

Getting What You Want

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Positive Inducements in International Relations

This study examines potential uses of positive inducements in dealing with regimes, here referred to as “renegade regimes,”¹ that defy core norms of international behavior and that have emerged as a leading challenge to international security. Although the problem is international, it is examined here with reference to U.S. foreign policy. Partly, this is because the far-flung interests of the United States ensure that it cannot remain unaffected by the conduct of such regimes. Partly, too, this is because, as much as the United States has the power to respond coercively, it is also in a strong position to offer considerable inducements to those whose behavior it wishes to modify. Finally, it is because President Barack Obama’s administration has expressed more interest in positive engagement with adversaries than has generally been the case in the practice of U.S. foreign policy. The article identifies the circumstances under which positive inducements are likely to modify the behavior of renegade regimes.

Following the traditional emphasis of international relations scholarship, and its roots in theories of *realpolitik*, the bulk of recent literature on renegade regimes addresses responses involving military tools or economic sanctions.² Even when (as is often the case) authors question the effectiveness of negative

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1. Renegade regimes are regimes that defy core norms of international behavior embraced by most members of the international community. For several reasons, the term is preferable to that of rogue states. For further development of this concept, see Miroslav Nincic, *Renegade Regimes: Confronting Deviant Behavior in World Politics* (New York: Columbia University Press, 2005), pp. 46–72.

2. On military tools, see, for example, James Lebovic, *Deterring International Terrorism and Rogue States: U.S. National Security Policy after 9/11* (New York: Routledge, 2007); Alexander T.J. Lennon and Camille Eiss, eds., *Reshaping Rogue States: Preemption, Regime Change, and U.S. Policy toward Iran, Iraq, and North Korea* (Cambridge, Mass.: MIT Press, 2004); Derek D. Smith, *Deterring America: Rogue States and the Proliferation of Weapons of Mass Destruction* (New York: Cambridge University Press, 2006); and Daniel Byman, *The Five Front War: The Better Way to Fight Global Jihad* (New York: John Wiley and Sons, 2007). On economic sanctions, see Hossein G. Askari, John Forrer, Hildy Teegan, and Jiawen Yang, *Economic Sanctions: Examining Their Philosophy and Efficacy* (Westport, Conn.: Greenwood, 2003); David Cortright and George A. Lopez, eds., *Smart Sanctions: Targeting Economic Statecraft* (Lanham, Md.: Rowman and Littlefield, 2002); Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, *Economic Sanctions Reconsidered*, 2d ed. (Washington, D.C.: Peterson Institute for International Economics, 1990); and Suk Hi Kim and Semoon Chang, *Economic Sanctions against a Nuclear North Korea: An Analysis of United States and United Nations Actions since 1950* (Jefferson, N.C.: McFarland, 2007).

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pressures, they rarely examine the alternative of constructive engagement.³ Relative concerns with rewards and punishments remain heavily tilted toward the latter, which represent a substantial portion of scholarship on international relations and foreign policy. For example, among the numerous sections of the International Studies Association, not one is explicitly devoted to the issue of positive inducements in world politics. Although there are numerous data sets on wars (e.g., the Correlates of War data set),⁴ military interventions (e.g., the data set entitled “International Military Intervention, 1981–2005”),⁵ and economic sanctions,⁶ none are devoted to positive incentives. Academia’s ability to illuminate strategies for dealing with salient international threats requires that it cast a wider analytical net.

This article begins with a discussion of the two principal aims that well-designed inducements could pursue. It then describes the political conditions within the target regime most conducive to the success of such strategies. On the basis of this framework, I examine the impact of U.S. policies toward North Korea, Iran, and Libya.

Positive Inducements: The Exchange and Catalytic Models

Incentives to bring about positive behavior may include symbolic gratifications, policy concessions, and economic favors. They have two distinct aims. The first is to offer an adversary a quid pro quo, in the context of what I call the “exchange model.” The second, more ambitious, aim is to transform the other side’s basic priorities, such that bribes and punishments become less necessary. Inducements offered in this spirit partake of what I refer to as the “catalytic model.” The logic is different in the two cases, although the political conditions for their success do overlap.

