TERRORIZED INTO COMPLIANCE: WHY COUNTRIES SUBMIT TO FINANCIAL COUNTERTERRORISM

by

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ABSTRACT OF THE DISSERTATION

Terrorized into Compliance: Why Countries Submit to Financial Counterterrorism

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Today’s terrorism threat is global. For this reason, academics and policy makers underscore the importance of a multilateral counterterrorism response. Surprisingly little research examines the determinants of multilateral counterterrorism cooperation. In this study, I employ an original dataset to estimate the determinants of counterterrorism cooperation. I proxy multilateral cooperation in terms of whether governments comply with the International Convention for the Suppression of the Financing of Terrorism, an important instrument for stemming the financing of international terrorist activities. What are the determinants of variation in country compliance with financial counterterrorism? To answer this research question, I employ a mixed methods approach. First, I use an ordered logit model to examine several hypotheses in the literature to predict compliance rates, including the magnitude and intensity of violence against the target country and its regime type and capability. I find that across model specifications, United States influence, in terms of bilateral trade, has a highly statistically significant effect on country compliance. Second, I process trace the causal mechanism by examining primary source documents. My findings have several policy implications—mainly that trade is an effective counterterrorism tool.
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CHAPTER 1: INTRODUCTION

“We will lead by example. We will work with the world against terrorism. Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment.”

- George W. Bush, September 24, 2001

The terrorism threat has become increasingly international since the early 1990s. Indeed, nearly all terrorist campaigns have an international dimension, with terrorist leaders devoting substantial effort to securing external sources of money, weapons, fighters, safe havens, and political support (Hoffman 1997). For instance, the majority of Aum Shinriki’s members hailed from Russia, not Japan; the Oklahoma City bombers shared links with Neo-Nazis in Britain; networks of Algerian Islamist terrorists have operated in France, Sweden, and Belgium; and al-Qaeda affiliates have fused with nationalist struggles, such as in Algeria, Iraq, Mali, Russia, Syria, and Somalia (Abrahms 2007).

It is therefore axiomatic among academics that because terrorism is a global threat, it requires a global response from target countries (e.g., Acharya 2009; Desker and Acharya 2006; Hoffman 2002; Juergensmeyer 2006; Martin 2006; Sandler and Siqueira 2006; Van Brunschot and Kennedy 2008, pp. 91-94; Wandadi 2002; Wyn Reese 2006). The policy community also recognizes the critical importance of multilateralism for combating terrorism. For example, former Secretary-General of the United Nations, Kofi Annan remarked in the immediate aftermath of the September 11, 2001 terrorist attacks:

The United Nations must have the courage to recognize that just as there are common aims, there are common enemies. To defeat them, all nations must join forces in an effort encompassing every aspect of the open, free
global system so wickedly exploited by the perpetrators of last week’s atrocities (Annan 2001).

Not surprisingly, the policy community routinely appeals for target countries to act in concert to stem the international terrorist threat (e.g., De Jonge Oudraat 2003; Holmes 2010; Millar 2010; Romaniuk 2009; U.S. National Strategy for Combating Terrorism 2002, 2006).

In particular, the *International Convention for the Suppression of the Financing of Terrorism* (1999, hereafter abbreviated *ICSOFT*) is charged with this policy initiative—to facilitate multilateral counterterrorism cooperation. Article 12(1) stipulates, “State Parties shall afford one another the greatest measure of assistance;” Art. 8(1-5) details measures for the freezing and seizure of terrorist group and individual assets, allowing State Parties to share them; Art. 9(1-6) postulates procedures for the extradition and state-to-state transfer of terrorist suspects; Art. 12(4) establishes a mechanism for information and evidence sharing; and Art. 18(1-4) specifies cooperation in financial terror crime prevention (*ICSOFT* 1999).1 In sum, *ICSOFT* offers a detailed framework for target countries to unify their financial counterterrorism response, which is widely seen as essential to combating the global terrorism threat.

Terrorism financing is a consequential policy issue for three main reasons. First, terrorists cannot perpetrate terrorist acts when they are underfunded. Financial constraints often prevent terrorists from killing larger numbers of people. For example, Ramzi Yousef, the leader of the February 26, 1993 attack on the World Trade Center

1 Through a series of meetings (i.e. G8 and G20) the Financial Action Task Force (FATF) was mandated with overseeing the implementation of *ICSOFT* in the form of IX Special Recommendations added to the already existing 40 Recommendations on Money Laundering.
confessed that the group wanted to build a larger bomb, but lacked the funding to purchase the required materials (Levitt 2002; Shapiro and Siegel 2007). Similarly, the terrorists who used two pressure cooker bombs during the Boston Marathon on April 15, 2013, also planned to travel to New York City to bomb Times Square.\(^2\) Running out of funds, the two brothers turned to other crime—they carjacked a Mercedes-Benz SUV and stole $800 in cash from the carjacking victim, which eventually led to their demise.\(^3\) These are but two examples of money’s importance in perpetrating terrorist attacks that injure or kill massive amounts of people.

Second, terrorist organizations need a substantial amount of money to cover their operational expenses. Although individual attacks are relatively inexpensive, running a terrorist organization comes with a heavy price tag (Levitt and Jacobson 2008). As Levitt and Jacobson (2008) put it:

> Without [financing], terrorist groups would be incapable of maintaining the broad infrastructure necessary to run an effective organization. Finding means to quickly and securely raise, launder, transfer, store and access funds remains a top priority for all terrorist groups, from al Qaeda and its various globally oriented affiliates to regionally focused groups like Hamas and Hezbollah (68).

After all, terrorist organizations have a broad organizational infrastructure that requires funds to buy arms, launch attacks, pay bribes, maintain extensive international networks, and to recruit, train, and indoctrinate new members (Levitt 2010). Additionally, modern

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\(^3\) Finn, Peter; Leonnig, Carol D.; Englund, Will (April 19, 2013). "Tamerlan Tsarnaev and Dzhokhar Tsarnaev were refugees from brutal Chechen conflict". The Washington Post. Retrieved April 20, 2013. [http://www.washingtonpost.com/politics/details-emerge-on-suspected-boston-bombers/2013/04/19/ef2c2566-a8e4-11e2-a8e2-5b98cb59187f_story.html](http://www.washingtonpost.com/politics/details-emerge-on-suspected-boston-bombers/2013/04/19/ef2c2566-a8e4-11e2-a8e2-5b98cb59187f_story.html)
terrorist organizations devote considerable attention to propaganda campaigns—via Twitter, internet forums, and their own media—since they are increasingly concerned with the group’s reputation.

Third, since the end of Cold War, a new terrorism financing model emerged—one where terrorist organizations do not rely on state sponsorship. Since many terrorist organizations are not funded by states, they use international banking and financial systems to transfer money from one country to another (Giraldo and Trinkunas 2007). Therefore, countries concerned with terrorism know that they cannot successfully fight terrorism financing alone.

Notwithstanding the policy relevance of terrorism financing and the utility of the treaty designed to fight, countries have surprisingly low compliance rates with the financial counterterrorism regime. A casual glance at the data reveals that the rating “Compliant” is only given 4 percent of the time for countries evaluated by the Financial Action Task Force (FATF) from 2004 to 2011. On all the recommendations, the modal rating is “Not Compliant” (39 percent) or “Partially Compliant” (38 percent), which comprises over three-quarters of all ratings.

Such low rates of compliance are puzzling given the broad consensus that this instrument confers countries with the most effective tools against the scourge of terrorism. A salient question emerges: What are the determinants of variation in country compliance with financial counterterrorism? That is, which factors influence whether countries will heed the advice of counterterrorism scholars and practitioners by

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4 See Appendix, Tables 2-4. See also Figures 1-2.
5 See Appendix, Figures 1-2.
subscribing to ICSOFT? This question is unaddressed in the extant literature. In fact, the existing literature lacks any theory to account for when target countries will cooperate against the terrorism threat. That is the primary purpose of this dissertation—to identify the conditions under which State Parties are liable to participate in this important piece of counterterrorism legislation and to explain why these conditions matter.

Despite this lacuna in the literature, a number of studies focus on addressing how countries respond in the face of terrorism. My dissertation dovetails with the burgeoning literature on the political outcomes of terrorism. Much of this research is comprised of coercion studies, which analyze how terrorism impacts the odds of government concessions to the perpetrators (e.g., Abrahms 2006; 2012; Cronin 2009; Fortna forthcoming; Jones and Libicki 2008). Another common approach is to employ public opinion as the dependent variable to determine whether electorates shift to the political left or right in the face of terrorism (e.g., Berrebi and Klor 2006, 2008; Chowanietz 2010; Gould and Klor 2010). No other study, however, examines how terrorism affects the likelihood of compliance with various types of counterterrorism legislation. My dissertation fills this void in the literature. It includes both an empirical examination of the determinants of target country compliance with FATF’s IX Special Recommendations on terrorism financing, mandated by ICSOFT (1999), as well as a theory to account for my results.

The dissertation employs a mixed methods approach to answer the central research question. In the quantitative analysis, I test six hypotheses with an ordered

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6 See Chapter 3: Research Design
logit model. In this chapter, I test numerous factors to determine their impact on government compliance. Each independent variable is theoretically grounded and informed by the rapidly expanding terrorism research landscape. Conceptually, the independent variables are divided into two broad categories: the nature of the terrorist threat and the characteristics of target countries. The nature of the terrorist threat pertains to the magnitude and intensity of the terrorist attacks, the rate of transnational attacks, and the rate of suicide attacks. The characteristics of the target countries pertain to the regime type, capability, and the amount of United States influence on a given country.

I find that across model specifications, the influence of the United States, which I proxy as bilateral trade, has a statistically significant impact on the rates of compliance with the IX Special Recommendations on Terrorism Financing. Surprisingly, neither the nature of the terrorist threat—in terms of the rate of terrorist attacks, rate of transnational terrorism, and rate of suicide terrorism—nor country capability, were statistically significant.

The quantitative analysis is followed by a qualitative process tracing, which is informed by the empirical results of the regression analysis (King, Keohane, Verba 2001). In the qualitative analysis, I focus on the United States’ financial counterterrorism campaign. I explore the causal mechanism with four main empirical observations. First, the United States had a particularly pronounced interest in financial counterterrorism. Second, the United States employed bilateral trade as a counterterrorism tool. Third, the United States exerted pressure on other countries to both ratify ICSOFT and comply with FATF's IX Special Recommendations. Finally, the other countries were keenly aware that the United States spearheaded the financial counterterrorism campaign and felt at
least some pressure or incentive to adjust their behavior in accordance with the preferences of the United States.

The study contributes to the literature in two main ways. First, it supplies an original dataset on financial counterterrorism, comprised of quantified compliance ratings from FATF’s *Mutual Evaluation Reports* for the period 2004-2011. Second, my dissertation is the first study to empirically test the commonly ascribed determinants of country compliance with a counterterrorism instrument. There is a paucity of studies on the factors contributing to whether countries are inclined to fight terrorism. Intuitively, one might conjecture that countries are inclined to fight terrorists as the nature of their threat increases. That assumption, however, has not been subjected to rigorous empirical scrutiny. With my finding, I show that this assumption is false.

My study is also original and ambitious since never before has there been an intercourse between the theoretical literature on compliance and terrorism. Within the compliance literature, we see disproportionate attention to environmental and social policy (Mastenbroek 2005: 1112). Therefore, there is a paucity of research on compliance pertaining to national security issues, such as terrorism. The literature on terrorism, by contrast, is surprisingly barren of studies on compliance with international counterterrorism agreements.

My research question has paramount implications which may exceed those posited by the current literature on compliance. If we can provide reliable evidence on

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7 The collection of data took the author approximately two years. No researcher has ever collected and quantified this data. The data is scattered within 172 FATF’s *Mutual Evaluation Reports* published online. The average document is over 200 pages in length. For more details on the dataset, see Chapter 3: Research Design.

8 The emphasis instead is on how target countries tend to overreact to terrorism (e.g., Mueller 2006).
the sources of non-compliance, we can better determine how to address international treaty violations. The conclusions of my study may confer policy makers with tools to increase state compliance with multilateral treaties. My finding suggests that trade is a successful counterterrorism tool—at least to the extent that the United States can use it to influence other countries.

The structure of my dissertation proceeds as follows. In Chapter 2, I survey the literature on government responses to terrorism. This chapter highlights how current studies focus on how terrorism affects government concessions and public opinion—not counterterrorism legislation. This chapter also acquaints readers with compliance theory—a broader literature transcending the narrower topic of terrorism. In Chapter 3, I examine several hypotheses that may explain state compliance with financial counterterrorism. Here, I explain the dependent and independent variables, my original dataset, as well as other data sources used in the analysis. I also present my research design. Chapter 4 presents the empirical results, highlighting the strong association between trade with the United States and compliance rates. Chapter 5 builds on the previous two chapters with a detailed qualitative analysis of the financial counterterrorism regime. Finally, Chapter 6 is the concluding chapter, where I explore the research and policy implications, suggesting possible avenues for additional research.
CHAPTER 2: SURVEY OF THE LITERATURE

This chapter surveys two main theoretical literatures that pertain to my research question: (1) the literature on the political outcomes of terrorism and (2) the literature on state compliance with international agreements. Below, each literature is addressed sequentially. They are important because my hypotheses are based on both the terrorism and compliance literatures.

OUTCOMES OF TERRORISM

Why are some countries inclined to comply with financial counterterrorism, whereas others are not? The current literature on terrorism yields inadequate answers. This study looks at the determinants of compliance with a particularly important piece of counterterror legislation: ICSoft. Despite the widespread view that effective counterterrorism is necessarily multilateral in nature, the current literature assesses the political impact of terrorism dyadically in terms of how terrorist challengers affect the defender (viz. target country) politically. With a variety of dependent variables to evaluate political success, this research program empirically investigates whether perpetrators of terrorism benefit from their attacks on civilians.

These studies come in two main varieties. First, I survey the coercion studies, where scholars examine the effect of terrorist attacks on government compliance with terrorist demands. Second, I review studies in which public opinion data are used as the dependent variable. In this type of study, scholars evaluate how terrorism affects not policy directly, but rather electoral responses to the violence. Both types of studies are closely related to my research inquiry of analyzing the political effects of terrorism.
In coercion studies, scholars assess whether terrorism increases the odds of the perpetrators attaining their demands from governments (e.g. Abrahms 2006a, 2006b, 2011, 2012; Crenshaw 2007; Kydd and Walter 2006; Lake 2002; Pape 2003, 2005). A key area of debate is whether the perpetrators derive utility from their actions by pressuring government compliance. Many studies posit that terrorism is both a rational and effective tactic (e.g. Sprinzak 2000; Pape 2003, 2005; Dershowitz 2002; Lake 2002; Kydd and Walter 2002; Kydd and Walter 2006; Kruglanski and Fishman 2006; Atran 2004). Empirical tests of this proposition are mixed, however. Numerous empirical studies contradict the notion that terrorism aids the perpetrators in obtaining their demands (e.g. Abrahms 2006a, 2006b 2011, 2012; Stephan and Chenoweth 2008; Chenoweth and Stephan 2011; Cronin 2009; Fortna 2008; Jones and Libicki 2008; Rose, Murphy, and Abrahms 2007).

Kydd and Walter (2006) assert that terrorism is an effective coercive tactic. They claim: "Terrorism often works. Extremist organizations such as al-Qaida, Hamas, and the Tamil Tigers engage in terrorism because if frequently delivers the desired response" (Ibid. 49). Despite these anecdotal examples, their perspective is based mainly on bargaining theory. This theory asserts that violence is strategic for two reasons. First, violence is costly to the challenger. It inflicts audience costs. It leaves “something to chance” because the conflict may spiral out of control. And perpetrating violence incurs sunk costs in blood and treasure, even for the challenger. Together, these costs to the challengers demonstrate his resolve in an anarchical world of incomplete information.
All forms of violence, including terrorism, also inflict costs on the defender, thereby revealing that the challenger possesses “the power to hurt” him.\(^9\)

Pape is perhaps the most notable scholar associated with this view that terrorism is effective, rational behavior. Pape states, "[O]ver the last two decades, suicide terrorism has been rising largely because terrorists have learned that it pays" (2003: 343). According to Pape, neither religious fanaticism nor madness can account for the rise of suicide terrorism. On the contrary, he claims that “suicide terrorism follows a strategic logic, one specifically designed to coerce modern liberal democracies to make significant territorial concessions” (Ibid. 343). Based on his sample of 13 suicide terrorist campaigns, he concludes that suicide terrorism promoted government concessions over half the time. His policy recommendations are based on this understanding that terrorism pays as a political instrument. He cautions that making concessions to terrorists risk incentivizing their violent behavior (Pape 2003: 356).

Abrahms (2006b) agrees with Pape that in theory making concessions to terrorists incentivizes their violence. Abrahms takes issue, however, with Pape’s empirical results. Abrahms empirically assesses the political plights of the Foreign Terrorist Organizations (FTOs) as designated by the U.S. Department of State. He finds that terrorists are more likely to achieve limited demands over territory than maximalist demands over ideology. But more importantly, Abrahms concludes that Pape dramatically overestimates the political success rate of terrorism. In marked contrast to Pape, Abrahms finds that the

\(^9\) On the bargaining, see Fearon 1994a, 1994b, 1995; Fearon and Laitin 2003; Lake 2010a; Lake 2010b; Morrow 1999; Powell 1999; Schelling 1980, 2008. For applications to terrorism in particular, see Abrahms 2013; Berman and Laitin 2008; Lake 2002; Lapan and Sandler 1993; Pape 2005; Schelling 1991; Siegel and Young 2009.
FTOs obtain their political demands only 7 percent of the time and that none of the groups succeeded politically from attacking civilian targets in particular. Thus, according to Abrahms, terrorism does not pay.

In a subsequent study, Abrahms (2012) strengthens his empirical analysis by controlling for tactical confounds. He exploits variation in the target selection of a larger sample of militant groups and finds that civilian targeting is negatively associated with government compliance even after accounting for the capability of the perpetrators, the nature of their demands, and the strength of government opposition.

Abrahms does not contend, however, that terrorism is completely useless for the perpetrators. He distinguishes between process goals and outcome goals:

Process goals are intended to sustain the group by securing financial support, attracting media attention, scuttling organization-threatening peace processes, or boosting membership and morale often by provoking government overreaction. The outcome goals of terrorists, by contrast, are their stated political ends (Abrahms 2012: 367).

Those who focus on process goals invariably conclude that terrorism pays. Empirical studies on the outcome goals of terrorists, however, have found the tactic far less effective (Atkinson, Sandler, & Tschirhart 1987; Bloom 2005; Kydd & Walter 2002; Mueller 2006). There is no consensus on why target countries resist complying with terrorist demands. Wilkinson notes that just as torture has a mixed rate of success for eliciting information from the victims, terrorism may fail because the targets “have a far higher resistance to it than others” (Wilkinson 1986: 53). For this reason, Wilkinson expresses skepticism that terrorism is an effective tool for pressuring government accommodation.
An important question within this research program is whether terrorism’s low success rate is epiphenomenal to the tactic. Conceivably, terrorists are political losers because of reverse causation in which people gravitate to the tactic because they are weak relative to governments and face low odds of achieving their goals regardless of their tactical choices. Like Abrahms (2012), Fortna (2012) tries to evaluate the political effectiveness of terrorism after controlling for potential selection issues. In particular, Fortna determines that rebel groups in civil wars lower the odds of achieving their demands by attacking the population with terrorism, even after factoring out the capability of the perpetrators. Indeed, she challenges the very notion that terrorism is a weapon of the weak. Terrorists are weak relative to governments, but not in comparison to other nonstate actors who refrain from attacking civilians.

In general, the empirical literature on terrorism finds little support for the basic premise of bargaining theory that violence aids challengers in achieving their demands (Abrahms 2013). Only in theory do attacks on civilians seem to boost the chances of nonstate actors coercing government compliance. Rather than making concessions in the direction of terrorists, the attacks on civilians tend to spur government intransigence. The studies on public opinion, which I address below, help to explain the low political success rate.

**Public Opinion Studies**

How does terrorism affect the electorate? Do terrorist attacks make the public more dovish and inclined to support politicians amenable to political compromise? Or do citizens of target countries tend to gravitate to more hawkish politicians opposed to
terrorist appeasement? In general, studies which use public opinion as the dependent variable find little empirical evidence that terrorism pays for the perpetrators. Rather than strengthening left-leaning politicians, terrorism tends to shift electorates to the political right, which is associated with government intransigence.

Berrebi and Klor (2006) empirically test the dynamic interaction between terrorist attacks and Israeli electoral outcomes using data on Palestinian violence from 1990 to 2003. They predict “that the support for Israel’s right-wing party increases after periods of severe terrorism and that the expected level of terrorism is higher when a left-wing party is in power” (Ibid. 923). To test this prediction, Berrebi and Klor analyze terrorist attacks in Israel and the electorates’ political preferences. Consistent with their prediction, they find that Palestinian terrorism boosts Israeli support for right-bloc parties opposed to territorial concessions, such as the Likud Party. Furthermore, they find evidence that the absence of terrorist attacks helps to empower left-bloc parties, such as Labor Party. Moreover, Berrebi and Klor also report that “terrorism escalates when the left-wing party is in office and decreases when the right-wing part takes over” (Ibid. 924).

In a related study, Berrebi and Klor (2008) empirically examine the effects of terrorism on the electoral choices of Israelis, this time by exploiting geographical variation in the localities in which terrorist attacks happen. Berrebi and Klor compare two kinds of localities: those that have suffered a terrorist attack (treatment group) and those that have not (control group). After controlling for political, socioecononomic, and demographic differences, Berrebi and Klor find that a terrorist attack that occurred within three months can result in a 1.35 percentage point increase in support for right-wing
parties. The effect of terrorism on electoral outcomes reaches beyond the given locality of the attack. This effect is stronger on the electorate if the attack occurs close to the elections. However, although in localities that were leaning to the left the terrorist attack causes the electorate to shift to the right, the voters outside the locality can shift to the left. In sum, their later study adds additional empirical support for their earlier conclusion that terrorist attacks do not soften up citizens of target countries into supporting more dovish politicians in favor of compromise.

Similarly, Gould and Klor (2010) examine terrorist attacks in Israel from 1988 to 2006. The authors use individual-level data based on political attitudes of Israelis over whether to grant Palestinians concessions. Unlike Berrebi and Klor (2006, 2008), Gould and Klor (2010) find that terrorism induces Israeli moderation. Like Berrebi and Klor, they find that beyond a certain threshold of deaths terrorist attacks shift the Israeli electorate to the political right. Terrorism may therefore be an effective political strategy up to a certain point. After which, terrorist attacks are politically counterproductive.

Chowanietz (2010) tests the effect of terrorism on political support for incumbents. His sample consists of terrorist attacks against France, Germany, Spain, the United Kingdom, and the United States from 1990 to 2006. His main theoretical inquiry is whether politicians gravitate to incumbents in the face of terrorism by rallying around the flag. He finds empirical support that repeated terrorist attacks and attacks of high magnitude and intensity strengthen the position of incumbents by increasing their political support particularly among elites. Consistent with Berrebi and Klor (2006, 2008), Chowanietz finds that right-wing leaders in particular, tend to benefit politically from the terrorist attacks, at least within France, the United Kingdom, and the United
States. Only in Spain is the rallying effect stronger for left-wing parties. This is consistent with previous studies showing that Spain may be anomalous with regard to the political outcomes of terrorism (Rose and Murphy 2007).

