

Influencing State Sponsorship of Terrorism:
It Can be Done

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Abstract: Earlier scholarship has addressed whether the use of conventional or nuclear violence can be deterred or influenced, and current research addresses whether terrorist violence can be similarly contained, but there has been no systematic attempt to address whether state sponsorship of terrorism can be deterred or influenced. This is a serious shortcoming because most terrorist groups require state sponsorship to survive and achieve their goals. I examine four independent variables in the Iranian and Libyan cases of state sponsorship and find that while all variables vary, two – major power support in the form of multilateral sanctions and proportionality and reciprocity in deterrence strategy – are likely to be necessary to influence state sponsorship of terrorism. I conclude that while influencing state sponsorship of terrorism after the Cold War is possible, other variables in the Libyan and Iranian cases suggest that it will be very difficult.

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Introduction: Can major powers deter or influence the state sponsorship of terrorism?¹ Many studies have addressed the deterrence of the use of conventional and nuclear force by states against the defender and third parties. Studies in this volume assess whether terrorists can be deterred (and/or influenced) in their plans to use conventional force and nuclear weapons. But very little research has explicitly addressed whether different types of state sponsorship of conventional terrorism can be similarly contained. Byman's important study and later work provides a rich empirical assessment of the main state sponsors of terrorism but lacks tested hypotheses that explain variation in state sponsorship (Byman 2005; 2008).² Jentleson and Whytock carefully assess the causes of Libya's renunciation of nuclear weapons and sponsorship of terrorism but do not disentangle efforts aimed at achieving these different objectives (Jentleson and Whytock 2005). A few other studies broadly address the influence of terrorism or state sponsorship but do not develop and test hypotheses (Lepgold 1998; Crenshaw 2003).

Some terrorist groups such as Al-Qaeda and Hezbollah no longer require state financial support. These groups still require states for territorial sanctuary, military training, recruitment and other needs. Many other terrorist groups such as Lashkar-I-Taiba, Liberation Tigers of Tamil Eelam, Hamas, Fatah and the Revolutionary Armed Forces of Columbia still require or at least receive state financial support. Even if the most threatening terrorist groups today no longer require state support, state support made them what they are. One study found that over 90 percent of terrorist groups do not survive their first year (Hoffman 2002: 84). Nearly all successful terrorist organisations require state resources for military training, financial support, territorial

¹ This paper is concerned with the sponsorship of terrorism by 'rogue states.' Some crucial dimensions of these state sponsors are expressed hostility to American interests, domestic oppression, violation of international law and norms and unpredictability (Jervis 2009: 142). I do not address influencing sponsorship by American allies or America itself.

² From hereon I refer to state sponsorship of terrorism as state sponsorship.

sanctuary, logistical and organisational aid and diplomatic and ideological support. Another study of domestic terrorism claims that all terrorists require state support (Sanchez-Cuenca and Calle 2009). Byman found that of the thirty-six terrorist groups designated as foreign terrorist organizations by the Secretary of State in 2002, twenty (55%) had enjoyed 'significant' state support at one point in their history (Byman 2005: 2-3). If we are to impede the growth of current terrorist groups and/or the birth of new ones, understanding what aspects of state sponsorship of terrorism can be influenced is a critical question.

The record of success of conventional deterrence is disputed yet unimpressive – the record on coercive diplomacy is similar with success on less than a third of the cases – and there is no reason to think that deterring or influencing state sponsorship will be any different (Art and Cronin 2003). States probably challenge conventional deterrence or sponsor terrorists for similar reasons. Many deterrence failures stem not from windows of opportunity but from domestic political imperatives. If easily observable behaviour cannot be deterred, how can invisible behaviour be? Yet if terrorists are hard to deter from acts of conventional or nuclear violence, influencing states from supporting them should be easier (but not easy). Most states, unlike terrorists, desire not only to survive but to develop sustainable economic growth, a substantial military potential or some combination of goals that can be threatened. Moreover, denial strategies against infrastructure necessary to achieve these goals should be more credible than denial strategies that target terrorist groups. States should, all else equal, be slightly easier to deter from sponsoring terrorism than the terrorists themselves. I use the terms deterrence and influence to inhibit state sponsorship of terrorism throughout this paper. While I adopt a standard definition of

deterrence, influence refers to a more diverse set of tools to impede state sponsorship than punishment and denial (Dunn 2007, see also Stein 1991).

To understand whether state sponsorship can be influenced or deterred we have to know why states sponsor terrorists. The distribution of state sponsors of terrorism is not random. Motivations to sponsoring terrorists are similar in important ways to those regarding the development of nuclear weapons; the costs imposed by the major world powers probably ensure that most states prefer not to pursue such behaviour. But the few states that do sponsor terror or acquire nuclear weapons will be so resolved to do so – the costs of doing so ensure that the universe of state sponsors and nuclear proliferators is small – that these costs *and* any threatened by a deterrence or influence strategy may not successfully influence the desired behaviour (Fearon 2002).