THE EXCHANGE MODEL

The exchange model’s formal structure rests on a conception of how the preferences of the interacting parties presage solutions to the exchange (see figure 1). Assuming a world of two players, A and R, the horizontal axis reflects the utilities that various solutions would hold for R; the vertical axis does the same for A. For a solution to be minimally acceptable to both parties, it must lie to the right and above point K. All points to the left of B_r fall short of

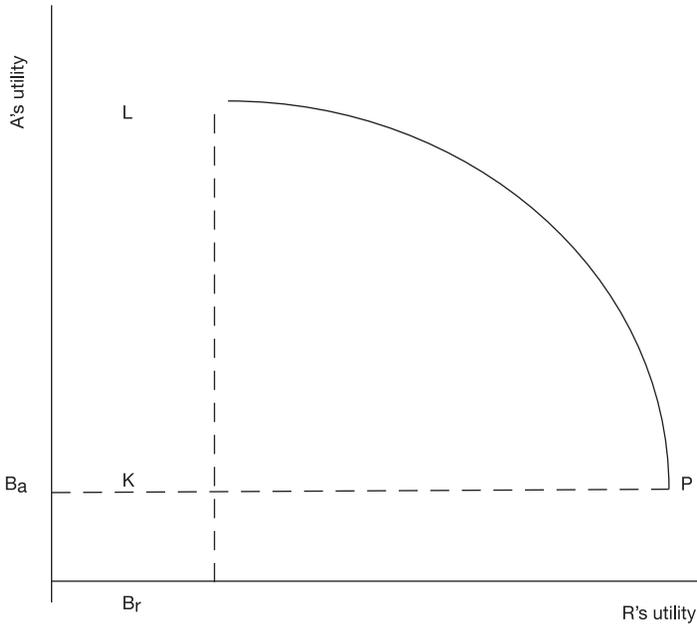
3. An exception is Richard N. Haass and Meghan L. O’Sullivan, *Honey and Vinegar: Incentives, Sanctions, and Foreign Policy* (Washington, D.C.: Brookings Institution Press, 2000).

4. See <http://correlatesofwar.org/>.

5. This data set is available from the Inter-University Consortium on Political Research.

6. See, for example, Hufbauer, Schott, and Elliott, *Economic Sanctions Reconsidered*.

Figure 1. The Foundation of Political Exchange



the utility R derives from persisting in its misbehavior. All points below B_a fall short of whatever utility (e.g., avoiding the accusation of appeasement) that A derives from not seeking the quid pro quo. Any point in the area KLP is jointly preferable to no quid pro quo. Short of the boundary LP, both sides are capable of enhancing their utilities, although not necessarily to the same extent. It is only on that frontier (LP) that no unrealized gains remain (i.e., the efficient frontier), and any movement within KLP short of the frontier stands to benefit both sides. Movements upward and to the left within KLP confer relatively greater benefits on A; movements in the contrary direction imply relatively greater benefits for R (once the frontier is reached, any further movement along it implies that one side's gain must imply the other side's loss). KLP defines the "bargaining set" (i.e., that area of theoretically possible solutions). The empirical question is whether some solution is achievable in practice, and, if so, where within the bargaining set the actual solution will rest. The first question arises before the start of bargaining, and an affirmative answer assumes that the benefits implied by the concession exceed those derived from the objectionable conduct, placing the exchange beyond the point B_r . For this to happen, two conditions must be met. First, the benefits to be derived

from the exchange should be of a magnitude sufficient to offset whatever benefits may be derived from the renegade behavior. Second, it must be accepted that the sufficient benefits, once agreed upon, can credibly be delivered.