In the context of the United States, Davis and Silver (2004) also find indirect evidence that terrorism rewards the political right. In particular, they point out that in the immediate aftermath of the 9/11 attacks, hardline president George W. Bush enjoyed some of his strongest political backing from citizens whose primary security concern concerned terrorism. Shambaugh and Josiger (2004) also examine the American electorate’s response to terrorism. They find that public support for the president’s policies depend on the costs of the attack in human and material terms, the types of people targeted by the attacks, and the weapons used by the terrorists.

Although there is no uniformity in how scholars understand electoral responses to terrorism, they are generally believed to move rightward in support of more hawkish politicians. In a summary of the literature, RAND (2009) notes: “Terrorist fatalities, with few exceptions, increase support for the bloc of parties associated with a more-intransigent position. Scholars may interpret this as further evidence that terrorist attacks against civilians do not help terrorist organizations achieve their stated goals” (Ibid. 189).

As early as 1986, Wilkinson observed the potentially counterproductive effect of terrorism on public opinion:

The target audience may well be frightened but this may galvanise them into self-defence or counter-measures against the source of terror. Far from automatically leading to a climate of collapse in which the primary target is prepared to surrender to the terrorists’ demands, terrorism may lead to mobilisation and hardening of resolve to resist their demands and eliminate the terrorism. Terrorism, as someone has shrewdly remarked, is a faulty weapon that often backfired. Those who instigate it may find it
leads to a wave of outrage and revulsion against them, sweeping aside any latent or actual base of public support and sympathy for the terrorists’ political cause (Ibid. 52).

Other potential outcomes of terrorism noted by Wilkinson include: “unanticipated spontaneous counter-violence and terror with vigilante or rival groups,” and “inter-communal or inter-movement struggle which effectively neutralizes their effectiveness in influencing long-term constitutional or policy changes” (Ibid. 52). Furthermore, Wilkinson remarks, “Terrorists can also, paradoxically, be the unwitting agents providing the justification and the opportunity for governments and security forces to acquire the far-reaching emergency powers and systems of control which may be used to permanently suppress or exclude the terrorists’ political movement from power” (Ibid. 52). Moreover, it is more likely that the public and the incumbent government will react to terrorism in a way that is unfavorable and costly to terrorists.

In sum, there is a disconnect between the theoretical and empirical literatures on the political effectiveness of terrorism. The theoretical literature draws heavily from bargaining theory. For this reason, it predicts that the violence will aid the challenger in achieving his demands. Empirical tests of this proposition, however, lend scant support. In general, coercion studies find that terrorist attacks tend to lower the chances of government concessions. Similarly, studies which use public opinion as the dependent variable tend to conclude that, if anything, terrorism tends to shift electorates to the political right in support of politicians opposed to terrorist appeasement. This literature relates to my empirical investigation in two main ways. First, it helps to situate my inquiry in the broader discussion of how governments respond to terrorism. Secondly, as will be clear in Chapter 3, my hypothesis tests employ many of the same variables which
are believed to affect government responses to terror. In the remainder of this chapter, I examine another important literature to my research investigation—the literature on compliance.

**COMPLIANCE THEORY**

When are states more likely to comply with international treaties? Which factors contribute to variation in levels of compliance? How terrorism affects compliance with treaty obligations has never been previously tested. This research is nonetheless helpful for assessing compliance with financial counterterrorism despite the limitations of the literature.

The compliance literature emphasizes three main approaches: the enforcement approach, managerial approach, and the constructivist approach. These approaches have contrasting assumptions that lead to divergent predictions about sources of non-compliance as well as whether countries will indeed comply. The following section surveys and reviews the three common approaches to compliance. For obvious reasons, this literature is relevant to my study on the determinants of when State Parties will comply with *ICSOFT*.

**Enforcement Approach**

The enforcement approach has its basis in political economy, as it relies heavily on game theory and collective action theory (Axelrod 1984; Axelrod and Keohane 1986; Bayard and Elliott 1994; Dorn and Fulton 1997; Downs, Rocke, and Barsoom 1996; Olson 1965; Yarbrough and Yarbrough 1992; Yarbrough and Yarbrough 1992; *See* Tallberg 2002: 611). The enforcement approach assumes that (A) states are unitary rational actors and (B) decision-makers
evaluate options only in terms of costs and benefits to their nation (Underdal 1998: 7). This approach is essentially rationalist, as states are assumed to be utility maximizing, egoistic actors that weigh the costs and benefits of compliance with international agreements.

What determines noncompliant state behavior under the enforcement approach? In general, states are predicted to defect when the benefits of noncompliance exceed the potential costs of shirking. Within this approach, scholars stress that signing onto an international treaty does not necessarily entail compliance because some states may elect to sign without complying to serve their interests (Haas 1998: 19; Young 1979; Underdal 1998; See Tallberg 2002: 611). A potential source of noncompliance is that states “do not value the actual contents of the rules, but consider the acts of participation and signing important” in themselves (Tallberg 2002: 611). In theory, states are more likely to comply when they are faced with common threats to their interests (Mitchell 1999; Miles et al. 2002; Stein 1983; Tallberg 2002; Young 1999). Free riding is viewed as the biggest impediment to compliance. The policy implication of this school is to decrease noncompliance through strict monitoring of defection and by increasing the costs of defection, such as through the use of international sanctions (Olson 1965; Axelrod and Keohane 1986; Downs, Rocke, and Barsoom 1996; Underdal 1998, See Tallberg 2002). When all parties to a treaty are aware of the repercussions of noncompliance, compliance rates increase (Simmons 1998).
Managerial Approach

The managerial approach to compliance relies on cooperation and problem-solving, as opposed to the coercive pressure of international sanctions that the enforcement approach emphasizes (Chayes and Chayes 1993, 1995; Chayes, Chayes, and Mitchell 1998; Haas, Keohane, and Levy 1993; Keohane and Levy 1996; Mitchell 1994; Young 1992; See Tallberg 2002). In contrast to the enforcement approach that relies on game theory, the managerial approach favors qualitative case studies (Arora and Cason 1995; Chayes and Chayes 1990; 1991; 1993a; 1993b; Duffy 1988; Haas, Keohane, and Levy 1993; Hawkins 1984; Mitchell 1993; 1994a; 1994b; 1995; Scholz 1984; Sparrow 1994; Young 1989; and 1994; See Downs, Rocke, Barsoom 1996). Consequently, the assumptions and methodological approach of the managerial model are at odds with the enforcement model.\textsuperscript{10} Substantively, the key assumptions of this model are:

(1) compliance is generally quite good; (2) this high level of compliance has been achieved with little attention to enforcement; (3) those compliance problems that do exist are best addressed as management rather than enforcement problems; and (4) the management rather than the enforcement approach holds the key to the evolution of future regulatory cooperation in the international system (Downs, Rocke, Barsoom 1996: 379).

Further, proponents of the managerial model assume that in general states have a propensity to comply with international agreements:

Foreign ministers, diplomats, and government leaders devote enormous time and energy to preparing, drafting, negotiating, and monitoring treaty obligations. It is not conceivable that they could do so except on the assumption that entering into a treaty commitment ought to and does limit their own freedom of action, and in the expectation that other parties to the

\textsuperscript{10} For a detailed exposition of the assumptions, See Underdal 1998.
agreement will feel similarly constrained. The meticulous attention devoted to fashioning treaty provisions no doubt reflects the desire to limit the state’s own commitment as well as to secure the performance of others. But either way, the enterprise makes sense only if the participants accept (presumably on the basis of experience) that as a general rule, states acknowledge an obligation to comply with the agreements they have signed (Chayes and Chayes 1995: 3).

This school maintains that the propensity to comply is due to efficiency, interests, as well as norms (Chayes and Chayes 1993, 1995; Tallberg 2002: 613). Emphasis on efficiency implies that states comply because it may reduce transaction costs by establishing standard operating procedures in bureaucratic organizations (Chayes and Chayes 1995). Interests create a general propensity for states to comply with international agreements because “a treaty is a consensual agreement,” “the parties’ interest were served by entering into the treaty in the first place,” and treaties are "designed to ensure that the final result will represent, to some degree an accommodation of the interests of the negotiating states" (Chayes and Chayes 1995: 4). Chayes and Chayes (1995) argue that modern treaty making ”can be seen as a creative enterprise through which the parties not only weigh the benefits and burdens of commitment but also explore, redefine, and sometimes discover their interests” (Ibid. 4-5). Finally, norms, such as pacta sunt servanda, cause states to generally comply with treaty obligations because they “translate into a presumption of compliance, in the absence of strong, countervailing circumstances” (Ibid. 8).

What are the causes of non-compliance? According to the managerial model, non-compliance is “not the result of deliberate decisions to violate treaties, but an effect of capacity limitations and rule ambiguity” (Tallberg 2002: 613). The managerial model
posits that when non-compliance occurs, it is seldom due to the deliberate “flouting of legal obligation” (Chayes and Chayes 1995: 10). Instead, Chayes and Chayes (1995) attribute non-compliance to:

(1) Ambiguity and indeterminacy of treaty language; (2) Limitations on the capacity of parties to carry out the undertakings; and (3) The temporal dimension of the social, economic, and political changes contemplated by regulatory treaties (Ibid. 10).

Tallberg (2002: 614) asks, what “cures for non-compliance” do the managerial theorists prescribe? The cure for non-compliance depends on its source. Non-compliance stemming from ambiguity of treaty language can be downsized by “authoritative rule interpretation in international legal bodies” (Chayes and Chayes 1995; Tallberg 2002: 614). When the limitations on the capacity of states to carry out their treaty obligations are the culprit, capacity building can “partially or entirely offset” the “deficits in technical knowledge, bureaucratic capability, and financial resources” (Chayes and Chayes 1995; Tallberg 2002: 614). Finally, non-compliance originating from the social, economic, and political changes can be cured by transparency, which facilitates “coordination on the treaty norms, providing reassurance to actors that they are not being taken advantage of, and raising the awareness of the effects of alternative national strategies” (Chayes and Chayes 1995; Tallberg 2002: 614).

The policy implication of this model is that non-compliance can be reduced “through a problem-solving strategy of capacity building, rule interpretation, and transparency, rather than through coercive enforcement” (Tallberg 2002: 613). Chayes and Chayes underscore, “If we are correct that the principal source of noncompliance is not willful disobedience but the lack of capability or clarity or priority, then coercive
enforcement is as misguided as it is costly” (Chayes and Chayes 1995: 22). Sanctions are viewed to be costly by both the countries that sanction and the countries who are sanctioned (Chayes and Chayes 1995).

The managerial approach is critiqued by the enforcement scholars for methodological flaws. In particular, there are problems posed by endogeneity and selection (Downs, Rocke, Barsoom 1996: 380). In response to the managerial school, Downs, Rocke, Barsoom (1996) pose the question, “Does it mean that even in the absence of enforcement states will comply with any agreement from the set of all possible agreements, or does it mean that states only make agreements that do not require much enforcement?” (Ibid. 383). The policy implications of the managerial school are only relevant to treaties in which states were already willing to comply with their treaty obligations when they signed the treaty. Treaties that require substantial changes in the behavior of states cannot have high rates of compliance without considerable enforcement measures to secure the observance of treaty obligations.

**CONSTRUCTIVIST APPROACH**

The third approach, the constructivist approach, is an ideational perspective on compliance with international agreements (Checkel 2005; Finnemore 1996; Finnemore and Sikkink 1998; Kartochwil 1989; Katzenstein 1996; Risse-Kappen 1995; Wendt 1994). The constructivist approach differs from the other perspectives, as its “focus is on the power of norms and ideas to influence state behavior” (Raustiala 2000: 405). States are viewed as a product of their socialized environment and their behavior cannot be simply explained by a cost-benefit calculus (Raustiala 2000). Further, the assumptions of
constructivism are fundamentally different from the assumptions of the enforcement and managerial models. Underdal (1998) summarizes the assumptions of constructivism:

(1) Decision-makers typically enter policy processes with imperfect information and tentative preferences. Accordingly, they engage in an active search for information and ideas as well as in persuasion; and (2) Policies develop to a large extent through learning—through the adoption of new knowledge and ideas and the formation of beliefs—and are maintained through routinization, i.e. by becoming incorporate into ‘standard operating procedures’ (Ibid. 21).

How do constructivists explain compliance? According to Haas (1998), compliance is “likely to be affected by anticipated gains from dominant coalitions at home…yet configuration of domestic interests is often the consequence of international factors as well” (Haas 1998: 21). Further, “Compliance tends to reinforce compliance” (Underdal 1998: 21). Since countries tend to imitate one another, there is a contagion effect, as each decision to comply is not independent of the compliance behavior of other state actors. In addition, countries that are ideologically or culturally similar are more likely to follow the lead of such compliant countries (Underdal 1998: 21).

The constructivist approach is ripe for criticism on methodological grounds. The first conceptual problem with the constructivist approach is that within the international relations literature on norms, there is no universal definition.11 As Raymond (1997) stated, “Norms appear to be many things to many people” (Ibid. 216). He also summarizes the “two corollaries” that “typically accompany deontic definitions: (1) international norms are not invalidated by a counterfactual incident, and (2) the efficacy of international norms cannot be assessed in dichotomous terms” (Ibid. 218).

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11 For a comprehensive survey of the older international relations literature on norms, see Raymond 1997.
Bjorkdahl (2001) surveyed the methodological and conceptual problems with norms scholarship. Bjorkdahl identified ideational causality and the independent explanatory power of norms as two methodological problems. According to the author, constructivists “focus on analyzing the norms themselves and the causal mechanisms stemming from the norms” but have been unable to explain the latter (Ibid. 11.) Bjorkdahl argues that in some studies, “the causal effect of norms is implied and assumed rather than ascertained empirically according to mainstream critics” (Ibid. 12.). In addition, Bjorkdahl explains that often the ideational approach of norms is seen simply as an interesting supplement to the rationalist approach.

Finally, the constructivist approach is criticized on the grounds that it is too context-specific (Simmons 1998: 79). The conclusions of constructivists cannot be generalized to a larger universe of cases. Because the constructivist approach is non-positivist, it is arguably ill-suited for the enterprise of systematic empirical testing. As a result, much of the hypotheses produced by constructivist scholars remain untested, or supported only by anecdotal evidence.

**PROBLEMS WITH COMPLIANCE THEORY**

By their own admission, scholars who study compliance attest to the methodological shortcomings of their approach. For example, Simmons (1998) underscores the “severe conceptual and methodological problems” with the research on compliance (Ibid. 75). According to Simmons (1998):

Several studies have tried to demonstrate a correlation between legal standards and state behavior, sometimes employing large databases and statistical techniques, but most are unconvincing in demonstrating causation, or even in providing an explanatory link between actions taken
and the existence of agreements or normative considerations...Establishing causation has been complicated by problems of selection bias and endogeneity...The problem of selection bias creates inferential obstacles for the study of second-order compliance as well (Ibid. 89).

Similarly, Mastenbroek (2005) critiques qualitative approaches for their ability to predict compliance. These designs suffer from two weaknesses. First, they tend to favor some member states and policy sectors over others (Mastenbroek 2005). Second, the qualitative work often lacks generalizability and rigorous causal inference (Giuliani 2003; Mbaye 2001; Mastenbroek 2003, 2005).

**CONTRIBUTION**

My research design circumvents many of the critiques levied against the compliance scholars. I employ a quantitative analysis using independent variables that are commonly ascribed determinants of compliance in the literatures on both terrorism and compliance. The results of the quantitative analysis then inform my qualitative analysis. The qualitative analysis provides a more cogent illustration of the mechanisms that determine variation in compliance with counterterrorism treaty obligations. My theory will be derived from both the quantitative results and the subsequent qualitative studies. As a result, my research design produces conclusions that are both internally and externally valid.

Many compliance theorists note that it is often difficult to determine clear rates of compliance (Simmons 1998). In financial counterterrorism, the rates of compliance are clear, as the requirements of *ICSOFT* are unambiguously stated in the FATF IX Special Recommendations. Simmons (1998) explains the pitfalls of compliance theory—most
scholarship on compliance with international treaties cannot determine the extent a country has complied with a given a treaty. The verification of the levels of state compliance with *ICSOFT*, by contrast, is lucid and categorical. In comparison to other treaties, *ICSOFT* uses a clear, transparent, and uniform monitoring system for compliance. In much of the compliance literature and within the managerial approach in particular, scholars emphasize that international treaties are ambiguous and subject to interpretation by states. The managerial scholars view this ambiguity as a major obstacle to compliance. However, *ICSOFT*, by its very nature, is unambiguous. The requirements are explicit and clearly defined.

The compliance literature is concerned with proscriptive treaties, mainly on environmental or human rights issues. *ICSOFT* is substantially different from these treaties. Unlike the proscriptive treaties, *ICSOFT* was designed to confer upon states the tools to fight terrorism, a threat to their national security. Because of the nature of my dependent variables—the rates of compliance with *IX Special Recommendations* of FATF as mandated by *ICSOFT*—I assume that it is in the national interests of states to comply. *ICSOFT* enables states to cooperate with other states to facilitate their own fight with terrorism. Multilateral cooperation on terrorism reduces the costs to states and creates transparency which increases information.

Scholars of financial counterterrorism often attribute the low rates of compliance with *ICSOFT* to the lack of capacity of states. This argument comports with the managerial approach to compliance in the theoretical literature. The managerial and enforcement approaches tend to assert that certain treaties have higher rates of
compliance because it is easier to comply with them. This type of argument risks becoming a tautology.

Furthermore, unlike my analysis, such approaches are unable to explain why certain countries are liable to comply with particular treaties. In fact, these approaches completely ignore the characteristics of states—except for their capacity—that may determine whether a state complies. In my study, the bureaucratic structure and enforcement mechanisms are *ceteris paribus*, and yet there is variation in rates of compliance. My study, therefore, looks at the incentive structures of individual states, while holding constant the bureaucratic characteristics of the international institution. In sum, the compliance literature not only fails to systematically test the hypotheses posed by the researchers, but also the research program fails to explain variation in compliance.
CHAPTER 3: RESEARCH DESIGN

This chapter elucidates my research design in four main ways. First, I describe and define my dependent variable of government compliance. Second, I explain the overall methods used in my study. Third, I propose six hypotheses to empirically test the determinants of state compliance with financial counterterrorism. The hypotheses are based on two bodies of literature—the political outcomes of terrorism and country compliance with international agreements. I provide information on how I code each variable, particularly the data sources. Finally, I clarify my qualitative approach, which examines the financial counterterrorism campaign spearheaded by the United States.

DEPENDENT VARIABLE

My research question focuses on variation in country compliance with *ICSOFT*. Many countries have signed and ratified *ICSOFT*, which has 132 parties and 182 signatories as of April 2013. Some countries sign an agreement and choose not to comply with it (Downs, Rocke, Barsoom 1996; Simmons 1998). Therefore, my dependent variable exhibits variation in terms of which of the signatories actually complied. These ratings are derived from assessments by the Financial Action Task Force (FATF) and FATF-style regional bodies (FSRBs), which are mandated with the task of monitoring compliance with this international legal instrument.12

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12 The FATF-style regional bodies (FSRBs) include: Asia/Pacific Group on Money Laundering (APG), Caribbean Financial Action Task Force (CFATF), Eurasian Group (EAG), Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), The Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering, Measures and the Financing of Terrorism (MONEYVAL), The Financial Action Task Force on Money Laundering in South America (GAFISUD), Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), and Middle East and North Africa
Since 2004, the requirements of *ICSOFT* were explicated in *IX Special Recommendations* on financial counterterrorism. FATF and FSRBs assess country compliance with *IX Special Recommendations*. Although FATF established *IX Special Recommendations*, FSRBs use FATF’s methodology to monitor compliance with these standards. FATF and FSRBs regularly publish *Mutual Evaluations Reports* that assess State Parties’ progress in implementing FATF’s standards.

The FATF and FSRB *Mutual Evaluation Reports* ratings are reliable and valid for several reasons. First, the FSRBs use the same methodology, procedures, and interpretative notes as the FATF. In fact, to avoid duplication of the reports, the FATF often adopts the reports published by the FSRBs. Second, according to section 3(b) of the FATF Reference Document, the processes and procedures were designed to "ensure that there is a level playing field, whereby mutual evaluation reports, including the summaries are consistent, especially with respect to the findings and ratings" (FATF Reference Document 2009: 3). Third, there are independent and experienced assessors who are selected from the FATF countries (Ibid.: 6). And lastly, the evaluated countries are actually involved in the evaluation process, since they have to self-report information prior to the on-site visit of the assessors. In sum, there are established procedures and processes in place to ensure fairness, transparency, validity, and consistency.

I collected raw data of qualititative compliance ratings published in the *Mutual Evaluation Reports* for the period 2004-2011. My sample originally consisted of

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Financial Action Task Force (MENAFATF). Non-duplicated reports published by the International Monetary Fund (IMF) are also included.
information from 172 individual *Mutual Evaluation Reports*, however after eliminating non-sovereign territories, I am left with 161 individual states, evaluated once each.

Each country is issued a grade based on its success in implementing each of the nine recommendations. There are four possible grades: Compliant (C)—which means there are no shortcomings, Largely Compliant (LC)—which means there are only minor shortcomings, Partially Compliant (PC)—which means there are moderate shortcomings, and Non-Compliant (NC)—which means there are major shortcomings. I quantify the compliance ratings issued in the *Mutual Evaluation Reports*.\(^\text{13}\) Compliant (C) was coded as “4,” Largely Compliant (LC) was coded as “3”, Partially Compliant (PC) was coded as “2”, and Non-Compliant (NC) was coded as “1”.

Further, I empirically test the effects of commonly ascribed independent variables to explain the variation in compliance with *IX Special Recommendations*, which is my dependent variable of interest. Some countries have high compliance rates, despite a seemingly low incentive to combat the terrorism threat—as measured by the rate of terrorist attacks and the rate of fatalities (i.e. Slovenia, Belgium). On the other hand, some countries with a seemingly high incentive to comply have surprisingly low compliance rates (i.e. Afghanistan, Algeria). And yet other countries behave as expected—they have high compliance rates as the threat of terrorism they face is particularly lethal (i.e. Israel).

Each of the *IX Special Recommendations* is designed to explicitly require states to comply with a specific aspect of *ICSOFT* and financial counterterrorism. For example,
S.R. I: Ratification and implementation of UN instruments requires each country to ratify ICSOFT and implement it fully. It also requires countries to implement other U.N. resolutions that relate to financial counterterrorism, such U.N.S.C. Resolution 1337. S.R. II: Criminalizing the financing of terrorism and associated money laundering requires countries to criminalize the financing of terrorism, terrorist acts, and terrorist organizations. S.R. II also requires states to legally categorize terrorism financing offenses as money laundering predicate offenses.14 S.R. III: Freezing and confiscating terrorist assets requires each country to implement measures to freeze funds or other assets of terrorists, those who finance terrorism, and terrorist organizations, as defined by ICSOFT. Further, each country is also required to adopt and implement measures, including legislative ones, which would enable competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts, or terrorist organizations.

S.R. IV: Reporting suspicious transactions related to terrorism requires countries to hold responsible their financial institutions, businesses, or other entities for reporting promptly their suspicions about the financing of terrorism to competent authorities. S.R. V: International co-operation requires each country to allow other countries the greatest possible measure of assistance in criminal, civil enforcement, administrative investigations, inquiries and proceedings relating to financial counterterrorism. S.R V also prohibits countries from providing safe havens for individuals charged with terrorism financing crimes. The recommendation also requires states to have procedures in place

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14 According to article 2 (h) of United Nations Convention Against Corruption (UNCAC), a “predicate offence” is any offence as a result of which proceeds have been generated that may become the subject of an offence as defined in article 23 of the UNCAC on “Laundering of proceeds of crime.”
for extradition of terrorism financing suspects. *S.R. VI: Alternative remittance* requires each country to ensure that any person or entity involved with the transmission of money or value is registered or licensed. *S.R. VI* also applies all *IX Recommendations* to individuals and agents. Further, the recommendation requires that states use administrative, civil, or criminal sanctions against all persons or legal entities involved with the transmission of money or value, who carry out this service illegally.

