S(t_D; t_F^B(t_D)) \quad (10)$$

$$W_D(t_D, t_F^B(t_D)) - \eta_{SS} S(t_D; t_F^B(t_D)), \quad (11)$$

where $\eta_{SS} \in [0, 1]$ is a transaction cost. Sanctions are costly for *both* parties. For the target country this reflects the direct sanction cost which depends on how easy it is for the target country (and its leaders) to avoid the negative consequences of the sanction, i.e., how much the sanction “hurts.” This is captured by the transaction cost parameter η_{SS} . For the foreign power, the sanction also has a direct cost. The “benefit” for the target country of violating the “demands” of the foreign power is captured by W_D and the corresponding “violation cost” for the foreign power is captured by W_F . Clearly, to be effective, the foreign power must ensure that the sanction policy is incentive compatible. Unlike the case of strategic rewards, the target country cannot opt out of the sanction altogether, but it can decide which policy to implement and, thus, which sanction to incur. Given the foreign power’s desired policy for the target country, t_D^{SS} , and its own matching policy $t_F^{SS} = t_F^B(t_D^{SS})$, the incentive compatibility constraint requires that

$$W_D(t_D^{SS}, t_F^{SS}) - \eta_{SS} S(t_D^{SS}; t_F^{SS}) \geq W_D(t_D, t_F^B(t_D)) - \eta_{SS} S(t_D; t_F^B(t_D)) \quad (12)$$

for all t_D . Since sanctions are costly to everyone, the sanction associated with the foreign power’s “target

³³The Generalized System of Preferences (GSP), which gives preferential access to the markets of the foreign power, provides a good example of how the threat or actual removal of aid can serve as a “disciplinary device”. [Albornoz, Brambilla, and Ornelas \(2019\)](#) studies the effect of the US’s removal of GSP preferences as part of disputes over Argentinean patent laws in 1997. [Özden and Reinhardt \(2005\)](#) shows how being granted GSP affects trade policy in the target country. [Gassebner and Gnutzmann-Mkrtchyan \(2018\)](#) provide robust evidence that alignment with the US (judged by United Nations General Assembly voting in key votes) lowers the likelihood of losing GSP benefits following eligibility reviews regarding worker rights violations.

policy” $\{t_D^{SS}, t_F^{SS}\}$ must be zero. The least costly sanction that will get $\{t_D^{SS}, t_F^{SS}\}$ implemented is

$$S(t_D; t_F^B) = \max\{0, \frac{1}{\eta_{SS}} [W_D(t_D, t_F^B(t_D)) - W_D(t_D^{SS}; t_F^{SS})]\}. \quad (13)$$

The foreign power, therefore, selects the “target policy”

$$\{t_D^{SS}, t_F^{SS}\} = \arg \max \frac{1}{\eta_{SS}} W_D(t_D, t_F) + W_F(t_F, t_D). \quad (14)$$

As with strategic rewards (see equation (8)), the equilibrium policy with strategic sanctions maximizes a weighted average of the two country’s welfare. Furthermore, if $\eta_{SS} = 1$ and sanctions are not associated with any transaction cost and the target country cannot insulate itself from the full force of the sanction, then the policy outcome is the same in the two cases. As a consequence, the foreign power tends to prefer sanctions to rewards unless the transaction cost is very high (η_{SS} close to 0). The underlying logic is that the foreign power must pay a positive reward to get its desired policy, while the sanction is a *threat* and, at equilibrium, the foreign power pays nothing. Therefore, the “stick” is generally better for foreign power than the “carrot”. However, the threat has to be credible to work. If it is not, the target country will not react to the incentives provided. Let the probability that the sanction policy is credible be q_{SS} and assume that the two countries play the uncoordinated equilibrium (see Section 4.2) if the sanction is not credible. On top of that, the foreign power incurs an audience cost ($c_a \geq 0$) when it fails to issue a credible threat or to carry through with it. This cost reflects the negative effect on the foreign power’s ability to sanction other target countries in the future. The foreign power’s expected payoff then is

$$W_F^e(SS) = q_{SS} W_F(t_F^{SS}, t_D^{SS}) + (1 - q_{SS}) (W_F(U) - c_a). \quad (15)$$

Sanctions often lack credibility because they require coordination among many countries and it is hard to get third-parties to respect and enforce a given sanction. Rewards are, on the other hand, controlled by the foreign power itself and are often bilateral. This *ceteris paribus* makes them more credible than sanctions, so that q_{IS} is likely to be greater than q_{SS} . In short, sanctions work best when there is a credible framework for their enforcement (q_{SS} is high) and when the transaction cost η_{SS} is low and it is hard for the target country to work around them to reduce the harm suffered.

Theoretical models of sanctions

Our theoretical framework nests many of the existing models in the literature on sanctions which conceptualize sanctions as sender-receiver games. The foreign power (the sender) “sends” a sanction threat. If the target country (the receiver) does not acquiesce, then the sender decides whether or not to implement the sanction. Under complete information, sanctions are never imposed in equilibrium, as in our principal-agent set-up: either the target country acquiesces because its leader is too weak to survive the sanction and adjusts its policy or else sanction threats are incentive incompatible because the leader of the target country is strong enough to survive them and the foreign power does not attempt to use this strategy (Spaniel and Smith 2015).

In practice, however, sanctions are (sometimes) imposed. There are two main theoretical reasons why sanction threats may not be sufficient to get target countries to acquiesce and the foreign power, therefore,

implements the threat in equilibrium. The first reason is asymmetric information, either about the target country's or the foreign power's type. [Spaniel and Smith \(2015\)](#) study the situation where the type of the target country's leader is private information and not observed directly by the foreign power. Some leaders are too weak to politically survive sanctions and would under perfect information respond to the sanction threat by adjusting policy to please the foreign power. Others are politically strong and can survive a sanction and would never acquiesce to a threat making the threat useless as a tool of foreign influence.³⁴ Weak leaders clearly have an incentive to bluff strength by not backing down in the face of a threat and pretend to be strong to avoid the sanction and will, in equilibrium, do so with some probability. The foreign power knows this and is unable to separate weak leaders from the strong ones after the sanction threat has been issued. In a semi-pooling (perfect Bayesian) equilibrium, it is optimal for the foreign power to threaten *and* impose sanctions with positive probability in order to incentivize weak leaders to bluff strength less often. Since stronger leaders are more likely not to react to sanction threats than weak leaders, the foreign power often ends up imposing sanctions against those leaders who are more able to resist the political cost of sanctions and who will not give in. This makes both the sanction threat and the actual imposed action ineffective in achieving the policy change desired by the foreign power.

[Hovi, Huseby, and Sprinz \(2005\)](#) study the opposite situation where it is the foreign power's type that is private information. Some foreign powers are serious about implementing a sanction threat while others are not but the target country does not which type of foreign power it faces when deciding whether or not to adjust its policy in response to the sanction threat. If the target country underestimates the foreign power's willingness to actually impose the sanction, it will take the chance and ignore the threat. The foreign power, in turn, will only implement the sanction if its sanction threat was serious to begin with. In a separating perfect Bayesian equilibrium, therefore, sanctions occur when the foreign power is willing to go through with the threat; in response to this, the target country *ex post* adjusts its policy and the sanctions, having proved effective, are lifted.³⁵

The second reason why sanctions may be imposed in equilibrium, explored by [Hovi, Huseby, and Sprinz \(2005\)](#), is that sanction policies are "lumpy". The idea is that sanctions cannot be fine-tuned perfectly as in our model. However, between not imposing any sanction and imposing the most potent (incentive compatible) one that will induce the target country to acquiesce for sure, the foreign power has the option of imposing lenient sanctions that are less costly to both parties but will *not* induce the target country to adjust its policy. The foreign power may nevertheless want to impose lenient sanctions in equilibrium to reduce audience cost. This is optimal, because the foreign power would incur considerably bigger audience costs by doing nothing than by imposing lenient sanctions and because imposing potent sanctions would entail very large sanctions costs.

In our model, the probability q_{SS} captures the credibility of the sanction strategy. Credibility is directly related to whether or not imposed sanctions can be enforced. [Bapat and Kwon \(2015\)](#) model the enforcement problem associated with a sanction policy that bans firms from the foreign power trading with the target country. They emphasize that firms with business interests in the target country have an incentive to unlawfully undermine the sanction and if insufficient resources are allocated to monitor and check such behavior, the sanction will be ineffective. This is likely to happen in two cases. First, if the overseas economic

³⁴This would correspond to $\eta_{SS} = 0$ in our model.

³⁵[Whang, McLean, and Kuberski \(2013\)](#) extend this logic and allow for private information for both the foreign power and the target country.

interests of firms from the foreign power operating in the target country are insignificant, sanctions, even if enforced, will have little effect and be ineffective. Second, at the other extreme, if the firms from the foreign power have major overseas economic interests, then sanctions will be unenforceable because the incentive to undermine them is too strong. The implication, then, is that sanctions are most likely to be successful (as a threat) in situations in which firms from the foreign power have a moderate economic interest in the target country.³⁶

The power to hurt is central to many theoretical models of sanctions and is captured by the transaction cost parameter η_{SS} in our model. The power to hurt is related to how easy it is for the target country to replace trade with the foreign power that imposes the sanctions with trade from other countries (Kavakli, Chatagnier, and Hatipoglu 2019). Importantly, the cost of actual sanctions can be manipulated strategically because it does not only depend on the power to hurt but also on the power to resist. For example, Afesorgbor (2019) argues that the threat of a sanction might undermine the effectiveness of the sanction once it is imposed. This can happen if the target country stockpiles to-be-sanctioned goods prior to the actual implementation of the sanction. Beladi and Oladi (2015) distinguish between “smart sanctions” that hurt only the politicians in the target country and “dumb sanctions” that hurt the entire population. “Smart sanctions” are likely to be better at inducing policy changes than “dumb sanctions” because they affect directly the incentives of the politicians with the power to give in to the foreign power’s demand. The power to hurt will also depend on whether sanctions are unilateral or multilateral. Ultimately, sanctions are a network phenomenon and most effective if done multilaterally (Cranmer, Heinrich, and Desmarais 2014).