The balance of resolve has long been noted to be a stronger force than the balance of power (Jervis 1984: 135). George noted that the three variables explaining most of the variation in cases of coercive diplomacy success and failure are closely related to the opponent's perceptions of the balance of resolve (George 1991: 14). Coercive diplomacy is facilitated if the opponent believes that an asymmetry of motivation operates in favour of the coercing power, that it is time urgent to respond to the coercing power's demands, and that the coercing power will engage in escalation that would impose unacceptable costs (George and Simons 1994: 287). Manipulating the state sponsor's incentives short of brute force should be difficult because the target must believe that the coercer is more motivated to get his way than the target is to resist. The potential targets of coercion find the state sponsorship of terrorism so attractive that it is very hard to deny or punish them enough to make them stop (Lepgold 1998: 149). The coercer will seldom be more motivated than the

target because sponsorship of terrorism may be necessary for political survival whereas an ability to contain or even influence the state sponsorship of terrorism will rarely lead to political suicide for the coercer. Martha Crenshaw notes that states sponsoring terrorism have more to lose (than non-state terrorist groups) by resisting demands for compliance, but their isolation (that itself makes terrorism sponsorship so attractive) may also limit their interests beyond terrorism (Crenshaw 2003: 312). There are multiple strategic incentives for those states that sponsor terrorism to do so. Successful terrorist groups can challenge deterrence efforts by major powers to contain nuclear non-proliferation and increase the sponsor's bargaining leverage, enable power projection in both local and more distant regions where conventional superiority is impossible and influence neighbours and regional adversaries (Byman 2008: 13-14, Byman 2005). In short, there are good reasons to believe that influencing or deterring state sponsorship will be very difficult.

Two major state sponsors have exhibited significant variation in sponsorship outcomes. Libya stopped sponsoring terrorism in 1993 while Iran supported terrorist groups into the late 1990s and probably continued to do so more recently in Iraq. What explains this variation? Are there any lessons that explain other cases? To address these questions, several distinctions related to the dependent variable must be made. The next section discusses several distinctions pertinent to defining state sponsorship. The subsequent section addresses several relevant independent variables that could all be necessary to influence state sponsorship. I proceed to show how these variables vary in the Iranian and Libyan cases. I find that while they all vary, the sequencing of particular events suggest that (1) multilateral sanctions and (2) proportionality and reciprocity in influence strategy are necessary to influence state sponsorship. However the effects of influence were and are likely to be limited

because other variables – most importantly the price of oil and domestic responses to such economic uncertainties – explain much of the variation. I conclude that while influencing state sponsorship is possible, it is very hard and influencing it to fully cease will be highly unlikely.

Dependent Variable: How is state sponsorship to be defined? One can start with a distinction between active and passive sponsorship. Active sponsorship involves the intentional regime/state transfer of resources such as money, arms, logistics or provision of territorial sanctuary while passive sponsorship involves the inability of the state to contain terrorist groups from utilising territorial sanctuary or some other public good. Active sponsorship can also involve assistance with organization, training and operations, ideological direction and diplomatic support or recognition (Byman 2005: 53-78).

If a terrorist group has organised itself to either engage in conventional violence or convince a state of its ability to do so in order to receive support, state provision of ideological direction, organisational assistance, training and operations and diplomatic support should usually be less necessary to the achievement of the terrorist group's goals than the provision of territorial sanctuary and financial provision. Of the sixteen cases of state support for terrorism that Byman finds challenged government counterterrorism efforts, seven had a "high impact." Four of these are the provision of sanctuary and two are the provision of money, arms and logistics (Byman 2005: 74). These two types of state support for terrorism seem most crucial to the survival and success of terrorist groups and are most likely to obstruct counter-terrorism efforts. They are the types of state support that we most want to be able to influence.

Yet the provision of money, arms and logistics should be easier to deter and probably more important to containing terrorism than influencing the provision of sanctuary. Firstly, there will always be many weakly governed or ungoverned regions that terrorists can relocate to. Often the terrorist group may have high levels of domestic sympathy such that threatening removal of territorial sanctuary is to threaten the survival of the regime. Palestinian groups have much support in Syria, for example, and any efforts by Damascus to contain elements of Hamas recruiting or hiding in Syria would threaten Asad's regime. Claims by representatives of such states that they have no ability to influence terrorist groups are thus partly true because the legitimacy of the state depends to some degree on the survival and often success of the terrorist group (Bar 2008). Yet Asad could threaten to deny capital and weapons provision and not face similar insecurities. Secondly, many states that provide sanctuary cannot be influenced to not do so because they cannot control movement in and out of the region in question. The Somali government can apparently only control the streets immediately surrounding state offices in Mogadishu. Lebanese state forces cannot overcome Hezbollah militias, and Pakistan has almost no control over the Federally Administered Tribal Areas (FATA).

There are four other important distinctions. State sponsorship of money, arms and logistics could involve state control, co-ordination or contact (Byman 2008: 16-17). Control is quite rare – the Syrian group Al-Saiqa that Damascus used to undermine Yasir Arafat is an example – and contact is too hard to influence or deter. Co-ordination is more than contact but not control because it involves the state successfully influencing some aspect of the independent terrorist group's agenda. Examples include the Pakistani provision of finances, arms and training to influence the ideological agenda and targeting preferences of Kashmiri terrorist groups. Iran has

and continues to work closely with Hezbollah to influence its activity in Lebanon and overseas initiatives.

Secondly, the sponsor could be ruling elites, some non-state group that is indirectly supported by the state, or competing elites or bureaucratic interest groups within the state. The latter is perhaps best called fragmented sponsorship because the sponsor(s) and the relationships between them are unknown. Ruling elites could delegate the sponsorship of terrorism to such bureaucracies to escape detection, increase state-terrorist group co-ordination, or perhaps to increase leverage over other domestic opponents. The bureaucracy could betray the trust of its principal and encourage the terrorist group to engage in activities that increased its power over the ruling elites as well as satisfying the former's orders. An example is the Inter Service Agency (ISI) in Pakistan. The amount of control Presidents Asif and Musharraf have held over the ISI, and the degree to which it has violated the President's mandate is unclear. There is some evidence that the assassination attempts on President Musharraf were conducted by ISI sponsored terrorist groups.

