Reelection and Renegotiation: International Agreements in the Shadow of the Polls

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Abstract

We study dynamic international negotiations when: today’s bargaining outcome persists tomorrow unless renegotiated; one of the negotiating parties faces a threat of electoral replacement during negotiations, and agents cannot commit to future negotiation strategies. The prospect of future electoral replacement disciplines both initial proposal and acceptance strategies. When the prospect of electoral replacement depends on the terms of the initial agreement, proposers may use their offers to raise or lower the prospect that the receiver is replaced. We explore how the prospects for enduring long-term agreements depend on (1) whether an initial agreement is signed, (2) the terms of the initial bargain, (3) the set of feasible replacements available to voters, and (4) how voters make voting decisions (prospectively or retrospectively).

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1. Introduction

States sign international treaties, accede to international institutions and organizations, and lend money to other states. These arrangements are initiated and negotiated by the governments of the day. However, these governments may, in turn, be replaced by new governments over the life of the agreement. This raises the possibility that arrangements signed by today’s administrations may not be honored by their successors.

In fact, newly-elected governments often seek to renegotiate a predecessor’s agreement. A Conservative government took the United Kingdom into the European Economic Community (EEC) in 1973. That same year the Labour Party declared that it “opposes British membership of the European Communities on the terms negotiated by the Conservative Government”, and its 1974 election manifesto promised to “immediately seek a fundamental re-negotiation of the terms of entry”. Upon entering government in 1974, Labour re-opened negotiations, obtaining concessions in exchange for the UK’s continued participation.

International agreements may polarize and even dominate domestic politics. In March 2010, the European Central Bank, EU and IMF (the “Troika”) established emergency loan agreements to Greece. The first lending programs provided for a staggered disbursement of funds through the end of 2014—later extended to June 2015—conditional at each stage on Greece implementing controversial domestic reforms of its economic and social policies.

The first Greek bailout was negotiated between the Troika and the centre-left PASOK government, which held a parliamentary majority of fewer than ten seats. As Greece is a parliamentary democracy, PASOK required continuous legislative support, facing a persistent threat of electoral replacement over the life of the agreement. A domestic power transition to an anti-bailout party could threaten the agreement’s survival; and the perceived harshness of the initial terms could itself increase the chance of a more hostile future government via voters’ dissatisfaction with the agreement. Both risks were realized: in the next election, PASOK lost one hundred and nineteen seats, while Syriza—the radical left-wing party that staunchly opposed the bailout terms—gained thirty-nine seats, becoming the second largest party. And, in January 2015, Syriza came to power on the back of the Greek electorate’s hostility to the austerity measures. The new Greek government immediately re-opened negotiations with the European Union member states that nearly led Greece to exit the European Monetary Union.

These examples illustrate fundamental features of international negotiations. In contrast with the established rules and procedures governing domestic law-making or corporate

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4 The first quote is from Labour’s Programme for Britain (1973), and the second is from the Labour Party’s February 1974 general election manifesto.

5 The Greek electoral system of proportional rule with a plurality bonus for the largest party frequently engineers single-party governments with very slim parliamentary majorities.
governance within firms, there may be no formal rules or protocols governing inter-state negotiations. Parties may also have limited legal recourse in the event of treaty abrogation. Instead, ‘real’ bargaining power derives from the relative willingness of an administration to walk away from an agreement, unilaterally, under the existing terms. This was manifest in the unilateral decision by the Bush Administration to withdraw from the Kyoto Protocol in 2001. It is also a perspective endorsed by Nigel Lawson—former British Chancellor of the Exchequer—in his reflections on Margaret Thatcher’s success in negotiating a two-thirds rebate of Britain’s contribution to the budget of the European Economic Community, in 1984:

“...it would never have happened if we had not made it clear that if we did not get satisfaction, we would withhold our contributions. I think it is widely known that we had a draft bill printed to give us the legal authority to withhold our contributions... Almost certainly the European Court would have eventually decided that this was illegal and it would be struck out, but that would have lasted a long time and would have been quite an effective measure in the context of these negotiations. Without that threat to withhold our contributions... we would not have got it.”

Motivated by these examples, we ask the following questions: how do the prospects for initial agreement and the terms of agreements vary with uncertainty about whether one of the negotiating parties will subsequently be replaced by an agent with different preferences? And, how do the terms of an initial agreement affect the prospect of electoral replacement, the bargaining attitude of a potential successor, or the risk that a successor will ultimately walk away from the agreement?

Our model features a foreign government and a domestic government. The foreign government could represent a single state, or a group of states that act collectively, such as the EU. It could also represent a supranational institution such as the United Nations Security Council or the European Commission.

At each of two dates, the domestic government decides whether to implement a policy project, such as a fiscal retrenchment, a labor market reform, or accession to an international institution such as the EU or NATO. For tractability, we assume that the project is a binary decision—it is either implemented, or not. Both the domestic and the foreign government place commonly-known initial values on the project. We assume that (a) the foreign government would prefer the project to happen, but (b) the domestic government—in the absence

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of foreign concession—would prefer not to undertake the project. At each date, the foreign government can offer transferable benefits such as cash or policy concessions, in exchange for the domestic government implementing the project. For example, the Greek government may not wish to reduce social insurance and raise taxes, but it may do so in exchange for bailout funds from the EU. Alternatively, the UK government may support continued participation in the EU only in exchange for concessions on budget contributions, autonomy to implement migration restrictions, or relaxed financial sector regulation.

The timing unfolds as follows. At date zero, the foreign government offers a transfer that will be made if and only if the domestic government implements the project. The domestic government then chooses whether to implement the project. If implemented, the agents receive their private values from the project, and the transfer is made. If the project is not implemented, all agents receive their reservation payoffs.

Between dates zero and one, the domestic government may be replaced in an election. We first assume that the uncertainty over who will hold power at date 1 is unaffected by date-zero outcomes. We then endogenize the date-one domestic government’s identity via an election, where the electoral outcome may depend on (1) whether the project was implemented at date 0, and, if so, the terms of the initial agreement; (2) the set of feasible replacements available to voters; and (3) how voters make voting decisions (prospectively or retrospectively).

Following the election, domestic agents are subject to a stochastic and publicly-observed shock to their preferences over the project. For example, labor unions may organize industrial action or there may be civil unrest that raises the domestic political cost of the project regardless of which political party holds power, or the economy may improve or worsen substantially.

At the start of date one, the date-zero transfer stands as the transfer that would be made if the domestic government again implements the project. For example, the transfer could represent the outstanding value of the foreign government’s loan, or the amount of regulatory carve-outs that were previously negotiated. One of the governments has an opportunity to propose a different transfer. If accepted by the other government this transfer replaces the previously-negotiated transfer; but if rejected, the initial date-zero transfer remains in place. The foreign government then makes the prevailing transfer if and only if the date-one domestic government implements the project.

We explore how the initial date-zero proposals are affected by (a) the preferences of the date-zero domestic government, (b) uncertainty about the future preferences of the date-one domestic government, (c) uncertainty about the preferences of the domestic electorate, and (d) how agents discount date-one outcomes.

If agents care only for the short-term, the foreign government wants to make the smallest date-zero transfer that induces the domestic government to undertake the project. Suppose,
however, that agents care about future outcomes, and consider the future consequences of an initial agreement. When a date-one domestic government takes power, it may want to negotiate a larger transfer than the one it inherited. But whether the foreign government would agree to a larger transfer depends on the credibility of the domestic government’s threat to abandon the project based on the existing terms—the more primitively hostile is the date-one domestic government to the project, the greater is the set of circumstances in which it would be willing to walk away from the existing agreement. A more hostile future government (a) reduces the date-one surplus, but (b) raises the prospect that the domestic government successfully negotiates a larger share of the surplus. This fundamental tension bears on all of our results.

Relative to a date-zero agreement that leaves no surplus for the domestic government, the foreign government may benefit from more generous initial offers. Such offers reduce the prospect that a future domestic administration would be prepared to quit the deal at the inherited terms, insuring the foreign government against having to offer even more generous terms in the future.

In a benchmark environment where the election outcome is unaffected by the date-zero negotiation outcome, we uncover two central insights. First, an agreement between the two governments will be signed if and only if the immediate (date-0) total surplus from the project is positive. Second, agreements always feature the smallest transfer that induces the date-zero domestic government to implement the reform project. Thus, beliefs about who will hold power in the future are irrelevant for whether an initial deal is signed, and how the surplus from agreement is divided between the governments. The intuition is simple: with no bargaining frictions, the project is implemented at date 1 if and only if that date’s surplus is positive. The inherited terms merely determine the division of the surplus between the date-1 governments. So, whenever the foreign government expects to gain more in the future by raising its initial offer, this gain must come at the expense of the date-0 domestic government—there is a pure conflict of interest.

Matters are very different when domestic voters select their date-one domestic representative. Two competing forces drive voters’ decisions. More hostile domestic governments can more credibly threaten to walk away from an existing agreement. This raises the prospect of appropriating more of the surplus, and the attractiveness of electing a government that is more intrinsically hostile to the project. But, when representatives are more hostile to the project than voters, the mis-aligned interests also raise the prospect that the date-one domestic government chooses to terminate the project under conditions where voters want it to continue. This raises the attractiveness of electing a more project-friendly government.

How voters resolve this trade-off depends on the date-zero outcome, and is therefore a
direct consequence of both the foreign government’s initial offer and the date-0 domestic government’s decision to accept or reject it. If the foreign government makes significant initial policy concessions, it mitigates the desire of domestic voters to appoint a radical date-1 government in order to extract even more. Instead, voters resolve to elect a government that is more likely to maintain the project. But if voters believe that the foreign government would be willing to offer significantly more concessions than are presently on the table, they prefer a more hostile government—regardless of their primitive preferences over the project, all voters share a common desire to extract as much surplus as possible from the foreign government.

When the electorate is very hostile to the project relative to the domestic government, the conflict between the governments declines: the foreign government is willing to make larger initial concessions in order to steer the electorate in favor of maintaining a successor who will not wish to unilaterally exit the agreement. And, a domestic government that is relatively favorably disposed toward the project may also value an agreement that lowers the risk of being replaced with a successor who is more likely to walk away from the agreement. If the negotiating parties are largely concerned with date-1 outcomes, they may successfully conclude an agreement that could not have been achieved were election outcomes unresponsive to the initial negotiation outcomes.

When, instead, the electorate views the project favorably relative to the domestic government, the conflict between the domestic and foreign governments intensifies: the foreign government sees less value in steering already-favorably disposed voters even further toward a project-friendly successor. Moreover, more generous initial terms reduce the prospect that the relatively hostile incumbent retains power, since voters then favor a friendly government that will preserve the agreement. If the negotiating parties are largely concerned about date-1 outcomes, they may fail to conclude an agreement that could have been achieved when election outcomes are unresponsive to the initial negotiation outcomes.

Our benchmark analysis treats voters’ electoral decisions as prospective, in the sense that they cast ballots based on their expected future payoffs. This might seem to impute an implausible degree of sophistication on the part of the electorate. We establish the robustness of our findings when voters instead make decisions retrospectively, re-electing or replacing the incumbent party based solely on their satisfaction with the immediate outcome. We show the ways in which our qualitative observations do and do not extend.

The paper’s outline is as follows. After a literature review, we present our base model. We first analyze a setting in which the uncertainty over who will hold future domestic political power does not hinge on the initial negotiation between the foreign and domestic government. Next, we consider a setting in which a domestic electorate chooses its date-1 representative. We first study the pivotal voter’s choice in the absence of constraints on the set of parties,
i.e., where she can select her representative from a continuum of citizen-candidate parties distinguished by their ideologies. We then analyze a setting in which voters face a more limited choice set, selecting between two office- and policy-motivated political parties. A conclusion follows. Proofs and additional extensions are in an appendix.

2. Related Literature

Our work relates to a number of papers that explore (1) the interplay between international negotiations and domestic politics and (2) theoretical models of delegated bargaining.

*Schelling (1980)* argued that stringent domestic treaty ratifications strengthen an executive’s external bargaining position, by creating “a manifest inability to make concessions and meet demands” (Schelling, 1980, 19). *Putnam (1988)* subsequently expounded the metaphor of international and domestic politics as ‘two-level games’, focusing on ratification procedures at the domestic level. A focus on elections, rather than ratification, distinguishes us from the large body of work that followed Putnam. The distinction is meaningful: a ratifier chooses between accepting the international agreement and preserving the status quo; while voter choices reflect their induced preferences over the anticipated bargaining outcomes that their representatives will achieve after the election. Once authority is delegated, voters no longer influence negotiation outcomes and cannot trigger a reversion to an outside option.

Other papers consider domestic and international politics in which elections take place between dates. *Smith and Hayes (1997)* consider a setting where domestic elections are used to replace governments when the initial deal becomes the status quo in future negotiations. In their model, negotiations are solely over a spatial policy decision—there are no transfers. Moreover, the foreign government always holds bargaining power and thus extracts all surplus from the domestic government at each date. *Battaglini and Harstad (2016)* show how an incumbent party might choose inefficiently low sanctions (a “weak treaty”) to differentiate itself electorally from a challenger who cannot commit to following through on a treaty if the penalty from abrogation is low. In *Schultz (2005)*, initial policy choices inform domestic voters about their leaders’ preferences, informing retention decisions. In *Wolford (2012)*, two governments negotiate over the division of a fixed surplus and one government faces an election between dates. Wolford assumes that the leader’s probability of retention rises with her negotiated share of the date-0 surplus. In contrast, in our setting, voters may not reward

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7 Many countries do not have formal ratification requirements. Even in countries where these requirements exist, such as in the United States, where the Senate must approve treaties by supermajority, the executive may be able to bypass this check. A recent example is the *Joint Comprehensive Plan of Action (JCPOA)*, which is not a treaty, but a “non-binding political agreement”. Such agreements require no congressional approval. But the governments that negotiate them must nonetheless eventually seek electoral approval.
the incumbent for securing more generous shares of the initial surplus, since these shares change their induced preferences over subsequent governments.

Our work contributes to a large literature on delegated bargaining, including Harstad (2008), Segendorff (1998), Jones (1989) and Cai and Cont (2004). The most closely related is Harstad (2008), who uncovers similar trade-offs from delegating negotiations to a more hostile agent in a static environment. In our dynamic setting, voters resolve this trade-off only after a first round of negotiations take place. This creates the possibility that the foreign and domestic governments can steer the subsequent election outcome to their advantage via their initial negotiations. Other work on multi-period delegated bargaining has focused on initial uncertainty about the agent’s bargaining capabilities (Cai (2000), Fingleton and Raith (2005) and Cardona and Ponsatí (2015)), or renegotiation of the agent’s contract after early outcomes reveal information about the bargaining context (Bester and Sakovics (2001)).

3. Model

Our two-date economy features two countries, a domestic government and a foreign government. There is a project that they can undertake at dates 0 and 1; \( r_t = 1 \) indicates that the project is undertaken at date \( t \), and \( r_t = 0 \) indicates that it is not. The project could represent the domestic country’s accession to an international organization such as the EU, or it could represent a domestic reform such as a fiscal retrenchment or labor reform. If the project is not undertaken at date \( t \), each agent receives a date-\( t \) payoff that we normalize to zero. At date 0, the project generates commonly-known values of \( v_0^D < 0 \) for the domestic government and \( v_F > 0 \) for the foreign government—the foreign government wants the project, but the domestic government does not. All agents weight date-zero payoffs by \( 1 - \delta \in (0, 1] \), and weight date-one payoffs by \( \delta \). A larger weight \( \delta \) on date-one payoffs can reflect greater patience, or the imminence of an opportunity to renegotiate the initial agreement.

