

# Economic Sanctions and the Escalation of Terrorism

## Abstract

A common belief is that sanctions will deprive targets of the resources they need to engage in offensive behaviors. This suggests that imposing sanctions on active and passive supporters of terrorism should reduce violence. This study examines the argument that sanctions can weaken state support for terrorism and reduce terrorist violence. We argue that while sanctions may deprive active or passive supporters of resources, these market imperfections may create commitment problems by weakening these states' ability to maintain the balance of power with their rivals. As a result, state supporters and their terrorists may escalate violence to solidify gains against their rivals. We test this hypothesis quantitatively using the Threat and Imposition of Sanctions (TIES) and the Global Terrorism datasets, and qualitatively using an examination of Pakistani support for the Haqqani network.

## Introduction

On January 4, 2018, President Donald J. Trump suspended nearly all American aid to Pakistan, its longtime ally in the war on terror.<sup>1</sup> Trump claimed that Pakistan was exploiting the U.S. by covertly aiding the Taliban in their efforts to destabilize Afghanistan. The sanctions aimed to compel Pakistan to suspend its support for various terrorist groups within the Taliban movement. If Pakistan cooperated, the U.S. signaled that its sanctions would end and military support would resume. However, in the weeks following the sanctions, Afghanistan experienced a surge in terrorist violence, including four attacks in Kabul, which resulted in hundreds of fatalities.<sup>2</sup> These observations beg the question: what are the expected consequences of sanctions threat and imposition on the level of terrorist violence?

In this study, we argue that sanctions may create dynamic commitment problems for state supporters of terrorist groups. These states often turn to terrorists as a tool to maintain a stable balance of power with a rival. However, the imposition of economic sanctions may compromise state supporters' ability to fund terrorists, which in turn may precipitously weaken these groups. Similarly, the threat of sanctions can also create the anticipation of this weakening. Facing the possibility that their power may weaken relative to their target government, both the state supporter and the terrorists may become more aggressive following sanctions to extend or solidify their gains against their rivals. This strategic dynamic illustrates how sanctions can create unintended consequences. Moreover, we argue that the more costly sanctions are, or anticipated to be, the starker these unintended consequences can get.

We proceed with these arguments in five steps. First, we discuss the motivations for states to support terrorist groups against their rivals. Second, we theoretically analyze how sanctions create dynamic shifts in power between state supporters of terrorism and their

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<sup>1</sup>Landler, Mark and Harris Gardiner. "Trump, Citing Pakistan as a 'Safe Haven' for Terrorists, Freezes Aid" (2018, January 4), *The New York Times*. Retrieved from: <https://nyti.ms/2ZpfGSu>

<sup>2</sup>Sengupta, Kim. "Wave of Kabul terror attacks 'linked to Trump's aid withdrawal', say Afghan officials" (2018, January 29), *The Independent*. Retrieved from: <https://bit.ly/3dhH4tZ>

rivals. We next present hypotheses about when these shifts may lead to an escalation of terrorist violence. Following this discussion, we test our hypotheses using the Threat and Imposition of Sanctions (TIES) and the Global Terrorism datasets. To illustrate our theory and the causal mechanisms at play, we present a brief case study of U.S. sanctions on Pakistan.

## **Motivations for State Support**

To begin, let us consider why states choose to provide support to terrorist groups and how support may take many different forms. The majority of studies in the literature divide state support for terrorists into two types. First, states may provide active support, where a government directly provides terrorists with arms, funds, intelligence, fighters, training, bases or safe havens. In these cases, states sponsor terrorists by directly enhancing their military capabilities (Bapat 2012; Findley, Piazza and Young 2012). Alternatively, states may provide passive support, where the state's subjects or citizens assist a terrorist group (Byman 2005*a*; Salehyan 2009; San-Akca 2016). In these cases, governments either choose not to interfere with this activity or simply lack the power or resources to control it (Byman 2005*b*). In both cases, the support given to terrorist groups from either the state or the state's citizens aims to improve the group's ability to conduct its operations against a target government. Empirically, studies demonstrate that state supported groups are often more violent and tend to survive for longer durations (Salehyan, Gleditsch and Cunningham 2011).

However, while both active and passive support may enhance a group's survival, the vast majority of terrorist organizations remain internally dysfunctional. These groups may often suffer from organizational problems, infighting, and alienation from the populations they seek to influence. The majority of these groups fail to accomplish their strategic objectives and typically fail within ten years (Forest, Brachman and Felter 2006; Shapiro 2013; Shapiro and Siegel 2007; Cronin 2009; Jones and Libicki 2008; Neumann and Smith 2008). Given that these groups appear so ineffective in accomplishing their strategic goals, it is puzzling

that any state or population would devote resources toward improving their capabilities, particularly since the data suggest that doing so would be a lost investment. To make matters worse, theoretical and empirical studies demonstrate that support for terrorism often produces a moral hazard problem, where terrorists may refuse to listen to their sponsor's directives upon receiving active assistance or passive support (Carter 2012; Bapat 2012; Salehyan 2010; San-Akca 2016; Berkowitz 2018). This raises the question: why would states actively or passively support terrorist groups when doing so is likely to produce an unfaithful agent and is unlikely to accomplish any of their strategic objectives?

Although it appears that terrorists often fail to accomplish either their strategic objectives or those of their foreign supporters, these groups can exercise substantial control over civilian populations in smaller geographic territories (Weinstein 2006; Kalyvas 2006; Kalyvas and Kocher 2007; Condra et al. 2010; Kocher, Pepinsky and Kalyvas 2011; Bapat 2014; Bapat and Zeigler 2016). In these limited areas, terrorists may threaten to use random violence against civilians that fail to comply with their demands. This violence may compel civilians into some form of cooperation with terrorist groups, which may include failing to provide governments with information about the terrorists' identities, paying taxes to the group rather than the state, or directly assisting the group raise funds by supporting resource extraction. Should civilians begin to cooperate with terrorists in this way, the group may begin to exercise control over these local pockets of territory, as well as build their pool of resources to continue conducting operations against the state. If terrorists gain control of these resources in this way, the group will simultaneously destabilize the state's control of the same resources and tax revenue.