Powerful individuals or interest groups within a state or outside it could sponsor terrorism. Canadian Shaun Sunder supported the LTTE with four million dollars, and the al-Haramain group in Saudi Arabia sponsored Al-Qaeda before the September 11 attacks with branches and fronts all over the world. States may not seek to further such terrorist activities but not bother to stop due to ignorance or disinterest. The Canadian government has done little to stop different interest groups from sponsoring Sri Lankan Tamil groups. The incentives inherent in democratic systems that such states have to not disallow such sponsorship are very different from those incentives that authoritarian states have to sponsor terrorists. Deterring such states

from allowing their citizens to sponsor terrorist groups is an important issue but must be addressed elsewhere.

A third issue is whether the state sponsorship of terrorism to be deterred is yet to be embarked upon (deterrence) or already embarked upon (compellence) (Schelling 1966: 69-91). The latter should be harder to deter or influence than the former – although in practice the distinction is hard to recognise – and coercive diplomacy aimed at recovering what a state has already gained through terrorist sponsorship is a stronger case of compellence and should be harder still. While some, following Schelling, define compellence as deterring an action that is already embarked upon, others define it as deterring an embarked or unembarked upon action – or the undoing of a completed action – aimed at recovering losses rather than making gains (see, for example, Levy 2003: 208). Until the relationship between different configurations of embarked/unembarked action, action aimed at recovering losses/making gains, and different coercee and coercer perceptions of the values of these variables is addressed it is hard to know whether different types of compellence are harder to achieve than different types of deterrence.

Terrorism is a contested concept. Rather than revisit the debate, I use Byman's adaption of Hoffman's influential definition (Byman 2005: 8; Hoffman 2006/1998: 43). Terrorist groups have five characteristics. (1) Terrorists must be groups of at least two (or usually at least several dozen) individuals. (2) These groups must be a sub-national group or non-state entity. Violence carried out by state agents is not a case of terrorism. (3) These groups must engage in violence or at least threaten to. These acts or threats will almost always be designed to have some far-reaching psychological repercussion beyond the immediate victim or target. (4) The acts of or threats to use violence must have political aims and motives related to territorial acquisition,

recognition of a demand for such acquisition or other goal not reducible to the receipt of funds. Violence linked to drug trafficking, mafia style revenge killings or blackmail such as kidnappings are excluded. (5) The (threatened) violence must deliberately attack non-combatants.

Are off-duty soldiers, intelligence personnel and political leaders who are directly engaged in counter-terrorism non-combatants? Government officials, diplomats and police also involved in counter-terrorism but to a lesser degree seem fairly defined as non-combatants. Other public officials uninvolved in counter-terrorism, private citizens whose jobs might be somewhat linked to counterterrorism, and arms manufacturers who indirectly support the counterterrorist effort also seem to be non-combatants (Byman 2005: 9). Byman defines non-combatants as personnel not directly involved in prosecuting war or counterterrorism operations; attacks on soldiers and intelligence personnel are not terrorist acts, but attacks on policemen, diplomats, bureaucrats and aid workers are terrorism. If a group intentionally attacks at least one of these individuals, Byman defines it as a terrorist group. Although it is unclear how much these subtleties influence the universe of cases, I adopt Byman's definition here. The dependent variable is thus defined as *the embarked or unembarked upon intentional sovereign ruling elite provision of money, arms and logistics to co-ordinate with groups of at least 2 whom are not totally controlled by the state and who aim to kill at least one non-combatant*.

Independent Variables: The coercive diplomacy literature suggests that there are at least four relevant variables to influence state sponsorship (George 1991; George and Simons 1994; Pape 1996; Levgold 1998; Byman and Waxman 2001; Art and Cronin 2003; Crenshaw 2003; Byman 2005). (1) The deterring or influencing state must have a strategy that contains the right configuration of several variables. (2) Support from

other major powers should also be necessary. (3) Opposition within the state sponsor must believe that the benefits from stopping sponsorship are greater than those that come from defiance. (4) The ability of the state sponsor's domestic economy to recover some of the potential lost costs of defiance must be believed to be low enough that cooperation is necessary. I address each in turn.

Firstly, the deterrer or influencer must have a strategy that consists of three components. The deterrer must clearly define the unacceptable behaviour, establish the consequences of defiance and the benefits of cooperation, and possess capabilities and resolve to carry out its threat (Lebow and Stein 1990). Achieving such a strategy will depend on the extent of balance in the coercer state's strategy that combines threats of force and deft diplomacy consistent with the criteria of proportionality, reciprocity and coercive credibility (Jentleson and Whytock 2005). Proportionality refers to the relationship between the scope of the objectives being pursued and the instruments being used to achieve them. If the demand to stop sponsoring terrorism carries a high cost of cooperation, the strategy must increase the costs of noncompliance and/or benefits of compliance to compensate for the high compliance costs. If the means to influence the cessation of terrorism sponsorship are limited, the objectives of the strategy should be similarly limited such that there is proportionality between means and ends. Forcible regime change to contain state sponsorship is indicative of the failure of influence strategies; the main source of disproportionality is an objective that goes beyond policy change to regime change (Jentleson and Whytock 2005; George and Simons 1994). Reciprocity involves an explicit, or at least mutually tacit, understanding of (perhaps explicitly incremental) linkage between the coercer's carrots and the target's concessions. The balance lies in neither offering too little too late or for too much in return, nor offering too much too soon or for too little

in return. Coercive credibility requires that the coercer state convincingly conveys to the target state that noncooperation has consequences.

