

**Can Blacklisting Reduce Terrorist Attacks?  
The Case of the U.S. Foreign Terrorist Organization (FTO) List**

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Blacklisting defines social and political relations between designators and designees.<sup>1</sup> In the realm of international security, the United States Foreign Terrorist Organization (FTO) list is a salient blacklist. As one of the centerpieces of U.S. counterterrorism policy,<sup>2</sup> the FTO list proscribes groups as terrorist organizations which threaten the United States. The FTO list comes with legal, political, and economic consequences. Designated organizations face financial and travel restrictions. Financial sanctions include freezing of assets by the Treasury Department.<sup>3</sup> Travel restrictions include no entry into the United States or deportation for individuals associated with the group, which could be especially detrimental to groups that lobby in the United States to procure funds.

As a global performance indicator (GPI) that defines who is terrorist group and who is not, the FTO list has political consequences in global security. Who is affected by the terrorist list and what are the associated political processes? Using the framework of GPIs as outlined in Chapter 1 by Kelley and Simmons, this chapter examines how FTO designation affects the behavior of listed groups. We argue and demonstrate that the impact of FTO listing depends on the characteristics of listed terrorist groups. Groups with private funding sources, such as diaspora population, are vulnerable to stigmatization and sanctions from the FTO list. By contrast, groups with less observable funding sources, such as terrorist networks, are unaffected by listing and may even increase attacks. Our finding generates a general lesson: understanding differences between targets is essential to evaluating the impact of GPIs.<sup>4</sup>

The FTO list could reduce terrorism by generating political responses from relevant political actors. The list is determined by the U.S. State Department and serves as a guide for the U.S. bureaucracy, other countries' listing, and counterterrorism actions taken by the United Nations. The blacklist triggers international cooperation, especially from ally countries of the United States, and creates fear of being branded as terrorists among vulnerable populations like diaspora or humanitarian communities. In this way, blacklisting affects the reputations of listed groups, essentially naming and shaming them. In addition to such social sanctions, blacklisting exposes listed groups and their supporters to political and financial sanctions, particularly when the countries hosting terrorist organizations employ such domestic measures. Consequently, terrorist groups that rely on political and material support from those who are subject to scrutiny by the blacklist will be affected by the FTO list. Groups with less public sources of support will be relatively less impacted by the force of blacklist.

We test our predictions about the conditional impact of the FTO list using new data on terrorist group funding sources. We find that designation is only associated with reductions in attacks of terrorist groups that depend on private funding. This highly conditional finding suggests that GPIs have a limited impact in this example of global security. We also provide case evidence that some terrorist groups alter their financing strategies after designation. By

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<sup>1</sup> Social science research in political science, psychology, sociology, and criminology, all emphasize the importance of labels. See for example, Feldman 1977; Link et al. 1989; Becker 1997; Bernburg et al. 2006; and Paternoster and Bachman 2012.

<sup>2</sup> The Bureau of Counterterrorism within the State Department reports “FTO designations play a critical role in our fight against terrorism and are an effective means of curtailing support for terrorist activities and pressuring groups to get out of the terrorism business.” See U.S. State Department, Bureau of Counterterrorism “Foreign Terrorist Organizations” <http://www.state.gov/j/ct/rls/other/des/123085.htm>

<sup>3</sup> For example, \$13.5 million in cash flow to al-Qaeda was blocked as of 2013 in the wake of FTO designation of the group in 1999 (Treasury Department 2014).

<sup>4</sup> Also see Chapter 7 by Koliev et al. in this volume.

restricting private support, for example, listing may lead terrorist groups to rely more on criminal activities. In this fashion, blacklisting has a potential to produce unintended consequences in the long-run.<sup>5</sup>

We start this chapter with background on the FTO list and the designation process, and then explain why blacklisting is only likely to affect groups that depend on private funding sources. Empirical tests on terrorist groups between 1970 and 2014 provide some evidence that the FTO blacklist had some intended effects of reducing terrorist groups' attacks, but only under limited scope conditions. Case study evidence then illustrates potential unintended consequences as some terrorist organizations shifted their resource base in response to the blacklisting and regulatory pressure. We conclude with a discussion of the implications for scholarship and policy.

### *FTO blacklisting in global security*

Relative to other issue areas such as human rights, business, environment, or education, global security has few GPIs.<sup>6</sup> The dearth of security indicators may be due to the nature of high politics where countries refrain from provoking others, or the security risks associated with the information. For instance, policymakers were concerned that the issuance of Nuclear Threat Initiative (NTI)'s Sabotage Index might be used by terrorists to exploit the vulnerability of countries that are weak on nuclear security.<sup>7</sup>

The FTO list is clearly a Global Performance Indicator (GPI) where an "assessment" exercise creates an "indicator." The list is a regularized policy "assessment" based on the performance and status of violent non-state actors across a common set of criteria, namely their use of terrorism and threats to U.S. national security. The list has been updated almost annually since 1997, adding several groups each year, making 67 groups total on the list at the beginning of 2019.<sup>8</sup> The assessments of foreign terrorist organization essentially produces binary indicator that brands some groups as terrorists but others not. The designation then becomes public as the list is announced by the federal registrar and delivered to Congress through State Department public release. Although the list currently includes a disproportionate number of Middle Eastern groups, it has always contained groups from around the world, giving the indicator global coverage.

Blacklisting is essential to the FTO process as the list labels some non-state actors as dangerous deviants. FTO designation creates a stark distinction, leading to GPI dynamics that are different from other rankings, ratings and benchmarks. This branding usually comes from more powerful, established actors with more authority and social acceptance. Blacklisting clearly marks the boundary between acceptable and unacceptable behavior. The FTO case thus embodies authority relationships in world politics where powerful actors create structure and weaker actors operate within that structure. Published by the United States as the power wielder and indicator creator, the FTO list helps define unacceptable political violence vis-à-vis the

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<sup>5</sup> See further Chapter 11 by Lee and Matanock and Chapter 12 by Bisbee et al. in this volume.

<sup>6</sup> Examples include the sabotage/threat ranking (Nuclear Threat Initiative), PowerIndex (Bonn International Center), European Foreign Policy Scorecard (European Council on Foreign Relations), Global Peace Index (Vision of Humanity), and PowerIndex (Global Fire Power).

<sup>7</sup> We owe Matt Fuhrmann on this point.

<sup>8</sup> GAO 2015. See Murphy 2003 for general background of FTO listing. Also see Cronin et al. 2004; Cronin 2003. The current list is available here: <https://www.state.gov/j/ct/rls/other/des/123085.htm>

superpower.<sup>9</sup> Such framing alters the security policies of other states as well as international organizations, including the United Nations and the Financial Action Task Force (FATF).<sup>10</sup>

By making what was previously unofficially legitimate as officially illegitimate, the blacklist's reframing also configures the perceptions and actions of support networks of a target. It changes the political, legal, and social landscapes for national governments, international organizations, and beyond. This enabling power of blacklisting is activated when the target is hit by the erosion of its political support, ultimately impacting its operations and possibly survival. Blacklisting in the context of FTO designation undermines some terrorist groups' financial base and that in turn will influence their capacity to undertake violence. FTO listing will not always achieve its intended effect, however. Some terrorist groups adapt to new regulatory frameworks by shifting their resource base.

### *Contestation and listing politics*

The famous adage "one man's terrorist is another man's freedom fighter" encapsulates potential contestation surrounding the validity of the FTO list.<sup>11</sup> Designation of terrorist organizations is a debated issue in policy circles. Cronin sums up this contestation over the FTO list: "there are hundreds of groups that meet the criteria for the Foreign Terrorist Organization (FTO) list but do not get added."<sup>12</sup> To be listed as FTO, a militant group must be a foreign organization that engages in terrorist activity<sup>13</sup> and threatens U.S. national security.<sup>14</sup> Threat perception is always subject to debate, as are national security interests.