Let us consider how these dynamics would theoretically affect the government. If we assume that a government's power is endogenous to the territory it controls, this destabilization of local pockets of territory may gradually weaken the government's power. Let us assume that the government's power  $p$  is a function of its territorial control  $\pi$ , such that  $p = f(\pi)$ . If a terrorist organization achieved local control in some small pocket of territory,

the government's power may be diminished by some value  $\delta \in [0, 1]$ . Therefore, while a state that does not face a terrorist challenge has a level of power equal to  $p = \pi$ , a state with a terrorist challenger has a level of power equal to  $p = \delta\pi$ . This suggests that even if terrorists are dysfunctional and unlikely to accomplish their strategic objectives, their ability to coerce civilians in local pockets of territory may weaken the state's overall power.

Suppose terrorism can weaken the state's control over its territory and thereby weaken its overall power. In that case, we can identify a strategic logic for why rival states would support terrorist movements. The purpose of terrorism is to weaken the state's territorial control such that its rival may improve its power relative to this particular state (Bell and Johnson 2014). In doing so, a state that supports terrorism undermines its rival's ability to successfully resist any other of its foreign policy challenges. Formally, if we consider two states (A, B) competing over some issue X, the status quo reflects the balance of power between the two sides. Let us assume that A prevails in conflict with B with probability  $p$ , whereas B prevails in conflict with A with probability  $(1 - p)$ . Both sides' probability of defeating each other is a function of their endogenous resources. The status quo division of  $X \in [0, 1]$  is therefore for A to receive  $pX$  whereas B receives  $(1 - p)X$ . However, let us assume that B supports a terrorist group against A. This group weakens A's hold over its territory by  $\delta$ , reducing its overall power to  $\delta p$ . In that case, B's optimal strategy is to re-negotiate the status quo to reflect the new balance of power, such that A receives a lower share  $\delta pX$  and B receives a greater share  $(1 - \delta p)X$ . From this simple formalization, we see that B weakens A's overall power by supporting terrorism, which weakens A's ability to contest B in foreign policy. B, therefore, would have the incentive to sponsor terrorism or allow passive support not because of what the terrorists accomplish, but because the terrorists weaken their rival, giving them greater power in their dyadic relationship (Maoz and San-Akca 2012).

To illustrate this dynamic, consider the rivalry between India and Pakistan over the disputed territory of Kashmir. For some time, the balance of power between the two sides favors India, given its larger population and economy. As a result, India presently controls

the majority of Kashmir's territory. Strategically, both sides seem to believe that the key to maintaining control of this territory is hold control of Siachen Glacier's high grounds. To weaken the Indian position, Pakistani-backed terrorist organizations have repeatedly attacked the critical supply routes along the highway between Srinagar and Kargil, which are necessary for resupplying Indian forces atop the glacier. These attacks have not pushed India out of Kashmir or led to their defeat. However, taken in the context of the larger conflict, these terrorist attacks may increase both the cost and the risk to India for holding this key territory. As a result, the threat of terrorist attacks along this highway saps resources India could otherwise translate into its forward position, thereby slightly weakening its military capability. And by doing so, Pakistan keeps itself competitive with its rival in Kashmir, rather than accepting total Indian domination over the territory. We, therefore, see that while terrorist groups may be ineffective strategically, arming these groups is a strategy to weaken rivals, which in turn allows for a more favorable status quo for the supporting state.

## **The Effect of Sanctions**

Numerous states aligned with the U.S. in the war on terror face this problem of terrorist destabilization of territory. Afghanistan faces constant threats from Pakistani-based groups such as the Quetta Shura and the Haqqani Network. Similarly, in Yemen, the Hadi government faces increasing threats from the Houthi militants to the north and al Qaeda in the Arabian Peninsula (AQAP), and the Islamic State (IS). Although the U.S. is engaged in several conventional wars against these groups, the strain of these conflicts is leading Washington to consider alternative strategies. Economic sanctions represent one possible strategy to combat state support for terrorism, particularly when military options are difficult or very costly (Conrad 2011; Bapat et al. 2016). An economic sanction is a coercive tool where one or more states limit their economic interactions with another target state to compel the target to alter one of its policies (Hufbauer et al. 2007; Morgan, Bapat and Krustev 2009). In the fight against terrorism, sender governments' limit their transactions with state sup-

porters of terror, sometimes openly citing their act of sponsorship, but sometimes raising concerns over human rights or other domestic or foreign policy. Regardless of the issue at stake, economic sanctions aim to impose economic costs on state supporters of terror in the hopes that their support for terrorism will wane.

Although several scholars liken the process of sanctions imposition to war, there are several key differences in the two behaviors. First, governments use their armed forces to initiate wars against their adversaries. Governments may choose how many troops to use, what weapons to use, and how much effort to expend to achieve their objectives. In the case of sanctions, governments must incentivize private firms and individuals to suspend their economic transactions with target states, which in turn produces an economic cost (Greenwald and Stiglitz 1993). In other words, while governments directly impose costs on their targets in military conflicts, governments must indirectly do so when using sanctions by increasing the cost to their private actors for conducting economic transactions with the target. Since firms are profit-seeking, a common observation is that firms may seek to evade their government's sanctions (Bapat and Kwon 2015; Morgan and Bapat 2003). These efforts often mitigate the cost created by sanctions, leading many scholars to conclude that sanctions are generally ineffective.

Based on the empirical record, we would not necessarily believe that sanctions alone would compel states to abandon their support for terrorism. However, recent studies suggest that the market imperfections created by sanctions may create several negative externalities for target states, all of which may increase the difficulty of supporting terrorism (DeGennaro 2005). For example, sanctions may force firms in the sender to hide their transactions with targets, perhaps by going through third parties or setting up shell corporations (Andreas 2005; Early 2015). For some of these firms, these tasks may be cost-prohibitive, causing them to suspend their contracts. While target governments may have collected tax revenues from these sales before imposition, the loss of these revenues may force the target government to find alternative, less appealing ways to raise this capital, such as increasing taxation or

borrowing at high interest rates (Cilizoglu and Bapat 2020; Dom and Roger 2020). In both cases, these inefficiencies increase the price to the target for financing its support for terrorism while maintaining its spending level.