*S.R. VII: Wire transfers* requires countries to hold financial institutions, including money transmitters, responsible for including accurate and meaningful originator information (i.e. name, address, and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain. *S.R. VIII: Non-profit organizations* requires countries to review their laws and regulations to entities that can be used for terrorism financing, such as non-profit organizations. Finally, *S.R. IX Cash couriers* requires countries to have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation. *S.R. IX* also requires countries to ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing or money laundering, or that are falsely declared or disclosed.

Because there are nine different special recommendations, I simplify the dependent variable in two ways. My first key dependent variable (COMPLIANCE1) is the average compliance rate on all nine special recommendations for each state evaluated,
rounded to the nearest integer. In the second model, the dependent variable (COMPLIANCE2) is the modal score on all nine special recommendations for each state evaluated. More specifically, COMPLIANCE2 is the most common compliance rating for each individual state evaluated. Because simplifying the dependent variable can truncate my data, I also run nine separate regressions. In these nine models, my independent variables are identical to the first and second model, with one exception. In the nine models, each individual special recommendation compliance rating (i.e. SRI, SRII, SRIII, SRIV, SRV, SRVI, SRVII, SRVIII, SRIX) serves as a dependent variable—instead of COMPLIANCE1 or COMPLIANCE2.

**METHODS**

To address my research question, I use a mixed methods approach that consists of both quantitative and qualitative analysis. In the quantitative component, I employ regression analysis to estimate which independent variables have a statistically significant effect on the dependent variable. The qualitative analysis is a closer examination of the causal mechanism, based on the results of the regression analysis, and provides evidence that there is no reverse causation. Mainly, I process trace the causal mechanism by examining primary source documents—including speeches and memoirs of leaders, government-issued statements and documents, minutes from official meetings in international forums, and legislative texts of treaties and resolutions. The primary source documents are supplemented with secondary literature, which includes news reports and analyses of financial counterterrorism from practitioners in the field.
The dependent variable consists of compliance ratings with the *IX Special Recommendations* on financial counterterrorism. Because compliance ratings are a categorical ordinal variable with four levels, traditional ordinary least squares (OLS) regression—which is used for continuous and unlimited variables—would yield biased outcomes. A binary logit or probit regression—which assumes a binary and limited dependent variable—is clearly also ill-suited for my analysis. The appropriate statistical technique is a non-linear model to deal with the ordered nature of my dependent variable (Long 1997). I therefore use an ordered logit model.

**DETERMINANTS OF COMPLIANCE: HYPOTHESIS TESTING**

In the previous chapter, I reviewed two relevant literatures—the literature on the political outcomes of terrorism and the literature on compliance theory. Neither research program addresses my research question on the determinants of country compliance with financial counterterrorism. Both literatures subtly inform my hypotheses, however. Below I derive several hypotheses based on those literatures. In particular, I test six hypotheses to determine empirically which factors motivate countries to comply with financial counterterrorism. Conceptually, there are two main types of variables—those pertaining to the nature of the terrorist threat and characteristics of the target state. I explain sequentially the intellectual basis of the hypothesis tests.
Terrorism Threat

Magnitude and Intensity of Terrorism

There is a broad consensus in the academic literature that a global approach is the most effective way to mitigate the terrorism threat (e.g., Acharya 2009; Desker and Acharya 2006; Hoffman 2002; Juergensmeyer 2006; Martin 2006; Sandler and Siqueira 2006; Van Brunschot and Kennedy 2008, pp. 91-94; Wandadi 2002; Wyn Reese 2006). Much of this literature assumes that experience with terrorism or the perceived threat of it gives states an incentive to cooperate multilaterally. Prior research indicates that perceiving a severe terrorist threat induces the electorate to support governmental counterterrorism policies (Berrebi 2009, pp. 189-190; Berrebi and Klor 2006, 2008; Gould and Klor 2010; Jentleson 1992, p. 62; Mueller 2006, p. 182; Wilkinson 1986, p. 52).

For example, Chowanietz (2010) highlights the effect of the terrorist threat on government support: “The literature on conflict often considers casualties as the most salient cost of conflict” (Ibid. 681; See also: Boettcher and Cobb 2006; Gartner 2008; Gartner and Segura 1998; Gartner et al. 2004). Further, Chownietz (2010) finds that “that 87 percent of all terror acts causing three fatalities or more trigger a rally in support of the government, whereas among attacks causing fewer than three fatalities, only 58 percent elicit support for the government” (Ibid. 685-686). However, the effect of the terrorism threat on state compliance with international agreements designed to combat this threat has never been subjected to systematic empirical testing. These two variables are likely positively related, leading to the following hypothesis:
**H1: Compliance with financial counterterrorism will be more likely if a state is faced with a higher terrorism threat.**

Although we would expect high levels of the terrorism threat to cause the public to support counterterrorism activities, it does not mean that it generates public pressure to support financial counterterrorism in particular. It does mean, however, that the existence of public pressure to support counterterrorism activities in general would give policy makers the incentive to take actions to comply with financial counterterrorism. *ICSOFT* provides an intricate framework for target countries to unify their financial counterterrorism response, which policy makers see as an essential tool to combat the global terrorism threat.

To proxy for the terrorism threat, I use data from the National Consortium for the Study of Terrorism and Responses to Terrorism (START) Global Terrorism Database (GTD). My window of observation spans from 1991 until the date each *Mutual Evaluation Report* was issued.\(^{15}\) The year 1991 was selected as the starting point for two main reasons. First, this year marks the end of the Cold War, a distinct geo-political era. Second, the 1991 starting point conforms with Rapoport’s periodization of modern terrorism (Rapoport 1999, 2001, 2002, 2004, 2006) by capturing the current religious wave.

Because the Global Terrorism Database (GTD) contains information on violent attacks that may not be strictly considered “terrorism,” I apply filters to leave only observations that fulfill the definition of terrorism. Following Enders, Sandler &

\(^{15}\) The latest reports are issued in 2011.
Gaibulloev (2011), I remove all the observations that do not meet the three criteria for terrorism provided in the GTD codebook. There are 59,786 observations in the GTD for 1991-2011. To be classified as "terrorism," the act must be:

1. "aimed at attaining a political, economic, religious, or social goal;"
2. "there must be evidence of an intention to coerce, intimidate, or convey some other message to a larger audience (or audiences) than the immediate victims;" and
3. it must be "outside the context of legitimate warfare activities" and "outside the parameters permitted by international humanitarian law" (GTD 2012: 10-11).

After removing the observations that did not meet GTD’s criteria for terrorism, I am left with 42,736 observations. The GTD provides an additional categorical variable to denote that a case is ambiguous and there is doubt that it was a terrorist act. This information is available for terrorist acts that occurred after 1997. Also following Enders, Sandler, and Gaibulloev (2011), I removed the observations that were ambiguous. Finally, I removed the countries and years that were not relevant to my sample, which left 16,788 observations of terrorist attacks.

The Global Terrorism Database (GTD) uses two categories of variables to denote that a terrorist attack has occurred. The first category, Nationality of Target/Victim, “is the nationality of the target that was attacked, and is not necessarily the same as the country in which the incident occurred, although in most cases it is” (GTD Variables & Inclusion Criteria 2011: 29). The second category, Country, “identifies the country or location where the incident occurred” (GTD Variables & Inclusion Criteria 2011: 9).

In my regression analysis I use the first category of GTD’s variables that denotes that a terrorist attack has occurred, Nationality of Target/Victim. There are three
categorical variables in GTD’s *Nationality of Target/Victim* category that denote that a terrorist attack has occurred:

1) *natlty1* – “This is the nationality of the target that was attacked, and is not necessarily the same as the country in which the incident occurred, although in most cases it is. For hijacking incidents, the nationality of the plane is recorded and not that of the passengers. For numeric nationality codes, please see the country codes in section III” (GTD 2012: 31).

2) *natlty2* – “Conventions follow ‘Nationality of Target’ field. For numeric nationality codes, please see the country codes in section III-A” (GTD 2012: 32).

3) *natlty3* – “Conventions follow ‘Nationality of Target/Victim’ field. For numeric nationality codes, please see the country codes in section III-A” (GTD 2012: 33).

I combine the three GTD variables (*natlty1, natlty2, natlty3*) to derive an aggregate number of terrorist attacks for each country. I lag one year before each *Mutual Evaluation Report* was issued and create a total number of terrorist attacks for each country. I divide the total number of attacks by the number of years between 1991 and the year that each *Mutual Evaluation Report* was issued for that country. This step allows me to control for time, since some countries were evaluated later than others. The rate of terrorist attacks is the variable ATTACKS1. Moreover, the variable ATTACKS1 is used in my regression analysis as a proxy for the terrorist threat facing each country in the sample.

For a robustness check, I also create a variable from GTD’s second category of terrorist attack variables, *Country*, to proxy for the terrorist threat. The variable *country* denotes the location where the incident occurred. As I did with the previous category, I lag one year before each *Mutual Evaluation Report* was issued and create an aggregate total of terrorist attacks for each country. I then again express the terrorist threat as a rate, dividing the total number by the number of years, resulting in the variable
ATTACKS2. Hence, I check for robustness by running my regression model again using the variable ATTACKS2 to proxy for the terrorist threat.

**Transnational vs. Domestic Terrorism**

A growing number of terrorism scholars make a distinction between transnational and domestic terrorism (e.g. Chownietz 2010; Clarke and Chenoweth 2006; Enders and Sandler 2002, 2006; Enders, Sandler, Gaibulloev 2011; Findley and Young 2011; Gaibulloev, Sandler, and Santifort 2011; Sandler 2003, 2005; Shinn 2009; Wanandi 2002). According to Young and Findley (2011), "[A] study of domestic terrorism versus transnational terrorism would have a different research design" (Ibid. 8). In short, domestic terrorism may affect the compliance of countries in a different way than transnational terrorism.

Why differentiate between transnational and domestic terrorism? There are two compelling reasons to make this distinction. First, the effects of domestic terrorism may be different from the effects of international terrorism (Enders, Sandler, and Gaibulloev 2011). For instance, transnational terrorism has distinctly different effects on the political outcomes of the target state. According to Chownietz (2010):

Terrorist acts perpetrated by foreigners might be perceived as targeting the country as a whole, hence making it difficult for political elites to openly disagree with one another, whereas acts committed by home-grown

16 There is a third, but less important reason to differentiate between domestic and international terrorism. Domestic groups have more capability because they draw substance from their home population, while international groups lack any support constituency to help them. That is why domestic groups tend to commit more terrorism. Two striking examples are FARC and The Shining Path of Peru.
terrorists might exacerbate existing divisions within the political elite (Ibid. 682).

Further, Chownietz (2010) posits, “The international terrorism effect…suggests that political elites are less critical of their government when the attack is perpetrated by a group originating from abroad than when the act is caused by a domestic group” (Ibid. 687). Other scholars argue that transnational terrorism affects the target country’s economy more adversely than domestic terrorism (e.g. Enders, Sandler, and Gaibulloev 2011: 319). Most importantly, domestic terrorism may have different effects on the behavior of states. For instance, target countries are more likely to overspend on counterterrorism measures when faced with transnational terrorism than domestic terrorism (Enders, Sandler, Gaibulloev 2011: 324; Sandler & Lapan, 1988; Sandler & Siqueira, 2006).

Second, the causes of domestic terrorism may be different than the causes of international terrorism (Enders, Sandler, and Gaibulloev 2011). Consequently, an a priori rationale for differentiating between domestic and international attacks is that they may have different processes (Young and Findley 2011: 5). According to Young and Findley (2011), “Structural factors leading to increases in domestic terrorism are endogenous to whatever state experiences it” (Ibid. 8). Therefore, a country that faces a domestic terrorism threat may be less inclined to combat that threat with a general global approach, such as multilateral treaties. Accordingly, I propose the following hypothesis:

\[ H2: \text{Compliance with financial counterterrorism will be more likely if a state contends with transnational terrorist groups.} \]
To test this hypothesis, I am using GTD. Compared to ITERATE, GTD is superior for coding international versus domestic attacks (Enders, Sandler, and Gaibulloev 2011). Following Findley and Young (2011), international terrorism is defined as “terrorist acts committed by one or more groups within one state against one or more groups from another state,” while domestic terrorism is defined as “terrorist acts committed by one or more groups within one state against one or more groups belonging to the same state” (Ibid. 4). Moreover, to disaggregate GTD data into domestic and transnational events, I use the five-step method devised by Enders, Sandler, and Gaibulloev (2011). The method is fully consistent with the definitions provided by GTD.

Following Enders, Sandler & Gaibulloev (2011), I remove all the observations that do not meet the three criteria for terrorism provided in the GTD codebook. There are 59,786 observations in the GTD for 1991-2011. To be classified as "terrorism," the act must be (1) "aimed at attaining a political, economic, religious, or social goal;" (2) "there must be evidence of an intention to coerce, intimidate, or convey some other message to a larger audience (or audiences) than the immediate victims;" and (3) it must be "outside the context of legitimate warfare activities" and "outside the parameters permitted by international humanitarian law" (GTD Codebook 2012: 10-11). After removing the observations that did not meet GTD’s criteria for terrorism, I am left with 42,736 observations. The GTD provides an additional categorical variable to denote that a case is ambiguous and there is doubt that it was a terrorist act. This information is available

17 For a detailed description of the method used, see Enders, Sandler, and Gaibulloev (2011): 322-333.
for terrorist acts that occurred after 1997. Also following Enders, Sandler, and Gaibulloev (2011), I removed the observations that were ambiguous. Finally, I removed the countries and years that were not relevant to my sample, which left 16,788 observations of terrorist attacks.

I then follow Enders et al.’s five-step method of disaggregating the GTD into transnational and domestic attacks, with some adjustments. I create a dummy variable to denote that an attack was transnational. First, when the nationality of the victims is different than the venue country, the terrorist act is counted as transnational. Second, I use filters focusing on target types. If the target type is diplomatic government (including foreign missions, embassies, consulates, and diplomatic employees and their families), airports and airlines, international non-governmental organizations, or tourists, the attack is classified as a transnational attack. This a departure from the Enders et al. method, since they do not include airports and airlines, NGOs, or tourists. Third, I use filters focusing on target entities. The terrorist incidents are coded as transnational when terrorism is targeted at entities of U.S. nationality but outside the U.S., international entities (including UN agencies and NATO), or foreign businesses. Fourth, I use filters focusing on U.S. victims, U.S. hostages, and U.S.-specific demands. In those cases, the events are classified as transnational events, but only if they occurred outside of the U.S. Fifth, when information about victim nationality, target type, or target entity is either missing or unknown, the events are classified as “uncertain.” All other events are classified as domestic, because there is no evidence within the GTD to suggest that the incident is transnational in nature.
Moreover, after coding for transnational, domestic, and uncertain events, I derive an aggregate variable for the total number of transnational terrorist attacks for each country until the year that each Mutual Evaluation Report was issued. I then divide this number by the number of years, creating the variable TRANSNATIONAL, which is the rate of transnational terrorist attacks. This allows me to control for time. I use the variable TRANSNATIONAL, which represents the rate of transnational incident each country faces, to proxy for the transnational terrorism threat.

**Suicide Tactic**

There is a consensus among scholars that suicide terrorism is especially lethal (e.g. Bloom 2005, 2006, 2011; Moghadam 2009; Pape 2003, 2005; Pape and Feldman 2010; Sandler 2003). The noxious properties of suicide terrorism are attributed to several factors. In a recent survey of the literature, Moghadam (2009) summarized the state of the scholarship on suicide terrorism:

> Scholars agree that terrorist groups use suicide attacks because of the disproportionate amount of fear they create in the target population; their ability to boost the groups’ morale and the operational benefits, such as their cost efficiency and high precision, as well as the low security risks they pose to the organization at large (Ibid. 53).

Suicide terrorism has received an ample amount of scholarly attention because the use of the tactic has increased over the last couple of decades. According to Pape and Feldman (2010), “In the 24-year period from 1980 to 2003, there were just under 350 suicide terrorist attacks around the world…By contrast, in the six years from 2004 to 2009, the world has witnessed 1,833 suicide attacks” (Ibid. 2). The period from 1991 to
2011, which is the temporal window of my study, clearly witnessed a marked increase in the incidence of suicide terrorist attacks (See Figure 11, App. I).

Suicide terrorism is lethal, generating a large number of civilian deaths. According to Pape and Feldman (2010), suicide terrorism “merits special attention because this type of terrorism is responsible for more deaths than any other form of the phenomenon—from 1980 to 2001, over 70% of all deaths due to terrorism were the result of suicide terrorism even though this tactic amounted to only 3% of all terrorist attacks” (Ibid. 5). Pape (2005) underscores the lethality of the tactic:

Suicide attacks amount to just 3 percent of all terrorist incidents from 1980 through 2003, but account for 48 percent of all fatalities, making the average suicide terrorist attack twelve times deadlier than other forms of terrorism—even if the immense losses of September 11 are not counted (Ibid. 6).

His observation is echoed by Sandler (2003), who describes the suicide attacks perpetrated against the United States on September 11, 2001: “A bomb placed on board these same flights is unlikely to have caused the same death toll and destruction on the ground” (784). If suicide terrorism is a particularly lethal threat, states may opt to collaborate with other states in combating suicide terrorism.

Why does it matter whether the perpetrator dies in a terrorist attack? It only matters whether the perpetrator dies, if suicide terrorism is a special tactic that results in the largest number of fatalities in proportion to other tactics used. The terrorism literature posits that suicide terrorism is more lethal than other forms of terrorism and therefore demands special attention from targeted states. Pape and Feldman (2010) compare suicide terrorism to lung cancer. Just as there are many forms of cancer, some
more benign than others, there are many forms of terrorism. According to Pape and Feldman (2010), suicide terrorism is the most lethal form of terrorism, as measured by the proportion of fatalities. It therefore “justifies inordinate resources and attention [‘of our national leaders’] because it is the leading cause of death” (Pape and Feldman 2010: 5). If Pape and Feldman (2010) are correct, then suicide terrorism grabs the attention of national leaders. The more attention suicide terrorism receives from national leaders, the more incentive exists for the country to overcome suicide terrorism.

Even if suicide terrorism does not cause a disproportionate number of fatalities, there are other reasons why a country may be inclined to counter suicide terrorism. Suicide terrorism is especially deleterious for states because the terrorist perpetrators use the defender’s civilian population as an audience on whom they can wage psychological warfare. According to Bloom (2011), killing a small number of people by suicide terrorism is just a means to the end of terrorizing a whole society. Atran (2003) and others argue that the primary target of the terrorists is the audience. Suicide terrorism promotes universalized fear in the target audience. It is difficult for the target to predict a suicide terrorist attack and the perpetrators often blend in with the target society (Bloom 2011). Bloom (2011) notes, it is “extremely difficult to guard against an attack” because “[t]he suicide bomber is the ultimate smart bomb, a thinking and breathing missile that can change directions, cross a street, or delay detonation depending on the circumstances” (Ibid: 19).

If the whole society of a state is terrorized by suicide attacks, then national leaders have a large stake in fighting suicide terrorism. This is especially true if the country is a democracy, because the political survival of the leader will depend on the choices of the

Terrorism scholars argue that countering suicide terrorism is a Sisyphean operation (e.g. Bloom 2005, 2006, 2011; Sandler 2003). Sandler (2003) explains one way to combat suicide terrorism—deterrence:

In general, deterrence policies work best if they can create price changes associated with terrorist operations that induce terrorists to substitute from more harmful activities into less harmful ones. The presence of a corner solution for the terrorist operative and also for the terrorist leader implies that policies which reduce suicidal missions’ probabilities of success have no influence whatsoever on these agents’ choices (Enders and Sandler, 2003). This then implies that the government must either apprehend or kill suicidal terrorists for attacks to stop (Ibid. 786).

However, it is difficult to identify suicidal terrorists before they perpetrate the terrorist act because they intentionally blend in with the society of their target state. Since Bloom (2006) theorizes that suicide attacks result in increased financial flows to the organization that claims credit for the attacks, financial counterterrorism may be a more viable way to reduce the threat of suicide terrorism.

Moreover, there are several ways that suicide terrorism benefits the terrorist organization. Although terrorists are concerned with the target country’s audience, there is also an audience on the enemy side (Bloom 2006). According to Bloom (2006), suicide attacks court the enemy audience in two ways. First, suicide attacks garner media attention due to the lethality of the tactic, which provides the terrorist group with publicity. As Bloom (2006) puts it, “In a world in which, according to media lore, “if it
bleeds it leads,” terrorism bleeds a lot, and suicide terrorism even more so” (Ibid: 19). Second, suicide attacks confer legitimacy upon the terrorist organization. The legitimacy stems from the idea that a suicide terrorist believes so strongly in the cause that he or she is willing to sacrifice their own life to advance it. This “ultimate sacrifice” underscores the illegitimacy of the target state (Bloom 2006). Therefore, suicide bombers have a higher moral ground with respect to the target state in the eyes of the enemy audience (Bloom 2006). As Bloom (2006) explains:

Any costs associated with an attack (like the deaths of civilians) are mitigated by the logic that argues that the brutal state is so horrendous that its victims (the perpetrators of violence) have no other means of expressing their anger and no other avenues to channel their grievances than this ultimate sacrifice (Ibid. 46).

Because a suicide terrorist cannot rescind his decision, the legitimacy of the cause in the eyes of the enemy audience is solidified (Bloom 2006). The benefits of suicide terrorism may be especially alluring for terrorist organizations and equally costly to defender states.

The publicity and legitimacy of the suicide attack resonates with the enemy audiences and causes them to respond in two main ways (Bloom 2006). First, suicide bombing may attract new recruits to the cause of the terrorists. Second, suicide attacks attract new financial supporters to the terrorist organizations using the attacks. Bloom (2006) argues that suicide terrorist attacks can increase financial flows to the terrorist organization that claimed credit for the attack. Basing her theory on a model suggested by Bell (2003), Bloom (2006) models five sources of terrorist funding:

(1) popular support model (donations),
(2) criminal proceeds (drug dealing, bank robbery),
(3) state sponsor model,
According to Bloom’s outbidding theory, terrorist groups often compete for credit for the suicide attacks because of the financial benefits that this tactic confers on the terrorist organization (Bloom 2006).

Further, if a suicide attack increases financial support to a terrorist organization that claims credit for the attack, then a state targeted by suicide terrorists should be more interested in financial counterterrorism. Moreover, suicide terrorism is a useful tactic in attaining the process goals of the terrorist organization (Abrahms 2012). Therefore, countries that are targets of suicide attacks are more likely to comply with financial counterterrorism. Whether a terrorist group uses suicide attacks is an important variable to test. Therefore, I propose the following hypothesis:

\[ H3: \text{Compliance with financial counterterrorism will be more likely if a state is threatened by groups that use the tactic of suicide terrorism.} \]

Additionally, this is an important hypothesis to test because suicide terrorism has become a globalized phenomenon in the recent years. Pape (2003, 2005) believes that suicide terrorism is primarily nationalistic (Pape 2005). According to Pape and Feldman (2010), “The vast majority of suicide attackers carry out their attacks in their home countries, often just miles from their homes, as part of campaigns to resist foreign occupation of land they prize” (Ibid. 46). However, other studies dispute this claim. According to Moghadam (2009), “The main reason for the global spread of suicide missions lies in two related and mutually reinforcing phenomena: al-Qaeda’s transition into a global terrorist actor and the growing appeal of its guiding ideology, Salafi jihad”
Schweitzer (2006) also argues that Al-Qaeda made a “unique contribution to the spread of the epidemic around the world through its position as a role model mainly for its affiliates, Islamic terror groups, and networks” (Ibid. 132). Moreover, since suicide terrorism has transformed from a nationalistic phenomenon into a global threat, it requires a global response that the ICSOFT provides.