Between dates 0 and 1, the identity of the domestic government shifts from an agent with value \( v_0^D \) to one with value \( v_1^D \) in ways that we describe below. After the identity of the date-1 domestic government is realized, all domestic agents are hit by a common additive shock \( \lambda \) to the payoffs they derive from the project. We assume that this publicly-observed preference shock is drawn from a uniform distribution with support \([-\sigma, \sigma]\). For example, this shock can capture an unanticipated worsening of the economy: unemployment may increase, labor unions may organize industrial unrest or there may even be civil unrest. Alternatively, new information may come to light. For example, in 2004, it was discovered that the Greek government’s statistics agency had mis-reported the country’s debt and deficit figures in order to qualify for entry into the European single currency.
Negotiations between the domestic and foreign governments unfold as follows. At date zero, the foreign government is the proposer, and the domestic government is the receiver. The foreign government makes an initial offer \( b_0 \geq 0 \), which is a transfer that it will give to the domestic government at date 0 if and only if the domestic government implements the project. In the EU accession example, \( b_0 \) could represent concessions and carve-outs on labor market or financial sector regulations, budget contributions, or a more generous share of regional development funds. After receiving the offer \( b_0 \), the domestic government chooses \( r_0(b_0) \in \{0, 1\} \), where \( r_0(b_0) = 0 \) indicates that the project is not implemented at date 0 and \( r_0(b_0) = 1 \) indicates that it is implemented.

We first assume that the value \( v_D^1 \) attached by the date-one domestic government to the project is drawn from a distribution \( G(v_D^1) \) on support \([\bar{v}, \bar{v}]\). We later endogenize the date-one representative’s identity (and hence valuation) via an election, where electoral outcomes may depend on: (1) whether the project was implemented at date 0, and the terms of the initial bargain; (2) the set of feasible replacements; and (3) how voters make voting decisions (prospectively or retrospectively).

We impose structure on preferences that ensures that the foreign government typically values the project by more than the domestic government, but that there is sufficient variation in the common domestic preference shock \( \lambda \) that this ordering could be reversed:

**Assumption 1:** \( \underline{v} < \bar{v} < v_F, \sigma > v_F + \bar{v}, -\sigma < v_F \).

Assumption 1 says that (1) on average, the foreign government expects a higher payoff at date 1 from the project than the domestic government, regardless of which domestic government type is drawn; but (2) there is sufficient uncertainty about the common shock \( \lambda \) to domestic preferences, that (a) it could exceed the expected surplus from the project between the foreign government and the domestic government type that is most friendly to the project; but, alternatively (b) it could be even less than the expected payoff from the project for the domestic government type that is most hostile to the project.

After the preference shock \( \lambda \) is realized, the initial terms for the project can be renegotiated, or if the governments failed to reach agreement at date 0, they can try again. With probability \( \theta \in [0, 1] \), the date-1 domestic government proposes the new terms, and with probability \( 1 - \theta \), the foreign government does. The parameter \( \theta \) can be interpreted as an institutional feature of an international agreement, determining who holds the ability to initiate and lead a subsequent renegotiation of previously-agreed terms.\(^8\)

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\(^8\)The parameter \( \theta \) does not play a significant role in our analysis. We include it to emphasize that our results do not depend sensitively on the distribution of future bargaining power. Nonetheless, scholars have considered how features of international institutions—such as re-negotiation protocols—might be chosen to maximize the prospect that an agreement survives (see, e.g., [Koremenos et al. (2001)] and [Koremenos (2001)]).
The inherited date-zero terms serve as the reversion point for date-one bargaining. Thus, if the project was implemented at date 0, \( b_0 \) serves as the transfer that will be made at date 1 if the project is again implemented and new terms are not agreed upon. For example, Thatcher’s renegotiation of Britain’s EU budget rebate persisted from 1984 until 2005. If, instead, the project was not implemented at date 0, then the status quo transfer is 0.

The agent realized as proposer at date 1 can propose a new transfer, \( \hat{b}_1 \geq 0 \). If the date-1 receiver accepts, this becomes the new date-1 contract, i.e., \( b_1 = \hat{b}_1 \). Otherwise, the inherited terms from past negotiations remain in force, so that \( b_1 = r_0b_0 \), where \( r_0 \) is an indicator for whether the project was implemented at date 0. Next, the domestic government decides whether to quit the agreement and receive its outside option of zero or to execute the agreement given the date-one terms. The foreign government then makes the agreed-upon transfer if and only if the domestic government executes the agreement by implementing the project. The interaction then ends.

The expected discounted lifetime payoff of an agent in the domestic country who attaches value \( v \) at date 0 to the project is

\[
(1 - \delta)r_0(v + b_0) + \delta \int_{\sigma}^{\hat{b}} \int_{\sigma}^{v} r_1(v', \lambda, r_0)(v + b_1(v', \lambda, r_0b_0) + \lambda) f(\lambda) d\lambda dG(v'),
\]

where \( f(\lambda) \) is the density of the domestic preference shock, \( \lambda \). Here \( r_0 \in \{0, 1\} \) is the date-0 domestic government’s initial decision to implement the project (\( r_0 = 1 \)) or not (\( r_0 = 0 \)); \( r_1(v', \lambda, r_0) \) denotes the project outcome at date 1 as a function of (a) the date-0 project valuation \( v' \) attached by the date-one domestic government, (b) the preference shock \( \lambda \), and (c) the date-0 project outcome, \( r_0b_0 \); and \( b_1(v', \lambda, r_0b_0) \) denotes the date-one transfer from the foreign government when the project is implemented at date 1, i.e., when \( r_1 = 1 \). Note that domestic agents care about date-1 policy outcomes regardless of who holds office at that date.

The analogous expected payoff of the foreign government with ideology \( v_F \) is:

\[
(1 - \delta)r_0(v_F - b_0) + \delta \int_{\sigma}^{\hat{b}} \int_{\sigma}^{v} r_1(v', \lambda, r_0b_0)(v_F - b_1(v', \lambda, r_0b_0)) f(\lambda) d\lambda dG(v'),
\]

One may observe that the foreign government’s valuation of the project does not evolve over time. We make this assumption purely for simplicity, and to better focus our analysis on the effect of uncertainty about the domestic government’s future valuation.
4. Policy Outcomes at Date One

We start by analyzing the long-term consequences of date-0 outcomes. If the project was implemented at date 0, i.e., if \( r_0 = 1 \), then the status quo transfer is \( b_0 \geq 0 \), i.e., the transfer that the foreign government offered at date 0. If the project was not implemented at date 0, i.e., if \( r_0 = 0 \), then the status quo transfer is 0. Thus, we can summarize the date-1 status quo transfer by \( r_0b_0 \).

Because there are no bargaining frictions, the project will be implemented at the terminal date \( t = 1 \) if and only if the associated surplus is positive, i.e., if and only if

\[
v^1_D + \lambda + v_F \geq 0 \iff \lambda \geq -(v^1_D + v_F),
\]

where we recall that if the project is not implemented at a date \( t \) then all agents receive a date-\( t \) payoff of zero. Even though the date-1 implementation decision does not depend on date-0 actions, the division of the surplus depends on (a) the status quo transfer and (b) the realization of the preference shock \( \lambda \) to domestic agents.

Suppose, first, that a date-1 domestic government that values the project by \( v^1_D + \lambda \) anticipates a positive value from implementing the project when it receives the status-quo transfer, inherited from the previous round of negotiations:

\[
v^1_D + \lambda + r_0b_0 \geq 0 \iff \lambda \geq -(v^1_D + r_0b_0).
\]

With probability \( \theta \), the domestic government is recognized at date 1 to propose a modification to the inherited terms, \( r_0b_0 \). Because the domestic government prefers higher transfers in exchange for implementing the project at date 1, it never proposes a modification \( b_1 < r_0b_0 \). Further, a proposed amendment that raises the project-contingent transfer to \( b_1 > r_0b_0 \) will fail—when (2) holds, the foreign government recognizes that the date-1 domestic government would want to implement the project even when the initial agreement is not amended. As a result, the foreign government will reject the amendment, because a threat by the domestic government to renege on the inherited agreement is not credible.

With probability \( 1 - \theta \), the foreign government is, instead, recognized at date 1 to propose a modification to the inherited terms. Because (1) holds, the foreign government would not walk away from the previous agreement. As a result, although the foreign government would like to extract a reduced transfer in exchange for the continuation of the project, the

\footnotetext{9}{It eases presentation to assume that the domestic government implements the project when (2) holds at equality. This probability zero event has no impact on date-zero actions; and when there is positive date 1 surplus and (2) does not hold, equilibrium demands that a government accept an offer when indifferent.}
domestic government will refuse any such amendment—it prefers to maintain the existing terms, which offer a more generous reward in exchange for implementing the project.

Suppose, instead, that the date-1 domestic government anticipates a negative value from implementing the project at the status-quo transfer, i.e., (2) fails. This means that the date-1 domestic government would prefer not to implement the project at date 1 unless the initial terms were amended to a higher transfer. Suppose, first, that the surplus from agreement is positive, i.e., (1) holds.

With probability \( \theta \), the domestic government is recognized at date 1 to propose a modification to the inherited terms. If the foreign government refuses a proposed amendment by the domestic government, the project will end and the foreign government receives the payoff zero. Thus, the domestic government can re-negotiate the date-1 transfer from \( b_0r_0 \geq 0 \) to the larger transfer \( b_1 = v_F \). That the domestic government holds the foreign government to its participation constraint is not essential: what is crucial is that there is a discontinuity in the terms that the domestic government can achieve when its threat to renege at the existing agreement is credible, i.e., at the threshold on \( \lambda \) implicitly defined in (2).

With probability \( 1 - \theta \), the foreign government is, instead, recognized at date 1. Since (2) fails, the foreign government must offer the date-1 domestic government a larger transfer to secure its participation. Because the foreign government holds the bargaining power, it will raise the transfer from \( r_0b_0 \geq 0 \) to \( b_1 = -(v_D^1 + \lambda) \). These terms leave the date-1 domestic government with value \( v_D^1 + \lambda \) indifferent between implementing the project at date 1 and quitting, allowing the foreign government to claim the remainder of the surplus for itself.

Finally, if the date-1 surplus from agreement is negative, i.e., (1) does not hold, then no amendment will be agreed upon, because the joint surplus from implementing the project is negative. The date-1 government will not implement the project and all agents receive date-one payoffs of zero.

Thus, if an agent from the domestic country has date-zero value \( v \), the date-zero transfer was \( r_0b_0 \), and \( v_D^1 \sim G(v_D^1) \), then her expected date-1 payoff is:

\[
V_D(v, r_0b_0) = \int_{v}^{\bar{v}} \int_{-v_D^1 + v_F}^{v_D^1} (v + r_0b_0 + \lambda) f(\lambda) \, d\lambda \, dG(v_D^1)
\]

\[
= \int_{v}^{\bar{v}} \int_{-v_D^1 + v_F}^{v_D^1} \left( v - v_D^1 + \theta(v_D^1 + \lambda + v_F) \right) f(\lambda) \, d\lambda \, dG(v_D^1).
\]

(3)
So, too, the expected date-1 payoff of a foreign government with value $v_F$ given $r_0 b$ is:

$$V_F(r_0 b_0) = \int_{v}^{\bar{v}} \int_{-(v_1^D + r_0 b_0)}^{\bar{v}} (v_F - r_0 b_0) f(\lambda) d\lambda dG(v_1^D)$$

$$+ \int_{v}^{\bar{v}} (1 - \theta) \int_{-(v_1^D + v_F)}^{-(v_1^D + r_0 b_0)} (v_1^D + \lambda + v_F) f(\lambda) d\lambda dG(v_1^D). \quad (4)$$

A transfer of power from a date-0 domestic government to a more hostile date-1 domestic government (i.e., $v_1^D < v_0^D$) carries two implications. First, it increases the prospect that the date-1 domestic government can renegotiate the initial terms to a more favorable arrangement. Second, it lowers the total surplus of the date-1 negotiating parties. As a result, there will be situations in which a hostile date-1 domestic representative will fail to reach an agreement with the foreign government in contexts where a more project-friendly representative would have successfully concluded the negotiation.

**Discussion:** Our bargaining protocol is more stark than necessary for our main results. What is crucial is that the terms that the domestic government can achieve at date 1 improve as its value from the project falls, relative to the status quo offer. This improvement in terms holds regardless of the distribution of date-one bargaining power. When the domestic government holds proposal power at date 1, a more hostile representative can renegotiate the status quo transfer from $r_0 b_0$ up to $b_1 = v_F$. When, instead, the foreign government holds proposal power, its offer holds the date-one domestic government to its participation constraint, but its transfer $b_1 = -(v_1^D + \lambda)$ nonetheless increases as the domestic government becomes more hostile, i.e., as $v_1^D$ decreases. A more hostile representative not only captures the upside of larger concessions, but also mitigates against the downside of subsequent appropriation.

5. **Policy Outcomes at Date Zero**

**Exogenous Power Transitions.** We first analyze a benchmark setting in which the identity of the date-1 domestic representative does not hinge on the policy outcome. At date-0, the foreign government with valuation $v_F$ makes a proposal to the domestic government with value $v_0^D$. The domestic government accepts the offer, i.e., $r_0(b_0) = 1$, if and only if:

$$(1 - \delta)(v_0^D + b_0) + \delta V_D(v_0^D, b_0) \geq \delta V_D(v_0^D, 0).$$
Thus, a proposal solves:

$$\max_{b_0 \geq 0} (1 - \delta)r_0(b_0)(v_F - b_0) + \delta V_F(r_0(b_0)b_0),$$

subject to the participation constraint that $r_0(b_0) = 1$ if (5) holds, and $r_0(b_0) = 0$, otherwise.

**Proposition 1.** When the identity of the date-1 domestic representative does not depend on the date-0 agreement, the project is implemented at date 0 if and only if date zero surplus is positive, i.e., $v_0^D + v_F \geq 0$. Further, if the project is implemented at date 0, the foreign government extracts all surplus, offering the smallest transfer that satisfies (5).

Strikingly, uncertainty about who will hold future domestic power has no effect on both (1) whether an agreement is signed, and (2) how the surplus from an agreement is divided between the governments. To understand the result, let $\Delta(v_D^0, r_0b_0)$ be the ex-ante expected date-1 surplus from the perspective of the date-0 bargaining parties:

$$\Delta(v_D^0, r_0b_0) = V_D(v_D^0, r_0b_0) + V_F(r_0b_0) = \int_{\underline{v}}^{\bar{v}} \int_{-(v_D^0 + v_F)}^{(v_D^0 + \lambda + v_F)} (v_D^0 + \lambda)f(\lambda) d\lambda dG(v_D^1).$$

When domestic power transitions are independent of the date-0 bargaining outcome, so too is the date-1 surplus; and its division represents a pure conflict of interest between the foreign and date-0 domestic government. This implies, in particular, that the surplus arising from an agreement is no different than the surplus in the event of disagreement: for any $b_0 \geq 0$,

$$\Delta(v_D^0, b_0) - \Delta(v_D^0, 0) = 0.$$

Starting from an offer that gives the date-0 domestic government its reservation payoff, suppose that the foreign government can benefit from making larger initial offers that buttress its future negotiating position vis-à-vis an anticipated date-one domestic government. This future gain necessarily comes at the expense of the date-zero domestic government—which therefore prefers to reject the offer and instead obtain its reservation payoff.