To illustrate, consider the financial sanctions against Iran to limit the country's nuclear program and improve its human rights practices. Following the collapse of its oil sales in 2014, Iran had difficulty supporting its domestic budget. To be sure, the need to spend domestically subsequently crowded out revenues Iran may have had for supporting foreign terrorist groups, such as Hezbollah. While sanctions did not cause Iran to abandon state sponsorship of terror entirely, it made the task of doing so costlier and more difficult. From other cases, there is some suggestive evidence that the loss of resources from sanctions may compel states to abandon their support for terrorism completely. For example, both Iraq and Syria ended their support for the Abu Nidal group in response to international sanctions. Further, given that sanctions raise the price of supporting terrorists, we see that sanctions against these groups' home bases often accelerate the demise of terrorist organizations (McLean et al. 2016).

These empirical results suggest that sanctions may be more effective at inducing supporters to abandon terrorists. Let us consider how this dynamic would theoretically work. We assume that state support for terrorism decreases a target state's overall power from  $p$  to  $\delta p$ . This shift allows for a more favorable status quo for the state supporter instead of the target. However, if sanctions harm the state supporter's economy, its ability to assist the terrorists weakens. Theoretically, this may mean that the sender's ally's share of the status quo will increase from  $\delta p$  and move back toward  $p$ , whereas the state supporter's share of the status quo will decrease from  $1 - \delta p$  to  $1 - p$ . If sanctions are effective, and this shift  $\Delta p$  is sufficiently large, the terrorists will lose substantial gains following sanctions imposition. The state supporter may have to cut back on resources it supplies to the terrorists, which in turn may cause the terrorists to lose their control over key territories.

The impending threat of losing state support may compel terrorists to become more

aggressive once sanctions are either threatened or imposed. In doing so, terrorists may solidify their support and control over particular territories before their capability declines to mitigate the losses it will face once sanctions are imposed. Paradoxically, the impending loss of resources and the rising price of supporting terrorism may cause the group to increase its violence in the short term.

This argument is consistent with empirical studies that demonstrate that non-state actors tend to become more aggressive in attacking civilians in response to a weakening of their organization (Cronin 2006, 2009). This is largely an attempt by these groups to maintain continuous collective action and force civilians to continue complying with their demands. Theoretically, if the loss of state support weakens terrorist influence over territory, we should expect this same pattern. Taken together, because the terrorists fear that sanctions may weaken their overall power, the group would have incentives to escalate violence, as the case of Taliban attacks in Afghanistan suggests.

**Hypothesis 1:** The threat or imposition of sanctions against state supporters of terrorism increases the frequency of terrorist attacks targeting the supporter's rival.

Even if all sanctions can lead to a loss of resources for state supporters of terrorism, increase their price of supporting terrorism, and ultimately cause terrorist groups to become more aggressive in response to their impending loss of resources, some sanctions will trigger this strategic dynamic more starkly than others. Specifically, sanctions that are costlier by design are better equipped to hurt the supporters' economy and weaken their ties with the terrorist groups they support. In these cases, both the state supporter and the terrorist group may have stronger reasons to fear that sanctions may weaken their overall power against their rivals. Therefore, we expect high-cost sanctions to create even a stronger incentive for the groups to escalate violence.

**Hypothesis 2:** As the costs of the threat or imposition of sanctions against state supporters of terrorism increases, the frequency of terrorist attacks targeting the supporter's

rival increases.

## Research Design and Data Analysis

To test the hypotheses, we draw information from four main sources: Thompson (2001)'s Rivalry Dataset, Jones and Libicki (2008)'s data on terrorist groups, the Global Terrorism Database<sup>3</sup>, and the TIES dataset (Morgan, Bapat and Kobayashi 2014). First, we identify dyads in which two states are *strategic rivals*, using the Rivalry Dataset. Thompson (2001) codes states as strategic rivals if they regard each other as (a) competitors, (b) the source of actual or latent threats that pose some possibility of becoming militarized, and (c) enemies. States are not required to engage in armed conflict to qualify as rivals (as they are in Klein, Goertz and Diehl (2006)'s rivalry dataset). Instead, they are considered rivals if they perceive each other as rivals and see a possibility of a future militarized conflict. We choose Thompson's data over alternatives because perceiving a state as a rival is often why states seek policies to maintain a favorable power position relative to that state, such as supporting terrorism, even if no actual conflict is currently taking place. Thompson identifies 174 strategic rivalries between the years 1816 and 2000, and we use 90 of those rivalries in our dyadic dataset between the years 1970-2000.<sup>4</sup>

Our unit of analysis is the directed dyad-year. We consider the first state of the rivalry dyad (State A) as the target of terrorist attacks and the second state (State B) as the potential active or passive supporter of terror in State A. For instance, Thompson identifies Belize and Guatemala as strategic rivals between 1986 and 2000. Therefore, we include 15 yearly observations for the Belize-Guatemala dyad, where Belize is a potential target of terrorist attacks and Guatemala is the potential supporter of terror in Belize. Next, we include another 15 yearly observations for the Guatemala-Belize dyad, where the roles reverse.

The analysis presented here is based on the premise that its rivalry with State A can

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<sup>3</sup>National Consortium for the Study of Terrorism and Responses to Terrorism (START) (2018). Global Terrorism Database [Data file]. Retrieved from: <https://www.start.umd.edu/gtd>

<sup>4</sup>Data availability on terrorist activities and sanctions restrict the temporal scope of our dataset.

incentivize State B to support terror in State A either actively or passively to maintain a favorable status-quo position. Some states will choose to actively support terrorist groups operating in their rival countries through the transfer of arms, funds, or intelligence. Some others may choose to provide passive support by turning a blind eye to aid from other actors in the country and/or choosing not to actively fight against terrorism targeting its rival. State support of terror is difficult to observe due to the covert nature of the behavior. Capturing passive support is even trickier (Byman 2020). There is a rich and growing body of data collection efforts on state sponsorship of terrorism, including the works of Carter (2012) and Fortna, Lotito and Rubin (2018), as well as UCDP's External Support Database. However, these sources do not allow for a test that matches our theory, especially our conceptualizing of state support including passive forms. Since we argue that states in rivalries benefit from the weakening of their rivals through terrorist activity, we choose to focus on all countries with rivals, instead of a subset of only known sponsors. This, of course, does not mean that all State Bs in our dataset funnel resources to terrorist organizations in their rival countries. But to the very least, most are incentivized to not actively fight against them, which makes them passive supporters (Byman 2005*b*).