Tensions with the outside world often benefit the regime (e.g., by validating its legitimizing narrative, creating rally-round-the-flag effects, and by mobilizing rent seekers who profit from artificial scarcities), so inducements must be sufficient to offset the costs of altering course. The problem is compounded by the psychology of loss aversion, as seen in the light of prospect theory,⁷ which points out not only that people are risk averse with regard to gains and risk seeking where losses are concerned, but that their value functions are considerably steeper with respect to losses than gains. Consequently, even when the parties seek to meet halfway, each will experience more displeasure at what it is called to give up (its "loss") than pleasure at what the other side would forego (its "gain"). Thus, considerable incentives are needed; even if incentives and counterconcessions seem large enough, they must appear credible to both sides. We know that credibility benefits from transparency of national political systems,⁸ a transparency lacking with most renegade regimes, and also that credible commitments of a cooperative sort are more readily established in dyads consisting of either democracies or autocracies⁹—not the situation encountered here. The credibility of the commitment required determines, in part, whether the utility of an exchange exceeds B_r , and, once a serious search for agreement is under way, whether a mutually satisfactory solution will be found. Plainly, the matter of credibility becomes salient only when the condition of sufficiency has been satisfactorily addressed.

Whether the two conditions for successful exchange can be met depends on many circumstances, varying from case to case and rarely known to the parties in advance. The terms involved and mutual understandings implied generally crystallize only when the process of seeking a solution has been engaged; thus, unless the process gains momentum, no understanding of the outlines of a bargain can be assumed. In any case, the exact location of B_r , and the location of a bargain within the KLP, will depend on political circumstances, many of which

7. Daniel Kahneman and Amos Tversky, "Choices, Values, and Frames," *American Psychologist*, Vol. 39, No. 4 (April 1984), pp. 341–350; Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, "The Endowment Effect, Loss Aversion, and Status Quo Bias," *Journal of Economic Perspectives*, Vol. 5, No. 1 (Winter 1991), pp. 193–206; Jack S. Levy, "Prospect Theory and International Relations: Theoretical and Analytical Implications," *Political Psychology*, Vol. 13, No. 2 (June 1992), pp. 283–310; and Richard Thaler, "Toward a Positive Theory of Consumer Choice," *Journal of Economic Behavior and Organization*, Vol. 1, No. 1 (March 1980), pp. 39–67.

8. Peter F. Cowhey, "Domestic Institutions and the Credibility of International Commitments: Japan and the United States," *International Organization*, Vol. 47, No. 2 (Spring 1993), p. 320.

9. Brett Ashley Leeds, "Domestic Political Institutions, Credible Commitments, and International Cooperation," *American Journal of Political Science*, Vol. 43, No. 4 (October 1999), pp. 979–1002.

are endogenous to R. Here, the exchange involves an inducement by A furnished with the expectation of a finite counterconcession. R's overall priorities do not appreciably change from one trade to another, and new inducements must be offered in the hope of any subsequent concession, a circumstance that distinguishes this model from the catalytic model, where major concessions rarely are explicitly exchanged.

THE CATALYTIC MODEL

Outlining the premises of the catalytic model cannot, as in the previous case, rely on a graphical depiction of the decisional logic, because what is involved is not a specific choice given established regime priorities, but a transformation of these priorities via an altered political reward structure: a progressive process of political change. This model requires careful consideration of how patterns of domestic interest and preference evolve depending on the international context.

Past attempts to alter the domestic political complexion of U.S. adversaries most often relied on coercive methods. Subversion was frequently employed, especially during the Cold War, some instances being the Central Intelligence Agency's program to remove Congo's left-leaning Patrice Lumumba,¹⁰ similarly conceived efforts to do away with Fidel Castro's regime in Cuba,¹¹ and the covert program to undermine Salvador Allende's government in Chile.¹² Occasionally, the United States has resorted to military force, as in the Dominican Republic in 1965, against socialist Juan Bosch;¹³ in Grenada in 1983, to remove its leftist government;¹⁴ and, most recently, to dislodge the Taliban in Afghanistan and the Saddam Hussein regime in Iraq. Economic sanctions have also been used, with cases too numerous to encourage an attempt at listing.