Exogenous power transitions create a constant total surplus between the foreign government and the date-zero domestic government. So long as the static surplus from an agreement is positive, the foreign government can and will wish to induce the domestic government’s participation. But, there is no scope for both governments to benefit from more generous offers—so when the date-zero surplus is positive, the discounted total expected surplus is fully extracted by the foreign government.
We now show that when power transitions are, instead, endogenous, more generous date-zero agreements may increase or decrease the surplus between date-0 negotiators.

**Endogenous Power Transitions.** We first endogenize the identity of the date-1 domestic government by having a pivotal domestic voter with date-0 valuation \( v_p \) select her representative. We extend Assumption 1:

**Assumption 2:** \( v_p < v_F \), \( v_F + |v_p| < \sigma \).

Assumption 2 says that (1) on average, the foreign government expects a higher payoff at date 1 from the project than the pivotal voter; but (2) there is sufficient uncertainty about the common shock to domestic preferences, that it could be even higher than the expected surplus from the project between the foreign government and the domestic pivotal voter.

Let \( V_D(v_p, v_D^1, r_0b_0) \) denote the pivotal voter’s expected date-1 payoff when (1) her date-0 valuation of the project is \( v_p \), (2) she appoints a date-1 representative whose date-0 valuation of project is \( v_D^1 \), and (3) the status quo transfer is \( r_0b_0 \):

\[
V_D(v_p, v_D^1, r_0b_0) = \int_{-(v_D^1+r_0b_0)}^{\sigma} (v_D^1 + r_0b_0 + \lambda) f(\lambda) d\lambda + \int_{-(v_D^1+v_F)}^{-(v_D^1+r_0b_0)} (v_D^1 + \theta(v_D^1 + \lambda + v_F)) f(\lambda) d\lambda.
\]

Given an inherited status quo agreement \( r_0b_0 \), the pivotal voter’s preferred date-1 representative solves:

\[
\max_{v_D^1} V_D(v_p, v_D^1, r_0b_0).
\]

With a uniform distribution over the preference shock, \( \lambda \), the first-order condition yields:

**Lemma 1.** Given an inherited status quo agreement, \( r_0b_0 \geq 0 \), the domestic pivotal voter’s preferred date-1 representative values the project by:

\[
v_D^1(r_0b_0) = v_p - (v_F - r_0b_0). \quad (5)
\]

E lecting a more hostile date-1 domestic government has two competing effects. First, a more hostile government can more credibly threaten to quit an existing agreement. This raises the prospect that it successfully renegotiates a larger transfer from the foreign government. Second, a more hostile government is at greater risk of failing to reach agreement with the foreign government in circumstances where the pivotal voter wants the project to proceed.

How the pivotal voter trades off these two competing effects depends on the inherited agreement, \( r_0b_0 \). When the foreign government’s initial offer \( b_0 \) is not too small relative to its total willingness to pay, \( v_F \), the voter is inclined to appoint a more friendly government.
Because there is little additional surplus to extract from the foreign government, the voter prefers a representative who is more likely to keep the initial agreement intact.

If, instead, the foreign government would be prepared to offer substantially greater concessions in order for the project to continue, relative to the status quo offer, the voter is inclined to appoint a more hostile government: the voter is more willing to risk her representative failing to reach agreement in order to secure more generous negotiation outcomes. It is precisely when the foreign government has the most at stake from securing agreement, i.e., when $v_F$ is large, that the voter’s incentives to elect a more hostile government are strongest.

The pivotal voter’s trade-off over date-1 representatives is manipulable by both the foreign government and the date-0 domestic government. The foreign government can manipulate the voter’s trade-offs via its initial offer, $b_0 \geq 0$: more generous offers—if accepted—will subsequently steer the pivotal voter toward more project-friendly representatives. So, too, the date-0 domestic government can manipulate the voter’s trade-offs via its choice to accept or reject the offer, $r_0(b_0) \in \{0, 1\}$: rejecting an offer bequeathes a worse status quo, inducing the voter to select a more hostile representative.

We showed that when power transitions are exogenous, total expected surplus is unaffected by initial bargaining outcomes. This is no longer true when these outcomes determine the pivotal voter’s preferred date-1 representative. To see why, we write the total expected date-1 surplus, from the perspective of the bargaining parties at date 0, associated with a status quo $r_0 b_0$, as:

$$\Delta(v_D^0, r_0 b_0) = \int_{-(v_D^0 + r_0 b_0) + v_F}^{\sigma} (v_D^0 + \lambda + v_F) f(\lambda) \, d\lambda = \int_{-(v_D^0 + r_0 b_0)}^{\sigma} (v_D^0 + \lambda + v_F) f(\lambda) \, d\lambda.$$

In contrast with a setting where the election outcome is unresponsive to the date-0 international negotiations, the surplus now indirectly depends on the negotiation outcome via its effect on the voter’s subsequent choice of representative. The relative total date-1 surplus from an agreement (versus no agreement) is:

$$\Delta(v_D^0, b_0) - \Delta(v_D^0, 0) = \int_{-(v_D^0 + v_F)}^{-(v_D^0 + b_0 + v_F)} (v_D^0 + \lambda + v_F) f(\lambda) \, d\lambda. \quad (6)$$

Our next lemma highlights how conflicts between the domestic government, the foreign government, and the domestic electorate determine the expected future value of date-0 agreements.

**Lemma 2.** The relative total date-1 surplus from an agreement is increasing in the date-0
transfer \( b_0 \) if and only if:

\[
b_0 \leq v_D^0 + v_F - v_{D}^{\text{piv}} \equiv b^*,
\]

and *positive* if and only if \( b_0 \leq 2b^* \).

To understand the result, notice that the expected date-1 surplus from an agreement \([6]\) is maximized by the transfer \( b_0 \) that equates the attitude of the date-1 government with the attitude of its predecessor, i.e., that solves \( v_D^1(b_0) = v_D^0 \). With uniform preference shocks, this transfer is \( b^* \). It constitutes the expected date-1 surplus between the date-0 domestic government and foreign government—i.e., their static alignment—adjusted positively or negatively according to their degree of joint alignment relative to the domestic electorate. It reflects two distinct dynamic conflicts of interest that determine the consequences of the date-0 outcome for the expected date-1 surplus.

*First*, there is a dynamic conflict between the foreign government and the date-0 domestic government, since the date-0 transfer determines the division of the expected date-1 surplus. The foreign government prefers to secure the date-1 domestic government’s participation in the project with lower date-1 transfers, while the domestic government prefers its successor to secure higher transfers in exchange for its participation.

The date-0 transfer also determines the size of the expected date-1 surplus. This creates a *second* dynamic conflict between *both* governments and the domestic electorate. The foreign government benefits from more generous agreements, which steer the electorate in favor of appointing a more pliant date-one domestic government. This imperative becomes more urgent when the pivotal voter is more hostile, i.e., when \( v_{D}^{\text{piv}} \) is lower, raising its willingness to make more generous transfers. In turn, the domestic government’s value from higher transfers depends on its own mis-alignment with the domestic electorate.

If the date-0 domestic government views the project favorably, relative to its electorate, in the sense that \( v_D^0 - v_{D}^{\text{piv}} \) is positive and large, this domestic mis-alignment raises the alignment between the date-0 domestic and foreign governments. In this case, both governments expect to benefit from a larger transfer that steers voters in favor of a less hostile successor, which is more likely to preserve the agreement when the date-0 negotiating parties would prefer for it to survive.

If, instead, the date-0 domestic government is much more hostile to the project than its voters, in the sense that \( v_D^0 - v_{D}^{\text{piv}} \) is negative and large, the governments are in total conflict over the attitude of the domestic government’s successor. The foreign government is less inclined to make generous offers, knowing that the electorate is already likely to appoint a more project-friendly successor. Moreover, the domestic government anticipates that higher offers will lead to a successor that is even more mis-aligned with its own interests. This is
because a more project-friendly successor will be less effective in renegotiating a revision to the status quo, and will implement the project in circumstances where the date-0 government would have preferred to quit.

The scope for agreements to raise the expected date-1 surplus therefore hinges on the prospect that the date-0 government may be replaced by a more hostile successor. If the date-0 negotiating parties are *aligned* relative to the electorate, the expected date-1 surplus from agreement increases, relative to the date-0 surplus. In this case, a concern for date-1 outcomes may render agreement possible in settings where negotiations would otherwise have failed, i.e., when the static surplus is negative. If the date-0 governments are instead *mis-aligned* relative to the domestic electorate, the expected date-1 surplus from agreement *decreases*, relative to the static surplus. In this case, a concern for date-1 outcomes may render agreement impossible in settings where negotiations would otherwise have succeeded, i.e., when the static surplus is positive.

**Proposition 2.** There exists a threshold \( v^* (\delta) \) such that if and only if the date-zero government is not too hostile to the project, i.e., \( v_0^D \geq v^* (\delta) \), the foreign government’s date-zero transfer offer induces the domestic government to implement the project.

When \( \delta \) rises, the consequences of current negotiations for future surplus weigh more heavily on the considerations of both negotiating governments. This may either raise or lower the conflict between the domestic and foreign government.

If the consequences of a date-0 agreement for future surplus are positive, a higher \( \delta \) weighting raises the attractiveness of securing an agreement, *lowering* the threshold \( v^* \). This can arise when domestic voters are very hostile toward the project: the foreign government is more willing to use transfers to shift their preferences towards a successor who will preserve the agreement. In turn, higher upfront transfers can compensate a more innately hostile date-0 domestic government for its initial participation.

By contrast, if the consequences of a date-0 agreement for future surplus are negative, a higher \( \delta \) weighting lowers the attractiveness of securing an agreement, *raising* the threshold \( v^* \). This can arise when domestic voters are relatively favorably disposed to the project: because the foreign government anticipates a more pliant future negotiating partner, it expects to extract more of the future surplus, so it derives less value from buttressing its negotiating position with more generous transfers at date 0. In turn, less generous offers will only induce a relatively more project-friendly date-0 domestic government to participate.

When election outcomes are unrelated to date-0 negotiations, the date-0 government derives appropriates none of the expected discounted lifetime surplus from implementing the project. In contrast, if election outcomes are responsive to negotiation outcomes—if
the support $\sigma$ over domestic preference shocks $\lambda$ is small enough that electoral outcomes are sensitive to $b_0$—and the domestic and foreign governments are sufficiently aligned, the date-0 domestic government may appropriate a strictly positive share of the surplus.

**Proposition 2.** (cont.) If the support $\sigma$ on domestic preference shocks $\lambda$ is not too large, and the relative total date-1 surplus from an agreement is positive then there exists a threshold $v^{**}(\delta) > v^*(\delta)$ such that if $v_D^0 \in [v^*(\delta), v^{**}(\delta)]$, the foreign government offers the smallest date-zero transfer that induces the domestic government to implement the project; but if $v_D^0 > v^{**}(\delta)$, the foreign government offers a strictly more generous date-zero transfer than is necessary to induce the domestic government to implement the project.

The threshold $v^{**}(\delta)$ always decreases in $\delta$: the foreign government is only willing to cede surplus to the date-zero domestic if it anticipates sufficient future benefits from doing so. In that case, increases in $\delta$ encourage the foreign government to make even more generous upfront transfers, which solve:

$$
\delta \theta (v_F - b_0^*) \frac{\partial}{\partial b_0} F(-v_D^1(b_0) - b_0) |_{b_0=b_0^*} - \delta (1 - F(-v_D^1(b_0^*) - b_0^*))
+ \delta (1 - \theta) \int_{-v_D^1(b_0^*) - v_F}^{-v_D^1(b_0^*) - b_0^*} \frac{\partial v_D^1(b_0)}{\partial b_0} \bigg|_{b_0=b_0^*} f(\lambda) d\lambda = 1 - \delta.
$$

(8)

The left-hand side is the net date-1 marginal benefit of making a higher offer. The first term captures the impact of increasing the **extensive** margin: raising the promised future payment $b_0$ increases the prospect that the initial offer will not be renegotiated because the unanticipated preference shock $\lambda$ now exceeds the renegotiation threshold of the date-1 domestic government with ideology $v_D^1(b_0), -v_D^1(b_0) - b_0$. The value to the foreign government from a higher prospect of an agreement is its share of the surplus, $v_F - b_0^* > 0$. In the event of a subsequent (marginal) renegotiation, the foreign government cares only about those circumstances in which the date-1 domestic government has the bargaining power (which occurs with probability $\theta$) as there is a discontinuous jump in what the domestic government can extract if it can credibly walk away. This extensive margin provides an incentive for the foreign government to **raise** its initial offer.

The second term—the **intensive** margin—reflects that raising an initial offer lowers the foreign government’s future payoff whenever the date-zero agreement persists at date 1, which occurs with probability $1 - F(-(v_D^1 + b_0^*))$. This intensive margin provides an incentive for the foreign government to **hold back** from raising its initial offer.
The third term captures the change in the foreign government’s date-1 payoff when it holds future bargaining power (which occurs with probability \(1 - \theta\)), and the date-1 domestic government is prepared to walk away at the inherited terms, but the surplus between the two governments is positive. Lemma 1 revealed that more generous offers (i.e., higher \(b_0\)) diminish the pivotal domestic voter’s desire to choose a representative who is more hostile to the project. The foreign government values a more project-friendly date-1 negotiating partner due to its less demanding participation constraint.

Finally, the right-hand side of (8) reflects the marginal cost of more generous offers, from the foreign government’s immediate (date-0) perspective. Substituting the uniform distribution, we re-write the condition as:

\[
\delta(v_F - b_0^*) \frac{\theta}{\sigma} - \delta \frac{2b_0^* - v_F + v_{piv}^D + \sigma}{2\sigma} + \delta(1 - \theta) \frac{v_F - b_0^*}{2\sigma} = 1 - \delta.
\]

Rearranging yields the optimal date zero transfer offer:

\[
b_0^* = \frac{\delta(v_F(2 + \theta) - v_{piv}^D + \sigma) - 2\sigma}{\delta(3 + \theta)}.
\]

The following is immediate.

**Corollary 1.** When the domestic pivotal voter is more opposed to the project, i.e., when \(v_{piv}^D\) is more negative, or the probability \(\theta\) that the date-1 domestic government will hold bargaining power is higher, the foreign government’s preferred date-0 transfer increases.

When the pivotal voter finds the project less attractive, so too will a future potential domestic government (via a lower \(v_1^D(b_0)\)). This means that the foreign government faces a greater risk of renegotiation at date one. Because raising the initial offer mitigates this risk by reducing the set of circumstances in which any domestic government would wish to renegotiate, the foreign government responds by giving more generous initial terms.