Empirical evidence on sanctions

The theoretical literature highlights many important challenges facing empirical work that aims at evaluating if sanctions are effective in achieving the goals of the country or countries that impose them. A major challenge is that the selection of target countries is not random and this may bias estimates of sanction effectiveness. For example, sanctions that are actually imposed may fail because those sanctions that would have been successful are never imposed – the threat is enough – and are thus not observed. It is, therefore, important to develop new ways to quantify the effectiveness of sanction threats.³⁷ Another major challenge is related to measurement.³⁸ Results in the existing empirical literature are highly sensitive to the underlying data sources and to the conceptualization of what constitutes a sanction or a sanction threat.³⁹ Therefore, to gain a better understanding of the effectiveness of sanctions, we need a more detailed categorization that captures the heterogeneity and complexities of different types of sanctions and which will allow researchers

³⁶Bapat and Kwon (2015) report evidence consistent with this micro-foundation.

³⁷Whang, McLean, and Kuberski (2013) estimate a structural model that enables them to quantify the “coercive power of sanction threats” through trade relationships. They show that sanction threats are effective if the target country is more vulnerable to the disruption of the sender-target trade relationship than the country that imposes the sanction (the sender). They also find that the likelihood that the target country offers concessions increases if there is significant common interests between the foreign power and the target country. Peterson (2013) establishes that the credibility of US sanction threats is affected by its reputation given by past sanction threat episodes. The audience or reputation effect is stronger among sanction threat episodes that are similar.

³⁸The two main datasets used in the sanction literature are (1) the two editions (HSE and HSEO) of the Peterson Institute for International Economics’s database on International Economic Sanctions (Hufbauer, Schott, and Elliott 1990, Van Bergeijk and Siddiquee 2017) and (2) the Threat of Imposition and Economic Sanctions (TIES) database (Morgan, Bapat, and Krustev 2009, Morgan, Bapat, and Kobayashi 2014). This latter database was designed to address shortcomings of the first.

³⁹For example, Bapat and Clifton Morgan (2009) dispute the conclusion that unilateral sanctions are more effective than multilateral sanctions. They show that this result holds with data from the HSEO database, but it is reversed with data from the TIES database. Wallace (2013) provides example. He shows how findings suggesting that there are fewer sanctions between democracies are also heavily dependent on the dataset used.

to investigate how different aspects of a sanction policy may have different effects. It is also important to develop better measures of the cost of sanctions, not only for the target country but also for the foreign power that imposes them.

As discussed above, asymmetric information about the target country’s willingness to grant concessions or the sanctioning country’s commitment to its sanction policy is one reason why *sanction threats* lead to *actual* sanctions. Over time the uninformed party can learn about the other party’s type. Empirically, [Spaniel and Smith \(2015\)](#) use the tenure length of the targeted country’s leader to quantify this learning process. They find, consistent with theory, that the longer the tenure of the leader of a country is, the lower is the probability that a sanction is imposed on that country. Another important question is how long sanctions last and why. [Krustev and Morgan \(2011\)](#) argue that two factors are important. First, sanctions create winners and losers in both the target country and the foreign power that imposes them. As sanctions go on for some time they alter the political balance between the winners and losers as the winners convert their economic rents into political advantages with implications for how fast sanctions are lifted. Second, audience costs, in particular the penalty the foreign power faces if it capitulates by lifting its sanctions before it has caused the target country to adjust its policy, on the one hand, speed up target country capitulations but, on the other hand, delay capitulations by the foreign power that imposes the sanction. Using duration analysis, [Krustev and Morgan \(2011\)](#) show evidence that is consistent with this.

It is an open question how to measure the actual cost of sanctions to the target country and to the foreign power. The two commonly used datasets on sanctions only include ordinal indicators of the sanctions cost for the two parties. To obtain cardinal measures of the sanction cost, one can use the difference in trade levels before and after the sanctions are imposed, but this measure is most likely biased upwards since most sanctions are imposed following a sanction threat. [Afesorgbor \(2019\)](#), for example, finds that a sanction threat leads to an increase in trade flows, due to strategic stockpiling prior to the implementation of the sanctions. Consequently, the measured drop in trade flows after the sanctions are implemented overestimates the true reduction in trade due to the sanction itself. Measuring the capacity of sanctions to hurt is even more complicated. [Bapat and Kwon \(2015\)](#) suggest using the foreign power’s market share in the target country as a proxy. This is problematic because it does not capture the target country’s power to resist being hurt by sanctions. However, this can be proxied by how important a trading partner the foreign power that imposes the sanctions is to the target country. What matters in the end for the power to hurt and the power to resist is the cost of finding alternative trade partners. Based on this logic, [Kavakli, Chatagnier, and Hatipoglu \(2019\)](#) quantify the cost of sanctions through a revealed comparative advantage calculation that, for each commodity category, takes into account the number of unique goods exported by the target country (“target export variety”) and the distribution of the value of these goods within the target country’s export portfolio (“target export portfolio concentration”). These two variables measure the target country’s ability to adapt domestically and to raise the foreign power’s cost of maintaining the sanction regime. Their empirical analysis indicates that sanctions are more likely to succeed (in getting the target country to adjust its policy) when the foreign power has a comparative advantage in its exports to the target country, but more likely to fail if the target country’s export portfolio is diverse or if the target country has a comparative advantage in the goods that it exports to the foreign power.⁴⁰

The empirical literature also uncovers many potentially adverse consequences of sanctions on economic

⁴⁰See [Crozet and Hinz \(2016\)](#) for an attempt to measure the costs that sanctioning countries inflict on themselves during the diplomatic crises between the Russian Federation and 37 countries over the Ukrainian conflict.

growth and development (Neuenkirch and Neumeier 2015), on income distribution (Afesorgbor and Mahadevan 2016), on the poverty gap (Neuenkirch and Neumeier 2015) and even on the likelihood of currency crises (Peksen and Son 2015). It remains an open question whether the “sanctioning” country internalizes any of these adverse effects when deciding whether or not to impose sanctions, or whether they are ignored in their strategic calculations. In that case, these adverse effects could be considered “unintended consequences” of the sanction policy.

6.3 Unconditional aid

While the reward and the sanction interventions discussed in the previous sections are clearly aimed at influencing the policy choices of the target country, unconditional foreign aid is not designed to influence these policy choices per se, but nonetheless it may have that consequence. To see how, return to our model and consider the benchmark scenario (from Section 4.2) without any strategic intervention. In this scenario, the two countries decide independently their optimal policy. Suppose that the foreign power gives unconditional aid (A) to the target country without making any policy demands at all. This benefits the target country but because of partial preference alignment A also enters the objective function of the foreign power. We have

$$W_D(t_D, t_F; A) = \beta W_{D,1}(t_D, t_F; A) + (1 - \beta) W_{D,2}(t_D, t_F; A) \quad (16)$$

$$W_F(t_D, t_F; A) = \gamma_F W_{D,1}(t_D, t_F; A) + w_F(t_D, t_F; A). \quad (17)$$

An exogenous (non-strategic) increase in aid (A) changes the policy choices (t_D, t_F) made by the two countries as long as the aid inflow affects the marginal value of adjusting the policy instruments. This will have welfare consequences for the two countries which, by assumption, are unintended and overlooked by the foreign power that donates the aid.

There is a very substantial literature on development aid and its effect on policy choices in the recipient countries. Amongst many other effects, empirical studies have found that aid reduces the need for tax collection, weakens government accountability which harms political rights, increases state repression, and strengthens authoritarian governance. Unconditional aid is fungible and often captured by politicians and used to increase their re-election chances.⁴¹ Even aid projects that are explicitly designed to prevent political capture of funds can benefit incumbent politicians through undeserved credit claiming that will garner support from poorly informed voters.⁴²

However, the fact that politicians in aid receiving countries can divert aid for their own benefit when it is fungible and unconditional does not necessarily imply that aid is non-strategic. After all, the donor country chooses *how* to give aid and this choice might be fully strategic. Bermeo (2016) proposes a model in which a donor decides whether or not to offer an aid package to a recipient country and, if it so decides, how much fungible and non-fungible aid to offer. Fungible aid increases the recipient’s government budget while non-fungible aid is used for purposes the recipient government would not have pursued otherwise and

⁴¹See, e.g., Jablonski (2014), Bueno de Mesquita and Smith (2009), Faye and Niehaus (2012), Yuichi Kono and Montinola (2009), Labonne (2013), Licht (2010), Ahmed (2016).

⁴²Cruz and Schneider (2017) study undeserved credit claiming for the World Bank funded KALAH-CIDSS project in the Philippines. Although local politicians could not influence the likelihood of having their municipality selected into the program and they could not get hold of the funds directly, local politicians claimed credit and the likelihood of re-election in municipalities that received KALAH-CIDSS projects increased significantly.

is thus linked to a policy demand. While [Bermeo \(2016\)](#)’s model is designed to study the effect of aid on democratization, her main point is more general: the fungibility, as well as the conditionality, of aid is a strategic choice. So, does non-strategic aid really exist? Although the donor country might be unaware of certain consequences and not consider all potential consequences of aid carefully, it is also possible that these consequences are intended and unconditional aid is used strategically to affect the political equilibrium in the recipient (target) country.

7 Institution Intervention (II)

Rather than seeking *direct* influence on the policies adopted in the target country, a foreign power can seek to influence the institutional framework that governs which policies the target country adopts and thus *indirectly* influence these policy choices. These institution interventions differ in multiple ways. Some involve covert operations to overthrow leaders and provoke political regime transitions (from democracy to autocracy or the other way around); others involve meddling in elections or making aid and trade deals contingent on reforms to the political system; and yet others involve causing, prolonging, or ending civil war.⁴³

Conceptually, it is helpful to distinguish between *regime interventions* that do not result in a long-lasting violent conflict and *conflict interventions* that involve a costly civil war. The aim of both intervention strategies is to affect the balance of power in the target country in favor of the group with the strongest alignment with the geopolitical and economic interests of the intervening foreign power ([Krasner and Weinstein 2014](#)). Regime and conflict interventions often involve similar instruments, such as intelligence or military support, or aid and sanctions, but differ in the costs they impose on the target country and in the depth of the induced institutional change: civil wars cause significant economic disruption, while “clinical” regime change interventions or meddling in elections are, typically, less costly and less destructive.

There are, of course, also situations in which a change in political institutions are *unintentionally* caused by another type of foreign intervention. For example, agreements with the IMF belong to the class of policy interventions discussed in Section 6, but can have effects on the level of democracy ([Barro and Lee 2005](#)) or even cause political regime transitions ([Aidt, Albornoz, and Gassebner 2018](#)). More generally, insofar as foreign interventions create winners and losers, the bargaining power of the different groups in the target country is affected by any form of foreign intervention, irrespective of whether the intervention was directly targeted at this or not.⁴⁴ The emphasis of this section, however, is on strategic foreign interventions that deliberately aim at shifting the distribution of power between groups in the target country.