Yet there are doubts about the effectiveness of coercive foreign policy tools. Subversion often fails (as in the Cuban case) or produces results that history condemns (e.g., the Augusto Pinochet regime in Chile or Congo's Mobutu).¹⁵ Although sometimes they are thought to have symbolic and domestic political

10. Ludo De Witte, *The Assassination of Lumumba* (London: Verso, 2002).

11. Don Bohning, *The Castro Obsession: U.S. Covert Operations against Cuba, 1959–1965* (Dulles, Va.: Potomac, 2005).

12. Paul E. Sigmund, *The Overthrow of Allende and the Politics of Chile: 1964–1976* (Pittsburgh, Pa.: University of Pittsburgh Press, 1977).

13. Abraham F. Lowenthal, *The Dominican Intervention* (Baltimore, Md.: Johns Hopkins University Press, 1972).

14. Stephen Zunes, "The U.S. Invasion of Grenada," *Foreign Policy in Focus*, October 2003.

15. For the questionable effectiveness of coercive regime change or democracy promotion, see Robert S. Litwak, *Regime Change: U.S. Strategy through the Prism of 9/11* (Washington, D.C.: Woodrow Wilson Center Press, 2007).

value, economic sanctions are credited with little success at promoting political objectives, including domestic transformation.¹⁶ One widely quoted study found that they stand a one in three chance of attaining their primary objective,¹⁷ a figure some others have considered much too optimistic.¹⁸ In fact, as Johan Galtung observed, sanctions often further entrench those whose power they are intended to undermine.¹⁹ Kofi Annan, in turn, complained, "Those in power not only transfer the costs to the less privileged, but perversely often benefit from such sanctions by their ability to control and profit from black market activity, by controlling the distribution of limited resources, and by exploiting them as a pretext for eliminating domestic sources of political opposition."²⁰

There have been far fewer cases of internal transformation pursued through positive engagement.²¹ Because the political and economic structure of states often reflects properties of their international environment,²² the foundation of the catalytic model is an appreciation that, much as the international system reflects the foreign policy behavior of its members, so can events originating from the system shape the domestic context within which political leadership operates, and thus its policy priorities.

16. Although South Africa is sometimes cited as a contrary example, the circumstances surrounding the abandonment of apartheid are too complex for it to be directly attributable to sanctions.

17. Hufbauer, Schott, and Elliott, *Economic Sanctions Reconsidered*.

18. See, for example, A. Cooper Drury, "Revisiting *Economic Sanctions Reconsidered*," *Journal of Peace Research*, Vol. 35, No. 4 (July 1998), pp. 497–509; and Robert A. Pape, "Why Economic Sanctions Do Not Work," *International Security*, Vol. 22, No. 2 (Fall 1997), pp. 90–136.

19. Johan Galtung, "On the Effects of International Economic Sanctions: With Examples from the Case of Rhodesia," *World Politics*, Vol. 19, No. 3 (April 1967), pp. 378–416.

20. Kofi Annan, "Introductory Remarks to the International Peace Academy's 'Seminar on Sanctions,'" <http://www.un.org/Docs/sc/committees/sanctions/sgstatement.htm>.

21. The Marshall Plan was, in part, meant to avoid economic deterioration that might encourage communist forces in Western Europe. The Alliance for Progress had a similar intent for Latin America. Those programs, however, sought to stop an undesirable political development from occurring, whereas my interest here is in dealing with an established but undesirable political situation by changing the conditions that made it possible.

22. Centralization of political authority within states increases when they experience a tense and threatening international environment. See, for example, William R. Thompson, "Democracy and Peace: Putting the Cart before the Horse?" *International Organization*, Vol. 50, No. 1 (Winter 1996), pp. 141–174. More generally, Peter Gourevitch has argued that "in using domestic structure as a variable in exploring foreign policy, we must explore the extent to which the structure itself derives from the exigencies of the international system." See Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization*, Vol. 32, No. 4 (Fall 1978), pp. 881–912. Although the international impact on domestic conditions may be viewed at the level of structural properties, it has also been identified at the level of interactive behavior. Robert D. Putnam characterizes international negotiation as a game simultaneously played on two game boards, one national, the other international. Policy is set at their intersection, the two political spheres modifying each other's constraints. See Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, Vol. 42, No. 3 (Summer 1988), pp. 427–460.