The more other states that can reduce the costs of state sponsor defiance cooperate with the deterrer, the more likely the state sponsorship of terrorism is to be deterred or influenced. Costs typically involve a combination of economic sanctions and trade embargoes of varying severity, the withholding of aid and other economic and military assistance, and perhaps limited uses of force. The more other countries compensate for these losses – as China and Russia currently may do with American efforts to contain Iranian nuclear proliferation – the more likely deterrence and influence efforts will fail.

Thirdly, deterrence or influence of state sponsorship of terrorism is more likely to be successful if opposition to cooperation within the sponsoring state and society is limited. Even when costs are to be borne from defiance, an external threat can often enhance the domestic legitimacy of the target regime, increasing its tolerance to pay costs and run risks. Issuing a threat often increases the audience costs facing a particular regime, which make it more difficult for the regime to concede (Byman and Waxman 2002: 36-37). Are internal political support and regime security served by defiance or are there domestic political gains to be made from (genuinely) improving relations with the coercing state? Much depends on the power of ruling elites and other actors such as competing elites, bureaucratic groups and non-state actors. To the extent that the others' interests are threatened by ruling elite compliance with the coercer state's demands, they will block the external pressures on the regime. To the extent that their interests are better served by the policy concessions being demanded, they will intensify the coercive pressure on the regime to comply (Jentleson and Whytock 2005).

Fourth, the ability to deter or influence state sponsorship will depend on the costs that military force, sanctions, and other coercive instruments can impose on the sponsoring state's economy and the benefits that trade and other economic incentives offer. This is partly a function of the strength and flexibility of the target state's domestic economy and its capacity to absorb or counter the costs being imposed through ample budget resources, import substitution and trade diversification. Even if such costs are neutralised, there may still be significant opportunity costs of trade and investment forgone. There must be some threshold of costs at which state sponsors capitulate to the deterrer's demands. Any of these variables may be necessary to successfully deter or influence state sponsorship.

Measurement: The dependent variable is measured by United States government documents and Byman's data. According to these indexes, Libya stopped sponsoring terrorism by 1993 while Iran continued to do so into the late 1990s and probably thereafter. An influence strategy exists if the influencer attempted to influence a sponsor to stop sponsorship. Proportionality exists if the influence strategy does not aim to establish regime change and is absent if the goal is regime change. Reciprocity requires that demand(s), benefits of cooperation and costs of defiance be explicitly communicated to the state sponsor. Coercive credibility is inherently subjective and hard to measure without data on the beliefs of the terror sponsoring ruling elites. Recent displays or uses of force should plausibly achieve it. Major power support exists if multilateral sanctions against the terror sponsoring state have been achieved. The ability of the regime to withstand domestic pressures to comply is hard to establish without reliable data. If the regime faced unrest or instability that stopped after compliance or some commitment to comply, the regime might not be able to withstand such domestic pressures. Economic resilience is measured by whether the

sponsoring state's economy can recover the costs imposed by the influencer's strategy.

Case Selection: The end of the Cold War was the end of one of the major sources of state sponsorship. The collapse of the communist government in the former Soviet Union and its satellite regimes in Eastern Europe witnessed the decline or collapse of many state sponsored Marxist groups. East Germany's last interior minister declared that his country had become "an Eldorado for terrorists (Byman 2005: 1)." Future research should examine cases selected from before and after the end of the Cold War to assess the role of the Cold-War on different types of state sponsorship of terrorism. Because we cannot yet rule out the claim that the effect of the Cold War on state sponsorship of terrorism is zero, and because there are plausible reasons to think that the Cold War influenced the motives of – and therefore feasibility of influencing – state sponsorship, I focus on those cases after 1990. The universe of cases of state sponsorship as defined above is Eritrea, Iran, Pakistan, Syria, Sudan, Libya, Iraq and Venezuela. Pakistan, Sudan, Venezuela and Eritrea probably involve varying forms of non-elite state sponsorship. Syrian sponsorship has been largely passive provision of sanctuary. Iran, Iraq and Libya are the only state sponsors that are exclusively captured by the above definition. Iran and Libya are assessed below. To the degree that this definition of state sponsorship constitutes that which is the least hardest to influence or deter – active sponsorship is usually easier to influence than passive sponsorship, and influencing a known sponsor is easier than influencing an unknown one – these cases might be considered crucial cases for the influence of state sponsorship. If sponsorship here cannot be influenced, influencing other cases might be no easier.

Iran – Deterrence/Influence Strategy: Several problems undermined the efficacy of American influence strategies to deter Iranian sponsorship of terrorism. Firstly, the behaviour to be influenced not only was multiple actions but was varying and unspecified degrees of action/inaction. The *1996 Antiterrorism and Effective Death Penalty Act* stipulated that sanctions on Iran will be waived if Iran ceased its efforts to acquire WMD and is removed from the U.S. list of state sponsors of terrorism. President Clinton stated (to a domestic Israeli audience) that the goal of his executive order banning virtually all economic transactions with Iran was to curb Iran’s pursuit of weapons of mass destruction and its support for international terrorism (Clinton 1995). In his 2006 State of the Union address, President Bush stated that the sponsorship of terrorists in the Palestinian territories and Lebanon must “come to an end (Bush 2006).”