Conveniently, the GTD contains a dummy variable, Suicide Attack. In my study, I express the Suicide Attack variable again as a rate (SUICIDE): the number of suicide attacks perpetrated against a given state divided by the number of years from 1991 until each Mutual Evaluation Report was issued.

**Target Country Characteristics**

*Regime Type*

Regime type is a commonly used independent variable in terrorism research (i.e. Abrahms 2007; Aksoy, Carter and Wright 2012; Chenoweth 2006, 2010; Eubank and Weinberg 1994; Findley and Young 2011; Helix and Young 2012; Pape 2003, 2005; Piazza 2008, 2012, forthcoming; Sandler 1995; Walsh and Piazza 2010; Weinberg and Eubank 1998; Young and Dugan 2011; Young and Urlacher 2007). Terrorism scholars believe that democracies are at a disadvantage when it comes to fighting terrorism for two reasons (e.g. Abrahms 2007; Clarke, Beers, et al. 2006: 8; Cronin 2006: 31; Kydd and Walter 2006: 59-62; Li 2005: 278; Merom 2003: 22, 24, 46-47; Pape 2003: 7-8, 2005: 44-45; Weinberg and Eubank 1994: 417-43). First, compared to non-democracies, democracies tend to place a greater value on the lives of their citizens. As a result, democracies are more sensitive to coercion by terrorists who target civilians. Second,
democracies value their reputations. Consequently, democracies are unable to escalate their levels of violence efficiently in terms of combating terrorism. In his study about suicide terrorism, Pape (2003) explains how democracies face counterterrorism constraints:

Suicide terrorism is more likely to be employed against states with democratic political systems than authoritarian governments for several reasons. First, democracies are often thought to be especially vulnerable to coercive punishment. Domestic critics and international rivals, as well as terrorists, often view democracies as 'soft,' usually on the grounds that their publics have low thresholds of cost tolerance and high ability to affect state policy. Even if there is little evidence that democracies are easier to coerce than other regime types (Horowitz and Reiter 2001), this image of democracy matters. Since terrorists can inflict only moderate damage in comparison to even small interstate wars, terrorism can be expected to coerce only if the target state is viewed as especially vulnerable to punishment. Second, suicide terrorism is a tool of the weak, which means that, regardless of how much punishment the terrorists inflict, the target state almost always has the capacity to retaliate with far more extreme punishment or even by exterminating the terrorists' community. Accordingly, suicide terrorists must not only have high interests at stake, they must also be confident that their opponent will be at least somewhat restrained. While there are infamous exceptions, democracies have generally been more restrained in their use of force against civilians, at least since World War II (Pape 2003: 349-350).

On the other hand, some scholars disagree with the argument that democracies are more attractive targets for terrorist attacks than non-democracies (i.e. Abrahms 2007). Likewise, scholars note that selection issues impede analytical clarity on whether democracies are disproportionatenly attacked. This is because terrorist attacks are based on media reports, which are freer and more abundant in liberal countries. Indeed, authoritarian regimes have an incentive to conceal challenges to their rule, such as terrorism (Drakos and Gofas 2006).
Additionally, regime type is also an important variable in studies of international agreements (Slaughter 1995). Compliance theorists argue that democracies are more likely to comply with international agreements than non-democracies (Simmons 1998). This strand of literature is called “democratic legalism” (Simmons 1998: 83). Democratic legalism offers a compelling reason for why democracies tend to comply with international agreements. First, according to Simmons (1998):

Because liberal democratic regimes share an affinity with prevalent international legal processes and institutions, they tend to be more willing to depend on the rule of law for their external affairs as well (Ibid. 83).

Additionally, “norms regarding limited government, respect for judicial processes, and regard for constitutional constraints carry over into the realm of international politics” (Simmons 1998: 83; See also Dixon 1993). Democracies have more experience with institutions, which translates to respect for institutions on the international level (Simmons 1998). Consequently, Simmons (1998) argues:

Political leaders accustomed to constitutional constraints on their power in a domestic context are more likely to accept principled legal limits on their international behavior; therefore, governments with strong constitutional traditions, particularly those in which intragovernmental relations are rule governed, are more likely to accept rule-based constraints on their international behavior (Simmons 1998: 84; See also Doyle 1986, Dixon 1993, Fisher 1981; Raymond 1994).

Second, the leaders of liberal democracies are influenced and constrained by domestic groups who are cognizant of international obligations, laws, and rules (Simmons 1998). Some domestic interest groups may have an interest in their state fulfilling its international legal obligations (Schachter 1991; Simmons 1998; Young 1979). The domestic audience in liberal democracies raises the costs of noncompliance for political leaders (Fisher 1981; Simmons 1998). Indeed, “domestic political
constraints encouraging law-abiding behavior are assumed to be much stronger in democracies” (Simmons 1998: 85). Hence, democracies are not only expected to participate more multilaterally than non-democracies, but they are also expected to comply with international agreements more frequently than non-democracies (Simmons 1998). Further, I argue that regime type also matters because it can serve as a proxy for the government’s ability to control the various sectors involved in terrorism financing.

Given the possibility that there are inherent disadvantages of democracies fighting terrorism and a higher probability that they will comply with international agreements, we might expect democracies to comply with international agreements designed to combat terrorism at a higher rate, leading to the following hypothesis:

\( H4: \) Compliance with financial counterterrorism will be more likely if a state is a democracy.

However, the extent of a country’s compliance with financial counterterrorism (i.e. how much transparency a country has with its bank records) may be highly correlated with the regime type of the country. By definition, democracies are more transparent, allowing NGOs greater access to monitor their domestic behavior, thereby increasing compliance rates (Jacobson & Brown Weiss 1997; Sikkink 1993; Simmons 1998).

To proxy for regime type, I use the Polity2 score from the Polity IV Project, Political Regime Characteristics and Transitions, 1800-2010 database (Marshall, Jaggers, Gurr 2011). The Polity2 score is the most popular measure of a country’s regime type (Plümper and Neumayer 2010). Three factors determine the Polity2 score: the constraints placed on the chief executive, the competitiveness of political participation,
and the openness and competitiveness of executive recruitment. The variable ranges from -10 to +10, where higher values signify more democratic institutions (Marshall, Jaggers, Gurr 2011). In my study the Polity IV Project variable is DEMOCRACY1.

As a robustness check, I also use regime type data from Freedom House 2011.\textsuperscript{18} Freedom House 2011 provides a yearly measure of the degree that a country’s government controls the people it governs (Ehrhart 2011). This dataset contains regime type ratings for 204 states between 1972 and 2011.\textsuperscript{19} There are three categories: “Political Rights,” “Civil Liberties,” and “Status.” The categories “Political Rights” and “Civil Liberties” are measured on a one-to-seven scale, with one representing the highest degree of Freedom and seven the lowest (Freedom House 2011). The category “Status” has three levels: “Free” (F), “Partly Free” (PF), and “Not Free.” I also quantify the variable “Status,” where the status of “Free” (F) = 3, "Partly Free" (PF) = 2, and "Not Free" (NF) = 1, resulting in the variable DEMOCRACY2.

**Capability**

There are two compelling reasons to consider the effect of country capability on compliance with international counterterrorism agreements. First, I argue that whether or not a country complies with financial counterterrorism is based on the perceived threat of the terrorist perpetrator, which is related to the relative strength of the target country. Additionally, I argue that countries are more likely to comply with financial counterterrorism legislation because they struggle to neutralize the threat on their own.


\textsuperscript{19} The ratings for territories are not included in this database.
However, there is no consensus within the literature on the relationship between the capability of the state relative to the capability of the terrorist perpetrators. Nor is there consensus on how to operationalize capability for either kind of actor. For this reason, I use multiple indicators to proxy capability for the state actor. Second, according to theories on compliance, non-compliance with international agreements is correlated with low capacity of states. Therefore, I explain the relationship between state capability and state capacity.

The conventional wisdom is that terrorism is a weapon of the weak (Arreguin-Toft 2005; Byman and Waxman 2000, 2002; Crenshaw 1981; Dashti-Gibson, Davis, and Radcliff 1997; Drury 1998; Horowitz and Reiter 2001; Hufbauer, Schott, and Elliott 1992; Martin 1993; Merom 2003; Pape 1996, 1997, 2003, 2005; Stoker 2007; See Hendrix and Young forthcoming; Stephan and Chenoweth 2008). Therefore, it is also conventional to assume that if the perpetrator is a non-state terrorist group, then it is almost by definition weaker than any interesting state. Otherwise, the argument follows, the terrorist organization would not have to resort to terrorism. And yet there is emerging terrorism scholarship that suggests that the tactic of terrorism is ineffective relative to other means available to terrorists (i.e. Abrahms 2012; Fortna 2011; Stephan and Chenoweth 2008).

Terrorists are indeed “weak” relative to states, and yet empirical evidence topples the assumption that less capable groups are prone to terrorism. In her survey of the relevant literature, Fortna (2012) concludes, “Almost no empirical work has tested this conventional wisdom directly” (25). One study that uses case studies on the African National Congress and Liberation Tigers of Tamil Eelam finds that “[t]here does not
seem to be a particularly strong empirical relationship between the organizational strength of revolutionary groups and their use (or not) of terrorism” (Goodwin 2006: 2034).

Similarly, Humphreys and Weinstein (2006) examine rebel organizations in Sierra Leone and conclude that there is “little empirical evidence that groups condition their behavior [against civilians] on their relative strength in a region” (430). Abrahms’ (2006) case studies on al-Qaeda, Chechen, and Palestinian terrorists finds a positive correlation between the organizational capacity of terrorist groups and civilian targeting (77). Further, Abrahms (2012) finds that even after controlling for challenger strength, terrorists are still unable to achieve their desired outcomes relative to other non-state actors. Further, Asal and Rethmeyer (2008) find that significant determinants of terrorist destructiveness are membership size and the resources of the terrorist organization. Fortna (2012) finds that in civil wars, militant terrorist groups that target civilians tend to be stronger than the groups that show restraint by limiting their targets to military personnel and government actors. Likewise, Hübschle (2006) supports this finding: “Colonial terror, state terrorism, and state-sponsored terrorism certainly refute the myth that terrorism is a ‘weapon of the weak’” (15). Finally, studies find a positive correlation with civilian targeting and the capability of the terrorist group (Downes 2008: 51; Valentino, Huth, Croco 2006: 357). Given the empirical findings of these scholars, the adage that terrorism is the weapon of the weak cannot be sustained.

We might think that weaker countries would be more likely to sign international counterterrorism agreements because they would help the countries fight terrorists. Do countries have the capability to comply with international financial counterterrorism
agreements? On the other hand, weaker countries may not have the capacity to comply with the legislation they signed. To illustrate, the managerial school in compliance theory attributes the lack of capacity to non-compliance with international agreements (Arora and Cason 1995; Chayes and Chayes 1990; 1991; 1993a; 1993b, 1995; Chayes, Chayes, and Mitchell 1998; Duffy 1988; Haas, Keohane, and Levy 1993; Hawkins 1984; Keohane and Levy 1996; Mitchell 1993, 1994a; 1994b; 1995; Scholz 1984; Sparrow 1994; Young 1989, 1992; See Downs, Rocke, Barsoom 1996; Tallberg 2002). It follows that states with low capability can also be expected to have low capacity.

Weber (1946) defines the state as the organization that monopolizes the legitimate use of force within a territory, which is the most prominent definition of the state in international relations literature (See Young 2008). Young (2008) explains the relationship between a state’s capability and capacity:

The modern state has a multitude of tasks and operates in many arenas. Among other things, states tax, determine rules, and enforce laws. Whether states and the leaders who govern these political units are able to change or to enforce rules in any given area is based on their capabilities (Young 2008: 12).

Young then defines a state’s capacity as “the ability of the individuals comprising the state to enact policy outputs consistent with their preferences” (Young 2008: 12). Young’s definition comports with the definition provided by Geddes (1995: 14), which is the extent to which a state can “translate preferences into action,” and that provided by Tilly (2003: 41), which is the “extent to which governmental agents control resources, activities, and populations within the [state’s] territory” (See Young 2008). Further, Young (2008) concedes that “[t]his definition of state capacity potentially leads to tautology when attempting to use the concept as an independent variable to explain
phenomena” (12). However, actors who use violence against the state, such as terrorist groups, also have some measure of material capability, since “[w]ithout some material ability to challenge the state, violence cannot occur” (Young 2008: 12).

Consequently, state capability is not synonymous with state capacity, though they are often used interchangeably in academic papers. State capability refers to the state’s material power, while capacity refers to the state’s ability to carry out autonomous functions and international obligations. It is theoretically possible for an actor to have high levels of capability, but little capacity in certain domains. As Young (2008) aptly points out, “A state may have abundant resources but this alone does not determine its ability to implement policy” (Ibid. 13-14).

Counterterrorism is a fitting example. Countries almost always have high capabilities relative to terrorists, but struggle to mitigate the threat, reflecting weak capacity. Capacity is ipso facto evidence for the existence of some measure of capability, however, the opposite relationship does not necessarily obtain. Studies that conflate capability with capacity may be vulnerable to endogeneity problems. Moreover, states with low capacity across domains can be expected to have low capability and states with low capability will have no capacity in certain domains. States with high capacity must have at least some measure of capability, but states with high capability will not necessarily have high capacity across all domains.

In the light of the current literature, it is possible that countries with low capability would be more likely to comply with the international agreement to suppress terrorism financing because it gives them tools to combat the threat of terrorism that they otherwise lack on their own. On the other hand, the correlation between country
capability and compliance with financial counterterrorism may also be in the opposite direction. Moreover, I propose the following hypothesis:

\[ H5: \text{Compliance with financial counterterrorism is undetermined, if a state has low capability.} \]

There are many ways to proxy state capacity (See: Hendrix 2010; Hendrix and Young forthcoming; Young 2008, 2012). For example, some scholars conceptualize state capacity in terms of “economic and political resources of state power” (Young 2008: 14; See also Kugler and Domke 1986; Jaggers 1992). Hendrix (2010) articulates the problem of conceptualizing capability/capacity: "Decisions about how to best operationalize the concept of state capacity are, to a certain extent, driven by the topics that researchers are addressing, in addition to competing notions about what constitutes a strong state" (Ibid 273-274). Further, Hendrix (2010) conceptualizes three measures of state capability: "(1) military capacity, (2) bureaucratic administrative capacity, and (3) the quality and coherence of political institutions" (Ibid 273).

The Correlates of War (COW) Project contains a dataset on National Material Capabilities. There are two main shortcomings of the dataset. First, the data only cover the period 1816-2007. Second, the key composite indicator, CINC (Composite Indicator of National Capability), comprises six indicators—military expenditure, military personnel, energy consumption, iron and steel production, urban population, and total population. These indicators reflect an outdated realist approach to international relations. They may be relevant to research questions concerned with the international system or interstate war, but are inadequate for counterterrorism research.
For this reason, I use a simple measure to proxy for country capability—GDP per capita in constant terms. I use data from the World Bank, which is derived from World Bank national accounts data and OECD National Accounts data files. I create a variable GDPpc, which represents the five year average of GDP per capita in thousands of constant U.S. dollars. The five year average for each country is for the five years prior to the year that each Mutual Evaluation Report was issued.

As an extra robustness check, I additionally proxy capability in terms of military expenditure. Using data from the World Bank, I derive a 5 year average in military expenditure, as a percentage of each country’s GDP. I create the variable MILITARY. Military expenditures include all current and capital expenditures on the armed forces, defense ministries and government agencies working on defense projects, paramilitary forces, and military space activities.

United States Influence

The United States has a special interest in financial counterterrorism for two reasons. First, even before 2001, the proportion of transnational terrorist incidents that targeted U.S. interests was high. Sandler (2003) examines transnational terrorist incidents for the 1968-2002 period. He finds:

\[ \text{Attacks on US interests account for a high proportion of events, even though relatively few transnational terrorist incidents took place on US soil. In 1998 and 2000, there were no such events, while in 1999, there was just one such event (US Department of State, 1999-2001). This is especially noteworthy from a transnational externality perspective and underscores that US success in deflecting attacks abroad has \textit{not} secured the safety of US interests (Ibid. 782).} \]
Second, the United States was a target of terrorist attacks that were among the most costly for terrorists to finance. For instance, the August 2004 UN Monitoring Team Report on al-Qaeda and the Taliban estimates that each of the major terrorist attacks carried out by al-Qaeda cost less than $50,000 to finance, with the exception of the attacks of September 11, which cost half a million dollars (S/2004/67; Kaplan 2006). Therefore, the other state parties to *ICSOFT* experienced attacks that were much less costly than the major attack against the United States.

It follows, then, that the financing of terrorism would perhaps not be as much a priority of most states. And yet, we can observe that a large number of states became state parties to the *ICSOFT*. There are 132 parties and 182 signatories to *ICSOFT* as of April 2013. Could the influence of the United States translate to high compliance levels of other state parties? Because of this special interest, I evaluate whether the United States has used its influence over other countries to ensure their compliance with their *ICSOFT* treaty obligations.

Further, there is a clear correlation between the terrorist attacks of September 11 on the United States and an increased number of state parties to the *ICSOFT*. Although France was the country that proposed and drafted *ICSOFT* in 1999, there was no mechanism to monitor state compliance with the treaty until the United States became involved.\(^{20}\) In addition, the *ICSOFT* did not go into effect until April 10, 2002. Since then, a new wave of states became parties to the convention (Acharya 2009). Figure 3 in the Appendix represents the number of new signatories and parties to the *ICSOFT* each

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\(^{20}\) See "Summaries of the work of the Sixth Committee."
year in the period between 2000 and 2011. It shows that the highest number of new signatories and parties is immediately after 2001, which is directly correlated with the increased United States interest in financial counterterrorism.

Specifically, I test whether economic dependence on the United States is associated with higher levels of compliance. Simmons (1998) argues that there is an element of coercion in international treaties:

[A]greements among asymmetrically endowed actors are rarely perfectly voluntary, and the decision to conform to prescribed behavior might rest on an amalgam of obligation and felt coercion (Ibid. 78).

Similarly, Chayes and Chayes (1998) explain the relationship between the United States interest in agreements and their effectiveness:

[T]o have a chance of being effective, military and, especially, economic sanctions must have the support and participation of the most powerful states. In practice, active support if not direction by the United States is decisive for the success of any important sanctioning action (Ibid. 3).

However, the authors qualify their claim: “It is evident that the United States neither could nor would nor should play such a universal policing role for ordinary treaty obligations” (Ibid. 3).

Because the United States is a powerful state actor in the international system and may exert a disproportionate impact on the compliance of other states, I propose the following hypothesis:

\textit{H6: Compliance with financial counterterrorism will be more likely if a state is economically tied to the United States.}

There are many ways to proxy the influence of the United States. For example, U.S. influence can be proxied in economic terms—as foreign aid, foreign direct
investment (FDI), or bilateral trade. A good reason to eschew measuring U.S. influence in terms of FDI is that terrorism actually causes FDI to decrease. For instance, Enders, Sachsida, and Sandler (2006) investigate the extent that transnational terrorist attacks altered U.S. foreign direct investment. They find that terrorist attacks against U.S. interests abroad had a significant impact on FDI stocks in OECD countries. Further, they argue that "terrorist efforts to limit U.S. FDI have been cost-effective" (517). FDI therefore, is not an appropriate measure of U.S. influence in financial counterterrorism. If FDI decreases as a result of terrorism, then the United States is not likely to use FDI to influence other countries on counterterrorism policies that reflect U.S. interests.

Moreover, I proxy United States influence using bilateral trade flows between the United States and the other countries in the sample. I use data from the United States Department of Commerce and United States' Census Bureau. The variable TRADE1 denotes the five-year average United States bilateral trade in thousands of dollars. The five year average for each country is for the five years prior to the year that each Mutual Evaluation Report was issued. I then adjust my measure for inflation, using the World Bank GDP deflator.

For a robustness check, I use data from the COW International Trade, 1870-2009 (v3.0) dataset. The data set covers the period 1870-2009 and includes annual dyadic and national trade figures for countries contained within the Correlates of War Project. The variable TRADE2 represents the sum of dyadic imports and dyadic exports between the United States and other countries on a five-year average. It is expressed in thousands of current dollars.
CHAPTER 4: QUANTITATIVE ANALYSIS

To assess the determinants of government compliance with *ICSOFT*, I examine a sample of 161 countries between 2004 and 2011. The dependent variable is the compliance rate in *Mutual Assessment Reports* issued by the Financial Action Task Force (FATF). FATF rates countries on a score between 1 (not compliant) and 4 (fully compliant). Due to the discrete nature of the dependent variable, I employ an ordered logit model. Below I discuss my results in terms of which independent variables have a statistically significant impact on our dependent variable.

My findings are counter to the common assumptions about compliance, terrorism, and financial counterterrorism. Surprisingly, only one of my hypotheses has strong empirical support. The results strongly indicate that the most important factor for whether a country complies with this important piece of legislation is United States influence. Across model specifications, the amount of trade between the United States and the other countries best predicts whether they will comply.

**RESULTS**

Tables 10 and 11 present the results of my two main models. In Table 10, I calculate the dependent variable COMPLIANCE1 as an average of *IX Special Recommendations* compliance scores, rounded to the nearest integer. In Table 11, by contrast, the dependent variable COMPLIANCE2 is the mode. That is, the dependent variable is the most common compliance score on each of the *IX Special Recommendations*. In both models, my key independent variable of interest—bilateral trade with the United States on a 5 year average—is highly statistically significant (p<0.01). In other words, my
estimates suggest that there is less than a 1 percent chance that trade with the United States does not increase the odds of compliance. No other variable is statistically significant. With the exception of regime type (DEMOCRACY1), which I proxy with Polity IV data, no other variable even reaches statistical significance at the conventional level. Whereas regime type (DEMOCRACY1) is statistically significant when the dependent variable is calculated in terms of the mode (COMPLIANCE1), its significance is reduced when the dependent variable is assessed as an average (COMPLIANCE2).

To further scrutinize the relationship between U.S. trade and compliance, I re-ran the data in numerous ways. Across specifications, U.S. trade has an unmistakable impact on the degree of cooperation. Below, I explicate the valance of my findings with descriptions of each model specification.

**ROBUSTNESS CHECKS**

Tables 12 and 13 employ a different data source for U.S. trade. Whereas my benchmark models (Tables 10-11) rely on data from the United States’ Census Bureau, Tables 12 and 13 rely on data from COW International Trade, 1870-2009 (v3.0). I employ multiple datasets for my key independent variable to ensure that the results are not an artifact of quirks in the collection process. The results are substantively identical across data sources. In these models, too, trade (TRADE2) is highly statistically significant, unlike any of the other variables tested, with the exception of the regime type variable (DEMOCRACY1).