Who is listed and who is not,<sup>15</sup> whether the process of listing meets statutory requirements,<sup>16</sup> and whether listing has human rights implications<sup>17</sup> are all controversial.<sup>18</sup>

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<sup>9</sup> Other examples of blacklists, in association with U.S. counter-terrorism policy, such as State Sponsors of Terrorism, or Specially Designated Global Terrorist List, would have similar political dynamics we highlight with respect to the FTO blacklist.

<sup>10</sup> The designation of terrorist groups by other countries closely follows the U.S. list, although differences exist given security circumstances of each country. See the discussion in Freeman 2012. Also, the United Nations sanctions dates closely follow the actions of the U.S. Treasury. See the dates in Treasury 2016. On the FATF, see Chapter 3 by Morse in this volume.

<sup>11</sup> See Jarvis and Legrand 2018 and its associated special issue on what they call "proscription regimes."

<sup>12</sup> Cronin 2012.

<sup>13</sup> U.S. Code § 2656 f (d) (2) defines terrorist activity as "premeditated, politically motivated violence perpetuated against noncombatant targets by subnational groups or clandestine agents." While there is no universal definition of terrorism, studies on political violence define terrorism as political acts to invoke physical or psychological pain on civilians. Terrorist organizations are groups that exercise terrorist acts and prescribe to terrorism. The terrorist label is not a neutral term, but carries negative connotations about social exclusion and unacceptable behavior.

<sup>14</sup> Section 219 of the Immigration and Nationality Act (INA) (8 U.S.C. 1101 et seq.) as amended under the Antiterrorism and Effective Death Penalty Act of 1996 (AEDPA) (P.L. 104-132)

<sup>15</sup> Just a few examples: see discussion on Haqqani network in Afghanistan (Cronin 2011), weighing on Muslim Brotherhood FTO designation (Baker 2017), or controversy over the delisting of the Communist Party of the Philippines-New People's Army (CPP-NPA) in Galgalac 2017.

<sup>16</sup> See United States Court of Appeals for the District of Columbia Circuit, No. 12-1118 (*MEK v. State Department*, 2012).

<sup>17</sup> Head 2016.

<sup>18</sup> See Crenshaw and LaFree 2017; Phillips 2015.

Proponents of designation want to increase military attacks, declare a group illegitimate, and to ward off its supporters. Those who are *against* designation of a certain group raise concerns over the human rights and humanitarian implications of the listing.<sup>19</sup>

Cross-national differences between terrorist lists reveal the presence of contestation. Some overlap exists between the U.S. list and those of Australia, Canada, the EU and the UN, but there is little overlap with India's and Russia's lists.<sup>20</sup> The fact that there is substantial overlap with most of the lists suggests the U.S. list is influential, and that the FTO list, like other GPI instruments, alters other political actors' responses and labeling.

Besides listing itself, the efficacy of FTO list is also disputed. In an interview with the Washington Post, a White House official said that the designation is "all theatrics," and merely "symbolic."<sup>21</sup> Others describe it as a "meaningless political tool"<sup>22</sup> or playing only a "modest role"<sup>23</sup> in counter-terrorism. On the other hand, Hillary Clinton placed the designation of the Haqqani network as a foreign terrorist organization within "our robust campaign of diplomatic, military, and intelligence pressure on the network, demonstrating the United States' resolve to degrade the organization's ability to execute violent attacks."<sup>24</sup> Given these divergent views on the policy utility of FTO listing, we believe social science theory and methods can inform the policy debate. In this study, we demonstrate that any impact of FTO listing on terrorist activity depends on the characteristics of the target.

### *A political economy theory of blacklisting*

To develop an explanation for the effects of the FTO blacklist, we study political, economic, and social connections between terrorist groups and their supporters (targets of the GPI) and the United States government (issuer of the GPI). We provide a typology of the financial bases of terrorist groups, examine terrorism supporters' reactions to the FTO listing, and attempt to predict the ultimate impact on terrorist groups' activities.

In sociology and criminology, blacklisting is hypothesized to have two divergent effects: positive and negative.<sup>25</sup> On one the one hand, deterring deviant behaviors using blacklist could reduce terrorism. On the other hand, blacklisting can trigger negative responses from the target, creating more non-conformist actions.<sup>26</sup> This logic produces an expectation that the FTO

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<sup>19</sup> See Ranstorp and Wilkinson 2013; *Holder v. Humanitarian Law Project*, 561 U.S. 1, 130 S.Ct. 2705.

<sup>20</sup> India and Russia focus their terrorist organization lists on domestic opponents. In our dataset, the correlation between U.S. FTO list and other countries' lists is as follows: Canada, .81, Australia .53, EU .61, UK .53, and UN .40, Russia .22, and India .07. On the comparison among terrorist lists, see also Freedman 2010 and Beck and Miner 2013.

<sup>21</sup> DeYoung 2012. More recently, the former U.S. Director of National Intelligence, James Clapper said "for whatever reason it seemed as though our listing a group had an impact. People noticed and the rest of the world cared, but as far as impact on us in intelligence, it really didn't have any." (Legrand 2018).

<sup>22</sup> Lobe and Ramsey 2012.

<sup>23</sup> Hufbauer and Moll 2007.

<sup>24</sup> BBC. 2012. "U.S. to designate Haqqani network as terror group" 7 September 2012. Available at <https://www.bbc.com/news/world-asia-19521773>

<sup>25</sup> See the review of literature in Paternoster and Bachman 2012.

<sup>26</sup> The two competing theories -- "labeling theory" and "deterrence theory" -- help theorize the potential effect of FTO listing. Labeling theory in criminology proposes that criminals react negatively to negative labeling, which leads to *more* crimes, not less. Labeling theory therefore would predict that FTO listing would lead to *more* terrorism. On the other hand, deterrence theory would point out the legal and

designation can galvanize groups to carry out more attacks. Adjudicating between these divergent expectations, we develop a political economy explanation of how the FTO list affects terrorist attacks. We argue that listing generates less terrorist activity when the target is vulnerable to political processes triggered by designation. Conversely, we would expect the terrorist list will have no impact or has a potential to create more terrorist activity when the target is less vulnerable to the regulatory pressure ensued by the FTO process.

Vulnerability depends on the structure of funding base for each terrorist group. Some funding is easier to monitor and disrupt, and terrorist groups with such funding sources will be more likely to be affected by FTO designation. Private funding, such as donations and diaspora support, is especially vulnerable to sanctions and social stigma. Terrorist groups that depend on private funding are likely impacted by blacklists, as supporters suffer legal, financial, and social consequences. In contrast, funding sources that are more difficult to detect and provide greater autonomy to terrorist groups – like criminal activities – are unlikely to be impacted by FTO listing. In some cases, blacklisting these groups may even contribute to increased attacks when terrorists adapt and gain notoriety.

The effect of blacklisting depends on the financial support of targeted groups for several reasons. The financial support network of the blacklisted target gives us clues about the vulnerability of the target, responses of supporters, and regulatory issues for the U.S. If the support network is clandestine, blacklisting will not shame and stigmatize supporters of the terrorist organization. As a result, the target organization will not change its behavior. In contrast, if a support network is open and subject to shaming, blacklisting could change how the target operates, by eroding its support network. Consequently, the target would be weakened and blacklisting will reduce terrorist attacks. Terrorist groups might not necessarily be shamed by the FTO list, but their supporters might be shamed, which can impact how terrorist groups operate. This line of argument highlights how target heterogeneity elicits different responses to the blacklisting. Terrorist groups that rely one type of open funding may behave differently from those that rely on other clandestine funding types. We now explore the resulting sensitivity to blacklisting of different funding sources in more depth.