When the date-1 domestic government is more likely to hold bargaining power, the foreign government’s stakes from making a date-0 proposal that is unlikely to be renegotiated at date-1 rise: in the event that the date-1 domestic government is prepared to walk away from the agreement, a higher \(\theta\) raises the risk that she will appropriate the date-1 surplus. This encourages the foreign government to make more generous offers, to reduce the set of circumstances in which renegotiation takes place.
6. Electoral Competition Between Policy and Office Motivated Parties

Our previous analysis endowed the domestic pivotal voter with unlimited flexibility to fine-tune her choice of date-1 representative. Such unlimited flexibility can reflect a scenario in which two purely office-motivated parties compete to represent the pivotal voter, and can commit to adopting a platform; or a scenario in which the pivotal voter can choose among many citizen-candidates who are purely-ideologically driven. With no frictions in the market for politicians, voters generically always replace the date-0 domestic government after initial negotiations are concluded. Since the date-1 government’s value varies smoothly with the initial outcome, there is no distinction between (1) the risk that a more hostile government will emerge and (2) its intrinsic stance on the project, reflected by its value $v_D^H$.

In most realistic settings, however, voters face a more limited set of options—they must choose from a small set of parties or candidates who care about both policy and office rents, and cannot commit to positions that are not in their subsequent interest to adopt. In such settings, the relevant question is not “what would my ideal date-1 government be?” but rather “which of the available alternatives do I dislike the least?” We now show how this limited choice for voters can have important consequences for international agreements.

We suppose that there are two political parties: one party attaches a date-0 value to the project of $v$, and the other attaches value $\bar{v}$, where $v < \bar{v} \leq 0$. We say that the party with value $v$ is hostile to the project, and that the party with value $\bar{v}$ is friendly. We assume that $\bar{v} + v_F > 0$, $\sigma > \bar{v} + v_F$, and $\sigma > -\sigma$. The first assumption says that the date-0 surplus from agreement between the friendly party and the foreign government is strictly positive. The remaining assumptions state that there is sufficient uncertainty about the common shock to domestic preferences that (1) it could even larger than the date-0 surplus between the friendly party and the foreign government, and (2) it could be even lower than the expected payoff from the project for the hostile party. We impose no restriction on the static surplus between the foreign government and the hostile party with value $v$. In addition to its policy motivation, a party receives an office benefit of $w \geq 0$ at any date where it holds office.

We assume that at the time of their date-0 negotiations, the foreign and domestic governments do not perfectly know the preferences of the pivotal domestic voter. This creates uncertainty in the eyes of the two governments about how their initial negotiations will affect the pivotal voter’s selection, and hence which party will represent the domestic pivotal voter in future renegotiations. We suppose that $v_D^{pv}$ is uniformly distributed on $[v^e - \alpha, v^e + \alpha]$, where $v^e < v_F$, and the support of $v_D^{pv}$ is sufficiently large:

**Assumption 3:** $\alpha > \frac{\bar{v} + v}{2} + (v_F - v^e)$.

We let $P(r_0b_0)$ denote the probability that the date-1 domestic government is hostile, as a
function of the status quo $r_0 b_0$. Then, the foreign government’s date-0 offer solves:

$$\max_{b_0 \geq 0} \ (1 - \delta)r_0(b_0)(v_F - b_0) + \delta P(b_0 r_0(b_0)) V_F(\bar{v}, b_0 r_0(b_0)) + \delta(1 - P(b_0 r_0(b_0))) V_F(\bar{v}, b_0 r_0(b_0)),$$

subject to the constraint that date-0 domestic government with $v_0^D \in \{v, \bar{v}\}$ chooses $r_0(b_0) = 1$ if and only if

$$\begin{align*}
(1 - \delta)(v_0^D + b_0) + \delta P(b_0) V_D(v_0^D, v, b_0) + (1 - P(b_0)) V_D(v_0^D, \bar{v}, b_0) \\
\geq \delta P(0) V_D(v_0^D, v, 0) + (1 - P(0)) V_D(v_0^D, \bar{v}, 0).
\end{align*}$$

Here,

$$V_F(v, b_0 r_0) = \int_{-(v + r_0 b_0)}^{\sigma} (v_F - r_0 b_0) f(\lambda) d\lambda + (1 - \theta) \int_{-(v + v_F)}^{-(v + r_0 b_0)} (v + \lambda + v_F) f(\lambda) d\lambda,$$

is the anticipated date-1 payoff to the foreign government when it faces a domestic government with value $v \in \{v, \bar{v}\}$, and

$$V_D(v, v', r_0 b_0) = 1[v = v'] w + \int_{-(v' + r_0 b_0)}^{\sigma} (v + r_0 b_0 + \lambda) f(\lambda) d\lambda + \int_{-(v' + v_F)}^{-(v' + r_0 b_0)} (v - v' + \theta(v' + \lambda + v_F)) f(\lambda) d\lambda.$$

is the anticipated date-1 payoff of the date-0 domestic government with ideology $v$, when the date-1 government has ideology $v'$.

The pivotal voter prefers to elect the hostile party if and only if it prefers the expected bargaining outcome associated with that party to the corresponding outcome from electing the friendly party. With the uniform distribution over the preference shocks $\lambda$, the pivotal voter prefers the hostile party if and only if

$$v_D^{piv} \leq \frac{v + \bar{v}}{2} + (v_F - r_0 b_0) \equiv \hat{v}(r_0 b_0).$$

The voter’s preferences derive from two distinct channels. The first term reflects that excluding transfers, the voter prefers to nominate the party that is ideologically closest to her. The second term reflects that regardless of ideology, all voters share a common interest in extracting greater surplus from the foreign government.

Along one dimension, these preferences generate a natural electoral advantage for the hostile party, as it enjoys a comparative advantage in renegotiation, allowing it to extract
more generous transfers. However, this electoral advantage is eroded by more generous date-0 agreements: as \( r_0 b_0 \) rises, the pivotal voter cares more about preserving the agreement, and it is the friendly party that enjoys a subsequent comparative advantage in securing an agreement with the foreign government. When the foreign government has more at stake \((v_F \text{ is higher})\) it is more reluctant to walk away from subsequent negotiations, spurring the domestic electorate to prefer the hostile party, as it can bargain hard with a reduced fear of negotiations breaking down in situations where the pivotal voter would want to reach an agreement.

We first characterize the outcomes of date-zero negotiations between the foreign government and the hostile party, which has project valuation \( v \).

**Proposition 3.** When the hostile party holds power at date 0, the foreign government either offers (i) the smallest transfer that makes the hostile government willing to accept (satisfying its participation constraint (11)) in exchange for implementing the project at date 0; or (ii) a transfer that is rejected and the project is not implemented at date 0.

More generally, at date 0, the interaction between the foreign government and the hostile domestic government is one of pure conflict. Not only is there a static conflict—a greater date-zero transfer to the domestic government means less for the foreign government—but more generous offers reduce their joint expected date-1 surplus. To see why, write the total expected date-1 surplus to the date-0 hostile government and the foreign government, resulting from an offer \( b_0 \) as

\[
\Pr(v_D^{\text{ piv}} \leq \hat{v}(b_0)) \Delta(v, v) + (1 - \Pr(v_D^{\text{ piv}} \leq \hat{v}(b_0))) \Delta(v, \bar{v}),
\]

where

\[
\Delta(v, v') = 1[v = v']w + \int_{-(v'+v_F)}^\sigma (v + \lambda + v_F)f(\lambda) d\lambda.
\]

Notice that \( \Delta(v, v) - \Delta(v, v') > 0 \): from the perspective of the date-0 governments, the total date-1 surplus is maximized by offers that maximize the prospect that the date-0 domestic government remains in power. This is because a date-0 government that retains power at date 1 values (1) the office rent \( w > 0 \), and (2) the authority at date 1 to conclude agreements if and only if it wants the negotiations to succeed.

When the hostile party initially holds power, more generous offers decrease the governments’ future surplus, by reducing the hostile party’s prospects of holding onto power. For any two offers \( b'_0 > b_0 \),

\[
\hat{v}(b'_0) < \hat{v}(b_0) \Rightarrow \Pr(v_D^{\text{ piv}} \leq \hat{v}(b'_0)) < \Pr(v_D^{\text{ piv}} \leq \hat{v}(b_0)),
\]

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because a more generous offer \( b'_0 \) increases the attraction to the electorate of the friendly party. If the hostile party is replaced, its successor is certain to be more favorable to the project: this destroys any possibility that the interests of the foreign government and the hostile government might align.

The negative consequences of larger offers for total date-one surplus weigh on date-zero negotiations—even when the static surplus from an agreement is strictly positive, i.e., even when \( v + v_F > 0 \), the negative implications for date-one surplus may preclude a successful agreement.

**Corollary 2.** (*Hostile Party Initially Holds Power*).

1. For any \( \delta > 0 \), there exists \( v^*(\delta) > -v_F \), increasing in \( \delta \), such that if and only if the hostile party is sufficiently hostile, \( -\sigma < v < v^*(\delta) \), no agreement is reached at date 0\(^{10}\).

2. For any \( \delta > 0 \), when the value of holding office is sufficiently high, no agreement is reached at date 0: there exists \( w^*(\delta) \geq 0 \), decreasing in \( \delta \), such that if and only if \( w \geq w^*(\delta) \), no agreement is reached at date 0.

Successful date-0 negotiations always harm the hostile party’s electoral prospects, thereby conveying a double penalty. First, the hostile party foregoes the office rent \( w \geq 0 \); second, it suffers from the policy choices of its opponent. As office motivations weigh more heavily in the hostile party’s calculations, its conflict of interest with the foreign government sharpens even further, and in the limit, office motivation precludes any initial agreement, whatsoever.

Matters are very different when the date-0 domestic government is the friendly party that is more favorably disposed to the project. Recall that the static surplus from agreement between the friendly party and the foreign government is assumed to be strictly positive, \( \bar{v} + v_F > 0 \). We have:

**Proposition 3.** (*continued*) If the friendly party holds power at date 0, then:

1. an agreement is always signed, and the project is implemented at that date, and

2. for any \( \delta > 0 \), there exists \( w^*(\bar{v}) \geq 0 \), decreasing in the friendly party’s valuation \( \bar{v} \), such that if the foreign government’s preferred offer is interior, i.e., solves the first-order condition associated with (10) and office-holding motives are sufficiently strong, i.e., \( w \geq w^*(\bar{v}) \), the friendly domestic government strictly prefers to implement the project at these terms.

\(^{10}\)We include our earlier assumption \( -\sigma < v \) in the statement of the result to emphasize the implicit lower bound on \( v \). If, for example, primitives satisfy \( \sigma > -v_F \), then \( v^*(\delta) \) violates the assumption \( -\sigma < v \) for \( \delta \) sufficiently close to zero.
Both the date-0 and date-1 surplus from agreement are always positive for the friendly party and the foreign government. More generous offers raise the prospect that the friendly party holds onto power, benefiting both the domestic and foreign government. In contrast with a hostile government, a more office-motivated friendly government is also easier to satisfy, since its re-election prospects are better served by any positive transfer than no agreement, whatsoever. The foreign government’s value from more generous offers, combined with the friendly party’s value from accepting them, may even yield the friendly party a strictly positive surplus from participating in the project.

This raises a basic question: conditional on securing a date-0 agreement, would a date-0 hostile or friendly party obtain the greatest transfers from the foreign government? On the one hand, a friendly date-0 government enjoys a strictly positive surplus from the agreement, while a hostile date-0 government is held to its participation constraint. On the other hand, the friendly government’s participation can be more easily secured than the hostile party’s participation. Our next result gives an unambiguous resolution to this question: the friendly party derives a higher surplus from agreements than the hostile party simply because its participation can be bought more cheaply by the foreign government.

**Corollary 3.** A hostile domestic government is less likely to successfully negotiate a date-0 agreement. Nonetheless, whenever it implements the project, it negotiates a higher transfer than what a friendly domestic government would obtain.

The hostile date-0 domestic government’s participation constraint is more stringent than the corresponding constraint for a friendly date-0 domestic government, so whenever the friendly government derives no surplus from an agreement, the result is immediate.

Suppose, instead, that the friendly government’s participation constraint is slack when the foreign government advances its most preferred offer, $b^*_0$. We already noted that the hostile date-0 domestic government and foreign government face a pure conflict of interest: any gain for the latter necessarily comes at the expense of the former. If $b^*_0$ is most preferred by the foreign government, concavity of the foreign government’s objective implies that its value is strictly increasing in an offer $b_0 \in [0, b^*_0]$—and so, the hostile government’s value relative to rejection is strictly decreasing. Therefore, it must be that inducing the hostile government’s participation necessitates that the foreign government over-extend itself relative to its most preferred offer, i.e., it must propose a transfer in excess of $b^*_0$.

Thus, even at date 0, voters face a trade-off from a more hostile domestic government. If the government is too hostile, negotiations will break down. If, instead, it is very friendly to the project, it may be too quick to agree to relatively ungenerous terms. Because the friendly party always reaches agreement with the foreign government, its conflict with voters increases
with its value from holding office \((w)\), since it becomes liable to accept ever-worse offers in order to improve its electoral prospects relative to securing no transfers. With the hostile party, the consequences of a greater concern for office are less clear-cut. On the one hand, conditional on securing agreement, a higher office motivation makes the hostile party demand more transfers to compensate upfront for its diminished electoral prospects resulting from an agreement. This gives the hostile party commitment power to reject offers that the friendly party would prefer to accept. On the other hand, a near-exclusive concern for retaining office may preclude agreement between a hostile domestic government and the foreign government.

**Discussion.** When voters can freely choose the identity of their date-1 government, the date-0 domestic government’s acceptance decision and the foreign government’s offer determine (a) whether the date-1 domestic government is *more* or *less* hostile to the project than its predecessor, and (b) *how much* more or less hostile. Lemma 2 showed how the prospect of a date-1 government that is *more* hostile than the date-0 government is essential for larger transfers to increase the expected date-1 surplus between the parties, relative to the static surplus.

In the context of two-party competition, where parties cannot commit to platforms that they would not wish to implement, the hostile date-0 government can only be replaced by a strictly more project-friendly successor. Any change of power will lead to a government that is both less likely to successfully renegotiate terms, and more willing to implement the project in cases where the hostile party wants to quit. This sharpens the conflict over election outcomes to the point where there is no prospect of a mutually advantageous transfer: *any* agreement that benefits the foreign government *must* harm the hostile domestic government, and vice-versa. Moreover, any benefit to either government is outweighed by the harm to the other. This holds even in the absence of office motivation, i.e., when \(w = 0\) and the hostile government cares only about policy outcomes.

These factors raise the risk that negotiations between the hostile domestic government and the foreign government fail at date 0 even in contexts where the date-0 surplus from agreement is positive. Conversely, by raising the stakes of the election outcome, they also create an even stronger prospect that the foreign government and the friendly domestic government reach an agreement, since the stakes for both governments are higher.

The electorate may also benefit from facing both (1) a limited set of potential parties from which to choose and (2) parties that cannot freely adapt their platforms to reflect the bargaining stance that voters would most prefer at date 1. These frictions give the electorate a partial commitment to elect a more hostile government than it would in the absence of constrained choice. In turn, the date-0 friendly and foreign governments anticipate this risk and may mutually benefit to an even greater extent from more generous initial transfers.

**Changes in Domestic Politics.** We now ask how changes in the preferences of the two
domestic parties affect the foreign government’s preferred initial offer, as well as prospects for long-term agreements. Let \( b_0^* \) denote the offer that satisfies the first-order condition associated with the foreign government’s objective, expression \( (10) \).