7.1 Regime interventions (RI)

One of the strategies in the foreign power’s intervention arsenal is to help create a political regime that empowers the group in the target country most strongly aligned with its economic or geopolitical interests. This strategy circumvents, to some extent, the credibility problems associated with policy concessions obtained under the type of policy interventions that we discussed in Section 6. For this to be so, however, the induced regime change must be durable and harder to reverse than policy interventions; it must insure that

⁴³[Kinzer \(2007\)](#), [Bonfatti \(2017\)](#), [Downes and Monten \(2013\)](#), [Owen \(2010\)](#), [Lo, Hashimoto, and Reiter \(2008\)](#) or [Pickering and Peceny \(2006\)](#) and many others provide evidence, examples, and analysis of these types of foreign interventions.

⁴⁴For example, losers from a policy intervention may be more willing to engage in conflict ([Hartzell, Hoddie, and Bauer 2010](#)). Alternatively, if the losers belong to the economic elite, a policy intervention may trigger a political regime transition via a coup d’état ([Casper 2017](#)).

the aligned group attains long-lasting control over the policy decision making process in the target country (Acemoglu and Robinson 2000; 2001). Still, this advantage comes at a cost: regime change operations require significant funds, and even when they are successful, policy decisions remain uncoordinated and policy externalities will not be internalized.

To develop the logic of regime interventions, let us return to the unifying model. Recall that the policy preferences of the foreign power (country F) are aligned with those of group 1 in the target country. A regime intervention is, therefore, aimed at increasing the bargaining power of group 1 in the political calculus, i.e., to raise β from its initial value to a higher post-intervention value $\beta_{RI} > \beta$. It is costly for the foreign power to trigger a regime change, but the associated political regime transition does not impose a direct output loss on the target country; this is the main difference between a regime intervention and a conflict intervention. Regime interventions include, for example, a coup d'état that is concluded in a matter of days, interventions that facilitate a peaceful transition to democracy, or interference in elections in existing democracies. The cost to the foreign power reflects direct costs (e.g., the cost of covert operations) and indirect reputation costs. Specifically, let the bargaining power of group 1 be

$$\beta_{RI} = \begin{cases} \bar{\beta} > \underline{\beta}, & \text{if } I_F \geq \bar{I}_F \\ \underline{\beta} > \beta, & \text{if } \bar{I}_F > I_F \geq \underline{I}_F, \\ \beta & \text{otherwise} \end{cases} \quad (18)$$

where I_F is the cost to the foreign power of the regime intervention. If the cost is higher than the lower threshold \underline{I}_F , then a minor regime intervention succeeds in increasing the aligned group's bargaining weight from β to $\underline{\beta}$; if the cost is higher than the upper threshold \bar{I}_F , then a major intervention succeeds in increasing the aligned group's weight from β to $\bar{\beta} > \underline{\beta}$. The foreign power, therefore, has a choice between a minor or a major regime intervention. A major intervention is more costly to orchestrate and represents a fundamental change in the institutions that governs policy making in the target country, such as overthrowing a democracy and replacing it with a dictatorship or vice versa. A minor regime intervention is less costly but its effect on the institutional arrangements in the target country is also less significant. Minor interventions capture regime interventions aimed at meddling in the electoral process, or at "assisting" the target country holding democratic elections.

After an intervention, the two governments adopt the uncoordinated policy, which will reflect the new allocation of bargaining power in the target country. We denote these policy choices by $t_D(\beta_{RI})$ and $t_F(\beta_{RI})$, respectively, and we index the equilibrium payoffs (gross of the cost of intervention) by β_{RI} and write the foreign power's payoff as $W_F(RI, \beta_{RI}) \equiv W_F(t_F(\beta_{RI}), t_D(\beta_{RI}))$. It is clear that $W_F(RI, \bar{\beta}) > W_F(RI, \underline{\beta}) > W_F(RI, \beta) = W_F(U)$ because the foreign power is better off playing the uncoordinated policy game with a government in the target country in which group 1 has more weight. A major intervention pays off for the foreign power relative to no intervention if

$$W_F(RI, \bar{\beta}) - W_F(U) \geq \bar{I}_F, \quad (19)$$

and a minor intervention is better than no intervention if

$$W_F(RI, \underline{\beta}) - W_F(U) \geq \underline{I}_F. \quad (20)$$

If both of these inequalities hold, then the optimal regime intervention strategy is the one with the greatest net payoff. An important question is under which circumstances the optimal regime intervention is better than signing an international agreement with the target country (IA) or an optimally chosen policy intervention (either IR or IS). These three alternatives require commitment. In the extreme when there is no commitment at all ($q_{IA} = q_{IR} = q_{IS} = 0$), the foreign power's payoff is $W_F(U)$ for all of these three strategies. It is, therefore, clear that the optimal regime intervention dominates when the cost of intervention is low (equations (19) or (20) are satisfied) and when the credibility of the other strategies is low. The strength of the policy externalities is also important. If, for example, there were no policy externalities and agreement, reward, or sanction interventions are equally credible, the regime intervention strategy will be optimal (for low \underline{I}_F or \bar{I}_F). This occurs because the main issue is preference alignment and a regime intervention operates directly on that margin. In short, the regime intervention strategy works best in environments with modest policy externalities and in which the foreign power cannot commit to agreements, rewards, or sanctions. A major intervention is the best choice when it is possible to increase β a lot at relatively low cost.

The theoretical literature on regime interventions

The theoretical literature on regime interventions is more specific about the intervention mechanisms than our model and distinguishes between three regime intervention types reflecting different degrees of change in the target country's political institutions. First, the foreign intervention can be aimed at influencing election outcomes in the target country. [Antràs and Padró i Miquel \(2011\)](#) develop a two-country probabilistic voting model in which a foreign power can, at a cost, influence the perception that voters in the target country have of their politicians. The motivation for doing this is that it affects the platform choices of the candidates running for office and thereby help internalize (trade) policy externalities to the advantage of the foreign power. At equilibrium, the incumbent and the opposition in the target country commit to a policy platform that maximizes a weighted sum of domestic and foreign welfare, trading off domestic utility and the threat of foreign intervention. It is the threat itself that sustains these platforms. No foreign intervention – meddling in the election process – actually occurs in equilibrium. The more powerful the foreign power is, the more it can tilt the policy outcome in the target country in its favor. This is an example of a regime intervention that operates through (a threat of) meddling in elections; it does not aim to fundamentally change the political institutions, but to change who gets elected and on which platform.⁴⁵

Second, foreign intervention can be aimed at triggering a political regime transition or at propping up an existing regime that would otherwise fail. [Aidt and Albornoz \(2011\)](#) show how this works within the context of the theory of political transitions developed by [Acemoglu and Robinson \(2000; 2001; 2005\)](#). In this framework, regime interventions are one way to protect the return on foreign direct investment (FDI) in the target country. Foreign firms want low profit taxes. This objective is shared by the economic elite that controls tax policy if the target country is an autocracy. Therefore, foreign regime interventions are aimed at strengthening the power of the target country's economic elite (corresponding to a high value of β in our model). In equilibrium, the foreign intervention either stabilizes an existing autocracy or sponsors a coup d'état against a vulnerable democracy. The analysis shows that pro-autocracy interventions require a foreign power with a substantial pro-investor bias and high income inequalities in a target country with highly profitable FDI opportunities. Foreign-sponsored coups d'état are also more likely to be directed at

⁴⁵ Another way to induce power shifts is to sponsor political unrest or strikes in the target country as in the model of elections in the shadow of out-of-equilibrium threats developed by [Ellman and Wantchekon \(2000\)](#).

democratic governments of poor countries.⁴⁶

Third, the foreign intervention can be aimed at supporting democratization. This can happen through sanctions against an authoritarian regime. [Oechslin \(2014\)](#) highlights that the success of pro-democracy sanctions hinges on how resistant the political elite of the target country is to such sanctions.⁴⁷ Sanctions make foreign inputs in the production process in the target country scarce. Democracy can be established by a costly revolt or by voluntary exit of the elite. The incumbent political elite can respond to sanctions by strategically making internal revolt more costly, but at the cost of lower economic output. The autocratic elite may, therefore, look for exile opportunities as an alternative. If the payoff from exile is relative high, sanctions may be successful in inducing a voluntary exit of the autocratic elite and in that way pave the path towards democracy. If the value of exile is relative low, the elite will resist and sanctions will eventually be lifted before any transition to democracy takes place.⁴⁸

Another mechanism through which a foreign power can strengthen democracy in a semi-autocratic target country is to support fair and free elections through election monitors. Such efforts are, however, often undermined by the strategic behavior of autocrats. For example, an autocratic leader fearing a revolution might be willing to call an election and pretend to democratize. The reason is that elections are informative about the strength of the opposition ([Little 2012](#)). This signal is especially valuable for moderately insecure autocrats who would have a fair chance of doing well in an election and, in that way, to consolidate their power. Any electoral fraud committed by such an autocrat will naturally be discounted by voters and, therefore, make elections less effective in lowering the risk of revolution. This makes election monitoring valuable to autocrats as a commitment device: it ties their hands and lowers equilibrium fraud. For this reason, elections might be held that would not occur in the absence of monitoring, but rather than strengthening democracy, they may end up propping up autocrats. Another consideration, highlighted by [Chernykh and Svolik \(2015\)](#), is that incumbent autocrats may, in fact, be better informed about their popular support than opposition groups. Ill-informed opposition groups can use election results to infer how much opposition there is to the incumbent regime, knowing that the incumbent autocrat has an incentive to misrepresent the election outcome. In case the autocrat claims victory, the opposition can either concede the election or attempt to unseat the incumbent in a costly post-election uprising. In this context, foreign election monitors who can publicly certify the election outcome might induce self-enforcing compliance with the election result. This is because the certification helps the opposition to (correctly) infer the level of opposition to the regime and because it reduces the incentive of the incumbent to misreport. A weakness of the theoretical literature on election monitors is that the decision by the foreign power to monitor elections is not treated as a strategic decision. This is an important shortcoming that needs to be addressed by future research.

⁴⁶[Bonfatti \(2017\)](#) argues that foreign intervention is motivated by more than economic benefits and that geopolitical motives play an important role. In his framework, two foreign powers with different geopolitical interests in a target country aim at improving the terms of a trade agreement with the target country. They do this by sponsoring a political regime transition that empowers the social group in the target country most closely aligned with the sponsoring foreign power's interest. If a regime change occurs, then it not only affects the distribution of resources between social groups in the target country, but also the terms of the international trade agreement. Typically, only the foreign country with the most significant geopolitical and trade interest intervenes, and when it does, it is always in favor of the social group in the target country that is most pro-trade.