Tables 14 and 15 are identical to the previous models in Tables 10 and 11, but they employ a different data source for one of the control variables. When information on
regime type comes from Freedom House 2011 (DEMOCRACY2), as opposed to Polity IV (DEMOCRACY1), the coefficients for trade with the U.S. (TRADE1) remain unaffected. The regime type variable (DEMOCRACY2) itself appears to gain statistical significance in these tests, perhaps because Freedom House 2011 employs a less nuanced method for categorizing countries. Whereas Polity IV assesses the regime type of countries on a 21-point scale, Freedom House 2011 scores take on one of three statuses: free (3), partly free (2), or not free (1). In these two models, the rate of terrorist attacks (ATTACKS1) takes on significance \((p \leq 0.05)\), though it is not significant in most of the models, including the main two models. These tests suggest that while regime type may exert some impact on the odds of compliance, U.S. influence in terms of bilateral trade consistently remains a highly significant factor.

Tables 16 and 17 subject my finding to additional tests. In particular, these tables employ a different proxy for another important control variable in my study—country capability. Whereas in previous models, I proxy capability in terms of GDP per capita on a five-year average (GDPpc), in these models, capability I measured as military expenditure (MILITARY) as a percentage of the country’s GDP, on a five-year average. In these models, the importance of trade is undiminished. In this model, the regime type variable (DEMOCRACY1) is also significant. These models serve to demonstrate that trade is not only a robust variable, but generally the most statistically significant, with the notable exception of the regime type variable.

As an additional robustness check, I was also highly attuned to the prospect of multicollinearity affecting my results. For this reason, I re-ran multiple models in which I dropped independent variables that were highly correlated with each other (See Tables
For instance, in Tables 18 and 19, I dropped the variables pertaining to transnational attacks (TRANSNATIONAL) and suicide attacks (SUICIDE). In Tables 20 and 21, I dropped the variables pertaining to rate of terrorist attacks by victim nationality (ATTACKS1) and suicide attacks (SUICIDE). In Tables 22 and 23, I dropped the variables pertaining to rate of attacks by victim nationality (ATTACKS1) and transnational attacks (TRANSNATIONAL). Trade with the United States (TRADE1) is the only variable in these models that is consistently highly statistically significant (p ≤ 0.01).

Finally, I check the robustness of my findings by experimenting with the variable relating to the severity of the terrorist threat confronting the target country. I examine this variable carefully because other researchers are liable to believe that compliance rates are a function of the terrorism threat. However, my results offer no empirical basis for this assumption. When the terrorist threat is proxied as the rate of terrorist attacks by the country location (ATTACKS2), this variable proves statistically insignificant (See Tables 24 and 25). Similarly, when that potential explanation is proxied as the rate of terrorist attacks by the victim nationality, this variable also proves statistically insignificant (See Tables 10 and 11). Figure 4 presents additional empirical evidence that the nature of the terrorism threat is not the most important determinant of whether countries comply with the American counterterrorism regime. Specifically, they illustrate that relatively few countries are within the sights of either Al-Qaeda or the Taliban. Although Americans understandably fixate on these terrorist groups, other countries are subject to other kinds of terrorism threats—a point which I emphasize in Chapter 6: Qualitative Analysis. The relative absence of the Al-Qaeda/Taliban threat is
manifest in this figure, regardless of whether the threat is measured in terms of the country location or victim nationality. The most salient takeaway is that only 22 percent of countries that participated in financial counterterrorism were attacked by either al-Qaeda, Taliban, or both between 1991 and 2011 (See Figure 4).

Because using the average (COMPLIANCE1) or mode (COMPLIACE2) of the IX Special Recommendations scores may truncate my data, I also ran nine separate models for each individual special recommendation. The nine models are identical to the models used in Tables 10 and 11 with one major exception—the dependent variables are different. Instead of using COMPLIANCE1 and COMPLIANCE2, I ran the models with each individual special recommendation as the dependent variable in each model (i.e. SRI, SRII, SRIII, SRIV, SRV, SRVI, SRVII, SRVIII, SRIX). Table 26 summarizes the regression results. Again, U.S. influence as proxied by bilateral trade with the U.S. (TRADE1) is highly significant across most models (at either $p \leq 0.01$ or $p \leq 0.05$), unlike all the other variables, including regime type (DEMOCRACY1), which is significant in some models at a lower significance level than TRADE1.

In sum, the regression analysis repeatedly indicates that compliance hinges on one main factor—U.S. influence, which I proxy largely in terms of bilateral trade. The estimates hold when alternative measures are used for my key independent variable, as well as for my control variables. The results are equally strong when the dependent variable is calculated as either an average or a mode. Clearly, trade has an independent positive effect on whether countries participate in the American counterterrorism regime and comply with its requirements. To gain insight, however, into the substantive impact
of American influence, I also assess the marginal effects of trade, holding all other variables at their mean.

**SUBSTANTIVE EFFECTS**

Tables 27-32 show the substantive effects of the U.S. influence trade variable (TRADE1). Table 27 shows the factor change in odds for the first model (from Table 10), where the dependent variable is the average compliance rate on all nine special recommendations (COMPLIANCE1). As Table 27 illustrates, one unit increase in TRADE1—which is a 1,000 dollar increase in the 5 year average of trade with the United States—leads to, on average, a 13% increase in the odds of moving from one category to the next one above it in the average compliance score on all nine recommendations (COMPLIANCE1).

Table 28 shows the percentage change in odds for the first model (from Table 10), where the dependent variable is the average compliance rate on all nine special recommendations (COMPLIANCE1). Table 29 shows the factor change in odds for the second main model (from Table 11), where the dependent variable is the modal compliance rate on all nine special recommendations (COMPLIANCE2). As Table 29 illustrates, one unit increase in TRADE1—which is a 1,000 dollar increase in the 5 year average of trade with the United States—leads to, on average, a 6.8% increase in the odds of moving from one category to the next one above it in the modal compliance score on all nine recommendations (COMPLIANCE2).

Table 30 shows the percentage change in odds for the second main model (from Table 11), where the dependent variable is the modal compliance rate on all nine special
recommendations (COMPLIANCE2). Table 31 shows the change in probabilities for the dependent variable COMPLIANCE1, focusing on the key independent variable of interest, TRADE1. Table 31 illustrates that a one unit increase in TRADE1 leads to an average about a 1.5% increase in the probability of moving from one category to the next, when the dependent variable is COMPLIANCE1. Table 32 shows the change in probabilities for the dependent variable COMPLIANCE2, focusing on the key independent variable of interest, TRADE1. Table 32 illustrates that a one unit increase in TRADE1 leads to an average about a .7% increase in the probability of moving from one category to the next, when the dependent variable is COMPLIANCE2.

**CONCLUSIONS**

The influence of the United States, proxied as bilateral trade with the United States on a five-year-average, is the most robust and highly statistically significant result across model specifications. However, regime type was also statistically significant in at least some of the models. The regime type finding is consistent with the literature on compliance. Specifically, compliance theorists argue that democracies are more likely to comply with international agreements than non-democracies for two main reasons (Simmons 1998; Slaughter 1995). First, democratic regimes are familiar with international legal processes and institutions and tend to favor the rule of law in their international interactions (Simmons 1998). Second, leaders of democracies are influenced and constrained by domestic groups who are cognizant of international obligations, laws, and rules (Ibid.). This finding, therefore, is not surprising.
For several reasons, I focus in the remainder of the dissertation on the more interesting finding—that the influence of the United States, in terms of bilateral trade, has a significant impact on country compliance with financial counterterrorism. First, there is already a massive literature on how regime type affects cooperation between countries. The research on democratic peace theory, and liberalism more generally, focuses on regime type extensively. Second, the other finding is much more intrinsically interesting and much more promising to pursue in order to contribute to the international relations literature. Third, the finding that trade with the U.S. has an impact on compliance with financial counterterrorism is more policy relevant. Policy relevance depends on which choices are available to policy makers in order to create their preferred outcomes. Clearly, it is easier to manipulate our own levels of trade than it is to liberalize foreign countries by a certain point on the Polity IV scale. Fourth, the primary source documents have comparatively little to say on regime type, whereas U.S. influence in terms of bilateral trade has a lot more data availability (See Chapter 5: Qualitative Analysis). These documents have much more to say about financial and economic statecraft.
CHAPTER 5: QUALITATIVE ANALYSIS

In previous chapters, I explained how my causal mechanism can account for the quantitative results as well as its basis within the broader international relations literature. In this chapter, I further substantiate my causal mechanism through qualitative analysis. Specifically, I will be process tracing the causal mechanism by examining primary source documents, supplemented with the secondary literature. The primary sources include speeches and memoirs of leaders, government-issued statements and documents, minutes from official meetings in international forums, and legislative texts of treaties and resolutions. The secondary sources include news reports and analyses of financial counterterrorism from practitioners in the field.

Empirical support for my theory manifests itself in four distinct points. First, the United States had a particularly pronounced interest in financial counterterrorism. Second, the United States employed international trade as a counterterrorism tool. Third, the United States exerted pressure on other countries to both ratify the financial counterterrorism treaty (ICSOFT) and to comply with FATF’s IX Special Recommendations. Fourth, the other countries were keenly aware that the United States spearheaded the financial counterterrorism campaign and felt at least some pressure or incentive to adjust their behavior in accordance with U.S. preferences. For added analytical clarity, I will also scrutinize these points with respect to an intrinsically important case—China.
U.S. INTEREST IN FINANCIAL COUNTERTERRORISM

The United States has a special interest in financial counterterrorism. This interest preceded the attacks of 9/11, but intensified in the aftermath of that watershed event. U.S. interest in financial counterterrorism increased dramatically in 2004, when financial counterterrorism took the particular form that is the subject of this dissertation: FATF’s IX Special Recommendations on Terrorism Financing. Below, I provide detailed evidence of the U.S. special interest by tracing its historical evolution and explicating its strategic basis.

The United States has historically been disproportionately interested in international cooperation to fight terrorism. This interest is no doubt related to the United States’ status as a hegemon. With diplomatic and military assets all over the globe, the U.S. has been a frequent target of international terrorist organizations. Because the U.S. has a larger international presence than any other country, terrorists can target the United States abroad with relative ease. According to Sandler and Enders (2004),

[A]ttacks against US interests account for a relatively high proportion of [transnational terrorism] events. This is particularly noteworthy from an externality viewpoint because relatively few incidents take place on U.S. soil—in 1998 and 2000, there were no such events, while, in 1999, there was just one such event (4).

In a related study, Enders and Sandler (2004) report:

Most terrorist events directed against the United States do not occur on U.S. soil. The kidnapping and murder of reporter David Pearl in Pakistan, the destruction of the Al Khubar Towers housing US airmen in June 1996 near Dhahran, Saudi Arabia, and the bombs destroying the U.S. embassies in Kenya and Tanzania in August 1998 are but three gruesome examples of transnational terrorism (3).
In another way, too, the hegemonic status of the United States strengthens its interest in international financial counterterrorism cooperation. American hegemony evokes strong passions—often negative—from aggrieved groups around the globe. Johnson (2001), a critic of American hegemony, explains how it frequently results in “blowback.” The term blowback "refers to the unintended consequences of policies that were kept secret from the American people that the daily press reports as the malign acts of 'terrorists,' or 'drug lords' or 'rogue states' or 'illegal arms merchants' often turn out to be blowback from earlier American operations” (8). Johnson elaborates:

American military forces could have been withdrawn from Italy, as well as from other foreign bases, long ago. That they were not and that Washington instead is doing everything in its considerable powers to perpetuate Cold War structures, even without the Cold War's justification, places such overseas deployments in a new light. They have become striking evidence, for those who care to look, of an imperial project that the Cold War obscured. The byproducts of this project are likely to build up reservoirs of resentment against all Americans-tourists, students, and businessmen, as well as members of the armed forces-that can have lethal results (5).

The terrorism literature lends strong support to the argument that the hegemony of the United States makes it strikingly vulnerable to terrorism. In their study on suicide terrorism, Pape and Feldman (2010) find “[s]trong confirmation for the hypothesis that military occupation is the main factor driving suicide terrorism. The stationing of foreign combat forces (ground and tactical air force units) on territory that terrorists prize accounts for 87% of the over 1,800 suicide terrorist attacks around the world since 2004” (Pape and Feldman 2010: 10). They maintain:
Instead of religion, what over 95% of all suicide terrorist attacks before 2004 had in common was a strategic goal: to compel a democratic state to withdraw combat forces that are threatening territory that the terrorists’ prize. From Lebanon to Sri Lanka to the West Bank to Chechnya, the central goal of every suicide terrorist campaign has been to resist military occupation by a democracy (Ibid. 9).

For these reasons, the hegemony of the United States makes it a favored target country of international terrorist organizations. As such, U.S. counterterrorism policy since even before 9/11 has tried to solicit the cooperation and assistance of foreign countries in their efforts to fight terrorism. Because the terrorism threat that the United States faces is unusually international relative to that of perhaps any other countries, the United States has sought to foster their counterterrorism cooperation.

Given that the United States is a hegemon and therefore a likely target of transnational terrorism, it follows that its favored counterterrorism policy would be the suppression of terrorism financing. Enders and Sandler (2004) argue that counterterrorism policies can have an “income effect,” “substitution effect,” or both:

Each anti-terrorism policy can influence a terrorist group’s choice of operations by either affecting their resources or the relative costliness of different kinds of attacks. (…) The income effect involves the overall level of available resources – e.g., freezing terrorists’ assets reduces their “war chest” and their overall ability to conduct a campaign of terror. If a government action increases the resource outlays necessary to undertake a particular type of operation, then there is a motive to substitute into some less costly operation that achieves a similar outcome at less cost (2).

The policy implication that stems from their argument is that a counterterrorism campaign must be long-lived, so that the terrorist organization cannot regroup or replenish its resources, and it must raise “the price of all modes of terrorist attacks and/or
in reducing terrorists’ resources would induce them to shift into legal protests and other nonterrorist actions to air grievances” (18). This approach was echoed by President George W. Bush, particularly after the attacks of 9/11:

So I told the American people we will direct every resource at our command to win the war against terrorists: every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding, turn them against each other, rout them out of their safe hiding places and bring them to justice.21

Although the United States was interested in financial counterterrorism prior to the attacks of 9/11, the Clinton administration was unable to generate cooperation on financial counterterrorism for a couple of reasons. First, the initial financial counterterrorism initiatives were met with domestic opposition from business and financial sectors due to the regulatory nature of the initiatives. Second, the United States had a deficit of influence in the United Nations and instead opted for bilateral counterterrorism agreements.

In particular, after two U.S. embassies were bombed in 1998 in Kenya and Tanzania, which resulted in 224 fatalities and more than 5,000 casualties, the Clinton administration unsuccessfully tried to implement both domestic and international measures to suppress terrorism financing (Seper 1998). First, the domestic climate of increased regulation of the financial industry in the 1990s was met with opposition from the financial community (Eckert and Biersteker 2007). Specifically, domestic businesses opposed additional Bank Secrecy Act (BSA) regulations. The anti-regulatory sentiments

were so strong that in 2000 legislation was proposed to weaken some elements of the BSA. Even the Bush Administration opposed heavy regulations of the financial industry at the beginning of the president’s tenure in office (Eckert and Biersteker 2007).

Second, the Clinton administration unsuccessfully tried to use its influence in the United Nations to develop a financial counterterrorism framework. It was France, however, not the United States, who drafted the *International Convention for the Suppression of the Financing of Terrorism* in the United Nations Sixth Committee.\(^{22}\) Even though the United States was a permanent member of the United Nations Security Council, the U.S. had scant influence in the organization when France proposed *ICSOFT* to the UN General Assembly. This deficit in influence was caused in part by the U.S. falling “several hundred million dollars behind” in membership dues (Albright 170). Madeline Albright, the UN Representative to the United States when UN’s Sixth Committee was charged with creating a financial counterterrorism regime, recalled:

> Because of its makeup, the UN was vulnerable to allegations it was a semi-useless talk show filled with diplomats accumulating New York City parking tickets they never paid. Over the years, congressional skepticism and micromanagement had caused the United States to fall several hundred million dollars behind in paying what we owed to the UN. This fact proved a constant headache. Every time I demanded that other countries meet their international obligations, I was reminded that my country was violating its own commitments. Even the normally sympathetic British took to using a line they must have been waiting two hundred years to deliver—accusing the United States of seeking ‘representation without taxation’ (170).\(^{23}\)


The fact that U.S. influence was constrained in the United Nations when the United States was behind on its dues is consistent with the theoretical literature on hegemony. After all, a hegemon can only maintain its status when willing to leverage its economic and technological power to underwrite order in the international system. Additionally, international institutions are arguably only as effective as the hegemonic power wishes them to be.

The American influence deficit in the United Nations weakened the treaty. The financial counterterrorism regime that the *ICSOFT* treaty was intended to create was therefore inefficacious. Namely, *ICSOFT* could not come into force until 22 countries deposited their instruments of ratification.[^24] Support for ICSOFT was scarce before the attacks of 9/11—only 4 countries have deposited their instruments of ratification.[^25] Furthermore, the paltry international participation forestalled the creation of a system to monitor country compliance with the treaty.

Two events, however, were crucial to the development of the financial counterterrorism regime. First, the United States regained its influence in the United Nations. Richard C. Holbrooke became the UN representative for the United States and brokered a deal to pay back U.S. membership dues to the United Nations. The deal saved U.S. voting rights at the Security Council and restored the legitimacy of the United States

in the organization.\textsuperscript{26} The effect of Holbrooke’s deal was immediately evident in the United States’ ability to muster support in the Security Council for resolutions that were crucial to U.S. interests. For example, in 1999 the United Nations Security Council passed Resolutions 1267 and Resolution 1333 in 2000. Both resolutions used sanctions to target the financial assets of the Taliban, al Qaeda, and Osama bin Laden.\textsuperscript{27} The resolutions were unprecedented—sanctions against individuals and organizations, as opposed to sovereign nations, have never been used. Since the UN Security Council requires 9 out of 15 votes and any of the five permanent UNSC members can veto a resolution, this indicates that the United States was finally able to get what it wanted in the Security Council.

Second, the attacks of 9/11 both intensified the United States interest in financial counterterrorism and served as the impetus to garner international cooperation. The 9/11 attacks clearly illustrated the perils of international terrorism and the requirement for the United States to have allies in the resultant “war on terrorism.” Ambassador Francis X. Taylor, Coordinator for Counterterrorism, summarized this position at the National Foreign Policy Conference for Leaders of Nongovernmental Organizations on October 26, 2001:

The nations of the world are banding together to eliminate the scourge of terrorism. Numerous multilateral organizations have issued declarations of support, including the United Nations, the European Union, the Organization of American States, the Organization of African Unity, and


many others have expressed their strong solidarity. We recognize that al-Qaida could not have carried out such attacks--planned over a period of years--without relying on an extensive support network around the world. A global response is thus essential.28

Although the Bush administration is not commonly associated with multilateralism, or adherence to multilateral regimes, it regarded this particular piece of legislation (ICSOFT) as an essential component in the war on terrorism even beyond economic sanctions.

Additionally, the 9/11 attacks oriented the U.S. towards international financial counterterrorism because the al-Qaeda attacks were unprecedented in financial costs to perpetrate. As an illustration, the UN Monitoring Team Report on al-Qaeda and the Taliban estimated in 2004 the costs of other major terrorist operations:

- Madrid train bombings, March 11, 2004: $10,000
- Istanbul truck bomb attacks, November 15 and 20, 2003: $40,000
- Jakarta JW Marriott Hotel bombing, August 5, 2003: $30,000
- Bali bombings, October 12, 2002: $50,000
- USS Cole attack, October 12, 2000: $10,000
- East Africa embassy bombings, August 7, 1998: $50,00029

By contrast, the 9/11 Commission Report (2004) estimated that “The 9/11 plotters spent somewhere between $400,000 and $500,000 to plan and conduct their attack” (172).

This figure does not even take into account the costs to al-Qaeda pre-9/11. According to the Commission, “It cost al-Qaeda about $30 million per year to sustain its activities

before 9/11” (169-70). The Bush administration was therefore deeply cognizant of the importance of the suppression of terrorism financing. This awareness is reflected in numerous remarks from the White House and the Department of State. Notably, in a discussion on the global campaign against terrorism on December 19, 2001, Ambassador Francis X. Taylor remarked:

The September 11 terrorists apparently had enough money to make their preparations many months, if not years, in advance. We are therefore encouraging other countries to join in our efforts to clamp down on terrorist fund raising and money transfers. Funding is a critical element in these large-scale terrorist operations and in the recruiting of supporters. We need to choke it off.\(^{30}\)

In essence, the Bush administration concluded that funding was the core subsistence of its preeminent terrorist threat—al-Qaeda—and that U.S. national security hence necessitated cooperation from other countries on financial counterterrorism.

The attacks of 9/11 were comparatively expensive because, unlike insurgent violence, the terrorists lacked a pool of available and willing recruits from the local population from which to draw support. The 9/11 Commission Report (2004) states that “[n]o credible evidence exists that the hijackers received any substantial funding from any person in the United States” (138).\(^{31}\) Instead, the attacks of 9/11 required individuals to be sponsored remotely by a terrorist organization abroad. Thus, al-Qaeda’s 9/11 expenditure included the living expenses of potential hijackers in the West, flying lessons

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and other special skills training, safe havens abroad, and travel. Al-Qaeda also bankrolled a number of plot facilitators and operatives who provided logistical assistance to the hijackers.\(^{32}\) Money used to bring the attacks of 9/11 to fruition was channeled through United States’ own financial infrastructure. According to the National Commission on Terrorist Attacks Upon the United States (2004):

Al Qaeda funded the hijackers in the United States by three primary and unexceptional means: (1) wire or bank-to-bank transfers from overseas to the United States, (2) the physical transportation of cash or traveler’s checks into the United States, and (3) the use of debit or credit cards to access funds held in foreign financial institutions. Once here, all the hijackers used the U.S. banking system to store their funds and facilitate their transactions (133).

Moreover, the hijackers extensively used American banks upon their arrival. Indeed, the commission reported that the hijackers “chose branches of major international banks, such as Bank of America and SunTrust, and smaller regional banks, such as the Hudson United Bank and Dime Savings Bank in New Jersey” (Ibid. 140). In addition, “[t]he hijackers were not experts on the use of the U.S. financial system” (Ibid. 140). On the contrary, the terrorists required at least an hour with a teller to understand the simple process of wiring money (Ibid.) The National Commission (2004) further underscores the importance of terrorism financing to the 9/11 plot:

The hijackers’ efforts during their final days to consolidate and return funds to al Qaeda reflect their recognition of the importance of money to the organization. Although some of the hijackers did squander relatively small amounts on superfluous purchases, including pornography, they

generally consumed little, and plot leader Atta was especially frugal (Ibid. 140).

Since the terrorists relied heavily on the United States’ international banks to finance their activities, required no special financial expertise, and even helpfully returned unused funds to the organization, it is hardly surprising that the United States would take terrorism financing seriously.

Given that the price tag of terrorism against the United States reached an unrivaled level, the United States became the flagship of financial counterterrorism. The United States used its hegemonic status to foster multilateral counterterrorism. As U.S. President George W. Bush remarked on September 24, 2001 in the Rose Garden: “We will lead by example. We will work with the world against terrorism. Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment.”

Global cooperation to suppress terrorism financing, therefore, became a defining counterterrorism approach of the Bush administration.