### *Varieties of terrorism funding*

Financing is essential to terrorist groups, as it provides resources to support members and fund operations. Although lone wolves do not require funding systems, most terrorist organizations actively manage their funds and to pay members and to maintain operational cells.<sup>27</sup> Most importantly, funding has consequences for terror acts. Some attacks have few costs, but others such as coordinated hijacking or military actions require sustained hierarchical operations.<sup>28</sup> Disruption of their financial and support network reduces terrorists' capability over time by reducing their capacity to pay recruits, launch attacks and build political capacity.

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economic consequences for the terrorist groups as well as the likelihood of them being affected by the designation. Deterrent theory therefore would predict that blacklisting leads to *fewer crimes*. Our theory seeks to reconcile the two views.

<sup>27</sup> Shapiro 2013; Vittori 2015. Recent research shows that AQI and ISIS dispersed funding to maintain recruits and to augment their attack capacity (Johnston et al. 2016)

<sup>28</sup> For example, the 2004 Madrid train bombings cost an estimated USD 10,000, and the 2002 Bali bombings an estimated USD 50,000 (FATF 2008, pp.7-8).

We identify and classify four primary ways for terrorist groups to fund their activities: 1) private funding, 2) state sponsorship, 3) terrorist networks, and 4) criminal activities.<sup>29</sup> The four funding types differ in “financial vulnerability,” social pressures on supporters from blacklisting, as well as how adaptable terrorist groups could be in securing new types of funds.

Private funding includes money from private actors – business, charities or individuals. Examples include money from private donors, charities,<sup>30</sup> or diaspora populations.<sup>31</sup> Private donors and charities are directly hit by the material support ban that follows FTO designation. These actors face fines or have their operations shut down if they are deemed to support terrorist groups. Banks, businesses, and other organizations are also affected by the FTO designation. If they are branded as entities that provide “material support” for terrorist organizations, they could be sanctioned. The attention given to the Holy Land Foundation, a Hamas charity, is one example of a material support ban triggered by the FTO designation.<sup>32</sup> A U.S. Supreme Court case, *Holder v. Humanitarian Law Project*, also shows how the FTO list has created new restrictions on how international humanitarian organizations engage with non-state conflict actors.<sup>33</sup>

Private donations are relatively easy for governments to monitor, especially for larger groups with extensive financial flows. Also, some private actors are more likely face the shame and stigmatization of blacklisting along with sanctions. The reaction of the Tamil Tigers diaspora population is a case in point. The Tamil diaspora helped fund the Liberation Tigers of Tamil Eelam (LTTE) in Sri Lanka, but FTO designation restricted the flow of resources. Following the American lead, Canada and UK raised barriers for charities channeling funds to the LTTE for fear of being branded as supporting terrorism.<sup>34</sup> Before the FTO listing of LTTE, the Tamil diaspora in Europe and the United States often contributed financially to the “freedom fighters,”<sup>35</sup> but opinions changed when the LTTE was branded as “terrorists.” The diaspora withdrew their support after FTO designation, not just because of the threat of legal punishment but also because of shame and stigmatization.<sup>36</sup> Stigmatization was likely at work eliciting responses from donor community and ultimately affecting LTTE operations.<sup>37</sup>

State sponsors are another source of funds for terrorist groups.<sup>38</sup> Libya, Syria, Iran, Pakistan and Iraq, among others, have provided sanctuaries or given weapons to terrorist groups to advance their geopolitical interests. State sponsorship subjects terrorist groups to the political

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<sup>29</sup> On the types of terrorism financing, see FATF 2008; Vittori 2012.

<sup>30</sup> See the list of charities in Treasury Department 2016.

<sup>31</sup> See Hess 2007 for nexus between diaspora and terrorism.

<sup>32</sup> See Levitt 2004 for more examples involving charities and terrorism.

<sup>33</sup> 561 U.S. 1, 130 S.Ct. 2705. Also see Modirzadeh 2011; Said 2015.

<sup>34</sup> See International Crisis Group 2010.

<sup>35</sup> Considered the claim of five defendants of Tamil diaspora that LTTE is not a terrorist organization, but a liberation movement, in the Hague district court in 2011 LTTE case (as discussed in Wellens 2015, pp.88-91).

<sup>36</sup> LTTE was said to have affected by the FTO designation due to the dwindling funding from diaspora offices in Canada and UK, but its demise was eventually caused by battle losses against the Sri Lankan government. See Roberts 2012.

<sup>37</sup> We however recognize that some private funders may be immune to the FTO listing if they have particular religious or geopolitical interests. See Burr and Collins 2006 for the case of Islamic charities. Even in these cases, charities are subject to monitoring by national authorities are more observable criminal activities.

<sup>38</sup> Byman 2005, Carter 2012.

whims of their sponsors.<sup>39</sup> Depending on changes in the domestic coalition of the sponsor country or shifting geopolitical tides, terrorist groups expose themselves to the risks of fluctuating funding, so many organizations tend to seek self-sufficiency.<sup>40</sup> For the implementation of the FTO list, sanctioning state sponsorship is complicated by potential issue linkages. Efforts to sanction states for sponsoring terrorism may be hindered by other foreign policy concerns. For instance, the U.S. has struggled to address Pakistan's relationship with Islamic militants, including several groups on the FTO list. Furthermore, state sponsors are unlikely to change their behavior in response to FTO designation. Countries view sponsoring armed groups as means of advancing their geopolitical interests, making FTO designation comparatively unimportant.<sup>41</sup> So, even though the FTO list signals to state sponsors of terrorism, designation alone will not impact state support.

Terrorist networks, or alliances among terrorist organizations, are the third source of financial and logistical support to facilitate attacks.<sup>42</sup> Heavily networked terrorist organizations can survive longer by reducing mobilization concerns.<sup>43</sup> As well, network provides a valuable support for many groups especially if they operate under restrictive environments. Consider ties between al-Qaeda and al-Qaeda in the Arabian Peninsula (Yemen), al-Qaeda in the Islamic Maghreb (AQIM in Mali), and al-Shabaab (Somalia). Ideological affinity, shared training, and operating reach give the groups more power. We expect that groups relying on terrorist networks are less vulnerable to FTO designation, as they already operate beyond the reach of sanctions and monitoring.

Criminal activities are an essential source of funding for many terrorist organizations.<sup>44</sup> Terrorist groups fund their groups from the profits of criminal activities, such as kidnapping, ransom, extortions, illicit trade, and drug trafficking.<sup>45</sup> Involvement in crime contributes to organizational longevity.<sup>46</sup> Criminal activities, compared to other funding sources, are low on financial vulnerability. The clandestine nature of criminal activities makes them difficult to trace and sanction. Local criminal activities such as extracting forced donations from local business or civilian population are especially difficult to observe. International criminal activities are relatively more detectable than domestic/local extortion activities. Even then, sanctions are hard to enforce when trade occurs in black markets or international buyers engage in sanction-busting activities.<sup>47</sup> In addition, terrorist groups relying on criminal activities are often immune from blacklisting, because their funding is autonomous. Low financial vulnerability in criminal activities is reinforced by shifts from one criminal source to the other. For example, Al-Shabaab moved from black market charcoal to extortion and ivory trading, making their funding versatile

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<sup>39</sup> Salehyan et al. 2014.

<sup>40</sup> Johnston et al. 2016.

<sup>41</sup> This is in line with the finding in Phillips 2018 that the FTO effects differ between U.S. allies and non-allies.

<sup>42</sup> Karmon 2005; Asal and Rethemeyer 2008; Bacon 2018.

<sup>43</sup> Phillips 2014.

<sup>44</sup> Shelley 2014.

<sup>45</sup> For example, Hezbollah, despite its service provision, exhibit the characteristics of crime syndicates, engaged in illicit trades. See Leuprecht et al. 2015.

<sup>46</sup> Piazza and Piazza 2017.

<sup>47</sup> Early 2015.

and adaptable.<sup>48</sup> As a result of funding-autonomy and adaptability, groups that fund their operations through criminal activities are unlikely to be affected by FTO designation.