⁴⁷[Naghavi and Pignataro \(2015\)](#) develop a model where religion can foster resilience in a target country.

⁴⁸[Wright \(2009\)](#) models the effect of conditioning foreign aid on democratic reform. He shows that the success of such aid in triggering a transition to democracy depends on whether or not the autocratic leaders expect to remain in office after the transition. [Aidt, Albornoz, and Gassebner \(2018\)](#) also study the effect of aid (in the form of loans from international organizations) on regime change. Their starting point is the observation that new loans are often given in the aftermath of a regime transition as a "golden hello". The analysis shows that such aid can create regime instability and trigger political transitions that would not otherwise have occurred. A weakness of both of these papers is that the foreign power is not a strategic player.

The empirical literature on regime interventions

The recent declassification of CIA and KGB files from the Cold War era has created opportunities for empirical research on US- and Soviet-sponsored covert regime interventions. [Berger, Corvalan, Easterly, and Satyanath \(2013\)](#) show that *covert* CIA interventions are not associated with improvements in the quality (or adoption) of democratic institutions. Quite the opposite, successful CIA interventions abroad are associated with significant short and medium term declines in democracy in the target countries. Along similar lines, [Downes and Monten \(2013\)](#) report that *overt* foreign interventions rarely lead to democratization even when initiated by democratic countries. Economic motives played an important role for US foreign interventions during the Cold War. The work of [Berger, Easterly, Nunn, and Satyanath \(2013\)](#) show that successful CIA interventions gave US exporters a larger market share in the target countries in industries in which the US had a comparative disadvantage. As a consequence, these interventions helped US firms and harmed firms in the target country. Importantly, the benefits of US regime interventions were not confined to trade and they were often directed at target countries where US companies were under threat of expropriation. [Dube, Kaplan, and Naidu \(2011\)](#) show that the stock market value of threatened firms increased the day the CIA operations were approved, i.e., before they actually took place. This suggests that the US firms that benefited from these interventions knew about them in advance.

Foreign interventions in elections abroad are common. They take two forms: (1) support for particular candidates or parties running in an election abroad and (2) support for the electoral process itself through legal advice, electoral assistance, and election monitoring ([Kelley 2012](#)). First, [Levin \(2016\)](#) defines an election intervention aimed at influencing the outcome of a particular election “as a situation in which one or more sovereign countries intentionally undertakes specific actions to influence an upcoming election in another sovereign country in an overt or covert manner that they believe will favor or hurt one of the sides contesting that election and which incurs, or may incur, significant costs to the intervener(s) or the intervened country (p. 192)”. The methods used include financing the preferred candidate’s or party’s campaign, sabotaging the campaign of unwanted candidates or parties, making threats and promises prior to the elections to cut-off or give aid or concessions depending on who wins the election. In recent elections, foreign powers have used various social media strategies to influence elections abroad by targeting the turnout of particular groups of voters. New data on US, Soviet, and post-Soviet Russian election interventions reveal that these countries intervened in as many as one-ninth of all competitive national executive elections held around the globe between 1946 and 2000 and that these interventions significantly increased the electoral chances of the aided candidate ([Levin 2016](#)). The analysis also shows that overt electoral interventions tend to be more effective than covert ones. This type of intervention serves to undermine democratic legitimacy.

Second, foreign regime interventions aimed at promoting the democratic process rather than influencing the outcome of a particular election tend to be overt. Electoral assistance and monitoring, aid conditional on democratization (holding elections) and sanctions for the failure to do so are the most common mechanisms used to achieve this goal. How effective these different measures are at promoting democracy is, however, an open question. Firstly, technical election assistance and monitoring are cheap ways for a foreign power to promote democracy abroad and to strengthen democratic accountability in target countries with weak electoral institutions. On the one hand, by helping with the organization of free and fair elections, democratic values are disseminated ([Finkel, Pérez-Liñán, and Seligson 2007](#)). Furthermore, international monitoring might have an effect on politicians’ incentives to conform with the principles of fair and free elections,

as suggested in the theoretical models discussed above. If monitoring has this effect, the win probability of opposition candidates should increase and electoral fraud should diminish, while protest after fraudulent elections should increase in elections that are subject to monitoring. The empirical evidence broadly supports this. [Kelley \(2004\)](#) reports that election monitoring increases government turnover. [Roussias and Ruiz-Rufino \(2018\)](#) combine information on international election monitoring with electoral outcomes in newly established democracies with multi-party elections and find that the presence of monitors substantially reduces the margin of victory of the incumbent relative to the opposition and facilitates power transitions. One challenge for research on the effect of election monitors on election outcomes is that an incumbent government's willingness to accept external monitoring might be systematically related to how it expects to do in the election to be monitored. [Hyde \(2007\)](#) deals with this problem by exploiting that international election monitors were randomly assigned to polling stations in the 2003 presidential election in Armenia. She finds a reduction in the vote share for the incumbent in polling stations that were (randomly) monitored. Moreover, the presence of monitors reduced election day fraud considerably. Using data on opposition mobilization after flawed elections in Latin America and in various post-communist countries, [Donno \(2010\)](#) finds that the presence of election monitors, who can denounce electoral fraud, mobilizes the opposition to challenge suspected fraud and increases the likelihood of democratic consolidation. To summarize, the evidence suggests that technical election assistance and monitoring can promote democratic values and accountability and reduce fraud. However, identifying the conditions under which monitoring best works remains an open question for research.

Secondly, conditional aid and sanction threats can also be used to promote democracy, but are more costly to the foreign power than technical election assistance and their effectiveness is questionable.⁴⁹ [Downes and Montén \(2013\)](#) argue that the effect of these intervention strategies on democracy depends on whether they involve replacing one leader with another while leaving institutions largely unchanged or whether they lead to more fundamental changes in the political institutions themselves. They compare pairs of countries that have and have not experienced a foreign-induced regime change but which otherwise share similar characteristics. They find that interventions that simply overthrow the incumbent leader do not lead to subsequent democratization. In contrast, interventions that push for institutional change do promote democracy but only in countries in which pre-existing conditions are favourable for democratic consolidation. This limits the effect of this class of interventions on democracy. [Carnegie and Marinov \(2017\)](#) investigate how persistent the effect of conditional aid on democratization is. They exploit the rotating presidency of the Council of the European Union as a novel source of exogenous variation in who gets aid from the European Union.⁵⁰ Exploiting this identification strategy, they show that foreign aid has a positive effect on human rights and democracy, but these effects are short-lived. Moreover, as already pointed out by the theoretical models discussed above, an incumbent autocrat often react strategically to the conditions imposed by the foreign power. [Wright \(2009\)](#) empirically shows that autocrats who are supported by a large (distributional) coalition and therefore have a good chance of winning a free and fair election, tend to respond to conditional aid by democratizing. In contrast, conditional aid is counter-productive and helps autocrats hang on to power when they are supported by a small (distributional) coalition and chose to ignore the conditionality.

⁴⁹[Dunning \(2004\)](#) shows that aid to sub-Saharan Africa made contingent on democratic reform promoted democracy only after, but not during, the Cold War; during the Cold War the geopolitical cost of losing clients likely overrode any benefit from successfully promoting democratic reforms amongst the target countries.

⁵⁰They find that if a country's former colonizer holds the presidency of the Council, then the country receives considerably more foreign aid than other aid receiving countries.

This is consistent with the selectorate theory discussed above and suggests that the effectiveness of making aid conditional on holding elections or undertaking other democratic reforms depends critically on what type of autocracy the target country has. Moreover, [Sarr, Ravetti, and Swanson \(2015\)](#) argue that one important motivation for giving aid to resource-rich autocrats is to obtain claims on resources through a regime change in which a regime or ruler has been deposed or forced from power in a non-constitutional manner. A similar problem arises in relation to sanctions aimed at promoting institutional change and democracy. Generally, autocrats use a combination of repression and public funds to buy loyalty to stay in power ([Wintrobe 2000](#)). [Escribà-Folch and Wright \(2010\)](#) and [Escribà-Folch \(2012\)](#) study how autocratic leaders adjust public spending in the presence of sanctions. Their results suggest that personalist autocracies are more likely to be destabilized by sanctions than other types of autocratic regimes. The likely reason is that these regimes are particularly sensitive to the loss of external revenue to fund patronage. Therefore, while sanctions increase the likelihood of a democratic change in personalist autocracies, they have no effect in single-party and military dictatorships.

7.2 Conflict Interventions (CI)

Regime transitions or leader replacement often happen through violent conflict (e.g., through a civil war or a revolution). Foreign powers, therefore, have a stake in conflicts abroad and may get involved by provoking a conflict, by taking side in an ongoing conflict, or by trying to terminate one that has already started. The underlying motive is to empower the groups in the target country whose policy preferences are aligned with those of the foreign power. To organize the literature, we distinguish *conflict-creating interventions* from *peace-keeping interventions*. While these forms of intervention share the same goal of influencing the post-conflict political regime, the underlying logic differs, as do the normative implications.

7.2.1 Conflict-creating interventions (CCI)

This strategy involves the foreign power in a violent and costly conflict in the target country. Since regime change happens through a violent conflict that destroys part of the target country's economic output, conflict-creating interventions are costly to the intervening foreign power and to all groups in the target country.