**UNITED STATES COUNTERS TERRORISM WITH TRADE**

High-ranking officials in the Bush administration, especially United States Trade Representative Robert B. Zoellick, explicitly stated on numerous occasions that the United States will use trade as a counterterrorism instrument. In his September 20, 2001 essay, "Countering Terror With Trade," Zoellick argued:

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Congress also should reauthorize critical trade preference legislation for Andean democracies struggling against internal threats and for other developing nations relying on open markets to counter those who can destroy but not build. And most important, Congress needs to enact U.S. trade promotion authority so America can negotiate agreements that advance the causes of openness, development and growth. It is a sad irony that just as the old world of bipolar blocs faded into history and the new world of globalization fast-forwarded, the United States let its trade promotion authority lapse… America's trade leadership can build a coalition of countries that cherish liberty in all its aspects. Open markets are vital for developing nations, many of them fragile democracies that rely on the international economy to overcome poverty and create opportunity; we need answers for those who ask for economic hope to counter internal threats to our common values. To address the relationship between trade agreements and other international objectives, the president has proposed that we build on openness and growth in developing countries with a toolbox of cooperative policies.\footnote{Zoellick, Robert. "Countering terror with trade." \textit{Washington Post} 20 (2001): A35. Emphasis added.}

Similarly, President Bush has also stated that his policy is to use trade to counter terrorism: "The terrorists attacked the World Trade Center, and we will defeat them by expanding and encouraging world trade."\footnote{Gedda, George. "Besides trade, Bush talking up war on terrorism at Pacific Rim conference in China." \textit{Associated Press}, 10 19, 2001. http://lubbockonline.com/stories/101901/wor_101901038.shtml (accessed September 7, 2013).} As a result, large portions of Bush’s National Security Strategy of the United States of America (2005, 2006) were devoted to terrorism, free markets, and free trade. Likewise, Bush’s National Strategy for Combating Terrorism (2003) focused on not only denying "sponsorship, support, and sanctuary to terrorists," but also diminishing "the underlying conditions that terrorists seek to exploit" (17, 22). In the eyes of the Bush administration, failing states were the petri dish for terrorism and free trade was the prescription.

The policy of using trade to counterterrorism was widely criticized. For example, as Ed Gresser (2003) argued:
Shortly after the September 11 terrorist attacks, the Bush administration speculated that trade policy could help fight terrorism. The theory is good—but in practice, current trade policy is at best irrelevant to the terror campaign, and at worst working against it.\(^\text{37}\)

Likewise, Marc A. Miles stated in a testimony before the Committee on International Relations, House of Representatives:

> Experience has demonstrated that development assistance (i.e., government-to-government assistance intended to catalyze development in poor nations) is not a key factor in increasing economic growth in underdeveloped countries. On the contrary, development assistance has often proved to be counterproductive. Whether it is skimmed off by corruption, kept beyond the reach of poorer inhabitants due to regulations, or access is denied due to a lack of property rights or rigid credit markets, traditional aid usually fails to reach those below the top rungs. The lack of lasting impact is a demonstrable fact.\(^\text{38}\)

Other critics in academia argue that trade is problematic as a counterterrorism tool. For example, Moore and Schrank (2003) argue that using trade may actually backfire and magnify the terrorist threat:

> In fact, the lessons of history are clear. Trade alone will tend to underpin—rather than to undermine—preexisting social and political arrangements. . . . If trade and aid are offered conditionally (i.e., as a quid pro quo for political or foreign policy reform), they risk igniting a nationalist, anti-American, and quite possibly Islamist backlash—particularly if the conditions are perceived to benefit the United States or Israel rather than Arab firms, investors, and citizens. If they are offered unconditionally, however, they threaten to do little more than enrich

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\(^{38}\) The testimony of Marc A. Miles before the Committee on International Relations, House of Representatives, See [www.house.gov/international_relations/108/mile022604.htm](http://www.house.gov/international_relations/108/mile022604.htm), as quoted by Looney, Robert E. "US Middle East economic policy: The use of free trade areas in the war on terrorism." *Mediterranean Quarterly* 16, no. 3 (2005): 102-117.
already powerful and self-serving elites and to thereby undermine the prospects for peace and prosperity in the Middle East. 39

The strategy of countering terrorism with trade was soon explored ad nausea in the empirical terrorism literature. Scholars judged the efficacy of Bush’s economic counterterrorism policy with the research inquiry: Is poverty linked to terrorism? Recent empirical scholarship has not found any support for the hypothesis that there is a link between economic deprivation and terrorism (e.g. Berrebi, 2007; Fair & Haqqani, 2006; Krueger & Maleckova, 2003; Sageman, 2004). For example, Piazza (2006) find that "[t]he findings are that, contrary to popular opinion, no significant relationship between any of the measures of economic development and terrorism can be determined" (159). Piazza also finds that “minority economic discrimination to be a strong and substantive predictor of domestic terrorism vis-a`-vis the general level of economic development” (339). Likewise, Krueger and Maleckova (2003) find that the support for violent attacks does not decrease among groups that have higher living standards. Similarly, Abadie (2004) finds that “terrorist risk is not significantly higher for poorer countries, once the effects of other country-specific characteristics such as the level of political freedom are taken into account” (1).

There is an inherent value of a research agenda that examines the causes of terrorism, because it is critical to determining the correct counterterrorism policy responses from governments. However, the scholars who discount the effectiveness of trade as a counterterrorism tool may be shortsighted. As my quantitative section

demonstrates, trade can be a powerful counterterrorism tool, but only if it is wielded at other countries whose counterterrorism cooperation is desired.

I argue that the critics of economic counterterrorism miss the point. There is value in using trade as a counterterrorism tool. Evaluation of this strategy’s efficacy should not be concerned with questions of whether or not would-be terrorists are better off economically. Nor should they be concerned with whether or not there is empirical support for the link between economic depravity and terrorism. I argue, instead, that the targets of the trade-as-counterterrorism policy are not people who may become terrorists, but rather other countries. The value of using trade to counterterror lies in getting other countries to tow the line on other United States counterterrorism measures, such as financial counterterrorism. It should not be surprising, therefore, that the United States under Bush “has announced that countries seeking free-trade agreements with the United States must cooperate with Washington on foreign policy and security issues” (Looney 2005: 114).

**THE U.S. FINANCIAL COUNTERTERRORISM CAMPAIGN**

The United States exerted pressure on other countries both to ratify the financial counterterrorism treaty (*ICSOFT*) and to comply with FATF’s *IX Special Recommendations*. The United States actively solicited other countries to comply with financial counterterrorism. Besides raising the other countries’ awareness about terrorism financing through diplomacy, the United States primarily used bilateral trade to influence other countries to comply with financial counterterrorism. Although other economic means of influence—such as foreign aid, military aid, or federal direct
investment may have some impact—these fall beyond the scope of my study. However, my qualitative examination of United States influence on other countries in financial counterterrorism indicates that bilateral trade was the most important tool in the U.S. arsenal.

Based on the preferences of the United States, which I explained in the previous section, the United States engaged in behavior designed to elevate the chances of international cooperation. There is evidence that the United States acted in a way that would implement these preferences for international cooperation. The United States actively campaigned for individual countries to ratify ICSoft. In particular, the campaign to conduct other countries to ratify ICSoft corresponds with Special Recommendation I: Ratification and implementation of UN instruments. Accordingly, Special Recommendation I requires that:

> Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.40

The early U.S. financial counterterrorism campaign efforts were therefore driven by this important special recommendation. Additionally, the United States lobbied other countries to allow the Financial Action Task Force (FATF) to assess and evaluate the countries’ compliance with all nine of FATF’s Special Recommendations, and to make any and all domestic changes to comply with these financial counterterrorism instruments.

The primary sources are packed full of assertions by high-level U.S. government officials emphasizing the importance of multilateral cooperation for financial counterterrorism.

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40 See Appendix III, IX Special Recommendations: Names and Definitions.
High-level officials in the George W. Bush Administration made no secret that the United States launched a global financial counterterrorism campaign. Indeed, his National Security Strategy (2002) details the plans of the United States to launch an international campaign against terrorism financing and influence other countries:

We will continue to encourage our regional partners to take up a coordinated effort that isolates the terrorists. Once the regional campaign localizes the threat to a particular state, we will help ensure the state has the military, law enforcement, political, and financial tools necessary to finish the task. The United States will continue to work with our allies to disrupt the financing of terrorism. We will identify and block the sources of funding for terrorism, freeze the assets of terrorists and those who support them, deny terrorists access to the international financial system, protect legitimate charities from being abused by terrorists, and prevent the movement of terrorists’ assets through alternative financial networks.

This broad strategy to campaign other countries to suppress terrorism financing is echoed by other high-level Bush administration officials. Ambassador Taylor, Coordinator for Counterterrorism, stated at a press conference on U.S.-China counterterrorism cooperation:

When the President announced our campaign against terrorism he said that it was going to be a very unique campaign from what people had generally seen in any sort of campaign. As a retired military officer, it’s generally the case that when people think of campaigns, they think of military campaigns. The President said that this campaign would use diplomatic, economic, law enforcement and intelligence capabilities, as well as military capability, of the United States and our partners as we took on this worldwide menace called terrorism.  

Ambassador Taylor referred to ICSOFT in 2001:

Using this and other legislation as a potential model, we have encouraged and will continue to encourage other countries to tighten up their own laws and regulations in order to curb terrorist fund raising and money transfers. Britain already has done so, and other countries, such as Greece, have new

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counterterrorism laws or proposed legislation in various stages of consideration. We have met with officials of some of these countries them to discuss AEDPA and other laws, and to exchange ideas and suggestions. 42

In a different remark, Taylor reiterated administration policy:

We also are encouraging countries all over the world to reexamine their own laws and strengthen their and implement bilateral law enforcement, financial, trade, and political sanctions against those that finance or otherwise support terrorists. Great Britain and Greece, for example, passed tighter counterterrorism laws even before the September 11 attacks. Other countries are considering doing the same. These efforts have been very encouraging. 43

Terrorism financing suppression in particular was the key counterterrorism strategy of the Bush Administration. As Taylor notes on yet a different occasion:

We are therefore encouraging other countries to join in our efforts to clamp down on terrorist fund raising and money transfers. Funding is a critical element in these large-scale terrorist operations and in the recruiting of supporters. We need to choke it off. 44

Fighting terrorism was a priority for the Bush administration and they were willing to use all economic resources in order to be successful in that fight. As Andrew Erdmann of the Policy Planning Staff said in 2002:

Now, fighting terrorism is the business – the top priority – of the Bush Administration. A cardinal success of our foreign policy in the past 14 months has been rallying an unprecedented global coalition to fight

terrorism on every front – diplomatic, military, intelligence, law enforcement, and financial.\textsuperscript{45}

In particular, the United States used trade to shape the other countries’ compliance with financial counterterrorism. President Bush made this clear in his remarks at the African Growth and Opportunity Forum in 2001:

Good governments, of course, will look different from place to place. Cultures must preserve their unique values. Yet, everywhere -- East and West, North and South -- there is a model of successful development, a market economy trading with the world that respects human rights and the rule of law. Every nation that adopts this vision will find in America a trading partner, an investor, and a friend.\textsuperscript{46}

In fact, Bush underscored the importance of U.S. trade with the African countries to the economic growth and prosperity of those countries:

During the first half of this year, the total trade with sub-Saharan Africa rose nearly 17 percent, compared to last year. U.S. imports from the region now exceed $11.5 billion. Some individual countries have shown staggering increases in trade. Four countries -- Senegal, Seychelles, Eritrea and Madagascar -- saw their exports to the United States grow by over 100 percent. Behind these numbers are investments in projects that are making a real impact on people's lives. In Kenya, the government projects that AGOA will create 150,000 new jobs over the next several years; propose new projects, in Lesotho, textiles sectors alone are expected to inject $122 million of investment into that country's economy -- four times the amount of all official development assistance the country received in 1999.\textsuperscript{47}

Further, Bush announced an increase in economic assistance to those countries in exchange for their support of the U.S.-led financial counterterrorism regime:

The United States will work in partnership with African nations to help -- to help them build the institutions and expertise they need to benefit from trade. Today, I'm pleased to announce the creation of $200 million Overseas Private Investment Corporation support facility that will give American firms access to loans, guarantees and political risk insurance for investment projects in sub-Saharan Africa. I’ve asked our trade and development agency to establish a regional office in Johannesburg, to provide guidance to governments and companies which seek to liberalize their trade laws, improve the investment environment and take advantage of the Free Trade Act between our two continents. I’m also announcing today the launch of the Trade for African Development and Enterprise Program. With $15 million in initial funding, the trade program will establish regional hubs for global competitiveness that will help African businesses take advantage of AGOA, to sell more of their products on the global markets. My government will continue its strong support for responsible debt relief, so that nations can devote more resources to education and health. We will continue to press multilateral development banks to provide more assistance in the form of grants, instead of loans. We are moving forward on an initiative I announced in July to improve basic education and teacher training in Africa.48

Crucially, the American purse dispersing large investment and increase in bilateral trade flows to the African nations came with strings attached. The United States has used the tool of trade with African countries, but expected them to ratify ICSOF and comply with the financial counterterrorism regime that the United States created. Bush explicitly expressed what will be required from these African countries in exchange for trade:

Now it is critically important that this convention be ratified so that African nations have additional judicial, diplomatic and financial tools to root out terrorism. And as nations begin to put these measures in place, the United States will look for ways to work together. In an era of global trade and global terror, the futures of the developed world and the developing world are closely linked. We benefit from each other's success. We're not immune from each other's troubles. We share the

same threats; and we share the same goal -- to forge a future of more openness, trade and freedom. 49

In other countries, U.S. government officials also emphasized the costs to them if they do not tow the American line on counterterrorism. For example, in the Philippines, Ambassador Taylor explained the economic impact of the Bali attack on Indonesian trade industry:

Bali thrived on international tourism. It was a soft target, and the repercussions of that attack, I would submit, not only impacted Indonesia but also tourism throughout ASEAN. According to the World Bank, over 360,000 jobs in Indonesia were effectively lost because of that one attack. And an Indonesian official stated to the press that the economic impact of that attack, in Indonesia alone, was 5.6 billion rupiah. The cost of terrorism, as devastating as it is to individual loss of life, has tremendous economic impact on our countries and our governments. Those jobs that were lost in Indonesia were connected to a global economy that enables tourists from Australia, Europe, the United States, Japan and many other countries around the world to go to beautiful beaches and resorts, and the resorts of Bali, and to vacation spots here in the Philippines and in many other nations around the world. 50

The message was clear: if the Philippines does not participate in the American War on Terrorism, its tourism industry will be destroyed. Further, the United States expected the Philippines to domestically implement all financial counterterrorism measures pushed by the United States. Ambassador Taylor imparted this message with his remark at the International Conference on Terrorism and Tourism in the Philippines:

Bali brought that same message home to us here in Asia. An attack in Bali can have implications on an entire industry of tourism within this region. Our challenge, therefore, is to increase security while maintaining the free flow of goods, services, people, and information that builds economic prosperity in our global world. The key is institution building. I submit to you that we are all up to the challenge, if we take the lessons from conferences like this, and take them home and apply them.  

**COUNTRY AWARENESS OF U.S. CAMPAIGN**

The other countries were unquestionably aware that the United States spearheaded the financial counterterrorism campaign, and they felt at least some pressure or incentive to accord with American preferences. Other countries complied with financial counterterrorism, at least in part, in order to get into good graces of the United States. U.S. financial counterterrorism campaign efforts were not in vain. Evidence abounds of the strategic quid pro quo.

Just months after the 9/11 attacks, countries were already complying with U.S. financial counterterrorism demands. Ambassador Taylor enumerated the vast successes of the U.S. financial counterterrorism campaign as early as December 11, 2001:

This effort has already yielded results:

- Between September 11 and December 11, the United States blocked more than $33.7 million in assets belonging to the Taliban and the al Qaida network.
- Other nations have blocked at least an additional $33.6 million.
- As of December 11, there were 1,149 accounts under review in the United States.
- As of December 11, 140 other countries and jurisdictions have joined the United States in blocking terrorist accounts, and others have requested

U.S. assistance in upgrading their legal and regulatory structures so that they can also block effectively.

• The coalition of countries supporting the financial war against terrorism has grown to 196.  

Further, Taylor stressed the U.S. success in the realm of intelligence-sharing, which corresponds with FATF’s *Special Recommendation V: International co-operation*:

The sharing of intelligence and cooperation among law enforcement agencies is unprecedented, leading to the arrest or detention of nearly 2,300 terrorists in some 99 countries. Over 160 countries have joined us in freezing the assets of terrorists and their supporters worth over $110 million.  

Expressively, *Special Recommendation V* requires that:

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or *information exchange*, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations.  

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organizations, and should have procedures in place to extradite, where possible, such individuals.  

The result of the U.S. efforts to influence other countries on financial counterterrorism is evident in the widespread ratification of *ICSOFT*. In addition, many countries cooperated at the United Nations level. For example, between 2001 through 2006, 253 states filed reports on resolution 1373 (2001) to the Committee on Counter-

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54 Emphasis added.
55 See Appendix III, IX Special Recommendations: Names and Definitions.
Terrorism. The United States even succeeded in getting the great powers on board with its financial counterterrorism campaign. President Bush remarked on the success of American cooperation with Russia on the financial counterterrorism campaign:

I had an hour-long discussion -- nearly an hour-long discussion with President Putin on Saturday. He was very forthcoming in his willingness to work closely with the United States in our efforts to battle terrorism. I was very pleased with my discussion... I found him to be a person who -- first of all, understands the vision that we've entered into a new conflict in the 21st century...Vladimir Putin clearly understands that the Cold War is over, and that the United States and Russia can cooperate. We can cooperate with a new strategic arrangement. We can cooperate in the battle against terrorism. We talked about a lot of areas of the world. We talked about the Central Asian republics. And as you know, they have been forthcoming in their statements about their understanding of a potential campaign. And I told him I appreciated his willingness to work with us in that area.  

The most important actor that the United States was able to influence, however, was China. Here, again, the United States used trade to influence China to cooperate with the United States on financial counterterrorism. China was a crucial actor because it is a great power with a veto vote in the United Nations Security Council.

For example, China’s support was essential to the success of passing UNSC Resolution 1373. This resolution, UNSC Resolution 1373, is explicitly mentioned in Special Recommendation I: Ratification and implementation of UN instruments, which states that:

Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of
terrorist acts, particularly United Nations Security Council Resolution 1373.\textsuperscript{58}

UNSC Resolution 1373 was adopted with a unanimous United Nations Security Council vote on 28 September 2001.\textsuperscript{59} The resolution was drafted as a counterterrorism measure following the attacks of 9/11. It aimed to increase intelligence sharing, called for countries to adjust their international laws in accordance with \textit{ICSOFT}, formed UNSC’s Counterterrorism Committee (CTC) to monitor compliance with \textit{ICSOFT}, and restricted immigration laws.\textsuperscript{60} UNSC Resolution 1373 is binding on all United Nations General Assembly members, as it was adopted under Chapter VII of the United Nations Charter. The Security Council-issued press release states that the meeting began at 10:50 PM and was adjourned at 10:53 PM.\textsuperscript{61} Therefore, in only three minutes the international law was changed. It was an unprecedented departure, because never before has the Security Council created legislation that was binding on all states. There is no record of the meeting, so to this day it is not officially known who was really responsible for its passage. Notwithstanding, the importance of China’s role to the United States financial counterterrorism was understood by the United States. As Ambassador Taylor remarked:

\begin{quote}
[T]he area in which the Chinese have been most helpful to the coalition against terror has been in its diplomatic support. China was a very, very important part of the UN’s effort to pass UN Security Council Resolution
\end{quote}

\textsuperscript{58} See Appendix III, IX Special Recommendations: Names and Definitions.
\textsuperscript{59} The breakdown of votes was as follows: For: 15, Abstaining: 0, Against: 0.
1373, which we believe is precedent setting in its impact on terrorists and their operations around the world.\textsuperscript{62}

Furthermore, President Bush also viewed China as an indispensable actor in the U.S. financial counterterrorism campaign. As Bush remarked in 2001, “I've come to Shanghai because China and other Asia Pacific nations are important partners in the global coalition against terror.”\textsuperscript{63} This comment clearly reflects his recognition of China’s pivotal role.

To garner Chinese support, the United States would not be able to coerce or cajole the country with trade alone. At the same time, China was vying for accession into the World Trade Organization itself and the United States presented the main obstacle to China’s WTO accession. China’s journey toward WTO accession began in 1986, when China stated its interest in joining General Agreement on Tariffs and Trade, the antecedent to WTO (Hughes et al. 2002: 3). Prior to China’s accession to WTO on December 11, 2001, the United States domestic law, Jackson-Vanik amendment, required annual review of China’s most-favored-nation (MFN) trade status (Rhodes and Jackson 1999).\textsuperscript{64} This annual review was subject to Congressional debates in the United States, with opponents not wanting to lose that leverage over China. Jeffrey Bader, Assistant United States Trade Representative for China described the American obstacle to China’s WTO accession:

\footnotesize

\begin{itemize}
  \item \textsuperscript{64} Most-favored-nation (MFN) was called “normal trade relations” status since 1998.
\end{itemize}
As China’s bilateral trade surplus has grown with the United States – approaching $85 billion in 2001, more and more attention was paid to Chinese trade practices. But in addition to trade, the congressional debates often focused on human rights, the use of prison labor, the lack of a commitment to democracy, failed attempts to restrict the proliferation of key technologies and weapon systems, and a host of security issues. While favoring further opening of the Chinese market, some in Congress were reluctant to lose the leverage they saw in the annual debate over trade. Others contended that the threat of Smoot-Hawley era tariffs was so draconian that it would never be used. Some in Congress also suggested that steady but less visible pressure might be more effective in dealing with China. Supporters of free trade also argued that development of a rule of commercial law in China would eventually spill over into the treatment of individual and political rights. Even if the prospect of imposing prohibitive tariffs was remote, U.S. exporters and investors generally favored eliminating that uncertainty by granting China permanent normal trade relations as part of securing WTO discipline over China’s own use of trade barriers. In the end (in 1999), the Congress voted for permanent normal trade relations as part of China’s joining the WTO (Hughes et al. 2002: 7-8).

Because of this Western worry over China’s WTO accession, China’s “full protocol was thousands of lines of tariffs and specific agreements covering approximately 1500 pages” (Prime 2002: 2).

However, the negotiations between China and the United States on China’s WTO accession were by no means concluded with the 1999 bilateral agreement that granted China permanent normal trade relations with the U.S. As late as 2000, China’s bilateral negotiations have still not come to the end. China’s accession process was further delayed in April 2001 when a U.S. spy plane collided with a Chinese plane, reigniting political tensions (Prime 2002: 7). At least two issues further postponed the finalization of the U.S.-China agreement in the summer of 2001. First, under the new WTO rules, the American insurance company, AIG, which operated freely in China since the 1990s
would now be required to have 50 percent Chinese ownership (Prime 2002: 8). Second, China reneged on their previous agreement to eliminate price controls in agriculture.