The foreign government’s response to changes in domestic politics turn on two distinct questions. First, how does the change in domestic politics affect the foreign government’s relative value from steering the subsequent election in favor of the friendly government? Second, how does the change in domestic politics affect the foreign government’s ability to influence the electoral outcome?

Suppose, for example, that one of the domestic political parties becomes more inclined towards the project, i.e., either \( v \) rises, or \( \bar{v} \) rises. If that party subsequently holds office, the foreign government calculates that the party’s threat to quit is now less credible, since its value from agreement has increased. This encourages the foreign government to respond with lower transfers.

However, the change in the parties’ platforms also changes their relative electoral competitiveness. Recall that the domestic pivotal voter who is indifferent between the two domestic parties in the election has value

\[
\hat{v}(b) = \frac{v + \bar{v}}{2} + (v_F - r_0b_0).
\]

Absent any change in the negotiation settlement, a higher \( \bar{v} \) lowers the electoral competitiveness of the friendly party, by moving \( \hat{v}(b) \) to the right allowing the hostile party to capture a larger mass of voters. Conversely, a higher \( v \) raises the electoral competitiveness of the hostile party. Absent any change in the foreign government’s offer, either of these changes in party platforms place the friendly party at disadvantage.

Finally, the foreign government’s value from promoting the re-election of the friendly party depends on the wedge in each domestic party’s bargaining attitude. When the friendly party grows even more favorably disposed to the project, this wedge \( \bar{v} - v \) increases, raising the foreign government’s stake from steering the election in favor of the more pliant negotiating party. By contrast, when the hostile party moderates, the wedge \( \bar{v} - v \) decreases, reducing the foreign government’s stake in the election.

These calculations relate to the foreign government’s value from using higher offers to buttress its future negotiating position. But whether it can have a meaningful impact on the election depends on its forecast about the preferences of the pivotal voter, \( v_D^{\text{piv}} \). Since \( v_D^{\text{piv}} \) is uniformly distributed on the interval \([v^e - \alpha, v^e + \alpha] \), the density of \( v_D^{\text{piv}} \) evaluated at the threshold \( \hat{v}(r_0b_0) \) is \( \frac{1}{2\alpha} \). The parameter \( \alpha \) determines the sensitivity of electoral outcomes to more generous offers—the sensitivity is greater when \( \alpha \) is lower.
Proposition 4. Suppose the value $\bar{v}$ of the friendly domestic political party increases. Then there exist at most two thresholds $\bar{\alpha}_*$ and $\alpha^*$ such that if $\alpha < \bar{\alpha}_*$, the foreign government’s preferred offer increases and if $\alpha > \bar{\alpha}^*$, the foreign government’s preferred offer decreases. For $\alpha \in [\bar{\alpha}_*, \alpha^*]$, there exists $\bar{\alpha}^* \in [0, \bar{v}]$ such that the foreign government’s most preferred offer is decreasing in $\bar{\alpha}^*$ and only if $\bar{\alpha} \leq \bar{\alpha}^*$.

Figure 1 illustrates these findings numerically. When the election outcome is very sensitive to the negotiation outcomes, i.e., $\alpha$ is small, the foreign government responds to an increase in $\bar{\alpha}$ with more generous offers, in order to promote the re-election of the friendly domestic government. Conversely, if $\alpha$ is large, the election outcome is relatively insensitive to higher offers. In that case, the foreign government’s responds with lower offers, given that an improvement in the friendly party’s bargaining attitude will make it a more pliant negotiating partner if it is retained.

Finally, suppose that the election is only moderately sensitive to international negotiations, i.e., $\alpha$ is intermediate. From the foreign government’s perspective, the friendly party is virtually indistinguishable from the hostile party when the parties’ ideologies $\bar{v}$ and $\bar{v}$ are very close. Increases in $\bar{\alpha}$ only modestly increase the foreign government’s value of promoting the re-election of the friendly party. In conjunction with the diminished electoral returns from raising its offer (since $\alpha > \bar{\alpha}_*$), the foreign government prefers to respond to a higher $\bar{\alpha}$ with smaller transfers.

As the friendly party grows even more favorably disposed to the project, i.e., $\bar{\alpha}$ rises, the foreign government’s trade-offs change. The increasing wedge in attitudes between the domestic political parties, $\bar{\alpha} - \bar{v}$, raises the foreign government’s stake in promoting the electoral success of the friendly party. In conjunction with the non-trivial electoral returns from raising its offer (since $\alpha < \alpha^*$), the foreign government prefers to respond to a higher $\bar{\alpha}$ with larger transfers.
Related, but distinct, considerations drive the foreign government’s response when the hostile party’s valuations $v$ rises.

**Proposition 4.** (continued) Suppose the value $v$ of the hostile domestic political party increases. Then there exist at most two thresholds $\alpha_* \text{ and } \alpha^*$ such that if $\alpha < \alpha_*$, the foreign government’s preferred offer increases and if $\alpha > \alpha^*$, the foreign government’s preferred offer decreases. For $\alpha \in [\alpha_*, \alpha^*]$, there exists $v^* < \bar{v}$ such that the foreign government’s preferred offer is increasing in $v$ if and only if $v \leq v^*$.

If the election outcome is very sensitive to the negotiation outcome, the foreign government responds with more generous offers to offset the increased electoral advantage of the hostile party. If, instead, the election outcome is insensitive to the negotiation outcome, the foreign government lowers its transfers, anticipating a more pliant negotiating partner if it wins office.

Suppose, instead, that the election outcome is only moderately sensitive to the negotiation outcome. When $v$ rises, the hostile party becomes more electorally competitive. But if $v$ is very close to $\bar{v}$, the foreign government regards the domestic parties as virtually indistinguishable, lowering the its stake from compensating the friendly party’s disadvantage with higher transfers. In conjunction with the diminished electoral returns from raising its offer (since $\alpha > \alpha^*$), the foreign government prefers to respond to a higher $v$ with smaller transfers.

Suppose, instead, that the hostile party’s value $v$ is initially very negative. In that case, the primary effect of its moderation on the foreign government’s calculation (i.e., higher $v$) is the hostile party’s improved electoral competitiveness. Since there remains a large wedge in the anticipated bargaining posture of each party, the foreign government benefits from using more generous transfers to promote the reelection of the friendly party. In conjunction with the non-trivial electoral returns from raising its offer (since $\alpha > \alpha_*$), the foreign government prefers to respond to a higher $v$ with larger transfers.

When the friendly party becomes more favorable to the project, the wedge between the two parties’ attitudes increases, giving the foreign government a greater urgency to respond with more generous transfers. By contrast, when the hostile party becomes more favorable to the project, the wedge decreases. This creates an asymmetry in the conditions under which the foreign government responds to either change by increasing its initial offer. In particular, there are circumstances in which the foreign government always responds to an increase in the hostile party’s value of the project $v$ with less generous transfers.

**Corollary 4.** Suppose the hostile party is initially electorally competitive, in the sense that:

$$v^e - v < v_F. \tag{14}$$

28
Then, whenever its value $v$ increases, the foreign government’s most preferred offer always decreases.

The difference $v^e - v$ represents the expected degree of intrinsic mis-alignment between the hostile party and the electorate. As this intrinsic mis-alignment increases, voters worry more about the risk that a hostile date-1 government will fail to reach agreement, and the project will be abandoned. However, this risk must be set against the value of a successful renegotiation that raises the transfer to $v_F$, which the hostile party is more likely to secure. We say that the hostile party is ‘electorally competitive’ when condition (14) is satisfied.

In that event, the foreign government anticipates a relatively high risk that the hostile party will hold office, and the hostile party’s behavior conditional on winning office weighs more heavily in its calculation. If the hostile party’s value from the project $v$ increases, the foreign government’s calculation emphasizes that, if elected, the party will be less credible in its threats to unilaterally quit at the inherited terms. Thus, it responds with lower transfers. Condition (14) is satisfied in all three panels of Figure 1.

### 7. Extensions

In the Appendix, we pursue additional results. First, we illustrate how changes in the preferences of the domestic political parties affect the long-term prospect of an agreement, i.e., the probability of successful negotiations at date 1. Second, we consider a simple model of retrospective voting and show how our results and conflicts of interest obtained with prospective voters also emerge when voters are backward-looking.

**Domestic Politics and Prospects for Long-Term Agreements.** Suppose that the hostile party’s value from the project $v$ rises. Does this raise or lower the likelihood of a successful negotiation at date 1? Conditional on the hostile party winning office, a deal is now more likely to be reached. But, a more moderate hostile party may be more electorally competitive, increasing the risk that it wins power. First, it now captures some voters who initially would have favored the friendly party. Second, the foreign government may respond with even less generous offers, further pushing domestic voters to support the hostile party. We show that these two forces may dominate, so that the prospects for long-term agreements deteriorate when a hostile party that is initially electorally marginal becomes more competitive by moderating its stance in favor of the project.

**Retrospective Voting.** Our benchmark analysis presumes that voters are forward-looking, i.e., voting for the party that will secure the best anticipated negotiation outcomes. We consider an alternative perspective in which voters are myopic, in that they reward or punish
incumbents according to a linearly increasing function of their date-0 payoffs:

$$
\Pr(\text{re-elect incumbent} \mid \text{date-0 outcome}) = \max\{0, \min\{a + \beta r_0(v_{piv}D + b), 1\}\}.
$$

The parameter $a$ reflects aspects of the electoral context that do not depend on the international negotiations; these could domestic policy advantages or disadvantages enjoyed by the incumbent, as well as non-policy related factors, such as valence. The parameter $\beta$ captures the salience of the international negotiations in the election: when $\beta$ is large, the date-0 domestic government’s electorate fortunes are more sensitive to voters’ evaluation of the immediate date-0 negotiation outcome.

We show that if (1) the international negotiations are sufficiently salient and (2) the domestic parties are sufficiently polarized, in the sense that

$$
\beta(\bar{v} - \bar{v}) > \frac{1 + \theta}{2},
$$

an analogue of Proposition 3 holds: if the hostile party holds date-0 power, either no agreement is signed or the foreign government holds the domestic government to its participation constraint. When $\bar{v} - \bar{v}$ is large, the foreign government’s value from steering voters towards the friendly party is large, and when $\beta$ is large, the election outcome is especially sensitive to the date-0 outcome. These are the circumstances in which the conflict of interest between the foreign government and the hostile domestic government is at its greatest.

When voters are prospective, the hostile date-0 government refuses more generous offers because they harm its electoral prospects. When voters are retrospective, the foreign government refuses to advance more generous offers to the hostile party because they advance its electoral prospects. Thus, the conflict of interest between the date-0 negotiating parties is fundamental, and does not hinge on the sophistication or foresight of the electorate. In contrast with prospective voters, however, we unearth circumstances in which a friendly government may secure a larger initial transfer than a hostile date-0 government.

8. Conclusion

We investigate the dynamics of international negotiations and domestic politics. When the shadow of future elections and subsequent renegotiations looms large, the consequences for future surplus from an agreement between the date-0 governments depend on the terms of agreement. Depending on the preferences of the two governments, as well as voters, this surplus may increase or decrease in the share of the static surplus that is initially negotiated by the domestic government. Thus, initial negotiations may succeed even when the
static surplus is negative, or conclude unsuccessfully when it is positive. We show how these conditions relate to fundamental conflicts between the foreign government, the domestic electorate, and the domestic parties vying for future office.

There are, of course, other frictions in international negotiations. Private information between states about preferences or resolve may raise the prospect of bargaining failure (Brito and Intriligator (1985) or Fearon (1995)). Similarly, the desire of politicians to convince domestic electorates of their skill and resolve may create ‘audience costs’ from backing down that propel negotiating parties to further conflict (Fearon (1994) or Ashworth and Ramsey (2016)). That our model features no private information and no within-period bargaining frictions render our findings all the more stark.

Our approach suggests other extensions: we view the most pressing next step to be the incorporation of two-sided elections into the analysis. For example, the Foreign government must also, eventually, face elections. This may have led to the sharpening of the EU member states’ bargaining stance vis-à-vis Greece over the course of 2015, as their own electorates grew increasingly frustrated. We find this a promising avenue for future research.

9. Bibliography


10. Appendix A: Domestic Politics and Prospects for Long-Term Agreements

Suppose that the hostile party moderates its opposition to the project, in the sense that \( v \) increases. Does this imply that the prospect of a successful negotiation at the (terminal) date 1 increases? In this Appendix, we show that the answer may be no.

The probability with which the project is implemented at date 1 when the status quo offer is \( b \geq 0 \) is:

\[
Pr(v_D^{\text{piv}} \leq \hat{v}(b))(1 - F(- (\bar{v} + v_F))) + Pr(v_D^{\text{piv}} > \hat{v}(b))(1 - F(- (\tilde{v} + v_F))).
\]  

(15)

If \( v_D^{\text{piv}} \leq \hat{v}(b) \), the pivotal voter wants to elect the party that is hostile. The project will then be implemented so long as the date-1 surplus is positive, i.e., as long as \( \bar{v} + \lambda + v_F \geq 0 \), which occurs with probability \( 1 - F(- (\bar{v} + v_F)) \). If, instead, \( v_D^{\text{piv}} > \hat{v}(b) \), the pivotal voter wants to elect the party that is friendly to the project, in which case the project will be implemented so long as \( \tilde{v} + \lambda + v_F \geq 0 \), which occurs with probability \( 1 - F(- (\tilde{v} + v_F)) \).

Conditional on the identity of the domestic government at date 1, the transfer \( b \) plays no role in whether the project is implemented. This is because the realized surplus at date-1 does not depend on the status quo transfer: it only depends on whether the joint surplus is positive.

This transfer, nonetheless, has an indirect impact on date-1 outcomes via its impact on whether the hostile or friendly party is elected. In turn, changes in primitives such as the ideologies of the domestic political parties exert both direct and indirect effects on the prospects of a date-1 project. The direct effects arise from changes in how each party behaves in office, conditional on being elected. The indirect effects arise from changes in the date-0 foreign government’s incentives which determine its initial proposal, and any effects on the pivotal voter’s subsequent electoral choice.

Suppose that the date-0 domestic government is friendly, and that the initial offer, \( b_0^* \), satisfies the first-order condition associated with (10), with \( r_0(b_0) = 1 \). Let \( P(\hat{v}(b_0)) = Pr(v_D^{\text{piv}} \leq \hat{v}(b_0)) \) denote the probability that the hostile party is elected in between dates 0 and 1. The derivative of the probability of a date-1 agreement (15) with respect to \( v \) is:

\[
P(\hat{v}(b_0^*))f(-(\bar{v} + v_F)) \quad - \quad \frac{\partial P(\hat{v})}{\partial \hat{v}} \bigg|_{\hat{v}=\hat{v}(b_0^*)} \left( \frac{\partial \hat{v}(b_0^*)}{\partial \bar{v}} + \frac{\partial \hat{v}(b_0)}{\partial b} \bigg|_{b_0=b_0^*} \frac{db_0^*}{dv} \right) \left( F(-(\bar{v} + v_F)) - F(-(\tilde{v} + v_F)) \right).
\]  

(16)

The first component represents the direct effect of a moderation by the hostile party. With
probability \( P(\hat{v}(b_0^*)) \), the hostile party holds office at date 1. For a fixed prospect that it holds power, a higher \( v \) raises the prospect of an agreement, by expanding the set of circumstances in which the date-1 bargaining surplus between the foreign government and the date-1 domestic government is positive, i.e., \( v_F + v + \lambda \geq 0 \). The second part of the expression captures two indirect effects, each of which operates through its consequences for the relative prospect that the hostile party holds political power at date 1.