To develop the implications of this form of intervention, let us return to the unifying model and assume that the two groups in the target country may engage in a violent conflict. The winner of such a conflict takes power such that $\beta_{CCI} = 1$ if group 1 wins and $\beta_{CCI} = 0$ otherwise. The winner selects the policy as in the benchmark case with no international policy coordination (see [Section 4.2](#)) and payoffs are $W_{D,1}(\beta_{CCI})$, $W_{D,2}(\beta_{CCI})$ and $W_F(\beta_{CCI})$. If there is no conflict, then the status quo institutional arrangement with $\beta \in (0, 1)$ determines the political power of each group, and the payoffs are $W_{D,1}(U)$, $W_{D,2}(U)$ and $W_F(U)$. We further assume that no side-payments are possible. This prevents the possibility of buying peace by conceding sufficiently to the other side. In the absence of a foreign intervention the probability that group 1 wins a conflict is p . A conflict breaks out if at least one of the groups is willing to start it. Before the groups decide on this, however, the foreign power can make a promise, which it will honor with probability q_{CCI} , that it will support group 1 – the group with aligned policy preferences – if a conflict starts.⁵¹ Foreign intervention (say military aid or technical assistance) increases the win probability of group 1, as perceived

⁵¹We assume that the foreign power does not know if it will be able to honor the promise when it makes it. The interpretation is that the foreign government in power at the time wants to commit but it cannot bind the hands of future governments.

ex ante by the two groups and the foreign power, to $p_{CCI} = p + q_{CCI}\epsilon < 1$, where ϵ is a measure of how much the intervention improves the win probability of group 1. Group $i \in \{1, 2\}$ starts a conflict if

$$W_{D,i}(CCI) \equiv p_{CCI}W_{D,i}(1) + (1 - p_{CCI})W_{D,i}(0) - W_{D,i}(U) - c \geq 0, \quad (21)$$

where c is the welfare cost of a conflict. This cost is shared by everyone in the target country. If the win probability of group 1 is p' , then we can write the foreign power's expected policy-related payoff with conflict in the target country as:

$$\begin{aligned} W_F(p') &= p'W_F(1) + (1 - p')W_F(0) \\ &= p'[\gamma_F W_{D,1}(1) + w_F(1)] + (1 - p')[\gamma_F W_{D,1}(0) + w_F(0)] - \gamma_F c. \end{aligned} \quad (22)$$

We notice that the foreign power partly internalizes the cost of the conflict ($\gamma_F c$) in the target country. This is because it cares about the welfare of group 1, as long as $\gamma_F > 0$. We call this the alignment effect. On top of this, the foreign power needs to pay the direct cost of intervention $c_F > 0$.

A conflict-creating intervention can take two forms. First, it can trigger a conflict. Second, it can tilt the balance in an already ongoing conflict in favor of group 1. The first case is relevant if equation (21), evaluated at $p_{CCI} = p$, fails for both groups but holds for group 1 at $p_{CCI} = p + q_{CCI}\epsilon$.⁵² This requires:

$$\epsilon \geq \frac{1}{q_{CCI}} \left[\frac{c}{W_{D,1}(1) - W_{D,1}(0)} - p \right]. \quad (23)$$

This condition shows that the intervention can trigger a conflict that would not otherwise start if the assistance provided is sufficiently effective (ϵ is large), if the promise of support is credible (q_{CCI} is close to 1), and if the cost of fighting is not too large (c is low). We stress that it is possible for a conflict to be triggered on the basis of *expectations* of a foreign intervention. To evaluate if the foreign power wants to support group 1 in a potential conflict, we note that the foreign power's expected payoff if it intervenes and a conflict breaks out is

$$W_F(CCI) = W_F(p_1 + q_{CCI}\epsilon_1) - q_{CCI}c_F, \quad (24)$$

where $W_F(p_1 + q_{CCI}\epsilon_1)$ is the foreign power's policy-related expected payoff if group 1 is expected to win the ensuing conflict with probability $p_1 + q_{CCI}\epsilon_1$. A conflict-creating intervention is better than no intervention if

$$W_F(CCI) \geq W_F(U). \quad (25)$$

Importantly, we notice that the ability to make a credible promise of support (a higher q_{CCI}) may *not* increase the chance of a conflict-creating intervention. There are two countervailing effects. On the one hand, a higher q_{CCI} increases the expected cost of the intervention and, on the other, it increases the expected win probability of group 1.

In the second case, a conflict starts even without an intervention - equation (21) evaluated at $p_{CCI} = p$ holds for at least one of the groups - and the foreign power has to decide whether or not to intervene in this ongoing conflict in favor of group 1. The expected payoff of an intervention is $W_F(CCI)$ as before, but the expected payoff in case of no intervention is $W_F(p)$ - the expected payoff if the target country is in conflict

⁵²If the condition fails for group 2 at $p_{CCI} = p$, then it will also fail at $p_{CCI} = p + q\epsilon$.

and the probability that group 1 wins without intervention is p – rather than $W_F(U)$ because the conflict is already ongoing. The condition for intervention, therefore, is

$$W_F(CCI) \geq W_F(p), \quad (26)$$

which we can express as

$$\varepsilon(W_F(1) - W_F(0)) \geq c_F, \quad (27)$$

where $W_F(1) - W_F(0)$ is the difference between the foreign power’s policy-related payoff with group 1 ($\beta = 1$) and group 2 ($\beta = 0$) in power, respectively. In contrast to the decision to trigger a conflict, the decision to intervene in an ongoing conflict is *independent* of the cost of conflict (c) and of the probability that the support will actually materialize (q_{CCI}). Instead, it depends solely on the effectiveness of the intervention (ε) and on the direct cost (c_F). The fact that a civil war may be very costly, therefore, only affects the foreign power’s incentive to start one (and then only if it cares about at least a subset of the population in the target country ($\gamma_F > 0$)), not the incentive to get involved in an already ongoing conflict.

The main difference between the conflict-creating strategies and the regime intervention strategy discussed in Section 7.1 is that conflicts are costly and the outcome is uncertain. It is, therefore, clear that a regime intervention is likely to be preferable when it can increase the bargaining power of the aligned group a lot ($\bar{\beta}$ close to 1) at low cost (\bar{I}_F is low). On the other hand, a conflict-creating intervention is more likely to be the best strategy when the direct (and for the incentive to start a conflict also the indirect) cost is low and the foreign power’s technical capacity to support group 1 is large (high values of ε).

In our model, a civil war breaks out when (with or without support from the foreign power) the expected benefit exceeds the expected cost for at least one of the groups. While from a rationalist perspective this is a necessary condition for conflict, it is not, as pointed out by Fearon (1995), sufficient because the parties in principle could avoid the conflict through bargaining. The two main reasons why a destructive conflict often cannot be avoided are commitment problems and asymmetric information (Fearon 1995, Powell 2004; 2006).

The two classical commitment problems are, firstly, that the parties that contemplate starting a conflict have incentives to start it preventively to gain offensive advantages and, secondly, that neither group can commit not to use resources gained through bargaining to enhance its fighting capacity. A different commitment problem arises when a foreign power is involved. Albornoz and Hauk (2014) argue that the willingness of a foreign power to intervene fluctuates over time because of government turnover: some foreign governments are more willing to intervene abroad than others. This makes any commitment to foreign intervention transient. From the perspective of the opposing groups in a target country, a promise of support from the foreign power is equivalent to a temporary shift in their fighting strength. Since the advantage is transient (rather than permanent), the group strengthened by the promise of foreign support may prefer conflict to peace to lock-in its momentary advantage. A similar commitment problem arises during an ongoing conflict. Since there is always a risk that foreign support in a conflict may be withdrawn (as a consequence of a change of government in the foreign power), the group that benefits from the support has an incentive to intensify and prolong the conflict to capitalize on the support while it can (McCormack 2016). The temporary nature of the commitment to foreign intervention is a feature of most, if not all, forms of foreign conflict

interventions including foreign aid⁵³, sanctions,⁵⁴ and external rebel sanctuaries⁵⁵ in neighboring countries.

The other main cause of conflict is asymmetric information. The “spoils politics model” illustrates the logic in the context of conflict between an incumbent government and a rebel group (Dal Bó and Powell 2009). If the incumbent government has private information about the value of the “spoils” that the two parties contest and can misrepresent the value, the rebel group’s optimal response to the government’s announcement of “low spoils” is to start a conflict with a positive probability. If not, the government would always claim that the spoils are low to keep more of the share. Therefore, conflict may break out when spoils are (claimed to be) low. Similarly, uncertainty about the strength of the opponent might lead to conflict. In a stable environment, conflict should eventually stop because the fighting parties learn the true information about the strength of their opponent over time (Fearon 2004). However, the presence of a foreign power that may intervene in the conflict can destabilize the environment. First, when a foreign power offers assistance, its ally in the conflict will be better informed about the value of the resources offered than the opposition. Humanitarian aid, for example, changes the cost of fighting (Narang 2015) but the incumbent government is better informed about the value of such aid than the opposition (Nielsen, Findley, Davis, Candland, and Nielson 2011). This exacerbates information asymmetries. Second, rebel groups are empowered by being offered external sanctuaries where they can hide and regroup in relative safety (Salehyan 2007). The willingness of the foreign power to provide sanctuary, however, fluctuates over time as internal political factors change. These factors are often external to the conflict in the target country and unpredictable. This inhibits learning and can lead to persistent information asymmetries. In these different ways, foreign interventions generate persistent uncertainty and tend to prolong conflicts by exacerbating information problems.

Our theoretical model abstracts from an important principal-agent problem related to the interaction between the foreign power and its “agents” in the target country. Unlike in our model, the foreign power and its “agent” (group 1 in the model) may have different priorities (Ladwig 2016). On top of that, the agent – whether the incumbent government or a rebel group – is often not a unified group (there can be several rebel groups or the government might work with paramilitary groups). This makes it hard for the foreign power to control its allies in the target country.⁵⁶ Salehyan, Gleditsch, and Cunningham (2011) conceptualize this conflict of interest as a principal-agent problem and study when rebels are offered and accept foreign support. Their model predicts that the strongest and weakest rebel organizations, relative to their opponent, are least likely to receive external support. Foreign powers tend, on the one hand, not to support weak rebel groups because they are unlikely to pose a significant threat to the target regime. Strong rebel groups tend, on the other hand, to reject offered support because they prefer to retain their autonomy.⁵⁷ Another aspect of this principal-agent problem is rivalry within rebel groups between leaders. The foreign power can, through a divide-and-rule strategy, affect the distribution of power within the group by allocating external resources strategically (Tamm 2016).

In our model, the foreign power’s ultimate goal is to help its ally in the target country to win the conflict and in that way obtain a favorable shift in the target country’s policy. There is ample empirical evidence

⁵³See Nielsen, Findley, Davis, Candland, and Nielson (2011).

⁵⁴McCormack and Pascoe (2017) develop a model of the relationship between sanctions and interstate wars. The same logic applies to civil wars.

⁵⁵See Salehyan (2007).

⁵⁶Dube and Naidu (2015), for example, show how US military aid to Colombia between 1988 and 2005 was shared by the government with paramilitary groups to whom it delegated part of the fighting.

