Rotterdam School of Management
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“Violent Conflict and Cross-Border Lending” by Ralph De Haas, Mikhail Mamonov, Alex Popov and Iliriana Shala

Discussion by **Thomas Lambert** – 2025 EFA Meetings

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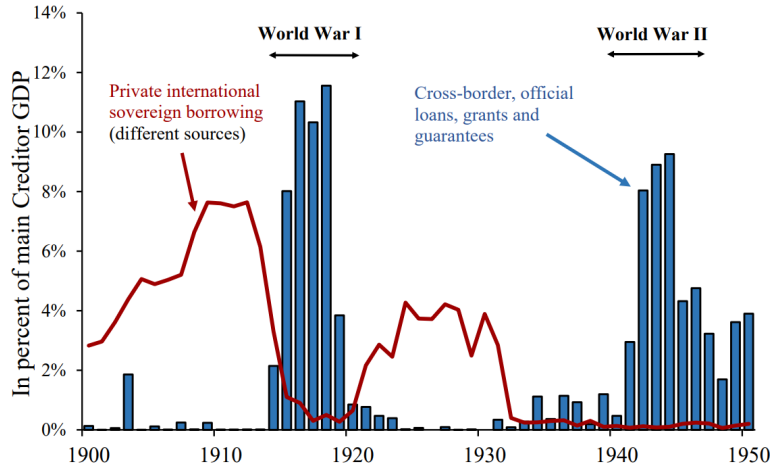
Wars and finance

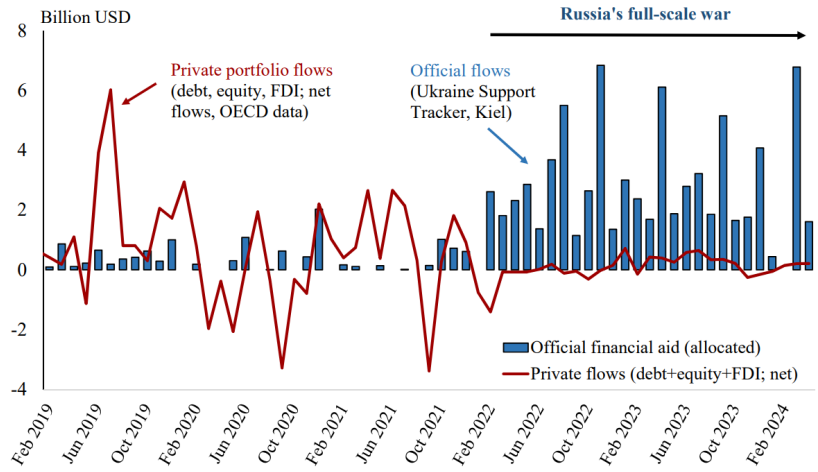
- Economic capacity (including military spending) is a central determinant of military power and success in war (Kennedy 1987; Federle et al. 2024)
  - Chadian-Libyan wars → oil exports
  - Uganda-Tanzania war → coffee and oil prices

- Horn, Reinhart and Trebesch (2024)
  - Official international lending is large, counter-cyclical, and driven by great powers
  - Official flows spike when private flows retreat during wars
  - Alliances predict official rescue lending

WW1 and WW2



Ukraine 2022-24



Source: Horn et al. (2024)

What this paper does

- Compares cross-border syndicated loan lending across (military) sectors during armed conflicts

- Identifies military and dual-use sectors using AI procedure

- Finds that in 179 countries from 1989-2020:
  - Foreign banks reduce overall lending relative to domestic banks during conflicts
    - "Flight-home effect" → supply-driven contraction
  - But increase lending to military-related sectors
    - Reallocation → demand-driven response to defense credit needs
    - Bank specialization *and* geopolitical alignment further matter in the cross section

- Concludes that geopolitical tensions is an important, omitted factor in models of international (private) credit allocation

Contribution

- One of few papers on the allocation of credit in conflict zones:
  - Danisewicz et al. (2025): Foreign banks increase syndicated lending to sanctioned EU's agricultural sector via sector specialization
  - Mishra et al. (2025): Impact of armed conflict on the cost of lending via pessimistic beliefs
  - Fisman et al. (JPE 2020): Impact of conflict in a banking context via taste-based discrimination

- Also consistent, novel and complementary to Horn et al. (2024), finding that wars are "financed by allies" (official lending), while private investors retreat
  - Private credit shrinks overall (β_1)
  - But not all private credit dries up as some is rechanneled into war-related sectors (nuance invisible in macro studies) ($\beta_1 + \beta_3$)
  - → Dual-track story of war finance: sovereigns financed officially, while military sectors privately (opportunistically)

Suggestion 1: What conflicts matter?

- UCDP definition: armed conflict between two parties (≥1 state), ≥25 annual deaths (but main sample often uses 1,000 deaths threshold – Section 2.1 inconsistency?)
- Dataset mixes heterogeneous conflicts: civil wars, interstate wars, internationalized civil wars, terrorist violence (Appendix A1)
- → *Are all these types of conflicts perceived equally by syndicated lenders?*

- **Suggestions:**
  - Clarify what exactly you mean by conflict in this cont
  - Better discuss (limits of) UCDP data in your balance
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Where are the Gulf War and the Invasion of Iraq?
Isn't the Second Gulf War from 2003?