After identifying all rivalry dyads, we turn to Jones and Libicki (2008)'s data containing variables on terrorist groups and countries in which the groups operate and the years of their active operations. Using this data source, we identify whether State A is a home base to a terrorist group(s) that carries out attacks in State A in a given year during its rivalry with State B. Our theory applies only to the cases where State A has such groups active in its territory. Otherwise, actively or passively supporting terror groups in State A will not be an option for State B in its efforts to maintain the upper hand relative to its rival. Let us revisit the Belize-Guatemala dyad. Jones and Libicki code multiple groups active in Guatemala for the duration of their rivalry with Belize; however, there are no such groups active in Belize during the same period. Therefore, we only keep Guatemala-Belize dyad and drop Belize-Guatemala dyad from our dataset. After eliminating cases where there are

no active terror groups in State A during its rivalry with State B, there are 70 unique dyadic rivalries between 1970-2000.

### **Dependent Variables and Methodology**

To identify the instances of terrorist attacks carried out in State A, we use the Global Terrorism Dataset (GTD). GTD is a terrorism incident database, where the unit of analysis is a terrorist attack. The GTD defines a terrorist attack as “the threatened or actual use of illegal force and violence by a non-state actor to attain a political, economic, religious, or social goal through fear, coercion, or intimidation.” To code the frequency of terrorist attacks in State A, we collapsed all attacks identified as *successful* by the GTD in a given year in State A. The GTD determines whether an attack was successful by determining whether the attack took place. The success of terrorist attacks is not judged in terms of the larger goals of the perpetrators<sup>5</sup> or whether there were any casualties. Attacks include assassinations, hijackings, kidnappings, barricade incidents, bombings and explosions, armed and unarmed assaults, and facility/infrastructure attacks.

To test our hypotheses, we create the *Frequency of Attacks* variable that counts the number of terrorist attacks carried out in State A in a given year during its rivalry with State B. The variable ranges from 0 to 696, but does not have an excess of zeros. Only around 2% of the observations are coded as 0, indicating no attacks. However, most of the observations are on the lower end of the distribution, and the variable is overdispersed. Therefore, we test our hypotheses using a negative binomial model with robust standard errors. As an alternative method of dealing with overdispersion, we take the natural logarithm of *Frequency of Attacks* to smooth its distribution.<sup>6</sup> This allows us to treat the variable as continuous and run ordinary least squares (OLS) models with robust standard errors. Figure 1 shows the histogram of the dependent variable used in the negative binomial and OLS models side by side. We present the negative binomial model results below and leave the OLS results to

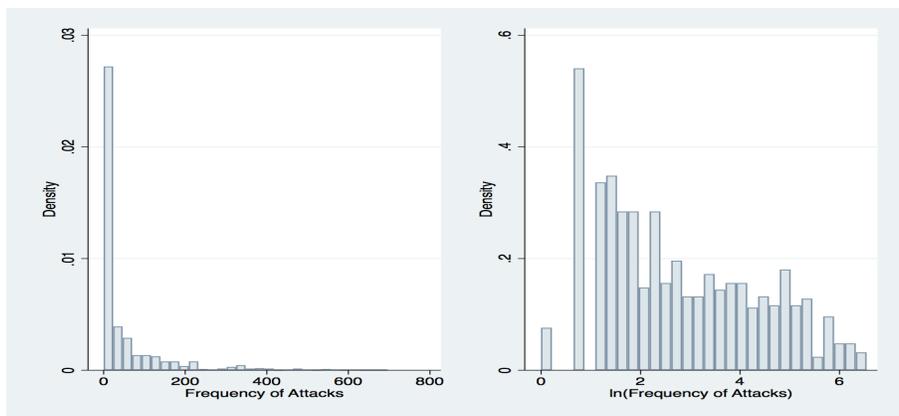
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<sup>5</sup>With the exception of assassinations, which are only successful if the intended target is killed.

<sup>6</sup>Since it includes 0 values and  $\ln(0)$  is undefined, we first add a value of 1 and then take its logarithm ( $\ln(x + 1)$ ).

the appendix.

Figure 1: Histogram of *Frequency of Attacks*: Overdispersed and Modified



### Independent Variables

To delineate the link between economic sanctions on state supporters of terror and terror attacks in their rival countries, we use the TIES dataset (Morgan, Bapat and Kobayashi 2014). To test Hypothesis 1, we code a binary *Sanctions* variable that takes the value of 1 if State B faces at least one threat or imposition of economic sanctions in a given year during its rivalry with State A and 0 otherwise. Sanctions are in place in around 55% of our observations, while there are no sanctions cases in the remaining 45%. Our theory does not distinguish between sanctions with different issues under contention; therefore, we do not limit our analysis to sanctions imposed for the sole purpose of terminating support for non-state actors. Our theory applies to all sanctions because regardless of the issue under contention, sanctions may lead supporters of terror to cut back on resources it supplies to terrorist groups, and the impending loss of resources may cause the terrorist groups to escalate violence.

Hypothesis 2, on the other hand, allows us to have a more nuanced look at sanctions. To test Hypothesis 2, we identify how costly imposed sanctions are or how costly threatened sanctions are expected to be, using the *Target Costs* and *Anticipated Target Costs* variables in the TIES Dataset. TIES reports target costs in three categories: 1) Minor, 2) Major, and

3) Severe. An episode is coded as minor if there is no evidence that the health of the target’s economy is/will be impacted by sanctions. An episode is coded as major if evidence exists that sanctions resulted in/are expected to result in significant difficulties on the health of the target economy. Finally, an episode is coded as severe if sanctions halted/expected to halt the ability of the target economy to function, such as failing to obtain critical supplies or trade with foreign governments.

Using this information, we create our categorical variable where 0 represents no sanctions, 1 represents minor sanctions, 2 represents major sanctions, and 3 represents severe sanctions. If State B was the target of more than one unique sanction episode in a given year, we coded the sanctions episode with the highest costs. There are 16 observations where TIES codes sanctions episodes, but the cost information is missing. For these observations, we code our binary variable as 1 and our categorical variable as missing. Table 1 shows the descriptive statistics for the binary and categorical independent variables.

