

Foreign influence and Populism

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Abstract

How does foreign influence affect domestic policy and its welfare consequence? We construct a two-period open economy model where voters have no prior information on types of politicians, nationalist or traitor, but they can refine the probability of the incumbent leader being nationalist by observing the first-period tariff and determine whether they replace the incumbent. This threat of overthrow drives leaders to take policies in favour of people to signal that he or she is nationalist. In this circumstance, there will be upward bias in the level of tariff set by both types of politicians, or *populist bias*. World welfare always improves when some politicians are favour of foreign interests since there would be the terms-of-trade gain in the second term. However, our model argues that the existence of purely world-welfare maximizer may result in deteriorating world welfare through welfare loss causes by populist bias in the first term. We also find that the quality of mass media plays an important role in determining welfare consequences.

Keywords: International Trade; Import Tariff; Foreign Influence; Welfare; Populism; Role of Mass Media

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