Iraq	2005, 2006, 2007, 2008, 2009, 2011, 2015, 2017	259; 338	The confl… 2014 when IS rapidly captured large swathes of territory in Iraq, including major cities like Mosul, declaring a caliphate. This insurgency sought to establish strict Islamist rule. The Iraqi government, supported by a coalition of international forces, regional militias, and Kurdish Peshmerga, launched a prolonged military campaign to regain control. By late 2017, most of the territory had been recaptured, significantly weakening IS's presence, though sporadic attacks and insurgent activities persist.

Suggestion 2: Country = correct level of analysis?

- Some territories are large while (some) conflicts are geographically localized → does country-level coding misstate exposure? Appendix A1 examples: conflicts localized within subregions

India	1989, 1990, 1991, 1993, 1994, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010	218; 227; 251; 335; 347; 351; 364; 365; 421; 434; 11342; 11475	India became independent in 1947 and a republic in 1950. The country hosts various religions, ethnicities, and tribal groups and this has triggered a variety of armed conflicts over the years. It has especially been the case in India's northeast, where rebel groups based mainly on tribal communities have fought the government in Assam, Tripura, Nagaland, and Manipur. The Indian government has also fought Sikh insurgents over Punjab/Khalistan and various insurgent groups over Kashmir, which is also claimed by Pakistan. Concerning government power, the Indian government has been confronted by several communist groups, such as the MCC, PWG, and CPI-Maoist. The country has also suffered from one interstate conflict with Pakistan over Kashmir.

- Some countries missing from the sample, reconstituted, partitioned because of war itself (e.g. Bosnia in Yugoslavia → Bosnia & Herzegovina in 1992)
- **Questions:**
  - Could aggregation at country level bias the interpretation of lender behavior?
  - Should subnational analysis, analysis on firm distance to conflicts, or dyadic analysis be further explored?

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Suggestion 3: Mechanisms and identification

- Open question:
  - What drives increased military lending?
    - Demand channel → defense firms need more credit
    - Supply channel → banks expect implicit state guarantees / subsidies, lowering default risk
- Challenges:
  - Current decomposition of demand versus supply is suggestive
- **Suggestions:**
  - Use instruments: shocks to lenders outside conflict countries to isolate supply (e.g., home-country crises, regulatory changes)
  - Test loan spreads (at least for U.S. subsample) → do banks price in guarantees?
  - Differentiate foreign banks with local affiliates versus without → does information advantage matter?
  - Add case-study evidence (Ukraine war, Iraq war) to illustrate plausibility of mechanisms

Suggestion 4: Do the reasons of war matter?

- Wars differ in nature:
  - Nationalism (e.g. Bosnian Independence in 1992)
  - Religion or ideology (e.g. Kargil War in 1999)
  - Territorial disputes (e.g. Badme Border in 1998 Eritrea-Ethiopia)
  - Resource-driven conflicts (e.g. Darfur conflict in 2003)
- Implications for lending behavior:
  - Nationalist wars → governments may centralize financing, crowding out private banks
  - Religious/ideological wars → reputational and compliance risks higher for Western banks
  - Territorial/resource wars → banks may perceive financing opportunities (e.g., resource extraction, defense firms)
- **Questions:**
  - Are syndicated lenders reacting the same way across all types of wars?
  - Could heterogeneity by conflict motive explain some cross-sectional patterns (e.g., allied vs. non-aligned lending)?

Suggestion 5: So what?

- Current gap:
  - Findings stop at documentation → no clear implications drawn
  - Unclear how results inform:
    - Sanctions debates (are private banks undermining or reinforcing policy?)
    - Historical/actual cases where private credit mattered for war duration/outcomes (e.g., WWII Lend-Lease versus commercial finance, Ukraine war)
- **Suggestions:**
  - Discuss how geopolitics + private credit may shape:
    - Effectiveness of sanctions
    - War outcomes and post-war reconstruction
    - Monitoring of dual-use financing in current conflicts
  - Explicitly connect results to Horn et al. (2025): complement macro sovereign finance with micro private bank finance

Quibbles (1/2)

- Anecdotes
  - p.2: Reference to $3bn unauthorized credits to Iraq (1988–89), incl. $600m military technology, but this period not in Appendix A1 database → likely Gulf War / Kuwait exclusion
  - Make data coverage consistent with anecdotes

- Estimation strategy
  - Use of TWFE → potential pitfalls with staggered treatment (see e.g. Borusyak et al., RESTUD 2024)

- Standard errors
  - Conflicts vary at bank–country–year levels
  - Provide robustness with alternative clustering (e.g., by dyad, multi-way)

Quibbles (2/2)

- Extensions
  - Dyadic analysis if bank is from a belligerent countries or not (cf. Section 4.5) → information in COW database

- Measurement of outcome variable
  - Shouldn’t you consider differently (as robustness at least) foreign banks with an affiliate bank in the conflict zone?

- Reverse causality (finance triggers war incentives)
  - If rulers expect that foreign banks will extend credit to military sectors, this could lower the expected cost of war and tilt the decision toward aggression
  - Leaders facing domestic fiscal constraints may only contemplate war if external finance is likely available
  - This is parallel to the “moral hazard” story in IMF lending: if governments expect bailouts, they may take on riskier policies

My take

- Cros-border credit, and especially syndicated loans, being a key component of global capital flows is shaped by armed conflicts

- Fascinating and timely topic; highly recommended read

- My suggestions:
  1. Provide more discussions and tests for the types and reasons of conflicts
  2. Further explore some mechanisms (supply versus demand)
  3. Beef up your motivation and takeaways

- **Good luck!**

Thank You

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