Table 1: Descriptive Statistics for Binary and Categorical Sanctions Variables

	Frequency	Percentage
<b>Sanctions - Binary</b>		
<i>0: No Sanctions</i>	779	55.25
<i>1: Sanctions</i>	630	44.71
<b>Sanctions - Categorical</b>		
<i>0: No Sanctions</i>	779	55.92
<i>1: Minor Sanctions</i>	342	24.55
<i>2: Major Sanctions</i>	141	10.12
<i>3: Severe Sanctions</i>	131	9.40

Finally, we include three sets of control variables identified in the terrorism literature. First, we control for State A’s propensity to experience terrorist attacks. The findings on the link between regime type and terrorism are mixed (Li 2005; Eubank and Weinberg 1994, 2001; Eyerman 1998), and the theoretical arguments are much more nuanced than the democracy/autocracy dichotomy, but omitting State A’s regime type might bias the results. We code *State A - Democracy* as 1 if State A has a score of 6 or higher on the Polity IV

Database's composite *polity2* variable and 0 otherwise. The *polity2* variable ranges from -10 and 10, where a score of -10 indicates a full autocracy and a score of 10 indicates a full democracy (Marshall, Jaggers and Gurr 2013). We also control for State A's population size and real GDP, using data from Gleditsch (2002) and taking their logarithm to smooth their distribution. In line with the existing studies, we expect population size to be positively related to terrorist activities, while GDP to be negatively related (Piazza 2006; Lutz and Lutz 2017). Next, we control for whether State A experiences a civil war, using UCDP's Armed Conflict Database (Gleditsch et al. 2002). Terrorism is commonly used by rebel groups fighting in civil wars; therefore, countries experiencing a civil war are expected to experience higher levels of terrorism than countries that are not experiencing a civil war (Stanton 2013). We also control for the count of active groups in State A in a given year, using the Jones and Libicki (2008)'s dataset. This variable ranges from 1 to 30. Higher numbers of active groups based in State A are expected to be associated with higher levels of terrorist activity in the country, especially when competition between terrorist groups grows (Nemeth 2014; Phillips 2015; Young and Dugan 2014). Lastly, we control for the logged share of State A's mountainous territory (*State A - Mountain*), capturing State A's geographic vulnerability to terrorist attacks (Fearon and Laitin 2003).

As our second set of control variables, we capture the dyadic rivalry characteristics. First, we control for foreign policy similarity between the rival states, using S-scores assembled from UN General Assembly votes (Voeten, Strezhnev and Bailey 2009). The variable ranges from -1 to 1, where higher values indicate more similar interests. Second, we include *Relative CINC Scores*, capturing the relative power within the rivalry dyad, taken from the COW's Material National Capabilities Dataset (v5.0) (Singer 1987). Third, we control for land contiguity (either through a land boundary or river), using COW's Direct Contiguity Data (V3.2) (Stinnett et al. 2002). Lastly, we control for the logged total trade between the rivals, using COW's International Trade Data (v4.0) (Barbieri and Keshk 2016).

Finally, for our third set, we control for monadic characteristics of State B, capturing

State B's willingness and ability to support terrorism in its rival state: a binary variable capturing whether State B is a democracy, using the same coding rule described above, logged GDP of State B, and a count of the number of other rivals State B has in a given year. Lastly, we control for the potential impact of the Cold War and its end on terrorist group activities. *Cold War* takes the value of 1 for the years before 1991, and 0 otherwise.

## Discussion of Empirical Results

Table 2 presents the results from the negative binomial model testing Hypothesis 1. The first column (Model 1) reports coefficient estimates, and the second column (Model 2) presents Incidence Rate Ratios (IRR), allowing us to interpret the results presented in Column 1 substantively. The variables included on the right-hand side are identical in both models. The positive and statistically significant coefficient estimate of *Sanctions* lends support to Hypothesis 1, suggesting that the threat or imposition of economic sanctions against supporters of terror increases the expected frequency of terrorist attacks in their rival states. States often have incentives to support terrorist groups as a tool to maintain the upper hand vis-à-vis their rivals. However, if these state supporters face sanctions, this can potentially compromise their ability to actively or passively support terrorists, thereby weakening themselves relative to their rivals. Therefore, we show that sanctions may create dynamic commitment problems for state supporters of terror, such that they are incentivized to increase their support to terror while they can and solidify or further their position against their rivals. Similarly, terrorists may also fear that sanctions on their supporters may weaken their overall power and escalate violence.

The incidence rate ratios presented in Model 2 of Table 2 allow us to interpret this result substantively. The IRR estimate of *Sanctions* compares state supporters (State Bs) that are targets of sanctions to State Bs that are not, holding all the other variables constant. The IRR value of 1.532 indicates that a state can expect, on average, the frequency of terrorist attacks at home to increase by around 53 percent if its rival is under economic sanctions.

Our results suggest that the group significantly increases the frequency of terrorist attacks carried out in State A in response to sanctions, highlighting a severe unintended consequence of economic sanctions.

Table 2: Testing H1: Negative Binomial Model

	Model 1	Model 2
	Coefficient Estimates	Incidence Rate Ratio
<b>Sanctions - Binary</b>	<b>0.427***</b>	<b>1.532***</b>
	<b>(0.11)</b>	<b>(0.16)</b>
State A - Democracy	0.695***	2.004***
	(0.14)	(0.27)
State A - Population (ln)	-0.063	0.939
	(0.09)	(0.08)
State A - GDP (ln)	0.168*	1.183*
	(0.07)	(0.08)
State A - Civil War	1.607***	4.989***
	(0.18)	(0.89)
State A - Count of Active Groups	1.152***	1.164***
	(0.03)	(0.03)
State A - Mountain	0.002	1.002
	(0.00)	(0.00)
Foreign Policy Similarity	0.009	1.009
	(0.16)	(0.17)
Relative Power	-0.253**	0.777**
	(0.09)	(0.07)
Neighbor	-0.340	0.712
	(0.18)	(0.13)
Total Trade (ln)	0.153***	1.165***
	(0.03)	(0.04)
State B - Democracy	0.678***	1.971***
	(0.14)	(0.27)
State B - GDP (ln)	-0.285***	0.752***
	(0.05)	(0.04)
State B - Rivalry Count	0.031	1.032
	(0.05)	(0.05)
Cold War	0.157	1.170
	(0.12)	(0.14)
Constant	3.607***	36.84***
	(0.82)	(30.2)
$\ln(\alpha)$	0.436***	0.436***
	(0.04)	(0.04)
N	912	912

- Coefficient estimates in Model 1 and incidence rate ratios in Model 2 are derived from a negative binomial model and robust standard errors are in parenthesis.