⁵⁷Salehyan, Gleditsch, and Cunningham (2011) report supporting evidence for this.

that is consistent with this. For example, [Bove, Elia, and Sekeris \(2014\)](#) show that US security interventions increase trade flows between the US and the target countries after the interventions. Apart from overseas economic interest, political economy considerations in the foreign power and wider geopolitical motives are often at play. First, [Albornoz and Hauk \(2014\)](#) view political economy considerations in the foreign power as a key determinant of its willingness to intervene in conflicts abroad. A foreign government that face a fall in its domestic popularity may adopt a “gambling for resurrection strategy” that involves covert conflict interventions abroad in a bid to regain popularity.⁵⁸ Consistent with this, they report that the probability of civil wars around the world decreases with the U.S. presidential approval rates. [Ahmed and Werker \(2015\)](#) show that a similar logic may apply to oil-rich autocracies.⁵⁹ An oil-rich autocrat may intervene in conflicts abroad as a strategy to consolidate his own power at home. The logic is that the cost of the intervention eliminates excess resources that the opposition might otherwise attempt to appropriate through a challenge to his regime.

Second, the wider geopolitical environment shapes the motives underlying many conflict interventions. Foreign powers considering to intervene in conflicts abroad act alongside other powers with similar or opposing interests. [Findley and Teo \(2006\)](#) show that many conflict interventions are themselves reactions to earlier instances of third-party intervention. Especially during the Cold War, the superpowers often got involved in conflicts without appearing to be directly involved (proxy wars) in order to protect their geopolitical interest ([Yoon 1997](#), [Huth 1998](#), [Mullenbach and Matthews 2008](#)) and US military aid is often used to promote US foreign policy objectives ([Alesina and Dollar 2000](#), [Palmer and Morgan 2010](#)). Changes in the geopolitical situation, such as the end of the Cold War, can trigger new conflicts. [McCormack \(2016\)](#), for example, shows theoretically and empirically, how the “disappearance” of one of the superpowers can lead to civil war. This happens because the opposition groups gain relative power in countries where the incumbent regime previously enjoyed protection by the disappearing superpower. In addition to its influence on conflict onset and duration, the international geopolitical situation also affects the way in which civil wars are fought ([Kalyvas and Balcells 2010](#)).

7.2.2 Different types of conflict interventions

Unlike our unifying model, the theoretical literature on foreign intervention in civil war does not make a clear distinction between interventions that trigger civil war and interventions into ongoing civil wars.⁶⁰ Yet, this distinction is important for empirical work because the impact of the intervention depends not only on its type but also on its timing ([Jones 2017](#)). Below we discuss three types of interventions: rebel sanctuaries, sanctions, and foreign aid, and we distinguish their effects on conflict onset and duration whenever such empirical evidence exist.

Rebel sanctuaries Rebel sanctuaries are a common form of foreign support to rebel groups in other countries. In fact, since 1945, a majority of rebel groups have used external bases and safe havens to some

⁵⁸Unlike these covert interventions, [Enterline, Garrison, and Aubone \(2008\)](#) argue that for democracies the political cost of overt foreign interventions outweighs the potential benefits. They support this argument with evidence showing that a foreign intervention in a conflict abroad either for the sake of alleviating a humanitarian crisis or for the sake of retribution tends to lose the intervening government votes in the next election, irrespective of casualties or other material costs associated with the intervention.

⁵⁹They build on [Besley and Persson \(2011\)](#)’s model of state capacity and political violence.

⁶⁰Foreign conflict interventions affect the terms of conflict ([Werner 2000](#)) and the patterns of cooperation between the parties in the conflict ([Gleditsch and Beardsley 2004](#)). The prospect of intervention may even induce conflict ([Kuperman 2008](#)) while actual interventions serve to prolong the conflict ([Cunningham 2010](#)), as our model predicts.

extent (Salehyan 2007). One example is President Hugo Chávez who granted sanctuary in Venezuela to the Colombian insurgent group FARC (Martínez 2017). Rebel groups can use sanctuaries as a base of operation and to escape the jurisdiction and repression capabilities of their own state. Sanctuaries, thus, significantly lower the rebel group’s costs of fighting and make civil war, triggered by asymmetric information or commitment problems, more likely. In particular, Salehyan (2007) shows that a promise of a sanctuary from a geographic neighbor increases the probability of conflict onset. The effect of extraterritorial rebel sanctuaries on conflict duration also appears to be positive, significant, and substantial.⁶¹

Sanctions The effect of sanctions on civil war depends on the form they take and on whether they remain a threat or are actually implemented. A sanction threat can be used to signal disapproval of the target country’s political regime or its leaders and might thereby encourage domestic dissent (Grauvogel, Licht, and von Soest 2017). Sanctions that are imposed cause deprivation and economic hardship in the target country and that may influence conflict by fuelling existing dissent against the government (Wallensteen 2000, Weiss 1999) or spurring opposition to the regime by mobilizing dissatisfied—but previously uncommitted and passive—members of society (Blanchard and Ripsman 1999, Kaempfer and Lowenberg 1999). Hultman and Peksen (2017) examine how international sanctions affect the intensity of violent civil conflict in Africa between 1989 and 2005. They find that threats of economic sanctions or of arms embargoes increase the intensity of violent conflict. Actual economic sanctions also contribute to the escalation of violent conflict while arms embargoes, when implemented, have the opposite effect.

Foreign aid The category of aid that is most directly related to conflict is arms support and technical training of military personal in the target country. Regan (2002) shows that neutral or unbiased third-party military interventions tend to lengthen conflict duration while a biased intervention in favor of one of the fighting parties can serve to end a conflict more quickly. Jones (2017) makes a distinction between military aid aimed at bolstering the fighting power of the supported side (group 1 in our model) and aid aimed at degrading the capabilities of the opposition and argues that the timing of the foreign intervention is critical for its effect. Military support for rebel organizations, for example, is shown to be most effective during a short window early in a civil war, while military assistance to the government increases its chance of victory only after a civil war has become protracted. Along similar lines, weapon sales (direct commercial sales of weapons) by the US to foreign governments tends to increase the risk that a civil war will start in the purchasing country but has no effect on the duration of a civil war once it gets started (Magesan and Sweet 2018). Dube and Naidu (2015) emphasize the importance of non-state agents in the relationship between military aid and civil war. They study the impact of US military aid on violent conflict in Colombia between 1988 and 2005. In this conflict, three agents were important: left-wing guerrillas, the Colombian state, and right-wing paramilitary groups (supporting the government unofficially). The study’s key insight is that the effect of US military aid had an asymmetric impact on the conflict. On the one hand, it increased paramilitary violence differentially in areas that have government military bases (which got aid); on the other hand, it had no significant effect on guerrilla violence.

⁶¹Some rebel sanctuaries are created by refugees (Lebson 2013). Camarena (2015) studies the strategic choice of a refugee recipient country with respect to how much support to offer to such (refugee) rebels. The refugees can either be kept in an “inland camp” which makes it hard for them to participate in the ongoing civil war or in a “border camp”, which makes participation easier. Similar to our model, the refugee recipient country cares about who hold power in the neighboring country and these preferences dictate whether it wants to support the rebels living under its jurisdiction by hosting “border camps”.

Aid aimed at winning over non-combatants is another example of aid that is strategically deployed by foreign powers to influence the outcome of an ongoing conflict. Non-combatants are important because they may stay neutral, protect insurgents, or collaborate with counter-insurgency forces and aid employed as part of a hearts-and-minds strategy can potentially influence their choice. [Dell and Querubin \(2017\)](#) evaluate the effectiveness of development programs sponsored by the US military during the Vietnam war in winning over the heart-and-minds of the population and compare this to the military strategy of using overwhelming fire-power in air strikes.⁶² While the use of overwhelming fire-power led to more support for the Viet Cong, the winning the hearts-and-minds strategy made non-combatants more likely to side with the Americans. The hearts-and-minds strategy has also been deployed to combat the insurgency that emerged to oppose the occupying forces and the post-invasion government in the aftermath of the Iraq war. [Berman, Shapiro, and Felter \(2011\)](#) show that improved service provision reduced insurgent violence.

Clearly, however, insurgents and rebel groups have a strong incentive to counter any hearts-and-minds strategy by sabotaging development projects and retaliate against civilian informants. This can lead to an increase in violence and undermine the strategy. [Khanna and Zimmermann \(2017\)](#), for example, show that the world’s largest anti-poverty program, the National Rural Employment Guarantee Act in India, intensified the conflict between Maoist insurgents and the Indian government. Along similar lines, [Croft, Felter, and Johnston \(2014\)](#) show that insurgents sabotaged a large community-driven development program (KALAH-CIDSS) in the Philippines. Finally, [Sexton \(2016\)](#) argues that the ability of insurgents to carry out such sabotage is, in part, related to their territorial control relative to that of the government they fight. His evaluation of civilian development aid deployed by the US military to counter the Taliban insurgency in Afghanistan shows that it can only reduce insurgent violence in places already under pro-government control. In contested areas, aid provokes insurgents to carry out more bombings and more direct attacks against pro-government forces.⁶³ Taken together, this evidence suggests that foreign powers can deploy development aid strategically to win over non-combatants and in that way reduce the level of conflict but the effectiveness depends on how the insurgent groups react to the aid.

Unlike military support and aid used to win over heart-and-minds, aid given for purely humanitarian reasons is not designed strategically to influence the level of conflict. Nevertheless, it may have this (unintended) effect of prolonging an ongoing conflict. This can happen through a number of channels: humanitarian aid can, if sufficiently fungible, free up resources for fighting; it can create protected demilitarized spaces; or it can reduce the political cost of sustaining a costly civil war ([Narang 2015](#)). An example of this is US food aid. [Nunn and Qian \(2014\)](#) exploit a combination of exogenous variation in US food aid shipments caused by weather-related shocks to the US wheat production and the recipient country’s tendency to receive US food aid in general to show that such aid causes an increase in the duration of civil wars, but has no effect on civil war onset. [Bluhm, Gassebner, Langlotz, and Schaudt \(2016\)](#) argue that the (unintended) effect of development aid on conflict depends critically on the pre-existing levels of conflict. They show that aid has no effect on conflict if the recipient country is either peaceful or already in the midst of a full-blown civil war. However, for countries that experience ongoing low-intensity conflict, aid can trigger conflict escalation.

It is not only the level of aid inflows that affects conflict, fluctuations in these flows are also important. [Arcand and Chauvet \(2001\)](#) present a model that demonstrates that fluctuations in aid revenues increases

⁶²The two different strategies were deployed in separate regions. This allows [Dell and Querubin \(2017\)](#) to exploit a spatial discontinuity design to estimate causal effects.

⁶³[Sexton \(2016\)](#) employs a fine-grained dataset of geo-located incidents of violence to examine these effects.

the risk of civil war in two ways: by increasing the payoff to a successful rebellion and by varying the level of fungible funds the recipient government has for repression.⁶⁴ Empirically, [Nielsen, Findley, Davis, Candland, and Nielson \(2011\)](#) show that negative aid shocks significantly increase the probability of conflict onset, while positive aid shocks have no effect. This suggests that negative aid shocks (withdrawal of aid) shift the bargaining power towards rebels because it becomes harder for the government to meet their appeasement demands.