The dominant priority of any regime is its domestic position, on which all of its other goals depend.²³ Regimes and governments are always concerned with “providing an answer to that most immediate of political questions: who are you that I should obey you?”²⁴ The answer is either because I am forced to or because I choose to in acknowledgment of the benefits you provide, while the effectiveness of coercion, especially in the long run, should not be overestimated. Robert Jackman observed that no regime can survive very long unless it is perceived as legitimate, and a “regime is legitimate to the extent that it can induce a measure of compliance from most people without resort to the use of physical force.”²⁵ Legitimacy depends on the regime’s ability to furnish those whose support it needs with what they value and expect as their due. Generally, this requires performance on two planes: those of ideas and of material achievements. The ideational foundation for legitimacy usually takes the form of a legitimizing narrative that defines desirable national aspirations and argues the regime’s suitability to their pursuit. Material achievements are, as a rule, measured in economic terms, and no regime can maintain its legitimacy for long if it fails to respond to the economic aspirations of those whose support it seeks. Sometimes, punitive policies can bolster, rather than undermine, regime legitimacy.

PUNITIVE POLICIES AND REGIME PRIORITIES

The objectionable behavior of renegade regimes may gratify a variety of domestic interests critical to their support and also reflect their legitimizing narrative, establishing the justifiability of such pursuits. Foreign responses to regime misbehavior must therefore be considered in that light, especially when they produce domestic consequences that actually perpetuate the conduct they are meant to deter.²⁶ Outside pressure and hostility encourage rally-round-the-flag effects, as even those who might otherwise oppose the regime feel impelled to support it when it faces external adversaries, while leaders who stand up to these adversaries often gain domestic stature that can compensate for their more tangible failures, as Slobodan Milošević did.²⁷ At times, external threats help a regime weaken whatever domestic opposition it faces,

23. Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson, and James D. Morrow, *The Logic of Political Survival* (Cambridge, Mass.: MIT Press, 2003), chap. 1.

24. Clifford Geertz, “The Judging of Nations: Some Comments on the Assessment of Regimes in the New States,” *European Journal of Sociology*, Vol. 18, No. 2 (December 1977), p. 251.

25. Robert W. Jackman, *Power without Force: The Political Capacity of Nation-States* (Ann Arbor: University of Michigan Press, 1993), p. 98.

26. See Nincic, *Renegade Regimes*, especially chap. 3.

27. See, for example, Robert Thomas, *The Politics of Serbia in the 1990s* (New York: Columbia University Press, 1999).

because of rally effects and by making it possible to accuse the opposition of being in league with foreign foes. Similarly, a recent report issued by the U.S. Senate Committee on Foreign Relations observed that U.S. pressures have “provided the Government of Cuba (GC) with a convenient, though overblown, scapegoat for its economic difficulties and an external threat with which to justify authoritarianism.”²⁸

Confrontational action by foreign powers sometimes strengthens the credibility of a legitimizing narrative that asserts the need to confront an unjust international order, a confrontation that provokes the ire of those who benefit from its injustices and whose hostility vindicates the myth. Foreign pressures also favor formal and informal institutions of governance created to evaluate and respond to foreign threats: intelligence agencies, armed forces, and elements of the military-industrial complex. Absent threats, their purpose is diminished.²⁹ Moreover, as links to the international community are curtailed, rent seekers emerge to benefit from resulting scarcities—illicit or semi-licit wealth is created and often shared with the organs of state power, especially the security services, creating additional interests in bolstering the regime whose policies enable these gains. For example, with regard to sanctions against Haiti in the early 1990s, Elizabeth Gibbons observed,