- Significance levels: \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 3 presents the results from the negative binomial model testing Hypothesis 2 and

examining the link between the costs of economic sanctions on State B and the frequency of terrorist attacks in its rival state. The first column (Model 1) reports coefficient estimates and the second column (Model 2) presents Incidence Rate Ratios (IRR). The variables included on the right-hand side are identical in both models. The reference group for our categorical sanctions variable accounting for varied sanctions costs is “no sanctions.” First of all, the results show that the *Sanctions* variable is positive and statistically significant at every cost level. This result provides some additional support for Hypothesis 1 and indicates that sanctions against state supporters of terror increase the expected frequency of terrorist attacks in their rival states, regardless of how costly they are. Second, comparing different cost levels to the reference group of “no sanctions” and to one another confirms Hypothesis 2. Even if all sanctions on State B lead to an increase in the frequency of terrorist attacks in State A, the impact of economic sanctions on the frequency of terrorist attacks gets larger as the (expected) costs of sanctions increases. The expected log count for major sanctions is 0.482 higher than the expected count for no sanctions, whereas the expected log count for severe sanctions is 1.115 higher than the expected count for no sanctions.

The incidence rate ratios presented in Model 2 of Table 2 allow us to interpret this result more intuitively. The IRR value for minor Sanctions is 1.325, indicating an expected increase of 32 percent in the frequency of terrorist attacks in State A due to sanctions on State B, compared to cases where there are no sanctions on State B. The IRR estimate is even higher for major sanctions with 62 percent and much higher for severe sanctions. It is important to note that most sanctions cases are minor, and senders often fail to impose major and severe costs on the target economy (as seen in Table 1). However, when they do, they are also associated with more severe unintended consequences, such as significant increases in terrorist activity.

Table 3: Testing H2: Negative Binomial Model

	Model 1	Model 2
	Coefficient Estimates	IRR
<b>1. Minor Cost Sanctions</b>	<b>0.281*</b> (0.12)	<b>1.325*</b> (0.16)
<b>2. Major Cost Sanctions</b>	<b>0.482**</b> (0.17)	<b>1.619**</b> (0.28)
<b>3. Severe Cost Sanctions</b>	<b>1.115***</b> (0.25)	<b>3.049***</b> (0.75)
State A - Democracy	0.667*** (0.14)	1.947*** (0.27)
State A - Population (ln)	-0.066 (0.09)	0.936 (0.08)
State A - GDP (ln)	0.155* (0.07)	1.167* (0.08)
State A - Civil War	1.558*** (0.18)	4.749*** (0.86)
State A - Count of Active Groups	0.143*** (0.03)	1.153*** (0.03)
State A - Mountain	0.001 (0.00)	1.000 (0.00)
Foreign Policy Similarity	0.132 (0.17)	1.141 (0.19)
Relative Power	-0.309** (0.09)	0.735** (0.07)
Neighbor	-0.372* (0.18)	0.689* (0.13)
Total Trade (ln)	0.177*** (0.03)	1.194*** (0.04)
State B - Democracy	0.752*** (0.14)	2.121*** (0.30)
State B - GDP (ln)	-0.263*** (0.05)	0.769*** (0.04)
State B - Rivalry Count	0.024 (0.05)	1.024 (0.05)
Cold War	0.191 (0.12)	1.211 (0.15)
Constant	3.483*** (0.85)	32.56*** (27.6)
$\ln(\alpha)$	0.429*** (0.04)	0.429*** (0.04)
N	900	900

- Coefficient estimates in Model 1 and incidence rate ratios in Model 2 are derived from a negative binomial model and robust standard errors are in parenthesis.

- Significance levels: \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Theories of sanctions effectiveness equate economic pain to political gain, showing that high costs of economic sanctions is often associated with high levels of sanctions success and a high chance of policy concessions by the target government (Galtung 1967; Bapat et al. 2013). However, complementing the rich literature on the consequences of economic sanctions, our results show that economic pain may lead to severe unintended consequences and serve against the interests of the senders instead of helping them achieve their foreign policy goals.

Analyzing control variables also yields some interesting insights about the frequency of terrorist attacks in countries with strategic rivals. The results support the “democracy promotes terrorism” camp of the literature, suggesting that democracies experience more frequent terrorist attacks than their autocratic counterparts. Moreover, as expected, countries experiencing a civil war, and countries that host multiple active militant groups in their territories experience a higher number of attacks. In fact, the incident rate ratios presented both in Tables 2 and 3 show that civil wars and the number of active groups in State A have the largest substantive impact on the frequency of attacks in State A, along with sanctions and democracy measures. Additionally, coefficient estimates of the dyadic control variables show that foreign policy similarity between the rivals significantly lowers the frequency of attacks in State A. The *Relative CINC Scores* variable is also negative and statistically significant across models, indicating that if the power balance between the rivals favors State A, State A experiences fewer terrorist attacks.

In sum, our results lend support for both Hypothesis 1 and 2, presenting a previously unexplored unintended consequence of economic sanctions: sanctions lead to a significant increase in the frequency of terrorist attacks in the rival countries of target governments. We now turn to the case of U.S. sanctions on Pakistan to better illustrate our theory and the causal mechanisms linking sanctions to the escalation of terrorism.

## The Case of U.S. Sanctions on Pakistan

This section expands upon the empirical test by examining the case of U.S. sanctions on Pakistan in both 2011 and 2018, outside of the temporal scope of TIES and Thompson’s rivalry dataset. These cases specifically examine whether the suspension of military aid to Pakistan following Operation Neptune Spear and Osama bin Laden’s death led to an increase in terrorist attacks in Afghanistan.