First, when the hostile party becomes more favorable to the project—i.e., \( v \) increases—the hostile party becomes more electorally competitive, since it has effectively moderated its platform, rendering it more appealing to centrist voters. This is captured by the term \( \frac{\partial \hat{v}(b_0^*)}{\partial v} = \frac{1}{2} \), implying that the identity of the voter who is indifferent between the friendly and hostile parties, \( \hat{v} \), shifts upward. Second, as documented in Proposition 4, the foreign government’s preferred offer changes. If its preferred offer falls, this further advantages the hostile party, electorally, by rendering it relatively valuable as an instrument for achieving more future concessions, since \( \frac{\partial \hat{v}(b_0^*)}{\partial b_0} < 0 \). Even a higher offer from the foreign government may not be enough to outweigh the direct loss of domestic electoral competitiveness suffered by the friendly party.

We can substitute in uniform uncertainty over the domestic preference shock (\( \lambda \)) and the pivotal voter (\( v_D^{piv} \)) to simplify expression (16):

\[
\frac{1}{(2\alpha)(2\sigma)} \left( \hat{v}(b_0^*) - v^e - \alpha - \left( \frac{1}{2} - \frac{db_0^*}{dv} \right)(\bar{v} - \hat{v}) \right).
\]

The indirect effects that push in favor of a reduced prospect that the project is implemented at date 1 are more likely to dominate when the hostile party is initially on the electoral fringe, i.e., \( P(\hat{v}(b_0^*)) \) is small. In turn, this is more likely when (1) the gap \( \bar{v} - \hat{v} \) is
large and (2) $v^e$ is not too negative. A higher $\bar{v} - v$ incentivizes the foreign government to make more generous offers, raising $b^*_D$ and thus lowering $P(\bar{v}(b^*_D))$, while a more pro-project anticipated pivotal voter is primitively more aligned with the friendly party.

We illustrate how these effects may resolve in Figure 2 when the hostile party is initially very opposed to the project, relative to anticipated public opinion, it is also electorally marginal. Then, a moderation of its position initially works via its improved electoral prospects to diminish the prospect of a date-1 agreement. Eventually, however, a further softening of its stance raises the prospect of an agreement via its anticipated behavior in the event that it wins office.

A converse result can arise for changes in the policy stance of the friendly party: raising its already relatively favorable attitude to the project ($\bar{v}$) may reduce the prospects of a long-term agreement, by pushing more moderate voters toward the hostile party.

11. Appendix B: A Model of Retrospective Voting

With forward-looking voters, their induced preferences over representatives at the end of date 0 reflect their assessments of which party will best serve their interests at date 1. This creates a commitment problem: voters cannot credibly promise to reward a date-0 incumbent for securing better transfers at date 0. This problem is especially salient for an incumbent who is fundamentally opposed to the project: under prospective voting, securing more generous concessions in return for implementing the project at date 0 unambiguously harms its prospect of being returned to office at date 1.

Suppose, instead, that voters are myopic: they reward or punish incumbents based solely on their date-0 payoffs. To understand the consequences of this behavior, we suppose that the pivotal domestic voter re-elects the date-0 incumbent according to a reward schedule that is linear and increasing in her date-0 payoff:

$$R(r_0(v_D^{piv} + b)) = \max\{0, \min\{a + \beta r_0(v_D^{piv} + b), 1\}\},$$

where $a, \beta \geq 0$, and as before $r_0 \in \{0, 1\}$ is the indicator taking the value 1 if the date-0 project is implemented. We assume $v^e + v_F > 0$, and to avoid unedifying cases, we scale $a$ and $\beta > 0$ so that $a + \beta v^e > 0$ and $a + \beta(v^e + v_F) < 1$. This implies that the domestic electoral environment is expected to be responsive to date-0 outcomes.

The foreign government’s offer to a date-0 domestic government with ideology $v \in \{v, \bar{v}\}$
solves:

\[
\max_{b_0 \geq 0} (1 - \delta)r_0(b_0)(v_F - b_0) + \delta R(r_0(v^e_D + b_0))V_F(v, br_0(b_0)) \\
+ \delta(1 - R(r_0(v^e_D + b_0)))V_F(v', b_0r_0(b)),
\]

(17)

subject to the date-0 domestic government’s participation constraint that \(r_0(b) = 1\) if and only if:

\[
(1 - \delta)(v^0_D + b_0) + \delta R(v^e_D + b_0)V_D(v, v, b_0) + (1 - R(v^e_D + b_0))V_D(v, v', b_0) \\
\geq \delta R(0)V_D(v^0_D, v, 0) + (1 - R(0))V_D(v^0_D, v', 0),
\]

(18)

where \(v'\) is the ideology of the party that does not hold date-0 domestic power. We establish an analogue to Proposition 3, providing conditions under which a hostile incumbent either fails to secure an initial agreement, or is instead held to its participation constraint.

**Proposition 5.** Consider retrospective voting and suppose that the hostile party holds domestic office at date 0. Then, if international negotiations are sufficiently salient in the election and the parties are sufficiently polarized, in the sense that:

\[
\beta(\bar{v} - v) > \frac{1 + \theta}{2},
\]

(19)

then either (1) no agreement is signed, or (2) the agreement is the smallest that secures the hostile government’s participation.

Proof. When (19) holds, the difference of the LHS and the RHS of the hostile date-0 domestic government’s participation constraint (18) is strictly concave in \(b_0\). We conclude that there exists at most one \(b_0(v) \geq 0\) such that \(r_0(b_0) = 1\) whenever \(b_0 \geq b_0(v)\). Suppose that \(b_0(v)\) exists. Condition (19) further implies that the foreign government’s relative value of agreement at date-0 with transfer \(b_0\) is strictly convex in \(b_0\), strictly positive evaluated at \(b_0 = 0\), and strictly negative evaluated at \(b_0 = v_F\). This implies that there is at most one \(\bar{b}_0 > 0\) such that the foreign government’s relative value of agreement at date-0 with transfer \(b_0\) is weakly positive if and only if \(b_0 \leq \bar{b}_0\), and that its relative value is strictly decreasing in \(b_0 \in [0, \bar{b}_0]\). Thus, if \(b_0(v) \leq \bar{b} \), any offer \(b_0 > b_0(v)\) is strictly dominated by an offer \(b'_0 \in [b_0(v), b_0)\). □

When voters are forward-looking, the primary obstacle to an agreement between a foreign government and a hostile domestic incumbent is the electoral interest of the hostile incumbent: securing a more generous agreement raises the prospect that a hostile government is subsequently replaced with a friendly government. So, even in settings there the foreign
government would be prepared to make positive—and possibly large—transfers, the hostile domestic government would prefer to reject these offers.

In contrast, when voters are backward-looking, the primary obstacle to an agreement between a foreign government and a hostile domestic incumbent is the induced electoral interest of the foreign government: more generous offers now raise the prospect that a hostile date-0 incumbent holds on to power. Less generous offers worsen the payoff of the pivotal domestic voter, who punishes the incumbent with replacement. This incentivizes the foreign government to hold back from offering higher transfers in exchange for an initial agreement. The conflict of interest between the foreign government and a hostile domestic incumbent increases as (1) the election outcome becomes more responsive to date-0 outcomes (i.e., \( \beta \) increases) and (2) the foreign government’s value from ensuring the fall of the incumbent increases (i.e., \( \bar{v} - v \) increases).

Thus, the conflict of interest between the foreign government and the hostile party is fundamental, and does not rely on the farsightedness of the electorate.

Suppose, instead, that the date-0 domestic government is friendly. With forward-looking voters, more generous initial agreements help the friendly incumbent to remain in power, since voters’ induced preferences over date-1 negotiators revert in favor of maintaining the agreement, rather than improving it. With retrospective voting, more generous initial agreements continue to help the friendly incumbent to remain in power. This raises the stakes for the foreign government, encouraging it to make relatively more generous offers to the friendly incumbent than it would prefer to make to a hostile government. In contrast with a setting in which voters are prospective, the friendly domestic incumbent government may even secure more generous initial terms than a hostile incumbent under retrospective voting.

Corollary 5. There exists \( \bar{w} \) such that if \( \beta(\bar{v} - v) > \frac{1+\theta}{2} \) and office-holding motives are sufficiently strong (\( w \) sufficiently large), a date-0 friendly government which derives a strictly positive surplus from the foreign government’s initial offer extracts strictly higher transfers from the foreign government than would be obtained by a hostile domestic government.

When the election outcome is responsive to the date-0 outcome, the conflict of interest between the foreign government and a hostile domestic government increases. So, too, the congruence of interest between the foreign government and the friendly domestic government increases. In order to promote the re-election of a friendly government, the foreign government makes strictly more generous offers than it would make to a hostile government.

Proof. By the previous Proposition, if \( \beta(\bar{v} - v) > \frac{1+\theta}{2} \), and an agreement is reached with a date-0 hostile domestic government, it is the smallest offer which satisfies the hostile government’s participation constraint. First, we note that a sufficient condition for the participation
constraint (18) to hold is:

$$\beta(v^e + b_0) w \geq \frac{\tilde{v} - v}{4\sigma} (2v_F + \tilde{v} - v) - \frac{(1 - \delta)}{\delta} (v + b_0).$$

or:

$$b_0 \geq -v^e + \frac{1}{w^\beta} \left( \frac{\tilde{v} - v}{4\sigma} (2v_F + \tilde{v} - v) - \frac{1 - \delta}{\delta} v \right) \equiv b(v, w),$$

(20)

so that for any $\delta > 0$ and $\epsilon > 0$, there exists $w(\epsilon, \delta)$ such that $w > w(\epsilon, \delta)$ implies that $b_0(v)$ solving (18) with equality satisfies $b_0(v) < \max\{0, -v^e\} + \epsilon$. Moreover, for any $\delta > 0$, $\lim_{w \to \infty} |b(\tilde{v}, w) - b(v, w)| = 0$. The foreign government’s objective (17) evaluated at $v = \tilde{v}$ and $v' = \tilde{v}$ is strictly concave. Whenever its solution $b^*(\tilde{v})$—which does not depend on $w$—satisfies $b^*(\tilde{v}) > b(\tilde{v}, w)$, for $w$ sufficiently large, we also have $b^*(\tilde{v}) > b(\tilde{v}, w)$.

12. Appendix C: Proofs of Results

Proof of Proposition 1 Define:

$$V_D(v, r_0b_0) = \int_{\bar{v}}^{\hat{v}} \int_{v_0D}^{v} (v + r_0b_0 + \lambda) f(\lambda) d\lambda dG(v^1_D)$$

and

$$V_F(r_0b_0) = \int_{\bar{v}}^{\hat{v}} \int_{v_0F}^{v} (v_F - r_0b_0) f(\lambda) d\lambda dG(v^1_D)$$

and

$$\Delta(v_0^D) = \int_{\bar{v}}^{\hat{v}} \int_{v_0D}^{v} (v_0^D + \lambda + v_F) f(\lambda) d\lambda dG(v^1_D) = V_D(v_0^D, b_0) + V_F(b).$$

(23)
First, we note that \( V_D(v^0_D, b_0) \) is strictly convex in \( b_0 \). Second, for \( \delta \in [0, 1) \), we have:

\[
(1 - \delta)v^0_D + \delta V_D(v^0_D, 0) \leq \delta V_D(v^0_D, 0),
\]

by \( v^0_D < 0 \). We conclude that there exists at most one transfer, \( 0 < b_0(v^0_D) \leq v_F \), solving:

\[
(1 - \delta)(v^0_D + b_0(v^0_D)) + \delta V_D(v^0_D, b_0(v^0_D)) = \delta V_D(v^0_D, 0). 
\]

Suppose this transfer \( b_0(v^0_D) \leq v_F \) exists. If \( r_0(b_0(v^0_D)) = 1 \), the foreign government’s value from this offer is:

\[
(1 - \delta)(v^0_D - b_0(v^0_D)) + \delta V_F(b_0(v^0_D)) = (1 - \delta)(v_F + v^0_D) + \delta \Delta(v^0_D) - \delta V_D(v^0_D, 0) \quad (26)
\]

\[
= (1 - \delta)(v_F + v^0_D) + \delta V_F(0). \quad (27)
\]

Suppose, however, that the foreign government strictly prefers an agreement in which the transfer is \( b_0 > b_0(v^0_D) \), satisfying \( r_0(b_0) = 1 \). These imply:

\[
(1 - \delta)(v_F - b_0(v^0_D)) + \delta V_F(b_0(v^0_D)) > (1 - \delta)(v_F + v^0_D) + \delta V_F(0), \quad (28)
\]

and

\[
(1 - \delta)(v^0_D + b_0) + \delta V_D(v^0_D, b_0) \geq \delta V_D(v^0_D, 0). \quad (29)
\]

The latter can be written as

\[
(1 - \delta)(v^0_D + b_0) + \delta \Delta(v^0_D) - \delta V_F(b_0) \geq \delta \Delta(v^0_D) - \delta V_F(0). \quad (30)
\]

Combining inequalities (28) and (30) yields:

\[
\delta(V_F(b_0) - V_F(0)) \leq (1 - \delta)(v^0_D + b_0) < \delta (V_F(b_0) - V_F(0)), \quad (31)
\]

a contradiction. Finally, we show that that the foreign government prefers to make an offer \( b_0(v^0_D) \) rather than an offer which would induce the domestic government to reject (if such an offer exists), if and only if \( v_F + v^0_D \geq 0 \). This follows because the foreign government’s value of making an offer \( b_0 \) such that \( r_0(b_0) = 0 \) is \( \delta V_F(0) \), whereas its value of making an offer \( b_0(v^0_D) \) which satisfies \( r_0(b_0(v^0_D)) = 1 \) is (27); the difference is positive if and only if \( v_F + v^0_D \geq 0 \).

**Proof of Proposition 2.** Recall that the domestic pivotal voter’s most preferred date-1 representative is:

\[
v^1_D(b_0 r_0) = v^0_D - (v_F - b_0 r_0).
\]

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So, the expected date-1 payoff of the date-0 domestic government with ideology $v_D^0$ is:

$$V_D(v, b_0 r_0) = \int_{-(v_D^0(b_0 r_0) + b_0 r_0)}^{\sigma} (v + \lambda + b_0 r_0) f(\lambda) d\lambda$$

$$+ \int_{-(v_F^1(b_0 r_0) + \theta v_F^1(b_0 r_0) + \lambda + v_F)}^{v_F^1(b_0 r_0) + v_F} (v - v_D^1(b_0 r_0) + \theta(v_D^1(b_0 r_0) + \lambda + v_F)) f(\lambda) d\lambda. \quad (33)$$

The strategy of the domestic government is to choose $r_0(b_0) = 1$ if:

$$(1 - \delta)(v_D^0 + b_0) + \delta V_D(v_D^0, b_0) \geq \delta V_D(v_D^0, 0), \quad (35)$$

and $r(b_0) = 0$, otherwise. If the foreign government, with ideology $v_F$, makes an offer $b_0 \geq 0$ that induces $r_0(b_0) = 1$, then its date-0 value from agreement is:

$$(1 - \delta)(v_F - b_0) + \delta (V_F(b_0) - V_F(0)), \quad (36)$$

where

$$V_F(b) = \int_{-(v_F^1(b_0) + b_0)}^{\sigma} (v_F - b_0) f(\lambda) d\lambda + (1 - \theta) \int_{-(v_F^1(b_0) + \theta)}^{-(v_F^1(b_0) + v_F)} (v_F + v_F^1(b_0) + \lambda) f(\lambda) d\lambda. \quad (37)$$

Expression (36) is strictly concave in $b_0$, weakly positive when evaluated at $b_0 = 0$ for any $\delta < 1$, and strictly negative when evaluated at $b_0 = v_F$. We conclude that there exists a transfer, $b^*(\delta) \in [0, v_F]$, such that (36) is weakly positive if and only if $b_0 \leq b^*$.