Influencing state sponsorship is harder if the benefits of cooperation require concomitant change on two unrelated fronts. Cooperation on either front alone is still regarded as defiance, and simultaneous cooperation on both may not be politically expedient for the state sponsor. Without a diplomatic relationship with Iran it is very hard to establish precisely what aspects of nuclear proliferation or terror sponsorship are to be stopped. Stopping WMD acquisition could plausibly involve the cessation of the importing of more centrifuges to enrich more uranium, the enrichment of uranium with current centrifuges, or different stages of warhead and delivery vehicle design, construction and testing. There are many different types of state sponsorship of terrorism. Moreover, the general hostility that marks Iranian-American relations may require that assurances regarding forcible regime change may be necessary for Iranian concessions. While regime change was never an explicit goal of the sanctions, many American officials unashamedly desired such an outcome. In 1995, Speaker of the

House Newt Gingrich recommended that the United States actively work to overthrow the Iranian regime and advanced a proposal to allocate twenty million dollars for that purpose. Bush's Axis of Evil speech and subsequent invasion of Iraq probably decreased the chances of Iranian good-faith gestures. Shortly after Bush's 2002 State of the Union Address President Khatami stated that "When a big power uses a militant, humiliating and threatening tone to speak to us, our nation will refuse to negotiate or show any flexibility."

Because the unacceptable Iranian behaviour was never specifically defined, the consequences of defiance could never be spelled out, and the benefits of cooperation were left similarly vague. Coercive credibility may well have been established by the American display of force against Libya in the 1980s and in the Persian Gulf in the early 1990s and 2003 but without the stipulation of certain actions or inactions that would lead to the use of force coercive credibility is by definition hard to achieve because what is being coerced has never been established.

Iran – Major Power Support: American unilateral sanctions forced Iran to diversify its economic partners. Lack of cooperation from Russia, China and Europe ensured that the sanctions would have at best a weak effect in influencing sponsorship and nuclear proliferation. American efforts proved most successful in the military arena where some multilateral cooperation was established (O'Sullivan 2003: 89). Yet even these measures encompassed only selected countries and failed to fully choke the flow of military hardware to Tehran. More effective military containment of Iran might have been achieved had the United States been able to secure a United Nations arms embargo. Such efforts were never seriously pursued because of doubts regarding Russian and Chinese support for such a resolution.

Although the United States received some support from other powers, Iran was ultimately able to diversify its trade and finance partners. The United States pressed for a moratorium on the extension or rescheduling of new export credits and new lending by international institutions. Yet Europe's extensive economic ties with Tehran – and its critical dialogue policy that put it at odds with American initiatives – impeded U.S.-European cooperation. The Iran-Libya Sanctions act (ILSA) – which shortly followed the *Antiterrorism and Effective Death Penalty Act of 1996* – mandated that the President impose at least two of six possible sanctions on any foreign entity investing more than twenty million dollars a year in the Iranian or Libyan energy industry. The European Union quickly responded by issuing a regulation forbidding its companies to comply with ILSA and assuring them that they would be eligible to recover any damages suffered as a result of its application. The EU threatened to bring the matter before the World Trade Organisation (WTO) on the grounds that it violated extant trade agreements against the extraterritorial application of national laws (Alikhani 2000: 288-360).

The 1995 executive orders closed a loophole that allowed American companies – who had become the largest consumers of Iranian oil – to resell four billion dollars of it annually to third markets. Iran initially experienced short-term costs as it struggled to find companies to take control of the almost 25 percent of crude oil that American firms had been responsible for marketing (O'Sullivan 2003: 66). Oil was sold at discounted prices, incurring a several million dollar loss over three months (Clawson 1998: 93). Iran was also forced to salvage for spare parts for sophisticated oil extraction and treatment machinery earlier supplied by the United States. However shortly after this discomfort Japanese and other Asian companies took up the slack created by the departure of American firms. Although Iranian oil

exports – which still generate about 80 percent of Tehran’s foreign exchange – dropped slightly in 1995 when the sanctions against Iran were first imposed, they fully recovered in 1996 (O’Sullivan 2003: 67).

Not surprisingly, American unilateral sanctions against a country not considered a threat by much of Europe and Asia failed to significantly influence Iranian sponsorship. Although nearly two billion dollars in United States exports might have been expected to be sold to Iran between 1995 and 2001, only 14 percent were high technology. If the remaining goods could be imported from elsewhere at little additional cost, and the high technology goods imported with a 20 percent premium, the cost to Iran would have been only \$140 million dollars (O’Sullivan 2003: 98-99). As Iranian two-way trade with American – and to a lesser extent European – companies have declined over the last two decades, ties to Asian and developing economies have grown.

American pressure caused the World Bank to suspend lending to Iran shortly after the Bank had decided in 1991 to resume its program in Iran and approve \$847 million for six development projects. However dissatisfaction with this by several states led to the resumption of lending in 2000 and 2001 with loans totalling \$232 million and \$700 million respectively. Sanctions contained American involvement in the Iranian energy industry and reduced the leverage of the National Iranian Oil Company (NIOC) by reducing the number of foreign interests. However this lack of interest by large American firms was heavily compensated for by foreign interests. French firm Total signed a \$600 million deal to invest in two Sirri oilfields in July 1995 (Washington Post, August 9 1995, F1). Several months later Iran received representatives from over one hundred foreign companies at a conference in Tehran aimed at attracting foreign investment in its petroleum industry. In 1997, Total

executives announced that they would proceed – along with Russian firm Gazprom and Malaysian firm Petronas – with a \$2 billion investment in the South Pars gas field. Despite American protests, EU representatives confirmed support for this plan. Two years later, French firm Elf Aquitaine and Italian firm Enispa signed a deal worth nearly \$1 billion to develop the Doroud oil field. The deterrent value of ILSA had virtually collapsed after May 1998 when the Clinton administration – prodded by Congress – issued the first waiver to a company violating the terms of American law and promised additional waivers for similar investments by foreign companies. This gave rise to several other oil, natural gas and financial agreements with European and Asian firms.