Immediately following the operation in May 2011, multiple American senators threatened to cut Pakistan off from U.S. counterterrorism assistance. Senator Dianne Feinstein (D-CA), the Senate Intelligence Committee chairman, stated that “contributions to a country that isn’t going to be fully supportive is a problem for many.” While this threat was relatively vague, Senator Frank Lautenberg (D-NJ) clarified the threat by stating, “Before we send another dime, we need to know whether Pakistan truly stands with us in the fight against terrorism.” These threats were bipartisan, with Rep. Senator Susan Collins (R-ME) stating that the U.S. needed to add “more strings attached to the tremendous amount of military aid that we give the country.” Two months later, the Obama administration implemented sanctions by announcing that it would suspend \$800 million in military aid to Pakistan. Figure 3 demonstrates that this sanction permanently reduced both American obligations and disbursements to Pakistan.<sup>7</sup> The Obama sanctions in 2011 were followed by President Trump’s sanctions in January 2018. In a tweet, Trump stated that “They give safe haven to the terrorists we hunt in Afghanistan, with little help. No more!” Figure 2 demonstrates that Trump’s sanctions reduced obligations and disbursements to their lowest levels in the war on terror.

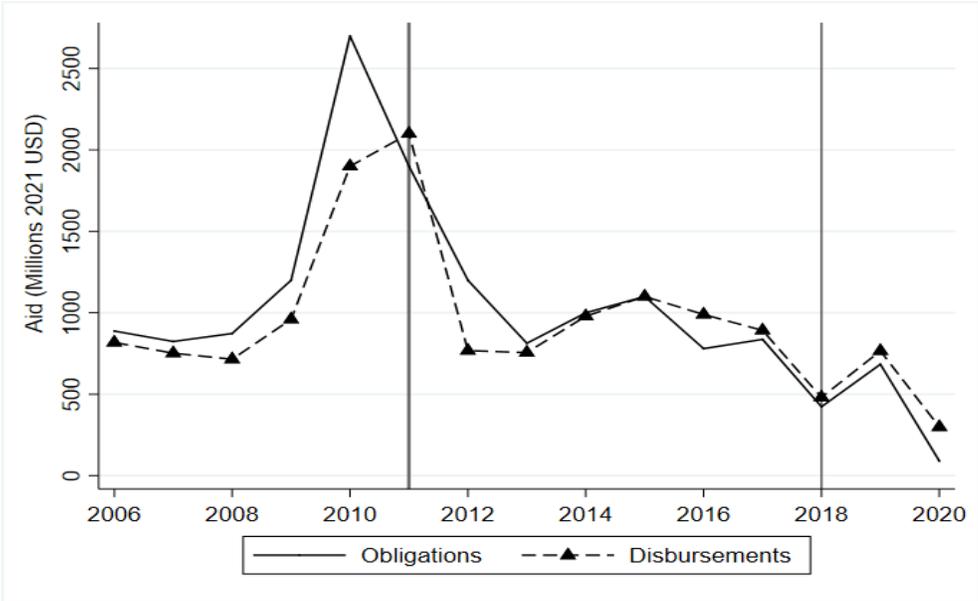
The damage from these sanctions was significant, as Pakistan needed the aid to assist in its balance of payment issues. Pakistan further benefitted from having U.S. military equipment to bolster its military against India and defend itself from internal insurrections.

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<sup>7</sup>U.S. Agency for International Development (USAID) “Foreign Aid Explorer: The Official Record of U.S. Foreign Aid. Retrieved from: <https://explorer.usaid.gov/data>.

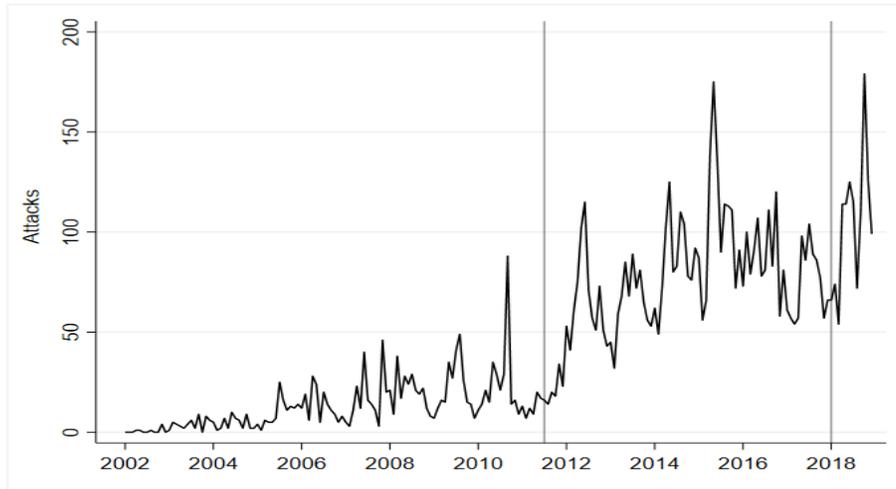
Therefore, both the Obama sanctions of 2011 and the Trump sanctions of 2018 could potentially harm Pakistan’s ability to support multiple militant groups. Given these motivations, our hypothesis predict that the Taliban would escalate its violence following sanctions to lock in its gains in Afghanistan and guard against reductions in future Pakistani support.

Figure 2: U.S. Aid to Pakistan (Obligations and Disbursements) in 2021 Constant Dollars



Consistent with our hypothesis, Figure 3 demonstrates a substantial increase in the frequency of Taliban attacks following sanctions in 2011 and 2018. However, this pattern may be the result of several alternative explanations. The frequency of attacks and level of violence could simply be the result of a solidifying Taliban presence in southern Afghanistan as the war progressed from 2004 to 2018. The increase in violence after 2011 could also be the result of Obama’s escalation of drone attacks against the Taliban beginning in 2010. The Taliban may also have exploited electoral tensions in Afghanistan to increase violence in 2014. Although none of these alternative explanations exclude sanctions as an additional variable contributing to the level of terrorism, they each make it challenging to determine how significant sanctions were in causing the rising levels of violence.