Similarly, the date-0 domestic government’s relative value from implementing the project when offered transfer $b_0 \geq 0$ is:

$$(1 - \delta)(v_D^0 + b_0) + \delta (V_D(v_D^0, b_0) - V_D(v_D^0, 0)). \quad (38)$$

Expression (38) is strictly convex in $b_0$ and negative when evaluated at $b_0 = 0$. We conclude that for $\delta \in [0, 1)$ there exists at most one $b_*(v_D^0, \delta) > 0$ such that (38) is weakly positive if and only if $b_0 \geq b_*$. Therefore, the first part of the Proposition is established by showing existence of a unique threshold $v^*$ such that $b^*(\delta) \geq b_*(v_D^0, \delta)$ if and only if $v_D^0 \geq v^*$. This is
equivalent to:

\[(1 - \delta)(v_F + v_D^0) + \delta \int_{-v_D^{pv} - \bar{b}}^{-v_D^{pv} + \bar{b}} (v_D^0 + \lambda + v_F) f(\lambda) d\lambda \geq 0. \tag{39}\]

The LHS is strictly increasing in \(v_D^0\), strictly positive evaluated at \(v_D^0 = \max\{v_D^{pv} - \frac{v_F}{2}, -v_F\}\), and strictly negative for \(v_D^0 < \min\{-v_F, v_D^{pv} - v_F\}\), which yields existence and uniqueness.

We conclude with the second part of the Proposition. Let \(b^*(\delta)\) denote the unique maximizer of (36) on the interval \([0, v_F]\). Using the uniform preference shock, direct calculation establishes that if and only if \(\sigma < \hat{\sigma}(\theta, v_F, v_D^{pv}) = v_F - v_D^{pv} + v_F(1 + \theta)\), then there exists a unique \(\delta^* < 1\) such that \(b_0^*(\delta) > 0\) if and only if \(\delta > \delta^*\). Suppose \(\delta > \delta^*\). (38) is strictly increasing in \(v_D^0\), and direct computation yields existence of \(v^{**} > v^*\) satisfying (35) evaluated at \(b^*(\delta)\).

**Proof of Proposition 3 and Corollary 2** Let \(\hat{v}(b_0) = \frac{v_F + \bar{v}}{2} + (v_F - b_0)\), let \(r_0(b_0, v)\) be an indicator taking the value 1 if and only if the date-0 domestic government with ideology \(v \in \{\bar{v}, \bar{v}\}\) weakly prefers to implements the project when the offer is \(b_0\), and let \(P(x) = \Pr(v_D^{pv} \leq x)\), and \(p(x) = P'(x)\), where we have assumed \(v_D^{pv}\) is uniformly distributed with \(\mathbb{E}[v_D^{pv}] \equiv v^e\) and density \(\frac{1}{2\sigma}\). We proceed in steps.

**Step 1:** The foreign government’s objective function is strictly concave. The foreign government’s date-0 objective function is:

\[(1 - \delta)(v_F - r_0b_0) + \delta(P(\hat{v}(r_0b_0))V_F(\bar{v}, r_0b_0) + (1 - P(\hat{v}(r_0b_0)))V_F(\bar{v}, r_0b_0)), \tag{40}\]

where

\[V_F(v, r_0b_0) = \int_{-(v + r_0b_0)}^{\sigma} (v_F - r_0b_0) f(\lambda) d\lambda + (1 - \theta) \int_{-(v + v_F)}^{-(v + r_0b_0)} (v_F + \lambda + v_F) f(\lambda) d\lambda. \tag{41}\]

The first-order condition for an optimal proposal, under the supposition \(r_0(b_0, v) = 1\), is:

\[P(\hat{v}(b_0))V_F'(\bar{v}, b_0) + (1 - P(\hat{v}(b_0)))V_F'(\bar{v}, b_0) + p(\hat{v}(b_0))\hat{v}'(b_0)(V_F'(\bar{v}, b_0) - V_F'(\bar{v}, b_0)) = \frac{1 - \delta}{\delta}. \tag{42}\]

Taking into account \(\hat{v}''(b_0) = p'(\cdot) = 0\), the second-order condition is:

\[P(\hat{v}(b_0))V_F''(\bar{v}, b) + (1 - P(\hat{v}(b_0)))V_F''(\bar{v}, b) + 2p(\hat{v}(b_0))\hat{v}'(b_0)(V_F'(\bar{v}, b_0) - V_F'(\bar{v}, b_0)) < 0, \tag{43}\]

41
which is easily verified after substituting functional forms.

**Step 2:** When the hostile party holds power at date-0: if it implements the project, the offer from the foreign government satisfies its participation constraint with equality. The difference between the date-0 domestic government’s expected payoff from \( r_0(b_0, v) = 1 \) and \( r_0(b_0, v) = 0 \), given its ideology \( v \in \{\underline{v}, \bar{v}\} \), is given by

\[
(1 - \delta)(v + b_0) + \delta P(\hat{v}(b_0))V_D(v, \underline{v}, b_0) + \delta(1 - P(\hat{v}(b_0)))V_D(v, \bar{v}, b_0)
- (\delta P(\hat{v}(0))V_D(v, \underline{v}, 0) + \delta(1 - P(\hat{v}(0)))V_D(v, \bar{v}, 0)),
\]

where

\[
V_D(v, v', r_0 b_0) = \mathbf{1}[v = v']w + \int_{-(v' + r_0 b_0)}^{\sigma} (v + r_0 b + \lambda)f(\lambda) d\lambda
- \int_{-(v' + r_0 b_0)}^{-(v' + \underline{v} F)} (v + r_0 b + \lambda)f(\lambda) d\lambda + \int_{-(v' + \underline{v} F)}^{-(v' + \bar{v} F)} (v - v' + \theta(v' + \lambda + \underline{v} F))f(\lambda) d\lambda.
\]

(44) is strictly convex in \( b_0 \), and strictly negative at \( b_0 = 0 \), given \( \underline{v} < \bar{v} < 0 \). We conclude that there exists at most one offer, \( b_*(v) \leq \underline{v} F \), such that \( r_0(b_0, v) = 1 \) if and only if \( b_0 \geq b_*(v) \). Suppose \( b_*(v) \leq \underline{v} F \) exists. The foreign government’s value from \( b_*(v) \) is

\[
(1 - \delta)(\underline{v} F + v) + \delta(P(\hat{v}(b_*(v))) - P(\hat{v}(0)))\Delta(v, v) - \delta(1 - P(\hat{v}(0)))V_F(\bar{v}, 0),
\]

where:

\[
\Delta(v, v') \equiv \mathbf{1}[v = v']w + \int_{-(v' + \underline{v} F)}^{\sigma} (v + \underline{v} F + \lambda)f(\lambda) d\lambda.
\]

(46)

Suppose the foreign government weakly prefers an offer \( b_0' > b_*(v) \) satisfying \( r_0(b_0', v) = 1 \). Then

\[
(1 - \delta)(\underline{v} F - b_0') + \delta P(\hat{v}(b_0'))V_F(\underline{v}, b_0') + \delta(1 - P(\hat{v}(b_0')))V_F(\bar{v}, b_0'),
\]

weakly exceeds (45). Moreover, the date-0 domestic government with net value \( v \in \{\underline{v}, \bar{v}\} \)
This condition holds only if:

\[ (1 - \delta)(v + b'_0) + \delta P(\hat{v}(b'_0))V_D(v, \bar{v}, b'_0) + \delta(1 - P(\hat{v}(b'_0)))V_D(v, \bar{v}, b'_0) \]
\[ \geq \delta P(\hat{v}(0))V_D(v, \bar{v}, 0) + \delta(1 - P(\hat{v}(0)))V_D(v, \bar{v}, 0). \]  

(48)

Since \( V_D(v'_D, v, b_0) = \Delta(v'_D, v) - V_F(v, b_0) \), (48) is:

\[ \delta P(\hat{v}(b'_0))V_F(v, b'_0) + \delta(1 - P(\hat{v}(b'_0)))V_F(\bar{v}, b'_0) \leq \delta P(\hat{v}(0))V_F(v, 0) + \delta(1 - P(\hat{v}(0)))V_F(\bar{v}, 0) \]
\[ + \delta(\hat{v}(b'_0) - \hat{v}(0))(\Delta(v, v) - \Delta(v, \bar{v})) \]
\[ + (1 - \delta)(v + b'_0), \]  

(49)

and combining (49) with the requirement (47) exceeds (45) yields:

\[ \delta P(\hat{v}(0))V_F(v, 0) + \delta(1 - P(\hat{v}(0)))V_F(\bar{v}, 0) + \delta(P(\hat{v}(b'_0)) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})) \]
\[ \leq \delta P(\hat{v}(b'_0))V_F(v, b'_0) + \delta(1 - P(\hat{v}(b'_0)))V_F(\bar{v}, b'_0) - (1 - \delta)(v + b'_0) \]
\[ \leq \delta P(\hat{v}(0))V_F(v, 0) + \delta(1 - P(\hat{v}(0)))V_F(\bar{v}, 0) + \delta(P(\hat{v}(b'_0)) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})). \]  

(50)

This condition holds only if:

\[ (P(\hat{v}(b'_0)) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})) \leq (P(\hat{v}(b'_0)) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})). \]  

(51)

Suppose \( v = \bar{v} \). Since \( \Delta(v, v) - \Delta(v, \bar{v}) \geq 0 \), (50) holds only if \( P(\hat{v}(b'_0)) \leq P(\hat{v}(b'_0)) \), or \( b'_0 \leq b_v(v) \), a contradiction. We conclude that if the project is implemented at date 0 when the domestic government has ideology \( \bar{v} \), the transfer is \( b_v(v) \).

Step 3: For any \( \delta \in (0, 1) \), there exists \( v^*(\delta) < -v_F \) such that: if \( -\sigma < v < v^*(\delta) \), the project is not implemented at date 0, and if \( v \geq \max\{v^*(\delta), -\sigma\} \), the project is implemented at date 0, when the hostile domestic government holds power. Recall that we assume \( -\sigma \leq v \). A necessary and sufficient condition for a date-0 agreement with the hostile party is:

\[ (1 - \delta)(v_F + v) + \delta(P(\hat{v}(b_v(v))) - P(\hat{v}(0)))(\Delta(v, v) - \Delta(v, \bar{v})) \geq 0, \]  

(52)

which strictly increases in \( v \). For any \( \delta \in (0, 1) \), the inequality is strictly negative if \( -\sigma \leq v \leq v_F \), since \( b_v(-v_F) > 0 \). If \( v = \bar{v} \), the inequality is strictly positive for \( \delta > 0 \), since \( \bar{v} + v_F > 0 \). We conclude that for \( \delta > 0 \), there exists \( v^*(\delta) \in (-v_F, \bar{v}] \) such that the project is implemented if and only if \( v \geq \max\{v^*(\delta), -\sigma\} \).

Step 4: For any \( \delta \in (0, 1) \), there exists \( w^*(\delta) > -v_F \) such that: if \( w > w^*(\delta) \), the project
is not implemented at date 0, when the hostile domestic government holds power. We earlier defined \( b_* \) such that the hostile government weakly prefers \( r_0(b_0, \bar{v}) = 1 \) if and only if \( b_0 \geq b_* \). We now write \( b_* = b_*(v, \delta, w) \) to emphasize the dependence on \( w \). Then, we note that \( b_* \) strictly increases in \( w \), so expression \((52)\) is strictly decreasing in \( w \). The threshold \( w^*(\delta) \)—which may be zero—follows from direct computation.

**Step 5:** If the friendly party holds power at date-0, the project is always implemented at that date. Define:

\[
\Phi(v, w, b_0, \delta) = (1 - \delta)(v + b_0) + \delta P(\hat{v}(b_0))V_D(v, w, b_0) + \delta(1 - P(\hat{v}(b_0)))V_D(v, \bar{v}, b_0) \\
- (\delta P(\hat{v}(0))V_D(v, w, 0) + \delta(1 - P(\hat{v}(0)))V_D(v, \bar{v}, 0)),
\]

which is the difference between the date-0 domestic government’s ex-ante value from a date-0 outcome in which the project is implemented and the agreed transfer is \( b_0 \), and its ex-ante value from rejecting the date-0 offer, when its ideology is \( v \in \{v, \bar{v}\} \). For any \( \delta < 1 \), we have \( \Phi(\bar{v}, w, 0, \delta) < 0 \) since \( \bar{v} < 0 \) and:

\[
\Phi(\bar{v}, w, v_F, \delta) = (1 - \delta)(\bar{v} + v_F) + \delta P(\hat{v}(v_F)) - P(\hat{v}(0)))\Delta(v, \bar{v}) - \Delta(\bar{v}, \bar{v}) \\
+ \delta P(\hat{v}(0))V_F(\bar{v}, 0) + \delta(1 - P(\hat{v}(0)))V_F(\bar{v}, 0) > 0,
\]

by \( v_F + \bar{v} > 0 \), \( \Delta(\bar{v}, v) - \Delta(\bar{v}, \bar{v}) < 0 \), and \( P(\hat{v}(b_0(v_F))) - P(\hat{v}(0)) < 0 \). Finally, \( \Phi(\bar{v}, w, b_0, \delta) \) is strictly convex in \( b_0 \), so there exists a unique \( b_*(\bar{v}) \in (0, v_F) \) satisfying \( \Phi(\bar{v}, w, b_*(\bar{v}), \delta) = 0 \). The foreign government’s value from \( b_*(\bar{v}) \) is:

\[
(1 - \delta)(\bar{v} + v_F) + \delta P(\hat{v}(b_*(\bar{v}))) - P(\hat{v}(0)))\Delta(\bar{v}, v) - \Delta(\bar{v}, \bar{v})) > 0,
\]

since we have assumed \( \bar{v} + v_F > 0 \). We conclude that in an equilibrium, the foreign government makes an offer \( b_0 \) such that \( r_0(b_0, \bar{v}) = 1 \). The final part of the Proposition is direct from the observation that for any \( \delta > 0 \), \( \lim_{w \to \infty} \Phi(\bar{v}, w, b_0, \delta) = 0 \) for any \( b_0 > 0 \). If the foreign government’s preferred \( b^*_0 \) solving \((40)\) is interior, then for any \( \delta > 0 \) we may find \( w^*(\delta) \) such that \( w > w^*(\delta) \) implies \( \Phi(\bar{v}, w, b^*_0, \delta) > 0 \).