7.3 Peace-keeping interventions (PKI)

Conflict is costly, not only to the groups fighting and the civilians caught up in the conflict, but also for the foreign power. The later, typically, loses trade opportunities⁶⁵ and access to valuable resources, as well as sees its geopolitical interest threatened (e.g., through large-scale refugee movements). It may, therefore, be in the interest of the foreign power to stop a conflict.

Within our theoretical model, we can conceptualize a peace-keeping foreign intervention as an attempt to stop an ongoing conflict and to re-establish the pre-conflict institutional arrangement where the power is shared between the two groups (group 1's bargaining power is β). To do this, the intervention must deliver a peace dividend b that is sufficient to stop the fighting. This is costly for the foreign power and we denote the cost by $c_{PKI} = \alpha_F b$ where $\alpha_F > 0$. To be effective in stopping the conflict, the peace dividend must be sufficiently large to appease the group that preferred conflict to peace without the intervention and started the civil war. Suppose that it was group 1 that started the conflict (i.e., that equation (21) holds for group 1).⁶⁶ In that case, the peace dividend induced by the peace-keeping intervention must satisfy

$$b > pW_{D,1}(1) + (1-p)W_{D,1}(0) - W_{D,1}(U) - c > 0, \quad (28)$$

where group 1 gets $W_{D,1}(U) + b$ if peace is induced by the peace-keeping intervention. The more likely group 1 is to be victorious in the conflict, the harder it is to create peace and the larger the peace dividend must be. The foreign power wants to sponsor a peace-keeping operation if

$$W_F(PKI) \equiv \gamma_F(W_{D,1}(U) + b) + w_F(U) - \alpha_F b > W_F(p), \quad (29)$$

where the foreign power's expected payoff under conflict, $W_F(p)$, is defined in equation (22). We notice that the foreign power benefits indirectly from peace because group 1 does and its net intervention cost is $(\alpha_F - \gamma_F)b$. We assume that $\alpha_F > \gamma_F$ such that the net cost to the foreign power is positive. We can rewrite condition (29) to get

$$\begin{aligned} b &< \frac{\gamma_F W_{D,1}(U) + w_F(U) - W_F(p)}{\alpha_F - \gamma_F} \\ &= \frac{w_F(U) - [p w_F(1) + (1-p)w_F(0)] - \gamma_F W_{D,1}(CCI)}{\alpha_F - \gamma_F}, \end{aligned} \quad (30)$$

where $W_{D,1}(CCI)$ is defined in equation (21) and is positive (since group 1 by assumption started the

⁶⁴[Lensink and Morrissey \(2000\)](#) show that aid volatility significantly decreases economic growth, which, in turn, decreases the opportunity cost of participating in a civil war.

⁶⁵Civil war causes large and persistent destruction of trade ([Martin, Mayer, and Thoenig 2008](#), [Magee and Massoud 2011](#)).

⁶⁶The case in which group 2 is the instigator of the conflict would be similar in essence.

conflict).⁶⁷ Thus, a necessary condition for the foreign power to start a peace-keeping intervention is that it prefers the “peace policy outcome” to taking a gamble on the outcome of conflict. This is more likely to hold if the win probability of group 1 is low and the cost of the conflict c is high. For the foreign power, a peace-keeping intervention to stop an ongoing civil war is, therefore, preferable to an intervention aimed at helping group 1 win the war if $W_F(PKI) > W_F(CCI)$ where $W_F(CCI)$ is defined in equation (24). We recall that the foreign power’s payoff from a conflict-creating intervention into an ongoing civil war is independent of the pre-intervention win probabilities (p) and the cost of the conflict c , and that it is increasing in the effectiveness of such an intervention ϵ . This means that a peace-keeping intervention is likely to dominate a conflict-creating intervention if the group that is aligned with the foreign power is unlikely to win the conflict in the target country (p is low), if the cost of the ongoing conflict c is high, or if the foreign power’s capacity to affect the outcome of the conflict is low (ϵ is low). Moreover, if the peace-keeping intervention is joint with other countries (e.g., through an international organization), then the per country intervention cost will be lower (α_F is lower from the perspective of each participating country). This will also tend to favor peace-keeping over conflict-creating interventions but may, since a peace-keeping intervention provides a public good, be undermined by free rider incentives (Sandler 2017). In addition to this, our model can also rationalize “peace-keeping interventions” without an ongoing civil war. If we assume that the “peace dividend” is “delivered” prior to the outbreak of a civil war that would start in the absence of the “dividend”, then this can be sufficient to pre-empt the war. In other words, peace-keeping can happen during a civil war but also during peace under the shadow of a future civil war.

Theoretical work on foreign influence and peace-keeping is scarce and is primarily based on the rationalist model of conflict (Fearon 1995) and emphasizes that conflict is caused by the commitment problem resulting from shifts in the relative bargaining power of the opposing parties. Within this framework, two types of foreign interventions can avoid the outbreak of a civil war. First, the foreign power can use sanctions strategically to smooth shifts in the relative power of the opposing parties and thereby eliminate the commitment problem that would otherwise result in conflict.⁶⁸ Second, Cunningham (2016) argues that the promise of a large-scale, international military intervention on the behalf of the target country’s government can deter the outbreak of civil war. This is because if such an intervention were to become a reality, then the rebels cannot expect any gain from fighting. Accordingly, if the rebels anticipate an intervention on this scale, they will decide not to rebel in the first place and civil war will not occur.⁶⁹

While in theory at least, foreign interventions can prevent the outbreak of civil war in countries at risk, most peace-keeping interventions are aimed at stopping an ongoing conflict. Peace-keeping operations are, typically, multilateral and organized through the United Nations (UN). However, after the end of the Cold War there have also been large- and small-scale non-UN peace-keeping operations led by the North Atlantic Treaty Organization (NATO), the African Union (AU), the Economic Community of West African States (ECOWAS), and individual countries.

Doyle and Sambanis (2000) make a distinction between traditional UN peace-keeping operations that

⁶⁷To see that there exists values of $b > 0$ that will satisfy both conditions (28) and (30), evaluate equation (30) at the minimum b for which equation (28) holds to get the condition

$$\begin{aligned} & pW_{D,1}(1) + (1-p)W_{D,1}(0) - c - W_{D,1}(U) \\ < & w_F(U) - [pw_F(1) + (1-p)w_F(0)] \end{aligned}$$

which may hold.

⁶⁸McCormack and Pascoe (2017) make this argument for interstate wars, clearly, it also applies to civil wars.

⁶⁹Cunningham (2016) shows empirically that the potential for this type of intervention reduces the risk of civil war.

deploy military units and civilian officials to the target country in order to facilitate a negotiated settlement of a conflict and multi-dimensional peace-keeping operations which, in addition to transitional peace-keeping, involve economic reconstruction and institutional transformation (e.g., reform of the police, army, and judicial system; elections; civil society rebuilding).⁷⁰ Doyle and Sambanis (2000) report evidence that multi-dimensional peace-keeping operations are more successful in target countries with relatively high pre-intervention institutional capacities and after non-identity based civil wars. The success of traditional peace-keeping, on the other hand, is more dependent on the scale of the third-party intervention and on low hostility levels rather than on the target country's institutional capacities.

Peace-keeping operations, however, are not random, even if they are motivated mainly by humanitarian concerns: the target countries are selected for a reason and the foreign power's decision to contribute to the operation is strategic. First, Fortna (2004) and Walter (2009) show that peace-keeping interventions are, typically, *not* targeted at conflict-prone countries with strong governments and armies or with a large economy. Peace-keepers are more often sent to long-lasting conflicts with many casualties (Bove and Elia 2011, Gilligan and Stedman 2003). Second, foreign powers get involved in peace-keeping interventions for a variety of strategic reasons. Security concerns are one important driver. Kathman and Melin (2016) show that deployment of troops to peace-keeping operations abroad can attenuate the risk of a coup d'état at home and shield domestic politics from military intervention. They also show that countries embroiled in ongoing rivalry with other countries contribute more personnel to ongoing peace-keeping missions. Pure economic interest is another important driver. Stojek and Tir (2015) establish empirically that conflict-prone countries that are economically more connected to the five permanent members of the UN security council are more likely to receive UN peace-keeping assistance. The non-randomness of peace-keeping operations poses a serious empirical challenge that, with few exceptions, is ignored. Gilligan and Sergenti (2008), who use matching techniques to correct for non-randomness, is one of the exceptions. They find that the success of peace-keeping operations that occur after a conflict has stopped are effective in reducing the risk of conflict re-occurrence while interventions in an on-going civil war are ineffective.

Another challenge for empirical research on peace-keeping is that the effectiveness of a peace-keeping intervention depends on the willingness of the conflicting parties to cooperate with the peace-keepers. Ruggeri, Gizelis, and Dorussen (2013) show that the size of the peace-keeping operation and the distribution of military power between rebels and government are important for the success of UN peace-keeping operation in Africa between 1989 and 2005. The reason is that only relatively weak rebel groups that face a strong government and the prospect of a large-scale foreign intervention are willing to cooperate with UN peace-keepers and their cooperation is essential for the operation's success. Dorussen and Gizelis (2013) point out that multi-dimensional peace-keeping operations that involve state-building have significant affects on the distribution of power between rebels and the government. This creates uneven incentives for collaborating. Empirically, they find that government authorities are, in general, more likely to respond cooperatively to multi-dimensional UN peace-keeping operations than rebels. However, policies that aim to strengthen state capacity tend to go uncontested, while policies related to human rights tend to be contested by both the government and the rebels. These results suggest that the appropriate design of peace-keeping strategies is a question that requires further research.

⁷⁰They also consider two other categories: monitoring or observer missions and peace enforcement in the form of military intervention.

8 Conclusion

The principle of sovereignty is a cornerstone of modern international law and stipulates that the state has supreme authority within its territory. Foreign intervention, where a foreign power seeks to influence a policy directly or indirectly through regime change in another sovereign country, often constitutes a violation of this principle. The violation is clearest if the intervention involves coercion and may be considered minor if the intervention involves a voluntary exchange between the foreign power and the target country. Foreign interventions are nonetheless very common and take many forms. We argue that a key motivator of foreign intervention is an externality problem: the policy choice in the target country, broadly interpreted to include economic and geopolitical effects, has consequences for the foreign power (and vice versa). The foreign intervention seeks to internalize this externality but in a way that reflects asymmetries in the power relations between the foreign power that intervenes and the target country.