The Haitian army, by seizing control of the black market in embargoed goods, especially fuel, was also to realize huge windfall profits, creating a strong, perverse, incentive to continue sanctions. Sudden wealth also increased the military’s independence from patrons in the business elite, thereby making it less susceptible to pressure emanating from that quarter. In addition, control of the black market may have helped to produce resources the army needed to create and maintain the paramilitary group, FRAPH [Front for the Advancement and Progress of Haiti], which, from 1993, was skillfully deployed throughout Haiti to carry out its massive campaign of terror, rape, and murder against the population.³⁰

Because hostile relations with the outside world can profit a renegade regime, inducements offered for catalytic ends must, where possible, alter the structure of support upon which it relies, such that the position of those who benefit from conciliatory behavior is strengthened at the expense of those whose interests push them to support confrontational policies. The likelihood that inducements would serve this purpose depends not only on their nature

28. U.S. Senate Committee on Foreign Relations, *Challenges for U.S. Policy toward Cuba* (Washington, D.C.: Government Printing Office, 2003), p. 2.

29. Thompson, “Democracy and Peace,” p. 166.

30. Elizabeth D. Gibbons, *Sanctions in Haiti: Human Rights and Democracy under Assault* (New York: Praeger, 1999), p. 64.

but also, and in significant measure, on the state of the political equilibrium that underpins the regime's rule.

POLITICAL DISEQUILIBRIA, POSITIVE INDUCEMENTS, AND POLITICAL CATALYSIS
Broadly, two contexts are possible. In one, the regime rests on a stable equilibrium of domestic forces, the power of those who approve of its policies far outweighing that of those who object. Because its backers generally endorse policies that aggrieve other members of the international community, the regime has little incentive to mend its ways and to seek alternative sources of support. Here, inducements may be pocketed with no meaningful counterconcession. The second situation assumes a balance of domestic political influence in flux: the regime remains in place, but its position is decreasingly secure. Examples, from three separate parts of the world, of countries with regimes currently in stable equilibrium would include Brazil, Ghana, and Azerbaijan; examples of regimes in a state of unstable equilibrium within the same regions would include Venezuela, Nigeria, and Georgia.

Although no single indicator completely captures the concept of unstable regime equilibrium,³¹ the defining feature is that traditional pillars of regime support no longer seem able to ensure the regime's position either because tangible favors that the regime had provided its supporters (e.g., welfare benefits of a rentier economy or privileged treatment of the security apparatus) are no longer fully available, or because the ideational claims of its legitimizing narrative (e.g., pursuit of social justice) are no longer believable. The stability of regime equilibrium is assessed, then, in terms of apparent domestic support (it cannot be inferred from foreign policy actions, even if it might, at times, drive such policy). The specific manifestations of instability vary between political cultures and regime types. Strikes, demonstrations, and political countermobilizations are extreme, and manifest, signs. A palpable lack of political fervor within society, and a decreasing ability to draw attractive recruits to positions within the regime, reflect a more muted expression of unstable equilibrium.

When unstable equilibrium is anticipated or becomes apparent, the regime may seek to strengthen traditional sources of support by providing them with externally available benefits associated with improved behavior, or else by aligning its policies with hitherto untapped domestic interests and values that desire reengagement with the outside world (the mix of strategies depending

31. In physics, the concept of stable equilibrium implies that a body (or structure) subject to minor disruption is likely to return to its initial position or state; an unstable equilibrium implies that it probably would not.

on the current and expected balance of power between traditional and potential new sources of support). If external concessions can help in either fashion, not only should regime receptivity to *quid pro quos* improve, but, if the inducements deeply affect patterns of material interest and political preference, the domestic political reward structure may evolve in a direction ensuring predictably improved conduct.³²