Iran - Domestic Variables: Little is known about both who the major opposition groups to Supreme leader Khamenei are and how their preferences for sponsoring terrorist groups have evolved over time. The election of the moderate Khatami in 1997 and Iran's young population suggests that elements of the Iranian ruling elite and society may have had preferences for not sponsoring terrorism since perhaps the early 1990s. However without data that identifies the relationships between major opposition groups and elite individuals in Iran – unlikely to be forthcoming anytime soon – little more than speculation can be offered. Some argue that the limited costs of unilateral sanctions have taught the ruling elite that the spread of the revolution and sponsorship of Palestinian terrorists is less important than sustainable economic development, public infrastructure development and integration into the global economy (Bahgat 2003: 175; Byman 2008). They argue that the fear of multilateral sanctions in the mid 1990s led President Rafsanjani to cease assassinations on Iranian dissidents in Europe and the Gulf states; Iran stopped sponsoring attacks by Shia groups on American forces in the Persian Gulf after the 1996 Khobar towers bombing

– despite a continual desire to expel Americans from the region – because of the fear of multilateral political, economic and military pressure (Ehteshami 1995: 152; Sick 2003: 93; Gasiorowski 2002: 136). Much of this speculation has neglected how intra-elite dynamics play into such policy change. Of particular importance is whether both the ruling elites and other influential opposition groups advocate less sponsorship of terror because of the possibility of multilateral sanctions – suggesting that if this possibility evaporates sponsorship will return – or because they have genuinely learned that other goals are more important. Without more reliable data no more than speculation is possible.

Iran - Resilience of Economy: Although Iran was able to circumvent much of the potential losses from unilateral sanctions, Washington’s temporarily successful efforts to block World Bank and IMF funding partly influenced Iran’s response to its debt crisis, although this itself was caused by high inflation, unemployment and economic underdevelopment. Yet plunges in world oil prices, Iran’s long war with Iraq and general economic mismanagement had restricted much potential for Iranian economic development. Iran has long needed large volumes of foreign and domestic investment to rejuvenate key sectors and spur growth in new ones. Compounding these problems was a large debt burden in the 1990s when the impact of the sanctions was greatest. Yet by 1993 – before ILSA – Iran had already fallen \$3 billion in arrears of its debt repayment commitments due to lower than expected oil prices, poor economic management and an unrealistic exchange rate system (Petrossian 1994). Only at the turn of the millennium did rising oil prices offer any chance of sustainable economic development, and domestic impediments may impede growth just as the Majlis (Iran’s parliament) hindered the implementation of many of President Rafsanjani’s reforms in the early 1990s (Amuzegar 2001). Moreover, Iran’s ambitious debt repayment

schedule gave Tehran strong incentives to attract foreign direct investment just before the cost of the sanctions peaked in the mid 1990s. In 1997 and 1998, when the effects of ILSA were at their peak, low oil prices nearly caused Iran to default on its debt again. All of this suggests that while the sanctions had a limited effect on Iran's economy before other trade and financial partners could be found, the variability of world oil prices and other aspects of Iranian economic mismanagement may have influenced sponsorship of terrorism independently of American influence strategies (O'Sullivan 2003: 64-65). Much of the moderation of the Khatami administration may have been due to internal dissatisfaction with the evolution of the Iranian revolution and a growing desire for modernization rather than the sanctions themselves.

Libya - Deterrence/Influence Strategy: After the Reagan administration's unsuccessful efforts to deter Qaddafi from sponsorship through demonstrations of force, the Bush and Clinton strategies rejected regime change as a policy goal. Although Bush initially continued the Reagan administration's covert efforts to overthrow Qaddafi, by early 1991 he had suspended the operation (Jentleson and Whytock 2005: 63). American 1991 demands of Libya did not challenge the perpetuation of the Qaddafi regime. These demands were that Libya accept responsibility for the Pan Am explosion over Lockerbie and surrender the suspects to trial and pay full compensation to the victims, disclose all it knew of the bombing and allow full access to witnesses and evidence and cease all sponsorship of terrorism (Statement Announcing Joint Declarations on the Libyan Indictments, November 27, 1991, Jentleson and Whytock 2005: 63).

Despite renouncing regime change and thus offering Qaddafi implicit assurance that he might live to see the benefits of any concessions, American rewards for these concessions were never specified. Coercive credibility could have been

established by either Reagan's earlier uses of force or Bush's threats and uses of force against Saddam Hussein. The absence of reciprocity however undermined the proportionality and coercive credibility and limited the potential to influence Libyan sponsorship, which persisted until at least 1993. Libyan back-channel overtures around this time – first to Undersecretary of State Rogers and then former Senator Hart – appeared to show flexibility on not only sponsorship for terrorism but also WMD proliferation (Hart 2004). Rogers and Hart reported little sensitivity in Washington for pursuing the overtures. A powerful domestic coalition – many of whom had lost their sons and daughters in the Lockerbie affair – demanded that the United States not deal with Libya until all stipulations had been unilaterally satisfied.

Qaddafi – apparently frustrated by American disinterest in his offers – turned to the United Kingdom. Secret talks laid the foundations for what in May 1999 – a month after the Lockerbie suspects had been handed over for trial – became U.S.-British-Libyan secret talks (Indyk 2004). U.S. demands here did not deviate from the earlier stipulations. The Americans wanted to accept Qaddafi's offer to hand over the Lockerbie suspects for trial in a third country, but this would have brought increased pressure to end multilateral UN sanctions. The Americans wanted several further concessions before these sanctions were lifted, and began the negotiations on the condition that Qaddafi stop lobbying for the sanctions to be lifted. The first meeting commenced in Geneva in May 1999.