The attacks of 9/11 have smoothly advanced the previously derailed agreement with China over its WTO accession. Washington seized this opportunity to influence China by agreeing to loosen its position on China’s WTO accession. The United States promised to use the judicial framework of the World Trade Organization to settle disputes with China over bilateral trade. According to Prime (2002), “Most likely due to a high-level decision in the U.S., all sides agreed to disagree on the AIG issue, and let it be resolved within the WTO framework once China was a member, and the agricultural price control issue ended in a compromise” (9). In exchange, China was expected to not only comply with the requirements of financial counterterrorism, but also to support the United States in international organizations, mainly the United Security Council, on any financial counterterrorism measures. China was well-aware of this quid pro quo with the United States. As President Jiang Zemin remarked in October 19, 2001:

China and the United States are two countries with significant influence in the world. As such, we share common responsibility and interest in maintaining peace and security in the Asia Pacific and the world at large, promoting regional and global economic growth and prosperity, and working together with the rest of the international community to combat terrorism. China attaches importance to its relations with the United States and stands ready to make joint efforts with the U.S. side to develop a constructive and cooperative relationship.65

In effect, the United States used trade to strategically exchange concessions on each country’s interests, but it did not do so directly. China wanted U.S. support on

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Taiwan and China's accession to the WTO in exchange for China's support on financial counterterrorism. As in all negotiations, each party understood that it will not get everything they ask for, but will leave the agreement with mutually agreeable terms. Therefore, the United States agreed to support China on its WTO accession, and China agreed to support the United States on financial counterterrorism. Both parties agreed to disagree on Taiwan, just like they did on the issues of AIG and agricultural price controls.66

This agreement is reflected in the remarks of President Bush at the time:

We have a common understanding of the magnitude of the threat posed by international terrorism. All civilized nations must join together to defeat this threat. And I believe that the United States and China can accomplish a lot when we work together to fight terrorism. The President and the government of China responded immediately to the attacks of September 11th. There was no hesitation, there was no doubt that they would stand with the United States and our people during this terrible time. There is a firm commitment by this government to cooperate in intelligence matters, to help interdict financing of terrorist organizations. It is -- President Jiang and the government stand side by side with the American people as we fight this evil force. China is a great power. And America wants a constructive relationship with China. We welcome a China that is a full member of world community, that is at peace with its neighbors. We welcome and support China's accession into the World Trade Organization. We believe it's a very important development that will benefit our two peoples and the world.67

President Jiang parroted President Bush’s position:


I'm pleased to note that, recently, there has been improvement in our bilateral ties. The two sides have maintained close consultation and cooperation on major issue of counterterrorism. We've also made new headway in our economic and trade fields in such exchanges and cooperation.  

Additionally, China agreed to establish a U.S.-China Financial Counter-Terrorism Working Group. As part of the agreement, a small group of Chinese experts would visit the United States to work on the issue of financial counterterrorism. Ambassador Taylor remarked on further details of the deal:

For the record, I am leading an inter-agency delegation with representatives from a number of Executive Branch agencies, including members from the FBI, the Department of Defense and the Department of Treasury. The composition of the Chinese delegation parallels that of ours. On substance, it is clear to me that the strong support of top leaders in both the United States and China has already fostered a robust, multi-faceted and evolving partnership designed to confront a common threat that we face, that is global terrorism. It was clear in my discussions that the Chinese leadership, along with counterparts at my level, share our resolve in shutting down the global terrorist network linked to Osama Bin Laden and his al Qaida organization. The United States is pleased with the support we have received from China in the aftermath of the September 11 attacks. The Chinese Government quickly declared that China and the United States faced a common threat. The Chinese Government has responded quickly and positively to specific requests for assistance, and also took steps on its own to protect its borders and respond to that common threat. In the weeks and months since, building on this foundation, we have materially increased our cooperation in a number of important areas. These include close coordination at the United Nations, sharing of information and intelligence, law enforcement liaison, and the monitoring of financial assets. This week, both sides agreed to continue and strengthen our efforts in all of these areas.  


The quid pro quo between the United States and China becomes clear when one considers how different the threat of terrorism is for China than for the United States. In the same press conference, a BBC reporter asked Ambassador Taylor: what exactly is the common terrorism threat between China and the United States that would justify their bilateral cooperation on terrorism? In the words of the reporter:

You’ve talked earlier on about China and the United States having a shared interest, standing shoulder-to-shoulder in the face of this common threat. As far as I’m aware, Al Qaida and Osama bin Laden have never made any threat towards China. China, as far as I know, has never been a target of international Islamic terrorism. It’s easy to see where America is coming from on this, but it’s difficult to see where China is coming from. There is the strong suspicion amongst many of us that China wants some sort of quid pro quo on this and that it’s asking for something in return for its cooperation. My question is, is China asking for something from the United States, particularly on the question of Xinjiang, of ethnic separatism? Is it asking the U.S. to turn a blind eye to some of the things that it does? What are you hearing from the Chinese? What do they want in return?70

Ambassador Taylor replied simply, “Well, I don’t accept your original premise.”71 He then reasserted the administration’s message—mainly that “[t]he terrorist threat is global. It demands a global response.”72 After all, “three Chinese citizens died in the World Trade Center,” so naturally China would devote substantial resources in aiding American financial counterterrorism efforts against al-Qaeda and its global affiliates.

China was threatened by its own brand of terrorism. The terrorist threat in China, comes into two main flavors of ethnic separatism. First, China is threatened by a Muslim Uyghur ethnic group in Xinjiang. Second, China experienced terrorism in the Tibetan Autonomous Region from ethnic Tibetans. As the BBC reporter correctly observed, al-Qaeda was not the main concern of the Chinese government; especially in 2001 when the bilateral counterterrorism agreement was negotiated.

Equally important was the inability of China and the U.S. to agree on what “terrorism” even was. For instance, in 2003 China’s Ministry of Public Security designated four organizations as terrorist organizations: the Eastern Turkestan Islamic Movement (ETIM), the East Turkestan Liberation Organization (ETLO), the World Uyghur Congress, and the East Turkistan Information Center. By contrast, the U.S. State Department’s Foreign Terrorist Organizations list had 36 entries that same year. None of the four groups listed by China’s Ministry of Public Security were on the U.S. State Department’s list. Moreover, the terrorist organizations that threatened American interests were not the same groups that concerned China.

Financial counterterrorism is but one example of the favored policy choice of the United States, particularly with the Bush administration in the White House. Evidence suggests that the U.S. policy on financial counterterrorism has much broader

76 http://www.state.gov/j/ct/rls/other/des/123085.htm
implications. The Bush administration did not just aim to starve al-Qaeda of its funds; the administration ambitions were much larger. The United States sought to reshape institutions in line with its interests. Its ultimate goal was a world order that reflects U.S. values, norms, and interests. The United States would solidify its sometimes contested position as a hegemonic power. Richard Haas, Director of the Policy Planning Staff during the Bush White House, summarized its strategic vision:

Let there be no misunderstanding: the defeat of terror is a necessary goal in its own right. But fighting terrorism is only part, not the whole, of our foreign policy. We strive to build an international order where more countries and peoples are integrated into a world consistent with the interests and values we share with our partners—universal values such as rule of law, respect for individual liberties, open economies, equal justice, and religious toleration. A world where these values are embraced as standards, not exceptions, will be the best antidote to the spread of the terrorist disease. Accordingly, the war on terrorism is only a part of our broader national strategy that will build, as President Bush has said, "a balance of power that favors freedom."  

Moreover, financial counterterrorism is a dynamic example of U.S. counterterrorism strategy, but it also has broader implications.

---

CHAPTER 6: CONCLUSION

This dissertation set out to explain: what are the determinants of compliance with financial counterterrorism? More specifically, why do countries comply with Financial Action Task Force IX Special Recommendations on Terrorism Financing? I proposed six hypotheses to answer my research question. I then used a mixed methods approach, with a quantitative section employing the ordered logit model. These commonly ascribed determinants of country compliance with financial counterterrorism have never before been subjected to any empirical scrutiny.

My empirical results were surprising. For instance, the intensity and magnitude of terrorism threat is not a statistically significant determinant of country compliance with financial counterterrorism. Likewise, the rate of international terrorist attacks and the rate of suicide attacks have no statistically significant effect on country compliance rates. Although regime type is significant in some models, it is not a robust result. Surprisingly, capability also does not have a statistically significant effect on country compliance with financial counterterrorism. The only robust, statistically significant correlation is between U.S. influence, which I proxy by bilateral trade with the U.S., and my dependent variable, which is country compliance with financial counterterrorism.

To demonstrate that my empirical result is not plagued by the problem of reverse causation, I conduct a qualitative case study in which I further examine the United States financial counterterrorism campaign. My argument has four parts. First, the United States was disproportionately interested in financial counterterrorism. Second, the United States used trade as a counterterrorism tool to exert pressure on other countries to comply.
with financial counterterrorism. Third, the United States actively advocated for other countries to comply with financial counterterrorism. Fourth, other countries were aware that the United States campaigned and responded to some extent by making some changes in response to United States pressure.

This dissertation, therefore, makes several contributions to the literature. First, I provide an original dataset on country compliance with financial counterterrorism. It is the first research project where compliance rates with FATF’s IX Special Recommendations on Terrorism Financing were collected and quantified. Second, my study is the first study to empirically test the commonly ascribed determinants of country compliance with financial counterterrorism. My quantitative results demonstrate that many of the assumptions made by scholars who study financial counterterrorism are incorrect. Most importantly, the intensity and magnitude of the terrorist threat and the capability of countries has little bearing on whether or not countries will comply with financial counterterrorism. Third, I use a host of primary sources to offer another original empirical account, this time qualitative, to demonstrate the causal mechanism, mainly that the United States is using bilateral trade to increase country compliance with financial counterterrorism.

The main finding in my dissertation—that the United States can influence other countries with bilateral trade—has four main policy implications. First, bilateral trade can be used successfully as a counterterrorism tool. If the United States wants to influence other countries, particularly in international organizations, and on counterterrorism issues, then foreign trade could be increased. Second, financial counterterrorism regime mirrors the U.S. terrorism threat, which may be unfortunate to
countries that do not have strong bilateral trade relationships with the U.S. and who do not have the same type of terrorist threat. Therefore, if the U.S. wishes to increase compliance with financial counterterrorism, it should be aware of other types of terrorist threats and it should campaign organizations like FATF to adjust to those threats. Third, financing the training of professionals in other countries in order to help that country comply with an agreement it signed is a waste of money. Country capability is not a significant factor in whether or not a country complies with financial counterterrorism. Therefore, arguments that countries want to comply with international agreements they ratify, but that some of them are unable to do so because of their low capability are not substantiated by my empirical findings. Fourth, given that both regime type and U.S. influence with trade were significant, the United States policy makers should consider increasing their bilateral trade flows with a larger number of countries that are not liberal democracies. Both my quantitative and qualitative analyses indicate that trade is having the biggest impact on the rates of compliance with financial counterterrorism.

My dissertation raises a number of questions for future research. In particular, although I found that trade with the U.S. is a statistically significant determinant of country compliance with financial counterterrorism, some of my models also found support for regime type. Future research might scrutinize in greater detail the role of the regime type.

Additionally, future research should examine more closely the domestic politics that shapes international relations. For instance, while I discussed the domestic reasons why the interest of the United States in financial counterterrorism was not strong in the 1990s, future research should also address the domestic constraints of countries that
either complied or did not comply with financial counterterrorism. Examining the domestic level more closely might reveal why some recommendations have higher levels of compliance than others. Are some countries, for example, less willing to participate in international cooperation (S.R. V) than others, and if so, what domestic factors explain that?

Similarly, future research should also provide a more detailed explanation for the variation in compliance rates between the nine different special recommendations. For example, what is it about wire transfers (SR. VI) or alternative remittance (SR. VII) that makes bilateral trade with the U.S. ineffective in ensuring compliance? All other special recommendations, with the exception of international cooperation can be influenced with bilateral trade.

I found statistically significant support for my theory across numerous model specifications. For instance, the reader may recall that I got statistically significant results when I coded the trade variable as a five-year average of bilateral trade in thousands of dollars. Perhaps even more importantly, I have found substantial complementary support within both the theoretical literature on this topic as well as within the primary documents themselves. Together, this tripartite convergence of evidence should persuade most readers of the validity of my argument.

As expected, of course, operationalizing the regression analysis in different ways yields different results. My argument is not so strong as to be robust to every single possible model specification. I recognize the value of running the numbers in many different ways to assess the valence of my argument and I recognize the limitations are an area for potentially fruitful future research.
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APPENDIX

TABLE 1. Technical compliance ratings.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOT COMPLIANT</td>
<td>NC = 1</td>
<td>There are major shortcomings.</td>
</tr>
<tr>
<td>PARTIALLY COMPLIANT</td>
<td>PC = 2</td>
<td>There are moderate shortcomings.</td>
</tr>
<tr>
<td>LARGELY COMPLIANT</td>
<td>LC = 3</td>
<td>There are only minor shortcomings.</td>
</tr>
<tr>
<td>COMPLIANT</td>
<td>C = 4</td>
<td>There are no shortcomings.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 2. Frequency distribution of FATF Compliance Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR. I</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>NOT COMPLIANT (NC = 1)</td>
</tr>
<tr>
<td>PARTIALLY COMPLIANT (PC = 2)</td>
</tr>
<tr>
<td>LARGELY COMPLIANT (LC = 3)</td>
</tr>
<tr>
<td>FULLY COMPLIANT (C = 4)</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 3. Percentage distribution of FATF Compliance Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR. I</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>NOT COMPLIANT (NC = 1)</td>
</tr>
<tr>
<td>PARTIALLY COMPLIANT (PC = 2)</td>
</tr>
<tr>
<td>LARGELY COMPLIANT (LC = 3)</td>
</tr>
<tr>
<td>FULLY COMPLIANT (C = 4)</td>
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<tr>
<td>PERCENT</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 4. Frequency and percentage distribution of dependent variables</th>
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</thead>
<tbody>
<tr>
<td>COMPLIANCE1 (Average)</td>
</tr>
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<td>-----------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>NOT COMPLIANT (NC = 1)</td>
</tr>
<tr>
<td>PARTIALLY COMPLIANT (PC = 2)</td>
</tr>
<tr>
<td>LARGELY COMPLIANT (LC = 3)</td>
</tr>
<tr>
<td>FULLY COMPLIANT (C = 4)</td>
</tr>
<tr>
<td>TOTAL/PERCENT</td>
</tr>
<tr>
<td>Table 5. List of countries in estimation sample</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Afghanistan</td>
</tr>
<tr>
<td>Albania</td>
</tr>
<tr>
<td>Algeria</td>
</tr>
<tr>
<td>Andorra</td>
</tr>
<tr>
<td>Antigua &amp; Barbuda</td>
</tr>
<tr>
<td>Argentina</td>
</tr>
<tr>
<td>Armenia</td>
</tr>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>Austria</td>
</tr>
<tr>
<td>Azerbaijan</td>
</tr>
<tr>
<td>Bahamas</td>
</tr>
<tr>
<td>Bahrain</td>
</tr>
<tr>
<td>Bangladesh</td>
</tr>
<tr>
<td>Barbados</td>
</tr>
<tr>
<td>Belarus</td>
</tr>
<tr>
<td>Belgium</td>
</tr>
<tr>
<td>Belize</td>
</tr>
<tr>
<td>Benin</td>
</tr>
<tr>
<td>Bolivia</td>
</tr>
<tr>
<td>Bosnia &amp; Herzegovina</td>
</tr>
<tr>
<td>Botswana</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
</tr>
<tr>
<td>Bulgaria</td>
</tr>
<tr>
<td>Burkina Faso</td>
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<td>Cambodia</td>
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<tr>
<td>Canada</td>
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<tr>
<td>Cape Verde</td>
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<td>Chile</td>
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<td>China</td>
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<td>Colombia</td>
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<td>Croatia</td>
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<td>Cyprus</td>
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<td>Czech Republic</td>
</tr>
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<td>Denmark</td>
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<td>Dominica</td>
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<tr>
<td>Dominican Republic</td>
</tr>
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<td>Variable</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>ATTACKS1**</td>
</tr>
<tr>
<td>ATTACKS2*</td>
</tr>
<tr>
<td>DEMOCRACY**</td>
</tr>
<tr>
<td>DEMOCRACY2*</td>
</tr>
<tr>
<td>GDPpc**</td>
</tr>
<tr>
<td>MILITARY*</td>
</tr>
<tr>
<td>SUICIDE**</td>
</tr>
<tr>
<td>TRADE1***</td>
</tr>
<tr>
<td>TRADE2***</td>
</tr>
<tr>
<td>TRANSANTIONAL**</td>
</tr>
</tbody>
</table>

Note: *** Key independent variables; ** Control IVs, * Robustness check IVs
### TABLE 7. Dependent variable descriptions and summary statistics.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Coding/range</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPLIANCE1*</td>
<td>Average compliance score for each state on all IX Special Recommendations--rounded to create integers.</td>
<td>1 (not compliant) to 3 (largely compliant)</td>
<td>1.85</td>
<td>0.64</td>
</tr>
<tr>
<td>COMPLIANCE2*</td>
<td>Most frequent (modal) compliance score for each state on all IX Special Recommendations.</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.82</td>
<td>0.75</td>
</tr>
<tr>
<td>SRI</td>
<td>Special Recommendation I: Ratification and implementation of UN instruments</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.88</td>
<td>0.75</td>
</tr>
<tr>
<td>SRII</td>
<td>Special Recommendation II: Criminalizing the financing of terrorism and associated money laundering</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>2.11</td>
<td>0.86</td>
</tr>
<tr>
<td>SRIII</td>
<td>Special Recommendation III: Freezing and confiscating terrorist assets</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.62</td>
<td>0.68</td>
</tr>
<tr>
<td>SRIV</td>
<td>Special Recommendation IV: Reporting suspicious transactions related to terrorism</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.91</td>
<td>0.95</td>
</tr>
<tr>
<td>SRV</td>
<td>Special Recommendation V: International cooperation</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>2.22</td>
<td>0.86</td>
</tr>
<tr>
<td>SRVI</td>
<td>Special Recommendation VI: Alternative remittance</td>
<td>0 (not applicable) to 4 (fully compliant)</td>
<td>1.89</td>
<td>0.92</td>
</tr>
<tr>
<td>SRVII</td>
<td>Special Recommendation VII: Wire transfers</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.74</td>
<td>0.88</td>
</tr>
<tr>
<td>SRVIII</td>
<td>Special Recommendation VIII: Non-profit organizations</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.77</td>
<td>0.85</td>
</tr>
<tr>
<td>SRIX</td>
<td>Special Recommendation IX: Cash couriers</td>
<td>1 (not compliant) to 4 (fully compliant)</td>
<td>1.75</td>
<td>0.78</td>
</tr>
</tbody>
</table>

**Note:** For all the variables in this table, the source is Financial Action Task Force and FATF-style regional bodies; * Key dependent variables
**TABLE 8: Correlation coefficient matrix for independent variables and average compliance rate**

<table>
<thead>
<tr>
<th></th>
<th>COMPLIANCE1</th>
<th>ATTACKS1</th>
<th>TRANSNATIONAL</th>
<th>SUICIDE</th>
<th>DEMOCRACY1</th>
<th>GDPpc</th>
<th>TRADE1</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPLIANCE1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATTACKS1</td>
<td>0.257</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRANSNATIONAL</td>
<td>0.256</td>
<td>0.607</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUICIDE</td>
<td>0.157</td>
<td>0.499</td>
<td>0.29</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEMOCRACY1</td>
<td>0.252</td>
<td>0.149</td>
<td>0.171</td>
<td>0.06</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDPpc</td>
<td>-0.03</td>
<td>0.115</td>
<td>0.16</td>
<td>-0.028</td>
<td>0.039</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>TRADE1</td>
<td>0.308</td>
<td>0.039</td>
<td>0.139</td>
<td>-0.009</td>
<td>0.141</td>
<td>0.059</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: DV = COMPLIANCE1; N = 134

---

**TABLE 9: Correlation coefficient matrix for independent variables and modal compliance rate**

<table>
<thead>
<tr>
<th></th>
<th>COMPLIANCE2</th>
<th>ATTACKS1</th>
<th>TRANSNATIONAL</th>
<th>SUICIDE</th>
<th>DEMOCRACY1</th>
<th>GDPpc</th>
<th>TRADE1</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPLIANCE2</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>ATTACKS1</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRANSNATIONAL</td>
<td>0.21</td>
<td>0.607</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUICIDE</td>
<td>0.14</td>
<td>0.499</td>
<td>0.29</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DEMOCRACY1</td>
<td>0.33</td>
<td>0.149</td>
<td>0.171</td>
<td>0.06</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDPpc</td>
<td>-0.058</td>
<td>0.115</td>
<td>0.16</td>
<td>-0.028</td>
<td>0.039</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>TRADE1</td>
<td>0.314</td>
<td>0.039</td>
<td>0.139</td>
<td>-0.009</td>
<td>0.141</td>
<td>0.059</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: DV = COMPLIANCE2; N = 134
### TABLE 10. Model 1: Estimated effects on average compliance rates

| Coef | Std. Err. | Z   | P>|z| | 95% Conf. Interval |
|------|-----------|-----|-----|------------------|
| ATTACKS1 | 0.011 | 0.009 | 1.230 | 0.219 | -0.007, 0.029 |
| TRANSNATIONAL | 0.070 | 0.100 | 0.700 | 0.484 | -0.126, 0.267 |
| SUICIDE | 0.101 | 0.197 | 0.510 | 0.609 | -0.286, 0.488 |
| DEMOCRACY1 | 0.054* | 0.028 | 1.920 | 0.055 | -0.001, 0.108 |
| GDPpc | 0.000 | 0.000 | -1.250 | 0.211 | -0.126, 0.267 |
| TRADE1 | 0.122*** | 0.046 | 2.650 | 0.008 | 0.032, 0.213 |
| cut1 | -0.371 | 0.234 | -0.830 | 0.400 |
| cut2 | 2.644 | 0.357 | 1.944 | 3.345 |

DV = COMPLIANCE1
pseudo-R2 = 0.117; N = 134
*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.