*Responses by the U.S., other states, and international organizations*

The FTO list can impact a proscribed group via various domestic and international political channels. In the domestic arena, FTO designation triggers interagency cooperation for proper implementation among the Departments of State, Justice, Homeland Security and the Treasury.<sup>49</sup> Agencies implement financial sanctions, immigration bans, and oversee the legality of sanctions. Abroad, the U.S. government uses the FTO list as a foreign policy signal to terrorist-hosting governments. According to the State Department, FTO listing “signals to other governments our concern about named organizations.”<sup>50</sup> In advocating the listing of Haqqani network, a terrorism expert on South Asia said in a congressional testimony: “Pakistani officials repeatedly questioned why they should take military action against the Haqqanis if the U.S. was seeking a negotiated settlement. With this terrorist designation, the U.S. leaves no doubt on where it stands on the issue and thus removes a Pakistani excuse for failing to take military action.”<sup>51</sup>

The FTO designation spurs host governments to take action against proscribed groups.<sup>52</sup> Listing a group sometimes leads to U.S. military and diplomatic support for host governments.<sup>53</sup> Such aid helps U.S. allies in their counter-terrorism efforts, which can be guided by the FTO list.<sup>54</sup> The

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<sup>48</sup> Radtke and Jo 2018.

<sup>49</sup> Decker 2014. Cronin 2003, 3 also writes that the FTO designation “provides a clear focal point for interagency cooperation.”

<sup>50</sup> Fact Sheet: Secretary of State designates Foreign Terrorist Organizations (FTO's); office of the Spokesman, Washington DC. October 5, 2001. <http://fas.org/irp/news/2001/10/fr100501.html>

<sup>51</sup> Curtis 2012.

<sup>52</sup> Note the principal-agent relationship between the host government and the United States (See Bapat 2011 for the analysis of moral hazard problem in the context of U.S. counterterrorism effort.). Not all states share the preferences of the United States. The government might not necessarily fight the terrorist organization absent military aid. The government might have an understanding with terrorist groups, or the government might want to rely on aid relationships and prefer that that conflict continue to secure further aid. As an agent, then, a resident government might have a diverging preference from the United States.

<sup>53</sup> Increased foreign aid to Uganda after the designation of the Lord's Resistance Army as an FTO in December 2011 is one such example (Mills 2015, p.138 in particular; also see Finnström 2008).

<sup>54</sup> See Boutton and Carter 2014. The U.S. appears to increase military aid to FTO-resident countries after FTO designation. We examined the increase amount after 2001 to FTO-holding countries. For example, the Philippines received about 1 million (\$1,330,744) in Year 1999 but 15 million (\$55,127,153) in Year 2002 for the category of “Foreign Military Financing (FMF)” Program. Those are grants for the acquisition of U.S. defense equipment, services, and training, which is essential for “building partner nation capacity and helping allies defend themselves.” Such dramatic increases are not observed in other non-FTO resident countries. See “Foreign Military Financing Program” House Appropriations Committee Reports, 112<sup>th</sup> Congress (2011-2012) House Report 112-494: State, Foreign Operations and Related Programs Appropriations Bill, 2013. [http://thomas.loc.gov/cgi-bin/cpquery/?&sid=cp112WcH61&r\\_n=hr494.112&dbname=cp112&&sel=TOC\\_218118](http://thomas.loc.gov/cgi-bin/cpquery/?&sid=cp112WcH61&r_n=hr494.112&dbname=cp112&&sel=TOC_218118). On how the effects of FTO status seem to be more powerful in U.S. allied countries, see Phillips 2018.

terrorist list also produces elite responses within the host governments of FTO groups.<sup>55</sup> According to Julia Morse's data on counter-terrorism financing (2006-2014), a larger number of FTO-host countries have instituted new laws compared to non-FTO-host-countries to tackle terrorism financing after FTO designation of their residing terrorist groups.<sup>56</sup> Among the 71 countries that created counter-terrorism financing domestic regulations, 24 countries have FTOs in their territory. This includes almost all states that with FTO-listed groups. In one example, around the time several Pakistani groups were listed as FTOs, the Pakistani government established Financial Monitoring Unit at Ministry of Finance, amended Anti-Terrorism Act of 1997 and subsequently enacted an Anti-Money Laundering Act in 2010.<sup>57</sup>

A specific way FTO designation affects designated groups, is by influencing other countries' lists. The United States seems to be an important agenda-setter regarding which groups are counterterrorism priorities.<sup>58</sup> After the U.S. list was created in 1997, the United Kingdom created its own list, using similar policies, in 2000. The European Union, and countries beyond Europe, took similar steps after the September 11, 2001, terrorist attacks.<sup>59</sup> The U.S. listing seems to influence other countries' designation decisions, multiplying impact on listed groups.

Governments with terrorist groups in their countries often exploit FTO status to stigmatize domestic enemies and use it as an opportunity for repression. For example, the Sri Lankan government used LTTE's FTO status to justify their actions and bolster domestic political support for military campaigns. As a counter-terrorism tool, the FTO list triggers military and political responses that would not otherwise be possible for host governments. FTO designation by the U.S. became a powerful policy tool for elites within host countries, especially after 9/11. Elites facing internal opposition can use FTO designations to clamp down on long-time foes.

The long-running conflict in the Philippines illustrates this impact of the U.S. FTO designation. The Philippine government has faced an insurgency in the Mindanao region for over three decades and the FTO designation of Abu Sayyaf provided the government political and military tools to fight this group and other insurgents. More recently, the Duterte administration opposed the U.S. attempt to remove the Communist Party of the Philippines from the FTO list.<sup>60</sup> The case demonstrates how the FTO designation becomes a political and policy-framing tool on the part of domestic elites in the U.S. and host countries.

Beyond the U.S. and host government politics, the FTO list impacts transnational political processes, with consequences for terrorists' attack capacity. UN Designation of FTO-linked charity organizations closely follow the U.S., usually with five to ten days' delay.<sup>61</sup> Also, charities and banks that operate internationally must ensure money does not flow to terrorist organizations for the fear of being tagged as "material supporters" of terrorism.

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<sup>55</sup> Here we use the term "host" in the general sense to include countries with FTOs in their territory, regardless of whether the state authorizes the groups' actions or existence.

<sup>56</sup> Chapter 3 by Morse, in this volume.

<sup>57</sup> Zahid 2015.

<sup>58</sup> Beck and Miner (2013, 852-853) find prior U.S. designation is associated with subsequent UK or EU designation.

<sup>59</sup> Jarvis and LeGrand 2018.

<sup>60</sup> Galalac 2017.

<sup>61</sup> Treasury Department 2016. It is no coincidence that al-Qaeda related entities were designated as UN-terrorist list only a few days after the U.S. FTO designation.

## *How terrorist groups react to blacklist*

Like governments and international organizations, terrorist groups respond to FTO designation. Their reactions to blacklisting are diverse. Some contest the listing. Mujahadeen-e-Khalq (MEK), for example, demanded the revocation of its designation for years and finally achieved it in 2012.<sup>62</sup> Others have responded to designation with defiance. The al-Aqsa Martyrs Brigades, an extremist group in Palestine under Fatah control, responded to the designation decision with a statement resolving to “continue until we vanquish the occupation.”<sup>63</sup> The third category of terrorist groups attempt to evade the legal reach of FTO designation. Harkat ul-Mujahedin has frequently changed its name to avoid sanctions and disguised itself as a charity organization.<sup>64</sup> Other terrorist groups engage in public relations as a counter to FTO listing. Al-Qaeda in the Arabian Peninsula (AQAP) in Yemen started publishing its online magazine, *Inspire*, in July 2010, shortly after its FTO designation in January 2010, reacting to the designation by enhancing its social status to draw recruits.<sup>65</sup>

Part of these reactions is a function of from where these groups draw support. Terrorist groups’ financial bases are important for determining how much FTO designation will penetrate their operations and how they react to the blacklist. Terrorist groups that have relied on criminal activities will retain freedom of action. In contrast, groups that have relied on private funding are more vulnerable to the consequences of FTO listing, either because the sponsor was shamed (as in Tamil diaspora) or subject to domestic or international sanctions on money trail (with the help of Financial Action Task Force). From the perspective of the monitor (U.S. authorities), reliance on private funding would result in relatively high visibility in tracking down the flow of funds.<sup>66</sup> Additionally, other countries with terrorist groups, especially U.S. allies, would mobilize their own resources to catalyze their anti-terrorism efforts. The high detectability allows for sanctions to be implemented, and some private supporters will also face stigmatization. These domestic and international political and social processes lead to our main hypothesis, which we test in the next section.