**Proof of Corollary 3.** Recall that \( b_0(v) \) is defined to be the unique date-0 transfer which solves \( \Phi(v, w, b_0(v)) = 0 \) for \( v \in \{v, \bar{v}\} \). Consider the difference:

\[
\Phi(v, w, b_0) - \Phi(\bar{v}, w, b_0) = (1 - \delta)(v - \bar{v}) + \delta P(\hat{v}(b_0)) - P(\hat{v}(0)))\Delta(v, \bar{v}) - \Delta(v, \bar{v})) \\
- \delta P(\hat{v}(b_0)) - P(\hat{v}(0)))\Delta(\bar{v}, v) - \Delta(\bar{v}, \bar{v})) < 0,
\]

Thus, \( \Phi(\bar{v}, w, b_0(\bar{v})) = 0 \) implies \( \Phi(v, w, b_0(v)) < 0 \), so \( b_0(v) > b(\bar{v}) \). Thus, if an agreement
is struck between the foreign government and the domestic government with ideology \( \bar{v} \) in which the transfer is \( b(\bar{v}) \), the corollary is correct. Suppose, instead, that when the foreign government faces a date-0 domestic government with ideology \( \bar{v} \), its initial offer is \( b^* \), solving \([42]\). This implies \( b^* \in (0,v_F) \). Then, we need to establish \( b^*_0 \in (0,b_0(\bar{v})) \). The foreign government’s objective is

\[
(1 - \delta)r_0(v_F - b_0) + \delta P(\hat{v}(b_0r_0))V_F(\bar{v}, b_0r_0) + \delta(1 - P(\hat{v}(b_0r_0)))V_F(\bar{v}, b_0r_0) \equiv S(b_0, r_0), \tag{58}
\]

and the objective of the date-0 domestic government with ideology \( \bar{v} \) is

\[
(1 - \delta)r_0(\bar{v} + b_0) + \delta P(\hat{v}(b_0r_0))V_D(\bar{v}, \bar{v}, b_0r_0) + \delta(1 - P(\hat{v}(b_0r_0)))V_D(\bar{v}, \bar{v}, b_0r_0) \equiv Q(b_0, r_0). \tag{59}
\]

We have already established that \( S(b_0, 1) \) is strictly concave in \( b \). This together with the supposition \( b^*_0 > 0 \) implies that \( S(b_0, 1) \) is strictly increasing in \( b_0 \) at \( b_0 = 0 \). If a date-0 agreement is signed between the foreign government and the domestic government with ideology \( \bar{v} \), we have already shown \( b_0 = b_0(\bar{v}) \), where \( b_0(\bar{v}) \) is the unique transfer solving \( Q(b_0(\bar{v}), 1) = Q(0, 0) \). Consider the difference:

\[
S(b, 1) - S(0, 0) + Q(b, 1) - Q(0, 0) = (1 - \delta)(v + v_F) + \delta(P(\hat{v}(b_0)) - P(0))\left(\Delta(\bar{v}, v) - \Delta(\bar{v}, \bar{v})\right). \tag{60}
\]

This expression is strictly decreasing in \( b_0 \) for \( \delta > 0 \). Moreover,

\[
S(0, 1) - S(0, 0) = (1 - \delta)v_F > S(0, 1) - S(0, 0) + Q(0, 1) - Q(0, 0) = (1 - \delta)(v_F + \bar{v}), \tag{61}
\]

by \( \bar{v} < 0 \), and

\[
S(v_F, 1) - S(0, 0) < 0 < S(0, 1) - S(0, 0) + Q(0, 1) - Q(0, 0) = (1 - \delta)(v_F + \bar{v}), \tag{62}
\]

if \( \bar{v} + v_F > 0 \), which we have proven is necessary for an agreement to be reached with a date-0 domestic government with ideology \( \bar{v} \). Since \( S(b_0, 1) - S(0, 0) \) is strictly concave in \( b \), combining expressions \([61]\) and \([62]\) with the supposition that \( b^*_0 > 0 \) and that the foreign government prefers to offer \( b^* \) rather than an offer which the domestic government with value \( \bar{v} \) prefers to reject, yields

\[
0 < S(0, 1) - S(0, 0) + Q(0, 1) - Q(0, 0) < S(0, 1) - S(0, 0) < S(b^*_0, 1) - S(0, 0). \tag{63}
\]

Moreover, \( S(b_0, 1) - S(0, 0) \) is strictly concave in \( b \), so there exists a unique \( \hat{b}_0 \in (b^*_0, v_F) \),
We may write
\[
S(\hat{b}_0, 1) - S(0, 0) = S(0, 1) - S(0, 0) + Q(0, 1) - Q(0, 0),
\]
with the property that, for any \( b_0 < \hat{b}_0 \)
\[
S(b_0, 1) - S(0, 0) > S(0, 1) - S(0, 0) + Q(0, 1) - Q(0, 0).
\]
Together with the fact that \( 60 \) is strictly decreasing in \( b_0 \), for \( \delta > 0 \), and that \( b^*_0 > 0 \), we conclude:
\[
S(b^*_0, 1) - S(0, 0) > S(0, 1) - S(0, 0) + Q(0, 1) - Q(0, 0) > S(b^*_0, 1) - S(0, 0) + Q(b^*_0, 1) - Q(0, 0).
\]
Combining the two outer expressions, we obtain \( Q(b^*_0, 1) - Q(0, 0) < 0 \), i.e.,:
\[
(1 - \delta)(\nu + b^*_0) + \delta P(\hat{b}^*_0)V_D(\nu, \bar{v}, b^*_0) + \delta(1 - P(\hat{b}^*_0))V_D(\nu, \bar{v}, b^*_0) < \delta P(\hat{v}(0))V_D(\nu, \bar{v}, 0) + \delta(1 - P(\hat{v}(0))V_D(\nu, \bar{v}, 0),
\]
which is equivalent to \( b^*_0 < b_0(\nu) \). This concludes the argument.

**Proof of Proposition 4**

Writing \( b^{\text{int}} = b^{\text{int}}(\alpha, \nu, \bar{v}) \), we have
\[
b^{\text{int}}(\alpha, \nu, \bar{v}) = \frac{\delta(4v_P(\nu - \alpha \theta - \bar{v}) + 2\alpha^2 - 2\nu e - 4\alpha \sigma - \bar{v}^2 + 2\alpha \bar{v} + 2\nu e) + 8\alpha \sigma}{4\delta(\nu - \alpha(1 + \theta) - \bar{v})},
\]
We may write \( \frac{\partial b_0^{\text{int}}(\alpha, \nu, \bar{v})}{\partial \bar{v}} \) in the form:
\[
\frac{\partial b_0^{\text{int}}(\alpha, \nu, \bar{v})}{\partial \bar{v}} = \frac{\nu(\alpha, \nu, \bar{v})}{\kappa},
\]
where \( \kappa > 0 \). Thus, \( \frac{\partial b_0^{\text{int}}(\alpha, \nu, \bar{v})}{\partial \bar{v}} \geq 0 \) if and only if \( \nu(\alpha, \nu, \bar{v}) \geq 0 \). Moreover,
\[
\frac{\partial \nu(\alpha, \nu, \bar{v})}{\partial \bar{v}} = 2\delta(\bar{v} - \nu + \alpha + \theta \alpha) > 0.
\]
Thus, if \( \nu(\alpha, \nu, \bar{v}) \geq 0, \bar{v}'' > \bar{v}' \) implies \( \nu(\alpha, \nu, \bar{v}'') > 0 \). This implies that either (1) \( b_0^{\text{int}}(\alpha, \nu, \bar{v}) \) is strictly decreasing in \( \bar{v} \) for all \( \bar{v} \in [\nu, 0] \), (2) \( b_0^{\text{int}}(\alpha, \nu, \bar{v}) \) is strictly increasing in \( \bar{v} \) for all \( \bar{v} \in [\nu, 0] \), or (3) there exists \( \bar{v}^* \) such that \( b_0^{\text{int}}(\alpha, \nu, \bar{v}) \) is strictly decreasing in \( \bar{v} \) for all \( \bar{v} \in [\nu, \bar{v}^*) \) and strictly increasing in \( \bar{v} \) for all \( \bar{v} \in (\bar{v}^*, 0) \). To further delineate the contexts in which each case may hold, we note that:
\[
\frac{\partial^2 \nu(\alpha, \nu, \bar{v})}{\partial \alpha^2} = -4\delta(1 + \theta) < 0,
\]
and that \( \nu(0, \bar{v}) = \delta(\nu - \bar{v})^2 \geq 0 \) for all \( \bar{v} \in [\bar{v}, 0] \). We obtain at most one strictly positive root, \( \alpha(\bar{v}) \), which solves \( \nu(\alpha(\bar{v}), \bar{v}) = 0 \). Define \( \alpha_* \equiv \alpha(\bar{v}) \) and \( \alpha^* \equiv \alpha(0) \). Suppose, first, \( \alpha < \alpha_* \). Then, we have \( \nu(\alpha, \bar{v}) > 0 \), and thus \( \nu(\alpha, \bar{v}, \bar{v}) > 0 \) for all \( \bar{v} \in [\bar{v}, 0] \), by \( \frac{\partial \nu}{\partial \bar{v}} > 0 \).

Suppose, second, \( \alpha > \alpha^* \). Then, we have \( \nu(\alpha, \bar{v}, 0) < 0 \), and thus \( \nu(\alpha, \bar{v}, \bar{v}) < 0 \) for all \( \bar{v} \in [\bar{v}, 0] \). Finally, if \( \alpha \in [\alpha_*, \alpha^*] \), then \( \nu(\alpha, \bar{v}, \bar{v}) > 0 \), and \( \nu(\alpha, \bar{v}, 0) < 0 \). Since \( \nu(\alpha, \bar{v}, \bar{v}) \) is strictly increasing in \( \bar{v} \), we conclude that there exists a unique threshold, \( \bar{v}^* \in [\bar{v}, 0] \), such that \( \bar{v} < \bar{v}^* \) implies \( \nu(\alpha, \bar{v}, \bar{v}) < 0 \), and \( \bar{v} > \bar{v}^* \) implies \( \nu(\alpha, \bar{v}, \bar{v}) > 0 \).

We next prove the complementary result for changes in \( \bar{v} \), which follows a similar argument. We may write \( \frac{\partial b_0^{int}(\alpha, \bar{v})}{\partial \bar{v}} \) in the form:

\[
\frac{\partial b_0^{int}(\alpha, \bar{v})}{\partial \bar{v}} = \frac{\mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e)}{\kappa},
\]

where \( \kappa > 0 \), and the dependence on \( \delta \) and \( \nu^e \) is used, at a subsequent stage of the argument. We have

\[
\frac{\partial \mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e)}{\partial \bar{v}} = 2(\nu - \bar{v} - \alpha(1 + \theta)) < 0.
\]

This implies that either (1) \( b_0^{int}(\alpha, \bar{v}) \) is strictly decreasing in \( \bar{v} \) for all \( \bar{v} \in [-v_F, \bar{v}] \), (2) \( b_0^{int}(\alpha, \bar{v}) \) is strictly increasing in \( \bar{v} \) for all \( \bar{v} \in [-v_F, \bar{v}] \), or (3) there exists \( \bar{v}^* \) such that \( b_0^{int}(\alpha, \bar{v}) \) is strictly increasing in \( \bar{v} \) for all \( \bar{v} \in [-v_F, \bar{v}^*] \), and strictly decreasing in \( \bar{v} \) for all \( \bar{v} \in (\bar{v}^*, \bar{v}) \). To further delineate the contexts in which each case may hold, we note that:

\[
\frac{\partial^2 \mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e)}{\partial \alpha^2} = -4\delta(1 + \theta) < 0.
\]

and \( \mu(0, \bar{v}, \bar{v}, \delta, \nu^e) = \delta(\nu - \bar{v})^2 \geq 0 \). We obtain at most one strictly positive root, \( \alpha(\bar{v}) \), that solves \( \mu(\alpha(\bar{v}), \nu, \bar{v}, \bar{v}, \delta, \nu^e) = 0 \). Define \( \alpha_* \equiv \alpha(\bar{v}) \) and \( \alpha^* \equiv \alpha(-v_F) \). Suppose, first, \( \alpha < \alpha_* \). Then, we have \( \mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e) > 0 \), and thus \( \mu(\alpha, \bar{v}, \bar{v}, \bar{v}, \delta, \nu^e) > 0 \) for all \( \bar{v} \in [-v_F, \bar{v}] \). Suppose, second, \( \alpha > \alpha^* \). Then, we have \( \mu(\alpha, -v_F, \bar{v}, \bar{v}, \delta, \nu^e) < 0 \), and thus \( \mu(\alpha, \bar{v}, \bar{v}, \bar{v}, \delta, \nu^e) < 0 \) for all \( \bar{v} \in [-v_F, \bar{v}] \). Finally, if \( \alpha \in [\alpha_*, \alpha^*] \), then \( \mu(\alpha, -v_F, \bar{v}, \bar{v}, \delta, \nu^e) > 0 \), and \( \mu(\alpha, \bar{v}, \bar{v}, \bar{v}, \delta, \nu^e) < 0 \). Since \( \mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e) \) is strictly decreasing in \( \bar{v} \), we conclude that there exists \( \bar{v}^* \in [-v_F, \bar{v}] \), such that \( \bar{v} < \bar{v}^* \) implies \( \mu(\alpha, \bar{v}, \bar{v}) > 0 \), and \( \bar{v} > \bar{v}^* \) implies \( \mu(\alpha, \bar{v}, \bar{v}) < 0 \).

**Proof of Corollary 4**: We show that if \( \nu^e - \bar{v} < v_F \), then \( \mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e) < 0 \), where \( \mu \) is defined in the proof of Proposition 4. We have

\[
\frac{\partial \mu(\alpha, \bar{v}, \bar{v}, \delta, \nu^e)}{\partial \bar{v}} = 2\delta(\bar{v} - \nu - 2\alpha),
\]

which is strictly decreasing in \( \alpha \); by Assumption 2, \( \alpha > \frac{\nu + \nu^e}{2} + v_F - \nu^e \): substituting in,
a sufficient condition for \( \frac{\partial \mu(\alpha, v, \delta, v^e)}{\partial v} < 0 \) is \( v^e < v_F + \bar{v} \). Thus, it is sufficient to show \( \mu(\alpha, v, \delta, v^e) < 0 \). We have \( \mu(\alpha, v, \delta, v^e) \) is linear in \( \delta \), and \( \mu(\alpha, v, 0, v^e) < 0 \) so it is sufficient to show \( \mu(\alpha, v, 1, v^e) \), when \( v^e < v_F + \bar{v} \). We obtain

\[
\mu(\alpha, v, 1, v^e) = -2\alpha(\alpha + 2v_F + v(\theta + 3) + 2\sigma + \alpha\theta - \theta v^e - v^e),
\]

which is strictly increasing in \( v^e \). Thus, it is sufficient to note that

\[
\mu(\alpha, v, 1, v_F + \bar{v}) = -2\alpha(v_F(1 - \theta) + 2(\sigma + \bar{v}) + \alpha(1 + \theta)) < 0,
\]

where we use our assumption \( \sigma > |\bar{v}| \).