Military Aid, Direct Intervention and Counterterrorism

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June 6th, 2014
Motivation

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- Objective of two parties not perfectly aligned.
- In our context, the second party is a country B where a terrorist group is settled. The terrorist group constitutes a threat to both these country’s interests.
- Our purpose is to identify the elements that may trigger direct intervention. Our focus is the interaction between country A and country B’s effort to reduce the base from which the terrorists build up their resources, these are not necessarily just military actions.
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Our modelling follows Bandyopadhyay et al (2011): our main contribution is the introduction of direct intervention and the calibration method which allows us to determine the likelihood of internal solutions.
Model assumptions

Timing

- **Stage 1**: Country H decides how much to subsidize counterterrorist efforts of country F, $\alpha$, how much to invest on defending themselves against a possible terrorist attack $e^H$, how much to directly intervene in country F directly in counterterrorist effort $e^{HF}$. 
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- **Stage 2**: Country F decides how much to invest in counterterrorist effort \( e^F \).
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Stage 2: Country F decides how much to invest in counterterrorist effort \( e^F \).

Stage 3: Terrorist group (the base in country F) decides how much to invest in terrorist attacks in country H or country F: \( a^H \) and \( a^F \).
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The game is solved backwards in order to find the Subgame Perfect Equilibrium.
Main features

- There is a risk that direct intervention by country H will actually generate a "regime change" in country F which will increase the chances of success of terrorist attacks everywhere:

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- The counterterrorist efforts of countries H and F interact to diminish the resources available to the terrorists. We allow for different degrees of substitutability:
  \[ a^H + a^F = M(e^F, e^{HF}) ; \quad M_1, M_2 < 0. \]
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- A terrorist attack on country F’s territory can also damage country H’s interests.
Objective functions

- For country $H$, expected national income:

$$Y^H = \bar{Y}^H - \left(1 + p^F \eta \right) \left[ T^H \sigma^H + T^{HF} \sigma^F \right] - (e^H + e^{HF} + \alpha e^F)$$

$T^H$ and $T^{HF}$ are terrorist attack costs inflicted on the $H$ country through their interests in their own territory and in the other country’s territory.
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- For country F, expected national income:

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- For the terrorists expected damage on the H and F countries with weights \( \phi^H \) and \( \phi^F = 1 - \phi^H \) respectively:

\[ U^T = \left(1 + p^F \eta\right) \left[ \phi^H \left( T^H \sigma^H + T^{HF} \sigma^F \right) + \phi^F T^F \sigma^F \right] \]
Analytical results

- An increase in either direct intervention effort or foreign government effort will unambiguously reduce terrorist attack effort both at home and abroad, on the foreign country.
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- an increase in defensive home effort however will discourage terrorist attack effort at home but will encourage attack effort abroad.
- as we proceed to the second stage we find that the whereas the military subsidy to the foreign government has a clear positive impact on foreign effort, the impact of both defensive and direct intervention efforts are ambiguous.
Simulation results

- our calibration shows a positive impact of the military subsidy on foreign effort and identify a negative impact of direct intervention of foreign effort for both imperfect and perfect substitution in the two efforts in the reduction of terrorist resources. The crowding out the foreign effort is stronger if the two efforts are closer substitutes.
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- the calibration of the model also allows us that direct intervention is only likely to be part of the equilibrium result if the foreign and home effort are not good substitutes in the technology used to reduce the resources of the terrorist group.
Figure: 1: stage 2 response to $\alpha$ for home country. $e^H = 0.38$, $e^{HF} = 0$. 
Figure: 2: stage 2 response to $\alpha$ for Foreign Country. $e^H = 0.38$, $e^{HF} = 0$. 
Figure: 3: stage 2 response to $e^H$ for home country, $\alpha = 0.21$, $e^{HF} = 0$. 
Figure: 4: stage 2 response to $e^H$ for foreign country, $\alpha = 0.21$, $e^{HF} = 0$. 
Figure: 5: stage 2 response to $e^{HF}$ for home country, $\alpha = 0.21$, $e^H = 0.38$, efforts perfect substitutes.
Figure: 6: stage 2 response to $e^{HF}$ for foreign country, $\alpha = 0.21$, $e^H = 0.38$, efforts perfect substitutes.
**Figure:** 7: stage 2 response to $e^{HF}$ for home country, $\alpha = 0.21$, $e^H = 0.38$, efforts imperfect substitutes. (CES $\epsilon = 0.5$)
Figure: 8: stage 2 response to $e^{HF}$ for foreign country, $\alpha = 0.21$, $e^{H} = 0.38$, efforts imperfect substitutes. (CES $\epsilon = 0.5$)
Figure: 9: stage 1 optimal choice of $e^H$ and $\alpha$ with $e^{HF} = 0$ (efforts perfect substitutes)
Figure: 10: stage 1 optimal choice of $e^H$ and $e^{HF}$ with $\alpha = 0.2$ (efforts perfect substitutes)