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<sup>62</sup> In petitioning against its designation, the MEK noted that “A FTO designation results in “dire consequences” for an organization, its members and other supporters.” (*MEK v. State Department*, 2012: 3).

<sup>63</sup> Levitt 2002. Analysts noted that the designation also signaled to Fatah that they could be next, as many members of the al-Aqsa Martyr Brigade were associated with Fatah’s military wing. This again demonstrates that the message of blacklisting via FTO designation gets to the target terrorist group as well as other terrorist groups.

<sup>64</sup> State Department 2014 “Amendments to, and Maintenance of, the Terrorist Designations of Harakat ul-Mujahidin” Media Note, Office of the Spokesperson, Washington DC, August 7, 2014. <http://www.state.gov/r/pa/prs/ps/2014/230373.htm>

<sup>65</sup> “Al Qaeda Organization in the Arabian Peninsula” Global Security. Available at <http://www.globalsecurity.org/military/world/para/al-qaida-arabia.htm>

<sup>66</sup> This is not to say that private funding is easy to detect. Charities are sometimes difficult to detect because of their global reach, name changes, and shell companies. We argue that private funding is *comparatively* easier to monitor than say, the terrorist funding based on criminal activities. The relative easiness is the key. We recognize the difficulty of tracking down overseas remittances for example. In many cases, even if the funds are tracked down, linking them to material support for a certain terrorist group is uncertain.

Hypothesis: If a terrorist group relies on private funding and is subject to FTO designation, the group is more likely to reduce attacks, compared to FTO-designated groups that rely on other types of funding.

### *Statistical analysis of FTO listing impact*

To test our hypothesis, we built a dataset on terrorist groups between 1970 and 2014, by extending the dataset by Gaibullov and Sandler (2013) that covers the period between 1970 and 2007.<sup>67</sup> The unit of analysis is terrorist group-year, as we analyze the pattern of terrorist attacks in response to the FTO listing. Our dataset includes 412 terrorist groups.<sup>68</sup> A terrorist group enters the data when it is first formed, which is often made clear by its first claimed attacks, and exits the data when it is no longer operational for more than five years or is disbanded. Since FTO listing started in 1997, we have 27 years of data before the FTO listing and 17 years after the FTO listing.<sup>69</sup> Given that the FTO list started in 1997, some terrorist groups are designated years after their formation. For example, al-Qaeda formed in 1988, but it was only listed as a FTO in 1999 after a threat assessment based on the 1998 bombings of the U.S. embassies in Kenya and Tanzania.

In our dataset, a terrorist group is a subnational political organization that uses terrorism,<sup>70</sup> where terrorism is defined as “the use of politically motivated violence against non-combatants to cause intimidation or fear among a target audience.”<sup>71</sup> Based on these definitions of terrorist organizations and terrorism, our dataset includes various non-state armed groups, such as those often called rebel groups or paramilitaries – as long as they use terrorist tactics. Our dataset excludes peaceful movements or violent non-state actors that do not use terror tactics. This general definition produces different set of terrorist organizations from what the United States brands as “foreign terrorist organizations.” This difference between regular scholarly terrorist group lists and the FTO list highlights the highly political nature of the FTO designation.

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<sup>67</sup> In extending the dataset up to 2014, we focused on constructing reasonable comparison sets – terrorist groups that are comparable to the GS data. We used the list of groups from the Global Terrorism Database (GTD) and then we excluded lone wolves and amorphous groups. Individual terrorists (i.e. lone wolves) do not fit the “group” standard, and other GTD “groups” include actors who are at best suspected of one attack, or primarily engage in other forms of contentious politics. We also removed actors that are coded as groups by the GTD, but have a group name of “Jihadists” or “Leftists,” suggesting that the perpetrators were not necessarily part of a formal organization, but that GTD coders attached a name indicating what they knew about them. These criteria are consistent with Gaibullov and Sandler’s coding, and with other terrorist group databases, as in Cronin 2009.

<sup>68</sup> The number of groups used is consistent with some other global analyses of terrorist groups, which include several hundred organizations. Blomberg, Gaibullov, and Sandler 2011 include 367 groups in their analysis, and Cronin 2009 includes 450. Neither author, however, tried to find organizational information as specific as ours, regarding funding sources. Other missing data issues, including how the groups used in the sample are comparable with FTOs, are discussed below.

<sup>69</sup> The mean duration for terrorist groups is 12 years, with a minimum of 1 year and a maximum of 45 years (our observation window of 1970-2014). About 50% of groups dissolve after 8 years.

<sup>70</sup> Phillips 2015. This is consistent with other studies, such as Hoffman 2006, Carter 2012, and Jones and Libicki 2008.

<sup>71</sup> Jones and Libicki, 2008: 3.

Our dependent variable is the number of terrorist attacks associated with each group in a year.<sup>72</sup> Terrorist attacks are an important outcome of interest because they are the main output of groups and reflect organizational capacity.<sup>73</sup> In our dataset, terrorist attacks include both domestic and transnational terrorism, as some domestic attacks in other countries might also affect U.S. global security interests.<sup>74</sup> The mean of the dependent variable is approximately seven annual attacks, but ranges from 0 to 1032.

The first set of key independent variables includes our measures of funding sources. We classify terrorist funding into four binary variables: private funding, state sponsorship, terrorist network, and criminal activities. For each type, we construct an indicator<sup>75</sup> to denote if a particular group has a particular type of funding.

Private funding (82 groups) included financing for terrorist organizations from members, charitable donations, and other miscellaneous sources. State sponsorship (85 groups) was coded based on information which clarified whether a group was funded in part or in whole by a state entity. Terrorist network (57 groups) was coded 1 if a group received resources from other terrorist organizations. Criminal activities (101 groups) were coded based on illicit funding such as bank robberies, kidnapping for ransom, extortion, or the drug trade. To collect the funding data, the research team utilized official or reliable academic sources, mostly based on the group profiles from the Mapping Terrorism Project at Stanford as well as data from the START (Study of Terrorism and Responses to Terrorism) Center at University of Maryland.

We were unable to code data for 230 obscure groups due to a lack of adequate data. This restricts our analysis to a smaller sample than desired (about 500 groups out of 1000). But we are confident to proceed with our analysis because the missing values mainly come from groups that are too small to be placed on the FTO list. Most groups with missing funding data have few recorded attacks and members.<sup>76</sup>

The second key independent variable is FTO designation of a group. *FTO* is a binary measure indicating whether a group is on the FTO list in a particular year. A total of 49 groups

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<sup>72</sup> We draw attacks data from the Global Terrorism Database. We could have opted for other dependent variables such as group survival (whether a group survives or not, as in Gaibulloev and Sandler 2013) or fate (ending in negotiation, military defeat or victory as in Carter 2012). We chose to analyze attacks first because survival and fates require distinct theorizing (e.g. why terrorist groups want to negotiate) and the FTO effect might have less of a long-term effect (on survival) than a short-term effect (on attack patterns).

<sup>73</sup> For these reasons, other studies use terrorist attacks as the dependent variable (e.g. Nemeth 2014, Li 2005).