### TABLE 11. Model 2: Estimated effects on modal compliance rates

| Coef | Std. Err. | Z   | P>|z| | 95% Conf. Interval |
|------|-----------|-----|-----|------------------|
| ATTACKS1 | 0.012 | 0.008 | 1.550 | 0.122 | -0.003, 0.028 |
| TRANSNATIONAL | 0.032 | 0.074 | 0.430 | 0.665 | -0.112, 0.176 |
| SUICIDE | 0.064 | 0.171 | 0.370 | 0.709 | -0.271, 0.399 |
| DEMOCRACY1 | 0.088*** | 0.029 | 3.040 | 0.002 | 0.031, 0.145 |
| GDPpc | 0.000 | 0.000 | -1.250 | 0.210 | -0.112, 0.122 |
| TRADE1 | 0.066*** | 0.023 | 2.880 | 0.004 | -0.021, 0.111 |
| cut1 | -0.062 | 0.236 | -0.525 | 0.600 |
| cut2 | 2.484 | 0.334 | 1.831 | 3.138 |
| cut3 | 5.206 | 0.727 | 3.781 | 6.631 |

DV = COMPLIANCE2
pseudo-R2 = 0.110; N = 134
*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.
### ROBUSTNESS CHECK: U.S. INFLUENCE (TRADE2)

#### TABLE 12. Robustness Check, U.S. Influence (DV = COMPLIANCE1).

|            | Coef. | Std. Err. | z    | P>|z|  | 95% Conf. Interval |
|------------|-------|-----------|------|------|-------------------|
| ATTACKS1   | 0.011 | 0.009     | 1.190| 0.235| -0.007, 0.028     |
| TRANSNATIONAL | 0.090 | 0.090     | 1.000| 0.317| -0.087, 0.268     |
| SUICIDE    | 0.084 | 0.194     | 0.430| 0.664| -0.297, 0.465     |
| DEMOCRACY1 | 0.062**| 0.028     | 2.220| 0.026| 0.007, 0.116      |
| GDPpc      | 0.000 | 0.000     | -1.090| 0.277| 0.000, 0.000      |
| TRADE2     | 0.008***| 0.004     | 2.350| 0.019| 0.001, 0.015      |
| cut1       | -0.383| 0.233     | -0.841| 0.074|                   |
| cut2       | 2.525 | 0.342     | 1.856| 3.195|                   |

pseudo-R2 = 0.092; N = 134
*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.


|            | Coef.  | Std. Err. | z    | P>|z|  | 95% Conf. Interval |
|------------|--------|-----------|------|------|-------------------|
| ATTACKS1   | 0.012  | 0.008     | 1.560| 0.119| -0.003, 0.028     |
| TRANSNATIONAL | 0.031 | 0.073     | 0.420| 0.672| -0.112, 0.174     |
| SUICIDE    | 0.056  | 0.170     | 0.330| 0.741| -0.277, 0.390     |
| DEMOCRACY1 | 0.094***| 0.029     | 3.260| 0.001| 0.038, 0.151      |
| GDPpc      | 0.000  | 0.000     | -1.330| 0.184| 0.000, 0.000      |
| TRADE2     | 0.009***| 0.003     | 3.010| 0.003| 0.003, 0.015      |
| cut1       | -0.041 | 0.237     | -0.506| 0.424|                   |
| cut2       | 2.509  | 0.335     | 3.777| 6.549|                   |
| cut3       | 5.163  | 0.707     | 3.777| 6.549|                   |

pseudo-R2 = 0.109; N = 134
*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.
**ROBUSTNESS CHECK: REGIME TYPE (DEMOCRACY2)**

**TABLE 14. Robustness Check, Regime Type (DV = COMPLIANCE1)**

|          | Coef. | Std. Err. | z    | P>|z|  | 95% Conf. Interval |
|----------|-------|-----------|------|------|------------------|
| ATTACKS1 | 0.019*| 0.009     | 2.200| 0.028| 0.002 - 0.036    |
| TRANSNATIONAL | 0.039 | 0.089     | 0.430| 0.665| -0.136 - 0.214   |
| SUICIDE  | -0.132| 0.157     | -0.840| 0.398| -0.439 - 0.175   |
| DEMOCRACY2| 0.741***| 0.229 | 3.240| 0.001| 0.292 - 1.190    |
| GDPpc    | 0.000 | 0.000     | -1.250| 0.210| -0.136 - 0.000   |
| TRADE1   | 0.121***| 0.047 | 2.580| 0.010| 0.029 - 0.214    |
| cut1     | 1.051 | 0.550     | -0.028| 0.981| 2.129            |
| cut2     | 4.279 | 0.666     | 2.974| 0.003| 5.583            |

pseudo-R2 = 0.124; N = 161

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

**TABLE 15. Robustness Check, Regime Type (DV = COMPLIANCE2).**

|          | Coef.   | Std. Err. | z    | P>|z|  | 95% Conf. Interval |
|----------|---------|-----------|------|------|------------------|
| ATTACKS1 | 0.019** | 0.008     | 2.430| 0.015| 0.004 - 0.034    |
| TRANSNATIONAL | 0.031 | 0.071     | 0.440| 0.661| -0.108 - 0.170   |
| SUICIDE  | -0.118  | 0.144     | -0.820| 0.415| -0.400 - 0.165   |
| DEMOCRACY2| 0.661***| 0.223 | 2.960| 0.003| 0.223 - 1.098    |
| GDPpc    | 0.000   | 0.000     | -1.350| 0.178| 0.000 - 0.000    |
| TRADE1   | 0.068***| 0.023 | 2.950| 0.003| 0.023 - 0.113    |
| cut1     | 1.203   | 0.552     | 0.122| 0.228| 2.284            |
| cut2     | 3.723   | 0.629     | 2.489| 0.010| 4.957            |
| cut3     | 6.500   | 0.906     | 4.723| 0.000| 8.276            |

pseudo-R2 = 0.096; N = 161

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.
**ROBUSTNESS CHECK: CAPABILITY (MILITARY)**

### TABLE 16. Robustness Check, Capability (DV = COMPLIANCE1).

|               | Coef. | Std. Err. | z    | P>|z|  | 95% Conf. Interval |
|---------------|-------|-----------|------|------|-------------------|
| ATTACKS1      | 0.012 | 0.009     | 1.330| 0.182| -0.006, 0.029     |
| TRANSNATIONAL | 0.025 | 0.088     | 0.280| 0.779| -0.148, 0.198     |
| SUICIDE       | -0.019| 0.219     | -0.080| 0.933| -0.447, 0.410     |
| DEMOCRACY1    | 0.096***| 0.035   | 2.740| 0.006| 0.027, 0.164      |
| MILITARY      | 0.233 | 0.144     | 1.610| 0.107| -0.050, 0.516     |
| TRADE1        | 0.114***| 0.043  | 2.630| 0.009| 0.029, 0.199      |
| cut1          | 0.163 | 0.427     |      |      | -0.674, 0.999     |
| cut2          | 3.343 | 0.546     |      |      | 2.272, 4.414      |

pseudo-R2 = 0.134; N = 124

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

### TABLE 17. Robustness Check, Capability (DV = COMPLIANCE2).

|               | Coef. | Std. Err. | z    | P>|z|  | 95% Conf. Interval |
|---------------|-------|-----------|------|------|-------------------|
| ATTACKS1      | 0.012 | 0.008     | 1.460| 0.144| -0.004, 0.027     |
| TRANSNATIONAL | 0.001 | 0.075     | 0.010| 0.990| -0.147, 0.149     |
| SUICIDE       | -0.079| 0.188     | -0.420| 0.673| -0.447, 0.289     |
| DEMOCRACY1    | 0.143***| 0.038   | 3.790| 0.000| 0.069, 0.217      |
| MILITARY      | 0.266* | 0.142   | 1.880| 0.060| -0.012, 0.544     |
| TRADE1        | 0.064***| 0.022  | 2.880| 0.004| 0.020, 0.108      |
| cut1          | 0.653 | 0.449     |      |      | -0.226, 1.533     |
| cut2          | 3.332 | 0.540     |      |      | 2.273, 4.391      |
| cut3          | 6.039 | 0.855     |      |      | 4.364, 7.714      |

pseudo-R2 = 0.133; N = 124

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.
**ROBUSTNESS CHECK: WITHOUT TRANSNATIONAL AND SUICIDE ATTACKS**

**TABLE 18. Robustness Check, Without TRANSNATIONAL and SUICIDE.**

|                  | Coef. | Std. Err. | z     | P>|z| | 95% Conf. Interval |
|------------------|-------|-----------|-------|------|-------------------|
| ATTACKS1         | 0.017*** | 0.006     | 2.640 | 0.008 | 0.004 - 0.030     |
| DEMOCRACY1       | 0.055**  | 0.028     | 1.970 | 0.048 | 0.000 - 0.109     |
| GDPpc            | 0.000    | 0.000     | -1.240| 0.216 | 0.000 - 0.000     |
| TRADE1           | 0.129*** | 0.046     | 2.820 | 0.005 | 0.039 - 0.218     |
| cut1             | -0.399   | 0.231     |       | 0.851 | 0.053             |
| cut2             | 2.608    | 0.353     |       |       | 1.917 - 3.299     |

pseudo-R2 = 0.114; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

**TABLE 19. Robustness Check, Without TRANSNATIONAL and SUICIDE.**

|                  | Coef. | Std. Err. | z     | P>|z| | 95% Conf. Interval |
|------------------|-------|-----------|-------|------|-------------------|
| ATTACKS1         | 0.015*** | 0.006     | 2.570 | 0.010 | 0.004 - 0.027     |
| DEMOCRACY1       | 0.089*** | 0.029     | 3.080 | 0.002 | 0.032 - 0.146     |
| GDPpc            | 0.000    | 0.000     | -1.270| 0.205 | 0.000 - 0.000     |
| TRADE1           | 0.067*** | 0.023     | 2.920 | 0.004 | 0.022 - 0.112     |
| cut1             | -0.077   | 0.234     |       | 0.536 | 0.381             |
| cut2             | 2.463    | 0.330     |       | 1.817 | 3.109             |
| cut3             | 5.179    | 0.726     |       | 3.757 | 6.601             |

pseudo-R2 = 0.109; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.
**ROBUSTNESS CHECK: WITHOUT ATTACKS1 AND SUICIDE**

### TABLE 20. Robustness Check, Without ATTACKS1 and SUICIDE (DV = COMPLIANCE1).

|               | Coef.  | Std. Err. | z     | P>|z|   | 95% Conf. Interval |
|---------------|--------|-----------|-------|-------|-------------------|
| TRANSNATIONAL | 0.189**| 0.085     | 2.230 | 0.025 | 0.023 – 0.355     |
| DEMOCRACY1    | 0.054* | 0.028     | 1.950 | 0.051 | 0.000 – 0.109     |
| GDPpc         | 0.000  | 0.000     | -1.380| 0.169 | 0.000 – 0.000     |
| TRADE1        | 0.121***| 0.047     | 2.560 | 0.010 | 0.028 – 0.213     |
| cut1          | -0.365 | 0.236     | -0.827| 0.098 |                   |
| cut2          | 2.593  | 0.354     | 1.899 | 3.288 |                   |

Pseudo-R2 = 0.107; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

### TABLE 21. Robustness Check, Without ATTACKS1 and SUICIDE (DV = COMPLIANCE2).

|               | Coef.   | Std. Err. | z     | P>|z|   | 95% Conf. Interval |
|---------------|---------|-----------|-------|-------|-------------------|
| TRANSNATIONAL | 0.111*  | 0.061     | 1.800 | 0.072 | -0.010 – 0.231    |
| DEMOCRACY1    | 0.090***| 0.029     | 3.120 | 0.002 | 0.034 – 0.147     |
| GDPpc         | 0.000   | 0.000     | -1.230| 0.219 | 0.000 – 0.000     |
| TRADE1        | 0.062***| 0.022     | 2.770 | 0.006 | 0.018 – 0.105     |
| cut1          | -0.096  | 0.235     | -0.557| 0.364 |                   |
| cut2          | 2.377   | 0.321     | 1.748 | 3.005 |                   |
| cut3          | 5.106   | 0.737     | 3.662 | 6.550 |                   |

Pseudo-R2 = 0.097; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.
**ROBUSTNESS CHECK: WITHOUT ATTACK1 AND TRANSNATIONAL**

### TABLE 22. Robustness Check, Without ATTACKS1 and TRANSNATIONAL (DV = COMPLIANCE1).

|        | Coef. | Std. Err. | z     | P>|z| | 95% Conf. Interval |
|--------|-------|-----------|-------|------|-------------------|
| SUICIDE | 0.328 | 0.204     | 1.610 | 0.107| -0.071 to 0.728   |
| DEMOCRACY1 | 0.061** | 0.028 | 2.230 | 0.025| 0.008 to 0.115   |
| GDPpc   | 0.000 | 0.000     | -1.010| 0.314| 0.000 to 0.000   |
| TRADE1  | 0.134*** | 0.046 | 2.920 | 0.003| 0.044 to 0.224   |
| cut1    | -0.462 | 0.228    | -0.909| 0.316| -0.016 to 0.728   |
| cut2    | 2.457  | 0.333     | 1.805 | 0.036| 0.531 to 3.109   |

Pseudo-R2 = 0.100; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

### TABLE 23. Robustness Check, Without ATTACKS1 and TRANSNATIONAL (DV = COMPLIANCE2).

|        | Coef. | Std. Err. | z     | P>|z| | 95% Conf. Interval |
|--------|-------|-----------|-------|------|-------------------|
| SUICIDE | 0.241 | 0.148     | 1.640 | 0.102| -0.048 to 0.531   |
| DEMOCRACY1 | 0.095*** | 0.029 | 3.300 | 0.001| 0.038 to 0.151   |
| GDPpc   | 0.000 | 0.000     | -1.030| 0.303| 0.000 to 0.000   |
| TRADE1  | 0.067*** | 0.023 | 2.870 | 0.004| 0.021 to 0.113   |
| cut1    | -0.156 | 0.229    | -0.605| 0.293|                   |
| cut2    | 2.306  | 0.311     | 1.696 | 0.108| 2.915 to 6.450   |
| cut3    | 5.024  | 0.727     | 3.599 | 0.000|                   |

Pseudo-R2 = 0.096; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.
**ROBUSTNESS CHECK: COUNTRY LOCATION (ATTACKS2)**

|                | Coef. | Std. Err. | z     | P>|z| | 95% Conf. Interval |
|----------------|-------|-----------|-------|------|-------------------|
| ATTACKS2       | 0.003 | 0.011     | 0.280 | 0.782| -0.018            |
| TRANSNATIONAL  | 0.128 | 0.124     | 1.030 | 0.302| -0.115            |
| SUICIDE        | 0.172 | 0.206     | 0.830 | 0.406| -0.233            |
| DEMOCRACY1     | 0.055**| 0.028     | 1.960 | 0.050| 0.000             |
| GDPpc          | 0.000 | 0.000     | -1.250| 0.211| 0.000             |
| TRADE1         | 0.123***| 0.047    | 2.610 | 0.009| 0.031             |
| cut1           | -0.369| 0.235     | -0.830| 0.093|                   |
| cut2           | 2.612 | 0.355     |       |      | 1.916             |

pseudo-R2 = 0.112; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.

**TABLE 24. Robustness Check, Country Location (DV = COMPLIANCE1).**

|                | Coef. | Std. Err. | z     | P>|z| | 95% Conf. Interval |
|----------------|-------|-----------|-------|------|-------------------|
| ATTACKS2       | 0.006 | 0.009     | 0.660 | 0.512| -0.012            |
| TRANSNATIONAL  | 0.060 | 0.078     | 0.770 | 0.443| -0.093            |
| SUICIDE        | 0.129 | 0.172     | 0.750 | 0.453| -0.208            |
| DEMOCRACY1     | 0.090***| 0.029    | 3.090 | 0.002| 0.033             |
| GDPpc          | 0.000 | 0.000     | -1.200| 0.231| 0.000             |
| TRADE1         | 0.065***| 0.023    | 2.840 | 0.004| 0.020             |
| cut1           | -0.076| 0.236     | -0.538| 0.386|                   |
| cut2           | 2.433 | 0.328     |       |      | 1.791             |
| cut3           | 5.149 | 0.728     |       |      | 3.721             |

pseudo-R2 = 0.103; N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.

**TABLE 25. Robustness Check, Country Location (DV = COMPLIANCE2).**
<table>
<thead>
<tr>
<th></th>
<th>SR I</th>
<th>SR II</th>
<th>SR III</th>
<th>SR IV</th>
<th>SR V</th>
<th>SR VI</th>
<th>SR VII</th>
<th>SR VIII</th>
<th>SR IX</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATTACKS1</td>
<td>0.007</td>
<td>0.017**</td>
<td>0.013</td>
<td>0.011</td>
<td>0.004</td>
<td>0.0009</td>
<td>0.002</td>
<td>0.007</td>
<td>0.014*</td>
</tr>
<tr>
<td>TRANSNATIONAL</td>
<td>-0.071</td>
<td>0.015</td>
<td>-0.024</td>
<td>-0.053</td>
<td>0.016</td>
<td>0.074</td>
<td>0.147*</td>
<td>0.005</td>
<td>-0.057</td>
</tr>
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<td>SUICIDE</td>
<td>0.094</td>
<td>0.118</td>
<td>-0.002</td>
<td>-0.064</td>
<td>0.021</td>
<td>-0.176</td>
<td>-0.021</td>
<td>0.176</td>
<td>-0.029</td>
</tr>
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<td>DEMOCRACYI</td>
<td>0.084***</td>
<td>0.041</td>
<td>0.070***</td>
<td>0.055*</td>
<td>0.057**</td>
<td>0.018</td>
<td>0.018</td>
<td>-0.060**</td>
<td>0.072**</td>
</tr>
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<td>GDPpc</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
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<td>0.000</td>
<td>0.000</td>
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<tr>
<td>TRADEI</td>
<td>0.044**</td>
<td>0.038**</td>
<td>0.059**</td>
<td>0.042**</td>
<td>0.028</td>
<td>0.018</td>
<td>0.031</td>
<td>0.068***</td>
<td>0.086***</td>
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<tr>
<td>cut1</td>
<td>-0.318</td>
<td>-0.548</td>
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<td>0.015</td>
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<td>-0.172</td>
<td>0.324</td>
<td>-0.464</td>
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<td>2.228</td>
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<td>2.869</td>
<td>1.201</td>
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<td>1.423</td>
<td>1.728</td>
<td>1.696</td>
<td>2.583</td>
</tr>
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<td>pseudo-R2</td>
<td>0.062</td>
<td>0.058</td>
<td>0.075</td>
<td>0.046</td>
<td>0.030</td>
<td>0.024</td>
<td>0.035</td>
<td>0.064</td>
<td>0.092</td>
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<td>134</td>
<td>134</td>
<td>134</td>
<td>132</td>
<td>133</td>
<td>133</td>
<td>150</td>
</tr>
</tbody>
</table>

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.
### TABLE 27. Factor change in odds (DV = COMPLIANCE1).

|                  | b    | z     | P>|z|  | e^b  | e^bStdX | SDofX |
|------------------|------|-------|------|------|--------|-------|
| ATTACKS1         | 0.011| 1.228 | 0.219| 1.011| 1.382  | 28.645|
| TRANSNATIONAL    | 0.070| 0.700 | 0.484| 1.073| 1.211  | 2.727 |
| SUICIDE          | 0.101| 0.512 | 0.609| 1.106| 1.112  | 1.048 |
| DEMOCRACY1       | 0.054*| 1.916 | 0.055| 1.055| 1.396  | 6.231 |
| GDPpc            | 0.000| -1.250| 0.211| 1.000| 0.808  | 2111.300|
| TRADE1           | 0.122***| 2.646 | 0.008| 1.130| 2.711  | 8.153 |

N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

b = raw coefficient
z = z-score for test of b=0
P>|z| = p-value for z-test
e^b = exp(b) = factor change in odds for unit increase in X
e^bStdX = exp(b*SD of X) = change in odds for SD increase in X
SDofX = standard deviation of X

### TABLE 28. Percentage change in odds (DV = COMPLIANCE1).

|                  | B    | z     | P>|z|  | %   | %StdX | SDofX |
|------------------|------|-------|------|-----|-------|-------|
| ATTACKS1         | 0.011| 1.228 | 0.219| 1.100| 38.200| 28.645|
| TRANSNATIONAL    | 0.070| 0.700 | 0.484| 7.300| 21.100| 2.727 |
| SUICIDE          | 0.101| 0.512 | 0.609| 10.600| 11.200| 1.048 |
| DEMOCRACY1       | 0.054*| 1.916 | 0.055| 5.500| 39.600| 6.231 |
| GDPpc            | 0.000| -1.250| 0.211| 0.000| -19.200| 2111.300|
| TRADE1           | 0.122***| 2.646 | 0.008| 13.000| 171.100| 8.153 |

N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.

All models are estimated via ordered logit.

b = raw coefficient
z = z-score for test of b=0
P>|z| = p-value for z-test
% = percent change in odds for unit increase in X
%StdX = percent change in odds for SD increase in X
SDofX = standard deviation of X
TABLE 29. Factor change in odds (DV = COMPLIANCE2).

|                | B   | z    | P>|z| | e^b  | e^bStdX | SDofX |
|----------------|-----|------|------|------|---------|-------|
| ATTACKS1       | 0.012|1.546 |0.122 |1.012 |1.424    |28.645 |
| TRANSNATIONAL  | 0.032|0.433 |0.665 |1.032 |1.091    |2.727  |
| SUICIDE        | 0.064|0.373 |0.709 |1.066 |1.069    |1.048  |
| DEMOCRACY1     | 0.088***|3.040 |0.002 |1.093 |1.735    |6.231  |
| GDPpc          | 0.000|-1.255|0.210 |1.000 |0.811    |2111.300 |
| TRADE1         | 0.066***|2.885 |0.004 |1.068 |1.711    |8.153  |

N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.
b = raw coefficient
z = z-score for test of b=0
P>|z| = p-value for z-test
\(e^b\) = factor change in odds for unit increase in X
\(e^b\)StdX = factor change in odds for SD increase in X
SDofX = standard deviation of X

TABLE 30. Percentage change in odds (DV = COMPLIANCE2).

|                | B   | z    | P>|z| | %   | %StdX | SDofX |
|----------------|-----|------|------|-----|-------|-------|
| ATTACKS1       | 0.012|1.546 |0.122 |1.200 |42.400 |28.645 |
| TRANSNATIONAL  | 0.032|0.433 |0.665 |3.200 |9.100  |2.727  |
| SUICIDE        | 0.064|0.373 |0.709 |6.600 |6.900  |1.048  |
| DEMOCRACY1     | 0.088***|3.040 |0.002 |9.200 |73.500 |6.231  |
| GDPpc          | 0.000|-1.255|0.210 |0.000 |-18.900|2111.300|
| TRADE1         | 0.066***|2.885 |0.004 |6.800 |71.100 |8.153  |

N = 134

*** p ≤ 0.01; ** p ≤ 0.05; * p ≤ 0.10, two-tailed tests.
All models are estimated via ordered logit.
b = raw coefficient
z = z-score for test of b=0
P>|z| = p-value for z-test
% = percent change in odds for unit increase in X
%StdX = percent change in odds for SD increase in X
SDofX = standard deviation of X
### TABLE 31. Changes in probabilities for COMPLIANCE1

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<thead>
<tr>
<th>Avg</th>
<th>Chg</th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Min-&gt;Max</td>
<td>0.598</td>
<td>-0.302</td>
<td>-0.595</td>
<td>0.897</td>
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<td>-0.022</td>
<td>0.008</td>
<td>0.014</td>
</tr>
<tr>
<td>+sd/2</td>
<td>0.121</td>
<td>-0.181</td>
<td>0.064</td>
<td>0.117</td>
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<tr>
<td>MargEfct</td>
<td>0.015</td>
<td>-0.022</td>
<td>0.008</td>
<td>0.014</td>
</tr>
<tr>
<td>Pr(y</td>
<td>x)</td>
<td>0.240</td>
<td>0.626</td>
<td>0.134</td>
</tr>
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</table>

x = 2.578; sd_x = 8.153

All models are estimated via ordered logit.

### TABLE 32. Changes in probabilities for COMPLIANCE2

<table>
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<tr>
<th>Avg</th>
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Min-&gt;Max</td>
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<td>-0.480</td>
<td>0.272</td>
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<td>0.008</td>
<td>0.001</td>
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<td>+sd/2</td>
<td>0.057</td>
<td>-0.114</td>
<td>0.045</td>
<td>0.062</td>
<td>0.006</td>
</tr>
<tr>
<td>MargEfct</td>
<td>0.007</td>
<td>-0.014</td>
<td>0.006</td>
<td>0.008</td>
<td>0.001</td>
</tr>
<tr>
<td>Pr(y</td>
<td>x)</td>
<td>0.308</td>
<td>0.542</td>
<td>0.138</td>
<td>0.011</td>
</tr>
</tbody>
</table>

x = 2.578; sd_x = 8.153

All models are estimated via ordered logit.
FIGURE 1. Percentage Distribution of FATF Compliance Ratings on All IX Special Recommendations

- Fully Compliant (C = 4) 4%
- Largely Compliant (LC = 3) 19%
- Partially Compliant (PC = 2) 38%
- Not Compliant (NC = 1) 39%

N = 1441
FIGURE 2. Percentage Distribution of FATF Compliance Ratings on All IX Special Recommendations

- Largely Compliant (LC = 3) or Fully Compliant (C = 4) 23%
- Not Compliant (NC = 1) or Partially Compliant (PC = 2) 77%

N = 1441
FIGURE 3. Number of New Signatories and Parties to ICSOFT, 2000-2011
FIGURE 4. Number of Sample Countries Attacked by Al-Qaeda or the Taliban, 1991-2011

- Attacked by Taliban: 4%
- Attacked by Al-Qaeda: 10%
- Attacked by both: 8%
- Not attacked: 78%

N = 161
CURRICULUM VITAE

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PUBLICATIONS

“Why Terrorists Overestimate the Odds of Victory,” Perspectives on Terrorism (October 2012), with Max Abrahms.