We categorize foreign interventions into three types: agreement interventions; policy interventions; and institution interventions, and we sketch a unifying theoretical framework within which these strategies can be conceived and compared. Agreement interventions (e.g., trade agreements) are voluntary and would be the best avenue for the foreign power to influence the policy choice in the target country if it could dictate the terms and the parties can commit to stick to them. Policy interventions take two forms and are either aimed at rewarding the target country for a policy change or at sanctioning it for not changing the policy. The reward strategy is not only used by foreign governments (e.g. via conditional aid) but also by non-state actors (e.g., foreign corporations that lobby abroad). Sanctions are primarily a tool available to state actors. From the point of view of the intervening foreign power, sanctions have the advantage over rewards (which are costly) that the threat of a sanction can be enough to induce the desired policy change. However, the downside is that the threat may not work and, if imposed, sanctions are costly to all parties.

The success of the policy intervention strategy more generally is predicated on the rewards promised or the sanctions threatened being credible. In practice, that is a major issue. The institution intervention strategy, which is aimed at changing the structures that govern policy making in the target country to the advantage of the foreign power, is one mechanism through which the foreign power can partly avoid this credibility problem. The reason is that a change in “the rules of the game” is more durable than policy changes. Institution interventions can sometimes achieve its objective without a costly civil war in the target country. In other cases, the foreign power get embroiled in conflict by either initiating one or by supporting one of the parties in an ongoing one. The flip side is to support efforts to stop a conflict. These intervention strategies are associated with different costs and benefits. Conflicts are costly to all parties including the intervening foreign power. These costs can be avoided through a “clinical” regime intervention (a coup d’état or meddling with elections). Whether the foreign power wants to intervene in a conflict by offering help to one side or by trying to bring about peace depends, amongst other things, on how effective its assistance will be in inducing peace, how likely it is that its favored party in the conflict will lose without assistance, and how costly intervening in the conflict is.

We highlight three general messages that emerge from the survey of the literature. First, the literature in political and international economics, international organization, conflict studies, and political science reveals that foreign intervention is the bread-and-butter of international relations. The empirical evidence shows that interventions take place more frequently than is usually acknowledged outside the particular areas of research. This has wide-ranging implications, not only for the understanding of the interactions between

countries, but also for investigations into the determinants of policy, institutional reform, and conflict. Foreign influence matters for all of these. An implication, for example, is that it might be misleading to use cross-country comparisons to study the determinants of trade (as in a gravity model), of policy (as in a study of tax policy) or institutions (as in a study of the origins of democracy) *without* taking into account that these outcomes are partly the result of foreign influence.

Second, our theoretical framework emphasizes that the decision to intervene abroad is a choice made by the foreign power and that it weights up the costs and benefits of different intervention strategies including the possibility of no intervention. This means that foreign interventions can take multiple forms (sanctions, military assistance, conditional aid, etc.) and are selected to fit the particular context in the target country and the particular objectives of the intervening foreign power, ranging from pure economic interest and geopolitical considerations to internal political affairs. This makes it difficult to fully understand the causes and consequences of particular types of intervention strategies from isolated studies that zoom in on a particular intervention strategy. The implied selection problem becomes obvious once it is recognized that each particular intervention strategy was chosen from a set of possible strategies and for a reason.

Third, foreign interventions have far-reaching consequences which might go beyond the policy externality they try to internalize. The literature lacks good tools to establish which of these consequences are intended and taken into account in the cost-benefit analysis when the intervention is decided, and which of these consequences are unintended. This is especially important for empirical research since intended consequences that are treated as unintended undermine attempts at establishing causal identification.

While this paper brings together research from across the social sciences on foreign influence on policies, institutions and conflict, many questions remain unanswered. We already pointed to specific challenges related to particular intervention strategies. Here, we want to discuss four more general challenges for future research on foreign influence: how to overcome (i) the compartmentalization of the theoretical literature and (ii) data limitations; (iii) how to go beyond bilateral and multilateral interventions and study interventions as a network phenomenon, and (iv) how to engage with the study of cyber warfare and attacks.

The theoretical literature on foreign intervention is compartmentalized. The many studies of intervention strategies – international agreements, conditional aid, sanctions, foreign sponsored coups, or involvement in conflict and peacekeeping – focus narrowly on one particular intervention type. As a consequence, they do not recognize that the foreign power behind the intervention could have chosen a different intervention strategy or that several strategies may complement each other and would, therefore, be used simultaneously. An important task for future theoretical research in the area is to develop models that take the polymorphic nature of foreign intervention seriously. We have sketched a framework that is one step in that direction. The fact that the choice of the intervention instrument is strategic poses, as already noted, a serious challenge for empirical research on the causes and consequences of foreign intervention.

Empirical research in the area of foreign influence is seriously hampered by data limitations. One problem is that some forms of foreign influence cannot be observed directly or only many years later when classified documents become declassified. Another is that some forms, such as sanctions, work through threats which are difficult to quantify. One way around this data problem is to track the effect of foreign intervention on specific outcomes in the target country from observed variation in the causes driving the intervention. This requires a fully articulated theory of what causes a foreign power to intervene from which a credible identification strategy can be developed. [Albornoz and Hauk \(2014\)](#), for example, propose a theory that shows that the approval rating of the government in the foreign power is a fundamental determinant of the

incentive to intervene in conflicts abroad. Based on this theory, it is possible to empirically study the effect of foreign intervention on civil war by linking observed variation in conflict to observed variation in the approval rating of the foreign power’s government.⁷¹

Another way to address the data challenge is to collect and record better and more accurate data. In recent years, a lot of progress has been made in this regard.⁷² Here, we highlight a few examples. More detailed data on aid and aid conditionality have become available (Kentikelenis, Stubbs, and King 2016) along with data on aid from new donor countries such as China (Strange, Dreher, Fuchs, Parks, and Tierney 2017). Sanction threats have been codified in the Threat of Imposition and Economic Sanctions (TIES) dataset (Morgan, Bapat, and Krustev 2009, Morgan, Bapat, and Kobayashi 2014). The declassification of CIA and KGB files from the Cold War era has provided researchers with better opportunities to study covert foreign interventions.⁷³ Non-state actors have been added to the Armed Conflict Dataset (Cunningham, Gleditsch, and Salehyan 2013) which might pave the road for new empirical studies of how foreign influence is channelled through non-state actors. Real-time conflict data have started to be collected with new information technologies.⁷⁴ Automated textual analysis has proved useful in generating systematic information about, for example, conflict from newspapers and websites⁷⁵ and for analysing speeches by politicians (Riaño-Rodríguez 2014). Combining data from different sources is another possibility to overcome data limitations. Of course, this has to be done carefully. Donnay, Dunford, McGrath, Backer, and Cunningham (2019) have developed a new methodology called Matching Event Data by Location, Time and Type (MELTT) for combining event data. This methodology allows to integrate information from multiple datasets and is automated, transparent and reproducible.

We consider our unifying model of foreign interventions as a first step towards a more general theory of foreign intervention. One of its limitations is that it portrays a bilateral relation between one foreign power and one target country or a situation with multiple foreign powers that fully coordinate their interventions. In practice, however, many foreign interventions are not coordinated and are, instead, the result of competition between many foreign powers with different objectives and goals. Clearly, more research on multilateral interventions is needed. Foreign influence is a network phenomenon and many of the theoretical advances in network economics could fruitfully be applied to the study of foreign influence in general and to the study of unintended third-party spillovers in particular.⁷⁶

Along with the spread of the internet, new forms of foreign influence have emerged. This raises interesting new research questions. We highlight three: meddling in elections, spreading false news, and cyber warfare. First, the internet provides a new avenue for meddling in elections abroad. One concern is that hackers might modify election registers or election results directly if they manage to break into the relevant computer systems. Another is that foreign agents may use the internet and social media more generally as a tool to persuade voters in other countries to vote in a particular way by, for example, posting positive information about one candidate and negative information about a rival or by persuading specific groups of voters to abstain. This type of foreign intervention is likely to become increasingly important and there is evidence to

⁷¹Other examples with similar identification strategies include Nunn and Qian (2014) and Martínez (2017).

⁷²The online data appendix offers an overview of the main data sources used in the surveyed literature.

⁷³See, e.g., Berger, Corvalan, Easterly, and Satyanath (2013).

⁷⁴For example, in the Congo people can report conflict events via SMS in real time (Van der Windt and Humphreys 2016).

⁷⁵This has been used for the study of conflict onset (Chadeaux 2014, Mueller and Rauh 2018) and conflict duration (Ward, Metternich, Dor, Gallop, Hollenbach, Schultz, and Weschle 2013) and to define conflict events (Brandt, Freeman, and Schrodtt 2011)

⁷⁶See Goyal (2007) for an introduction to network economics and Hafner-Burton and Montgomery (2012) for an application of network analysis to the interaction between trade and peace.

suggest that the aggressive use of Twitter bots, coupled with the fragmentation of social media and the role of sentiment, could have contributed to the outcome of the 2016 Brexit referendum in the UK and to Donald Trump’s election as US president (Gorodnichenko, Pham, and Talavera 2018). Clearly, more research is required in this field.

Second, it is very easy to spread false information on the internet. Agents who stand to gain from a foreign intervention could use this strategy to provoke one. A “false news war” can also be used to alter the bargaining power between the intervening foreign power and the target country or between groups in the target country. Such shifts can have far-reaching consequences and trigger interventions that would not otherwise have taken place.

Third, cyber attacks, like the one by Russian hackers on Ukraine’s power grid in December 2015, is a new form of foreign intervention. Cyber attacks need not be large-scale and “low-intensity” operations are probably far more numerous than recognized. Empirically, little is known about cyber warfare but there is a small emerging literature. Kostyuk and Zhukov (2019), for example, find that cyber attacks related to the conflicts in Ukraine and Syria did not affect battle field outcomes because they were not sufficiently coordinated. Obviously, this might change in the future and the importance of cyber warfare is likely to rise. Unlike many of the traditional interventions strategies, cyber attacks can be used both by state and non-state actors with the right skills. An implication of this is that new players with motives which are not anchored in policy externalities can enter the stage. Moreover, simultaneous interventions by state and non-state actors may occur. To fully understand the consequences of this, new theory needs to be developed.

Our review of the literature emphasizes that foreign influence plays an important role for the interactions in the international system and that a wide range of strategies are used to influence policy, institutions and conflict in foreign countries.

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