<sup>74</sup> One of the criteria for the FTO designation was the threat to U.S. national security. In the analysis reported in this chapter, we did not count transnational attacks after 2007 but mainly incorporated domestic attacks. The results before 2007 with both transnational and domestic attacks do not substantively change compared to the whole sample.

<sup>75</sup> The ideal measure for us would be a measure of funding employing the concept of portfolio – reflecting the share of revenue for each funding type. This would give us a more valid measure for terrorist groups' financial vulnerability. Such information is present for some prominent groups that receive sufficient attention. For example, ISIL is funded by oil (38.7%), contracting work (37.9%), spoils (19.7%), real estate (2.8%) and miscellaneous (0.9%) activities, with little few private donations or foreign state sponsorship. AQIM acquired funds mostly from sales of spoils with geographic and temporal variations (Shapiro et al. 2016). But for many terrorist groups, even rough data do not exist. Currently, we are missing 40% of our funding data (4427 available out of 7397 total observations). This means that in most cases, funding information is not easy to track down, let alone the exact share of revenues.

<sup>76</sup> This claim is based on a logit analysis of missing observations in the funding variables.

are on the FTO list at some point. Some groups are delisted, switching the FTO indicator from one to zero. We interact the FTO variable with dummy indicators of funding type in our statistical analysis to examine the differential effects of FTO effect across funding types.

We also controlled for other correlates of terrorist attacks and FTO designation. *Group size* is a variable that measures the size of a terrorist group. It is a logarithm of a group's membership at its peak.<sup>77</sup> *Religious group* indicates if a group is characterized by religious motivations, rather than left-wing, right-wing, nationalist, or others.<sup>78</sup> *Political regime type* is the democracy score for the country the group is primarily based in, ranging from 0-10 indicating most autocratic to most democratic. It comes from the Quality of Government project.<sup>79</sup> Democratic countries often experience more terrorism.<sup>80</sup> We control for *GDP per capita* and *population* as economic development and country size might influence occurrence of terrorist attacks.<sup>81</sup>

Models include two variables that account for time trend and temporal patterns of terrorist attacks, as the capability to launch attacks is likely to change slowly. *Year trend* – a time counter for each year – accounts for global trends in terrorist attacks. To account for autocorrelation of terrorist attacks over time, we included *Attacks (lag)* – the number of terrorist attacks by a group in the previous year. Including the lagged dependent variable means our model is equivalent to estimating changes in attacks.

Since our dependent variable is a count, we employed a count model that accounts for between subject heterogeneity as well as the over-dispersion of the data.<sup>82</sup> About two-thirds of the observations are zero for the dependent variable, and the occurrence of zeroes is probably non-random. To address this, we use zero-inflated negative binomial regression, a two-stage model where the first stage estimates the likelihood of a zero, and the second stage is a negative binomial regression.<sup>83</sup> The first stage includes all the independent variables of the count models except the interaction terms. It includes the variables that are likely to contribute to the generation of zeros in our dependent variable.

Table 1 reports our main results. Model 1 provides baseline estimates, and Models 2-5 include interaction terms to estimate FTO effects conditional on funding types. Interestingly, in Model 1 the coefficient on FTO is statistically significant and positively signed, suggestion that FTO status is correlated with increased terrorist attacks. However, this is an unconditional effect that does not take into consideration the heterogeneity of funding types. Model 2 includes the interaction of FTO status and private funding, and this interaction term is negative and statistically significant. This suggests that terrorist groups that use private funding are less likely to undertake attacks with FTO designation.<sup>84</sup> Private funding is positively correlated with attacks

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<sup>77</sup> Gaibullov and Sandler 2013.

<sup>78</sup> Ibid.

<sup>79</sup> Dahlberg et al. 2017. The variable is primarily based on Freedom House, but uses the Polity2 variable to impute missing Freedom House data.

<sup>80</sup> Li 2005; Chenoweth 2013.

<sup>81</sup> Gaibullov and Sandler 2013.

<sup>82</sup> The mean of our dependent variable, number of terrorist attacks, is 6.578 and the standard deviation is 29.917, indicating the overdispersion of the data.

<sup>83</sup> See Cameron and Trivedi 2013; Long and Freese 2014. A Vuong test suggests the zero-inflated model is preferable to regular negative binomial models, but we also report the results of negative binomial models in supplemental document because both types of models are commonly used in terrorist studies.

<sup>84</sup> We also conducted separate analysis with different types of terrorism, such as kidnapping and suicide bombing. The key result for Model 2 in relation to privately funded groups and FTO holds for kidnapping,

in the absence of FTO designation. None of the other funding types has a statistically significant interaction effect with FTO status.

[Table 1 about here]

Figure 1 reports the substantive effects of FTO status conditional upon funding types. The estimated impact of FTO status on a terrorist group that does not receive private funding such as donations is about 5 more attacks per year, with other variables held at their means. By contrast, the impact of FTO status is not conditional upon any of the other funding types. In the case of groups with terrorist networks or criminal activities, FTO appears to be associated with a slight increase in attacks, compared to groups without such funding. This provides some support for the idea that terrorist groups that use private funding are especially vulnerable to FTO designation.

For the approximately 75 percent of terrorist groups that do not receive private funding, FTO designation is associated with more attacks. However, there is no such association for the terrorist groups that use private funding. FTO designation appears to limit the momentum of privately funded groups that might otherwise have launched additional attacks.

[Figure 1 about here]

Regarding control variables, some results are consistent with the literature. The lagged dependent variable is statistically significant and positively signed, suggesting groups' attacks the previous year are associated the current year's value. Larger groups are likely to wage more attacks, which is consistent with other studies. The coefficient on *Religious* group is positively signed, but is usually statistically significant. This is consistent with mixed results in other studies. The coefficients on the state-level independent variables are mostly insignificant. This is perhaps because group-level variables are more important for explaining group behavior. Note that other studies of terrorist *group* attacks or lethality often do not find associations between these factors and, for example, regime type.<sup>85</sup> The results are robust to changes in estimator, such as regular negative binomial regression,<sup>86</sup> and also consistent to the inclusion of other control variables, such as other terrorist organization lists from Australia, Canada, EU, India, Russia, and UK.

We further checked whether non-random selection into the FTO list affects our results. The process of designation may influence the estimates for the FTO effects on terrorist attacks, so we examined whether that blacklisting process affects our inferences regarding FTO designation and terrorist attacks. Certain groups are likely to be designated as FTO groups in the first place. FTOs are large in size; they have a history of substantial and damaging terrorist attacks. Some anecdotal evidence suggests that U.S. allies are actively involved in the FTO listing process. FTO list also includes a disproportionate number of Islamic groups.

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but not suicide bombing. This is consistent with our theory that funding types will affect expensive operations such as large scale terrorist attacks or kidnapping (which requires organization and planning), but do not travel to smaller scale terror operations such as suicide bombing. Results on file with authors.

<sup>85</sup> e.g., Asal and Rethemyer 2008.

<sup>86</sup> Results on file with the authors.

More critically, the U.S. might strategically select easy targets such as terrorist groups with private funding. Taking stock of these correlates of FTO selection (group size, U.S. ally,<sup>87</sup> past history of attacks, religious group, private funding dummy), we use coarsened exact matching (CEM) to match listed and not listed observations across different funding types, taking into account the FTO selection process.<sup>88</sup> CEM coarsens the data by placing bins and strata to create treatment and control groups (e.g. creating 43 matched strata out of selection covariates, find exact matches (e.g. a large group in control reservoir, matched to a large group in treatment reservoir), and ultimately to produce comparable matches between FTO and non-FTO observations. After implementing CEM, we estimate the zero-inflated negative binomial regression models with the weights created by CEM. The results are analogous to the ones reported in Table 1, except that the significance of the interactive term in Model 2 (private funding) is somewhat attenuated for a two-tailed hypothesis test. This check lends support for our conclusion about the differential impacts of blacklisting depending on the heterogeneity of funding among terrorist groups.