Unlike Reagan's strategy against Libya and all of those against Iran, Indyk – leader of the American delegation to Geneva – established reciprocity. He told his Libyan counterpart that multilateral sanctions would be lifted if Libya compensated the Pan Am victims and "got out" of terrorism (Indyk 2004). It is likely that the negotiations involved more specific Libyan actions, although domestic pressures may

have forced Indyk to accept nothing less than full cessation of sponsorship. Other American carrots then came in stages (Jentleson and Whytock 2005: 77). In February 2004 U.S. officials reopened their diplomatic mission in Tripoli and lifted the travel ban preventing Americans from visiting Libya (Kaplan 2007). A year later – after several WMD related concessions – the United States announced that unilateral sanctions against Libya would be lifted and full diplomatic relations restored. The United States had WMD related demands but rather than demanding progress on both fronts as with Iran offered individual and incremental gains for cooperation on each front. In October 2007 the United States did not block Libya’s entry to the UN Security Council as a non-permanent member. Coercive credibility was also arguably maintained by the start of the Iraq war and the capture of Saddam Hussein. In keeping to demanding policy change and not regime change, proportionality between ends and means was also maintained. The American strategy to influence Libya to cease sponsoring terrorists thus contained reciprocity, proportionality and coercive credibility.

Libya – Major Power Support: The United States was able to increase the pressure already applied to Qaddafi with unilateral sanctions by multilateral UN sanctions in 1992. The impact of the 1982 ban on American imports of Libyan crude was mitigated by the continued entry of Libyan oil into the American market through purchases on the spot oil market or as a refined product and the diversification of trade partners. Given the appeal of Libyan oil as a high quality crude near Europe, countries such as Germany and Italy assumed the Libyan exports that the United States forfeited. The UK increased its imports from Libya by 350 percent over the first year after the American ban (O’Sullivan 2003: 190). Libya’s strategy was similar when the American ban was extended to cover all U.S. Libyan two-way trade in 1986.

Libya's ability to find substitutes greatly diminished the costs of American unilateral sanctions. The American freeze on Libyan assets, for example, apparently only affected \$100 million of Libyan overseas assets totalling \$5 billion (Economist Intelligence Unit 1986: 13).

Libyan refusal to comply with Security Council Resolution 748 – demanding the release of the Lockerbie suspects – led to UN multilateral sanctions on April 15 1992. In November 1993 Resolution 883 was also passed. This strengthened extant air restrictions, banned exports critical to the oil and gas sectors, and froze all Libyan assets abroad. Libya's inability to replace many of the banned items hurt its aviation industry – already suffering from earlier unilateral sanctions – and caused a sharp decline in its value. The tourism industry was also seriously affected. More seriously however, the UN ban on the equipment needed for the maintenance of oil refineries and other operations forced Libya into a costly search for spare parts. The restrictions also prevented Libya from upgrading refineries to produce more gasoline for domestic consumption (Gurney 1996: 221-22).

The uncertainty associated with multilateral sanctions – nobody knew whether they would be intensified or weakened at each 120 day review – weakened the Libyan currency, caused soaring inflation. Qaddafi devoted substantial resources to a reserve asset bank that could be relied on if the sanctions were made more stringent, but this stockpiling limited the availability of funds that the government could devote to satisfying daily needs and investing in capital intensive projects (Niblock 2002: 66-67). This forced the government to curtail most development projects. Uncertainty reduced the incentives for foreign investors to compensate for this loss. The suspension of multilateral sanctions in April 1999, however, and the upswing in oil

prices shortly thereafter helped fuel an economic revival. Growth turned robust, inflation subsided and foreign reserves swelled.

Libya – Domestic Variables: While conservatives in Iran seem to have been able to circumvent the pressures of moderates to comply with American pressure, Libya's economic malaise exhibited growing pressures on Qaddafi to comply. Economic discontent in the 1990s in Libya began to fuel political unrest (Jentleson and Whytock 2005: 66). Small moves toward political liberalisation failed to appease his political opponents. Qaddafi faced growing political challenges from competing elites, Islamic tribal groups and opposition groups in exile (Deeb 2000: 147). Military discontent also became a problem with several coup attempts including one that warranted the arrest of an estimated two thousand dissidents and the execution of six senior army officers (Anderson 1995: 233-34). Military imports – which had dropped to \$410 million in 1991 from their several billion dollar peak earlier – plummeted to zero in 1993. Several radical Islamic groups – many of whom by now had come to view Qaddafi as no better than the Saudi Arabian monarchy – also disrupted state infrastructure in regional areas. There was no rally around the flag effect; all this made Qaddafi more amenable to American efforts to influence his sponsorship. While it is unclear whether such resistance to the regime would have occurred in the absence of the costs inflicted by multilateral sanctions, much of it seems to have been generated by frustration with the costs of Qaddafi's political leadership and poor economic planning.

An extraordinary dispute apparently broke out in the higher echelons of the Qaddafi's regime in the mid-1990s between those stressing the need for structural economic reform and international investment and those wanting to continue to defy American and Western pressure (Takeyh 2001: 65-66). Qaddafi initially was

indecisive but in 1998 – after having ordered his military to annihilate the rural Islamic dissidents – sided with the pragmatists. This increased the influence of officials in the regime who had become frustrated with Libya’s diplomatic isolation.

Libya – Resilience of Economy: The Libyan economy weakened at about the same time that American unilateral sanctions were imposed in the early 1980s. Export revenue decreased, growth rates turned negative, imports dried up and a retrenchment of important development projects geared toward the diversification of the economy occurred (O’Sullivan 2003: 186). Yet Libyan developmental plans and the success of American influence efforts were also closely linked to the performance of the oil industry as oil revenues generated more than 95 percent of Libya’s foreign exchange. Unlike Iran, much of Libya’s energy infrastructure was based on U.S. technology. Modernisation was therefore dependent upon the assistance of American oil firms. American unilateral sanctions caused the steady downturn in production at fields once operated by American companies (O’Sullivan 2003: 194-195).