Figure 3: Taliban Attacks, 2002-2018

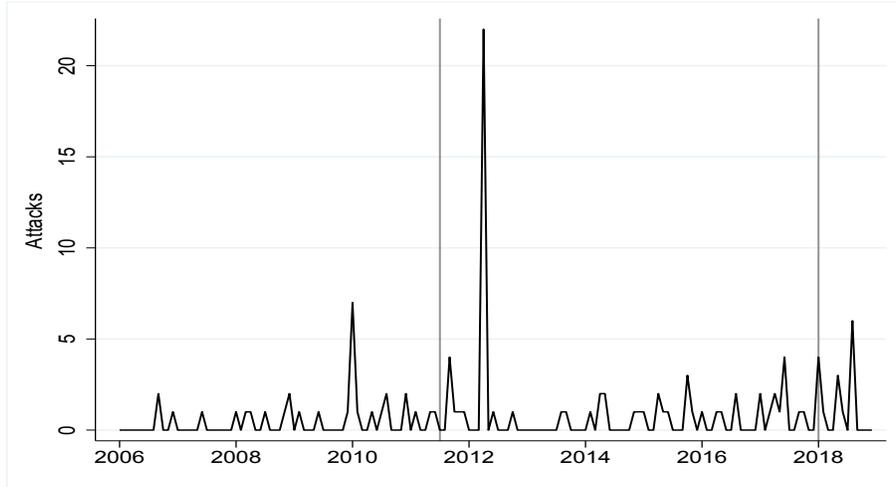


- Gray lines indicate sanctions imposition in July 2011 and January 2018.

Figure 4 seeks to address this problem by focusing the data only on the Haqqani Network (HN). HN is a longstanding militant organization operating in the eastern part of Afghanistan that cooperates with Mullah Omar’s southern Quetta Shura but retains some autonomy from the overall Taliban insurgency. Unlike the southern Quetta Shura, HN is known for its emphasis on terrorism instead of guerrilla attacks on military forces. For instance, HN was labeled by Adm. Mike Mullen, the former chairman of the Joint Chiefs of Staff, as a “veritable arm of Pakistan’s Inter-Service Intelligence (ISI) agency.”<sup>8</sup> These characteristics make the observation of HN useful in terms of testing the hypotheses. HN is a terrorist network, maintains an interest in keeping its influence in the east, and is supported by the Pakistani ISI. If all of these are true and American aid harmed Pakistan’s military budget, both Pakistan and HN faced a loss in their capabilities. We would therefore expect an increase in HN violence following sanctions imposition.

<sup>8</sup>Hearing to Receive Testimony on the U.S. Strategy in Afghanistan and Iraq. U.S. Senate Committee on Armed Services. 22 September 2011. Available at: <https://www.armed-services.senate.gov/imo/media/doc/11-70%20-%209-22-11.pdf>

Figure 4: Haqqani Network Attacks, 2006-2018



- Gray lines indicate sanctions imposition in May 2011 and January 2018.

The data on HN demonstrate some support for the hypotheses. We see a significant increase in the frequency of HN attacks following the Obama sanctions in May 2011. We further see an interesting pattern in HN's violence following the Trump sanctions of 2018. HN followed these sanctions with a slight increase in attacks.

## Conclusion

This paper theoretically and empirically presents a previously unexplored unintended consequence of economic sanctions. We argue that sanctions create commitment problems for both terrorist groups and their supporters, which may escalate terrorism and increase the frequency of attacks. We present this finding using a large-n empirical analysis, as well as a case study of U.S. sanctions on Pakistan.

We began by observing that states in rivalries often turn to terrorist groups to weaken their rivals and strengthen their positions relative to them. However, when these supporters of terror face economic sanctions, their ability to actively or passively support these groups may be compromised. Ultimately, it is expected that sanctions will weaken supporters of terror vis-a-vis their rivals and the terrorist groups vis-a-vis their target government. We argue and empirically show that this dynamic can lead supporters and terror groups to

escalate violence to extend or solidify their gains against their rivals. Moreover, we show that this need to escalate violence will be stronger for more costly sanctions episodes targeting state supporters of terror.

This finding raises interesting puzzles for rival countries as well as the imposers of economic sanctions. First of all, for countries with strategic rivals, sanctions threatened or imposed on their rivals can often be perceived as good news, assuming that sanctions can weaken their position relative to them. However, as our results show, sanctions can trigger further aggression by the rival, leaving the other state even more vulnerable than before. Moreover, our findings offer some advice for caution for the senders of economic sanctions, since sanctions unintentionally lead to an increase in terrorist activities. Even if the cost of economic sanctions is often positively associated with sanctions effectiveness, high costs can exacerbate the unintended consequences of sanctions, thereby becoming counterproductive for sender governments.

## Appendix for: Economic Sanctions and the Escalation of Terrorism

Table A1: Testing H1 & H2: Ordinary Least Squares Model

	Model 1	Model 2
<b>Sanctions - Binary</b>	<b>0.509***</b> (0.08)	
<b>1. Minor Cost Sanctions</b>		<b>0.436***</b> (0.10)
<b>2. Major Cost Sanctions</b>		<b>0.486***</b> (0.13)
<b>3. Severe Cost Sanctions</b>		<b>1.009***</b> (0.22)
State A - Democracy	1.053*** (0.13)	1.031*** (0.13)
State A - Population (ln)	-0.100 (0.07)	-0.111 (0.07)
State A - GDP (ln)	0.174** (0.06)	0.167** (0.06)
State A - Civil War	1.107*** (0.12)	1.105*** (0.12)
State A - Count of Active Groups	0.113*** (0.02)	0.110*** (0.02)
State A - Mountain	0.004 (0.00)	0.003 (0.00)
Foreign Policy Similarity	-0.214 (0.13)	-0.080 (0.14)
Relative Power	-0.210*** (0.06)	-0.222*** (0.06)
Neighbor	-0.293* (0.12)	-0.338** (0.12)
Total Trade (ln)	0.147*** (0.02)	0.154*** (0.02)
State B - Democracy	0.314** (0.11)	0.365** (0.12)
State B - GDP (ln)	-0.172*** (0.03)	-0.154*** (0.03)
State B - Rivalry Count	-0.002 (0.03)	-0.004 (0.03)
Cold War	0.016 (0.10)	0.020 (0.10)
Constant	2.340*** (0.58)	2.253*** (0.60)
N	912	900
$R^2$	0.45	0.46

- Coefficient estimates are derived from an OLS model and robust standard errors are in parenthesis.

- Significance levels: \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table A1 presents the results from two OLS models, where the *Frequency of Attacks* dependent variable is subject to a logarithmic conversion to smooth its distribution. The results are very similar to the negative binomial model results presented in Tables 2 and 3. Overall, both the negative binomial models and the OLS models lend empirical support to our theoretical expectations about the link between sanctions and terrorism experienced by the rivals of state supporters of terror.

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