Finally, since FTO designation usually comes with the sanctioning tools such as travel bans or asset freezes, it is important to distinguish the effect of listing from sanctioning. Although we cannot cleanly parse out the effect of sanctions from listing, we can at least systematically test whether the listing effect holds when sanctioning is weak. We exploit the fact that sanctioning was weak before 9/11 and that increased dramatically after 9/11. If we are correct about the listing effect, we should still see the hypothesized private funding effect even for pre-9/11 sample. We report the results for pre- and post-9/11 in Table 2. It is essentially the same model reported in Table 1, Model 2 with two subsamples. We see that listing effect still exists pre-9/11 when sanctioning regime was weak, and that the FTO effect is relatively pronounced after 9/11. In light of this evidence, we conclude that listing effect is not ignorable and is fortified by sanctioning measures.

[Table 2 about here]

A few examples illustrate how our expectations work. We give examples of al-Qaeda, MEK, and the FARC to highlight the mechanisms we outline in this chapter, with regard to funding types, FTO designation, and responses by the terrorist organization.

The example of al-Qaeda demonstrates how terrorist organizations adapt. Al-Qaeda depended on opium trade before 1999.<sup>89</sup> With the support from the private donors from Saudi Arabia, the al-Qaeda central managed to carry out the September 11 attacks, even after designation as FTO in 1998. After the funds dried up with the augmented sanctions after the 9/11, the group transformed itself to be heavily linked to other terrorist groups and formed a broader network. FTO designation had little impact on al-Qaeda because their funding was hard to monitor and sanction after al-Qaeda adapted itself to new regulatory environment.<sup>90</sup>

Mujahedin-e-Khalq (MeK), in contrast, exclusively relied on U.S. political support and diaspora networks in Europe. The legal actions by MeK challenging FTO process as well as its

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<sup>87</sup> U.S. Ally variable is a binary indicator of whether a host country has one of the military pacts: alliance treaty, defense pact, non-aggression pact, or entente. The data source is the Correlates of War Alliances database. Gibler 2009. International Military Alliances, 1648-2012.

<sup>88</sup> Iacus et al. 2012. Results on file with the authors.

<sup>89</sup> UNSCR 1267.

<sup>90</sup> Stern and Modi 2008 highlight the importance of studying terrorist groups' adaptability.

renewed political lobbying after their FTO designation in 1997 are one indication that FTO listing indeed affected the terrorist organization's operations. Their dependency on private funding, donations, seems to have made FTO listing more effective for this group than it was for others.

The example of the Revolutionary Armed Forces of Colombia (FARC) presents a different degree of vulnerability compared to MeK. The FARC once received support from Cuba, but mainly depended on drug trafficking and criminal activities. Criminal activities are difficult to monitor and punish through the sanctions imposition on the groups, and the stigmatization effect would be almost absent. Our political economy theory of blacklisting would predict that FARC would be less affected by the direct blacklisting or associated sanctions. The indirect path of U.S. support for the Colombian government in the war on drugs had later had the effect of reducing FARC's attack capability. This was not a direct consequence of the FTO designation, but associated ally support and consequence of designation politics.

The diverging attack series of the three groups in Figure 2 match our expectations about funding vulnerability and FTO designation.<sup>91</sup> All three groups were FTO-listed in 1997 but their attack patterns diverge: al-Qaeda attacks increased, MeK eventually reduced attacks, while FARC retained the same level of activity and even increased attacks, although eventually reducing attacks at the end of the series due to Plan Colombia and other pressures. The only group to show a substantial and sustained decrease in its attacks was MeK, which depended on private funding and was therefore more vulnerable to blacklisting. These examples serve as a reminder that funding heterogeneity might matter in understanding how the target responds to the blacklist. The examples indicate the variety of terrorist groups in terms of financing, and they suggest that recognizing heterogeneity is one of the key aspects to policy responses.

[Figure 2 about here]

### *Conclusion*

The power of GPIs, such as blacklisting, depends on the nature of the target. Blacklisting can change a target's behavior when the target is especially vulnerable to the erosion of its support base. We focused on terrorist groups' funding structure and vulnerability in assessing the potential impact of the blacklisting. The target's vulnerability to blacklisting depends on terrorist groups' social, political, and economic relations. Terrorists themselves may not be shamed by the blacklist, but some of their social circles or supporters might feel shamed and vulnerable to changing regulations.

The importance of target heterogeneity has broader implications for the exercise of power in world politics. Not all targets of attempts at influence are equally vulnerable. In the case of terrorist groups, funding sources play a key role. Our findings also address the literature on naming and shaming. Consistent with the literature that finds both effective and ineffective tools,<sup>92</sup> we find that naming and shaming could contribute to the reduction of terrorist attacks in

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<sup>91</sup> For al-Qaeda series, we took al-Qaeda central as well as other associated/affiliated groups that have alleged alliance with the al-Qaeda central.

<sup>92</sup> Both DeMeritt 2012 and Krain 2012 find naming and shaming by international organizations reduces atrocities; Hafner-Burton 2008 however finds perverse effects of human rights naming and shaming where some governments ramp up violations.

some groups that rely on private funding. But in other cases where terrorists can adapt to new funding sources, naming and shaming using blacklist could have no discernible impact or even unintended consequences.

Any effect of blacklisting will be attenuated when terrorist groups adapt and reinvent themselves. These potentially unintended consequences of backlash or setbacks should be considered and carefully monitored by policymakers. Combatting more adaptive groups will require other policy responses beyond blacklisting. Therefore, future policies should address target heterogeneity and the possibility that blacklisting may have intended and unintended consequences. The conditional effectiveness of blacklisting can be extended to other naming and shaming settings, especially the aspects of the heterogeneity of funding reliance on the side of target.

The analysis of the FTO list echoes the main theme of this volume on GPIs. Blacklisting triggers political and social mobilization of domestic and international actors. By re-framing the debate and boundary between legitimate and illegitimate activities globally, FTO designation engages, enables, and empowers networks of domestic and international stakeholders. In this respect, our paper matches other papers in this volume in terms of global indicators' social ramifications and ensuing political changes. The key differences, though, are to bring in the role of non-state actors and to highlight the theoretical and empirical implications of target heterogeneity and vulnerability producing divergent global indicators' effects.

We also chart a number of paths for future research. One is the adaptability of terrorist organizations. Our data did not measure shifting resources of terrorist organizations because it is difficult to track down transformations in funding types over the years for most groups. But how terrorists adapt and innovate to regulations and blacklisting should be examined more.<sup>93</sup> Most importantly, the dynamics of blacklisting and how the target fully adapts to new regulatory environment was not fully explored in this chapter, as our focus was to show the link between terrorist groups' funding dependency and the FTO blacklisting effect. Group vulnerabilities generate divergent consequences for non-state actors such as rebel groups, terrorist organizations or criminal gangs, regarding leadership targeting, government negotiations, and other interactions. A second point concerns how counter-terrorism policies cohere. We focused on the impact of blacklisting, but the combination of sanctions and military interventions, for instance, likely generates different effects on the attack capacity of terrorist organizations. Future research could examine the joint impact of various counterterrorism efforts.

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<sup>93</sup> For example, al-Qaeda turned to kidnapping after a drop in donations (Braun 2011), which might have consequences for their attack patterns. Experts also note the adaptability of terrorist groups' war economy and decreasing use of philanthropic organizations for funding (Lake 2016). This may hint at terrorist groups' substitution strategy in response to FTO designation targeting private charities mainly.