From 1992-1999, the price of oil dropped to a new low. Fluctuating prices caused Libya’s export earnings to vary tremendously during these years, and this had repercussions throughout the whole economy. Qaddafi’s economic management inflated the costs of the drop in oil prices; his late 1980s reforms did rejuvenate some elements of the economy but did not address many others, leaving the economy extremely vulnerable to oil market fluctuations. Multilateral sanctions exacerbated the inability of the economy to recover. The head of the agency that supervises the production and sale of Libyan crude stated that “our objective is not just the lifting of the international embargo but the American embargo, too. With the price of oil so low, we need an economic boost. Libya currently has serious income problems (Viorst 1999: 61; see also Indyk 2004).”

Conclusion: Table 1 summarises the values of the independent variables in the two cases. Both Iran and Libya exhibited an influence strategy.

TABLE 1

	Iran	Libya
Proportionality?	No	Yes
Reciprocity?	No	Yes
Coercive Credibility?	Yes?	Yes?
Major Power Support?	No	Yes
Regime cannot withstand domestic reform pressures?	No	Yes
Insufficient Economic Resilience?	No	Yes

Any of these independent variables could be individually necessary or sufficient to influence the state sponsorship of terrorism. Yet there are likely two necessary variables. Major power support in the form of *multilateral sanctions* preceded the challenges on Libya's regime and partially generated the costs that severely influenced its economy. The multilateral UN sanctions went into effect in 1992-1993, and the domestic unrest and significant costs to Libya's economy occurred in the decade after this. The absence of these multilateral sanctions may have also caused higher economic resilience and fewer domestic challenges to Qaddafi's regime. *Proportionality* and *reciprocity* also seem necessary. Countries such as the United States may have to credibly commit to *not* engage in forcible regime change against weak adversaries; clearly establishing the desired behaviour, costs of defiance and benefits of cooperation probably reinforces credibility here.

Some have argued that coercive credibility against Saddam Hussein in 2003 was necessary to cause Libya to cease terrorism sponsorship (Hannah 2009). However Libya was prepared to seriously negotiate a decade before 2003. This suggests a more serious problem. Without reliable data on the preferences and beliefs of Libyan and Iranian ruling elites it is impossible to reliably specify a key counterfactual: variation in state sponsorship of terrorism in the absence of American influence strategies.

Many other variables – some independent of, others reinforcing the effects of the influence strategy – also caused variation in state terrorism sponsorship. Yet the correlation between multilateral sanctions, proportionality, reciprocity and state terrorism sponsorship is high. These findings therefore suggest that (1) multilateral sanctions and (2) proportionality and reciprocity in a coercive strategy are necessary to influence state sponsorship, but that the effects of a successful influence strategy will be small. Further cases of state sponsorship and more reliable data will be necessary to further test these hypotheses.

Even if state sponsorship can be influenced under some conditions, there are good reasons to suspect that these conditions will be quite restricted. State sponsors of terrorism tend to be highly resolved to engage in multiple undesirable behaviours. Schelling wrote decades ago that deterrence efforts can easily be overcome by a series of small steps that are each individually hard to detect and contain (Schelling 1966; see also George and Smoke 1974). State sponsorship of terrorism is hard to detect and can easily be reinitiated by incremental steps. This suggests two conditions that mitigate against successful influence of state sponsorship. Firstly, state sponsorship of terrorism will often not be the only or even most desirable thing to be deterred. Saddam's nuclear ambitions worried most observers more than his sponsorship of families of Palestinian suicide bombers. Many are more concerned about Chavez's increasingly authoritarian regime than possible sponsorship of FARC rebels. Secondly, public opinion may push for unilateral concessions on several fronts that may make sensible influence strategies politically infeasible. During the Cold War these pressures could be overcome, but the post Cold War world allows public opinion to exert significant pressure (Walt and Mearsheimer 2008). The Libyan and Iranian cases exhibited public pressures to offer no concessions until a series of

terrorism sponsorship and WMD proliferation concessions had been made. Demanding such unilateral concessions may not only make them more unlikely to be forthcoming but also cause that behaviour which the threats are designed to impede.

If reciprocity in influence strategy will be hard to achieve domestically, multilateral sanctions will be hard to achieve internationally. The Pan Am bombing over Lockerbie killed not only American but British and French nationals and was probably necessary for European cooperation against Libya. If this much has to be done to elicit multilateral sanctions, state sponsors may push their terrorist groups just hard enough to cause damage but not turn the tide of international opinion against them. Terrorist groups might go further than their sponsors wish, but actions such as those that caused September 11 and Lockerbie may be either hard for most terrorist groups to achieve or beyond the desires of many terrorist groups. If other major powers do not perceive future state sponsors as a threat and value the gains from trade with such international pariahs, multilateral sanctions will be very hard to achieve. Libyan exhibited an extreme dependence on oil revenues and American machinery to generate them, a very weak economy as long as a decade before the sanctions took effect and at about this time requests by senior officials to engage in serious negotiations over terrorism sponsorship, WMD acquisition and Libya's general economic and political isolation. Multilateral sanctions may have been necessary to stop Libyan sponsorship but certainly were not sufficient. If influencing Libyan sponsorship is easier than influencing other types, the ability of major powers to influence future state sponsorship will be severely limited. At best the right combination of several other variables will be required for state sponsorship to cease. At worst sponsors will be able to mitigate the costs imposed by influence strategies, suggesting that containing state sponsorship of terrorism may be almost impossible.

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