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## Tables and Figures

**Table 1. Statistical Analysis of Terrorist Attacks and FTO Designation**

	Model 1 No interactions	Model 2 Private funding	Model 3 State sponsor	Model 4 Terrorist networks	Model 5 Criminal activities
FTO	.425*** (.159)	.791*** (.217)	.409** (.187)	.351** (.159)	.461* (.268)
Private funding		.370** (.151)			
FTO * Private funding		-.685*** (.233)			
State sponsor			.207 (.156)		
FTO * State sponsor			-.042 (.245)		
Terrorist network				.129 (.216)	
FTO * Terrorist network				.185 (.303)	
Criminal activities					.516*** (.142)
FTO * Criminal activities					-.229 (.274)
Attacks (lag)	.025*** (.005)	.025*** (.005)	.025*** (.005)	.025*** (.005)	.024*** (.005)
Group size (log)	.208*** (.045)	.187*** (.043)	.202*** (.046)	.206*** (.045)	.164*** (.043)
Religious group	.264 (.214)	.175 (.215)	.275 (.217)	.193 (.238)	.361* (.211)
Regime type	.026 (.029)	.024 (.029)	.029 (.029)	.026 (.030)	.017 (.031)
GDP per capita (log)	.017 (.089)	-.042 (.086)	.037 (.093)	.009 (.092)	.035 (.095)
Population (log)	-.066 (.056)	-.086 (.056)	-.051 (.057)	-.061 (.057)	-.105** (.053)
Year trend	-.027*** (.008)	-.028*** (.008)	-.026*** (.008)	-.027*** (.008)	-.024*** (.008)
N (groups)	4,758 (412)	4,758 (412)	4,758 (412)	4,758 (412)	4,758 (412)

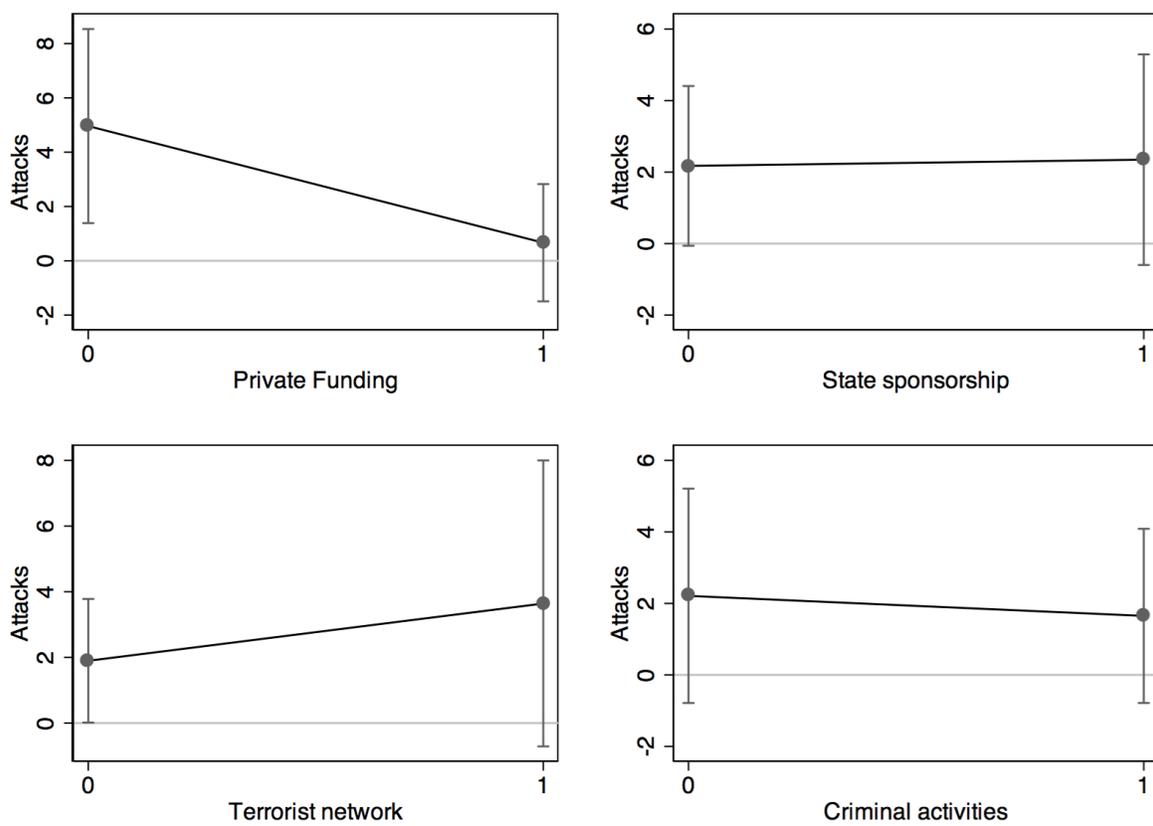
Note to Table 1: Dependent variable is the number of yearly terrorist attacks. Estimates are from zero-inflated negative binomial count models. Second stages of zero-inflated models are shown. Constants are not reported to save space. Robust standard errors in parentheses, clustered by terrorist group. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

**Table 2. Listing vs. Sanctioning Effect**  
*Analysis of Pre and Post-9/11 Subsamples*

	Model 1 pre 9/11	Model 2 post 9/11
FTO	0.433** (0.181)	1.078*** (0.357)
Private funding	0.367** (0.169)	0.676** (0.304)
FTO * Private funding	-0.397* (0.235)	-1.178** (0.457)
Attacks (lag)	0.0224*** (0.00527)	0.0535*** (0.0156)
Group size (log)	0.189*** (0.0477)	0.114 (0.0707)
Religious group	-0.104 (0.268)	0.465 (0.287)
Regime type	0.0104 (0.0325)	0.0435 (0.0521)
GDP per capita (log)	0.0203 (0.102)	-0.232 (0.143)
Population (log)	-0.0548 (0.0697)	-0.118 (0.0860)
Year trend	-0.0174* (0.00907)	0.0106 (0.0435)
N (groups)	3,349 (315)	1,219 (256)

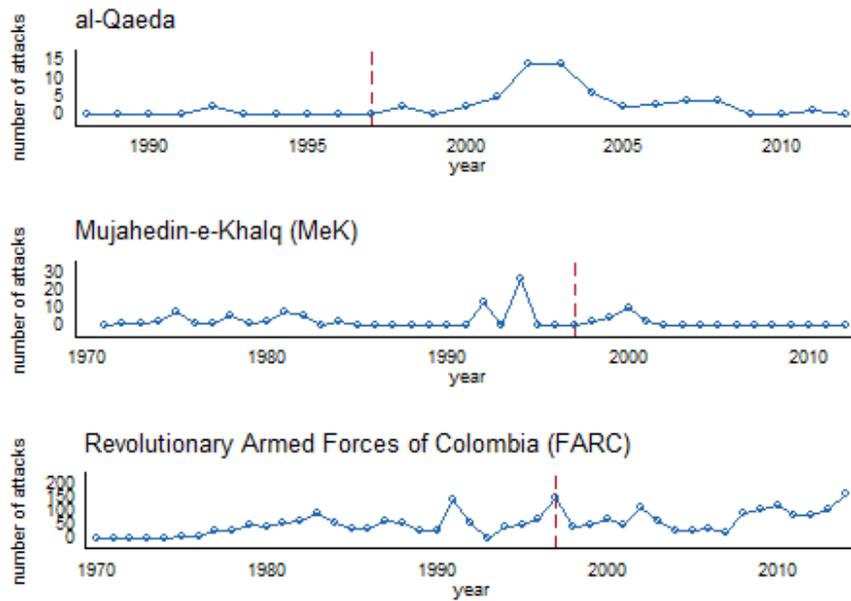
Note to Table 2: Dependent variable is the number of yearly terrorist attacks. Robust standard errors in parentheses, clustered by terrorist group. \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

**Figure 1. Estimated Impact of FTO Status on Group Terrorist Attacks**



Note to Figure 1: Estimates from Model 5 in Table 1, with other variables at their means.

**Figure 2. Terrorist Attacks and Funding Types**  
*Al-Qaeda, MeK, and FARC*



Note to Figure 2: Vertical red line indicates the year of FTO designation. Of the three groups, only MeK was dependent on private funding such as donations.