Domestic political circumstances determine, in part, the effectiveness of inducements, but they are not identically relevant to either at all stages of a deteriorating political equilibrium. Political uncertainty usually begins with a growing gap between expectations created and actual performance. Tangible promises have not been met; the legitimizing narrative appears increasingly threadbare. Although serious opposition to the regime has not yet mobilized, it begins to worry about its position. This is a stage of latent instability, at which the government may estimate that some of its domestic problems could be alleviated with appropriate external concessions (e.g., the Milošević regime in the former Yugoslavia, in the mid-1990s). In exchange for help, the regime might begin considering how a reconfigured relationship with the outside world could help it address its problems on the basis of meaningful counter-concessions within the exchange model context. Where domestic opposition has mobilized, creating a situation of manifest (not latent) instability, traditional sources of support are no longer a credible bulwark against the regime's opponents. If political alternatives are offered by those with interests and beliefs at variance with the regime's traditional support groups, and if the position of these challengers can be bolstered by better links to the international community, the regime may have no option but to co-opt the new interests by addressing their desire for policies that promote such links.

Interests, especially of an economic sort, are formed around available paths to gain: if new centers of interest are to be stimulated, new paths must be offered, and, where possible, externally encouraged. If the goal is to bolster those who benefit from normal commercial activity, the conditions for a free flow of goods and capital within the country are required, along with a multiplication of points of contact with the international system.³³ The needs and concerns of

32. Relevant to this article, Etel Solingen has shown that nations unlikely to endorse the acquisition of nuclear weapons are those where a prominent place is held by liberalizing elites who, unlike their "inward-looking, nationalist, and radical-confessional counterparts," are more likely to press for economic and international policies that serve their own interests. See Solingen, "The Political Economy of Nuclear Restraint," *International Security*, Vol. 19, No. 2 (Fall 1994), pp. 126-169, at p. 127.

33. As Eileen M. Crumm has pointed out, "Where market forces work against negative sanctions they can reinforce positive ones." See Crumm, "The Value of Economic Incentives in International Politics," *Journal of Peace Research*, Vol. 32, No. 3 (August 1995), p. 326.

various elements of the state apparatus, the military and security forces in particular, should be considered, because their resistance can doom fundamental change. Foreign inducements can make a difference. In Egypt, for example, Anwar el-Sadat's efforts at reforming the system inherited from Gamal Abdel Nasser implied curbing the power of statist forces (mainly the military and the public-sector bureaucracies) whose size and interests were stifling the economy. Toward this end, Sadat launched his policy of *infitah* ("open door") in 1974, encouraging private (including foreign) investment and promoting market-oriented reform. Part of the purpose was to consolidate support among the country's landed gentry, business groups, and the recently enriched state elites seeking new sources of capital and outlets for their wealth in a liberalized economy.³⁴ This was associated with a restoration of diplomatic relations with the United States, and, since 1975, with U.S. foreign assistance (including military aid). Significantly, these moves helped to assure *infitah's* support by Egypt's armed forces, which benefited from their newly acquired access to Western arms and supplies. More broadly, international organizations wishing to limit military resistance to political change can, as NATO's Partnership for Peace Program demonstrated with several East and Central European nations, accomplish two objectives. They can address whatever external security fears continue to disturb these groups, and they can ensure that the military, as the link to the international organization, retains sufficient standing (if little political power) within the country.³⁵

Although the exchange and catalytic models operate differently, a causal link joins the former to the latter, because, in many cases, the initial impact on domestic interests and preferences flows from the benefits associated with inducements offered in pursuit of finite concessions; beyond this point, a transformed structure of domestic interests and preferences becomes possible. Initial inducements can, then, have a cumulative effect on the foundations of regime support, as new clusters of interest and new patterns of preference evolve around values and rewards associated with those inducements. The role of the military and its security concerns may progressively decline; other social needs come to the fore; and economic possibilities that previously were not part of a general calculus become central to the country's priorities. In this manner, a set of inducements offered in search of specific *quid pro quos* may prime the other side's political reward structure in a manner that, then, changes regime priorities. It is also most likely that new interests and prefer-

34. Raymond A. Hinnebusch, "The Politics of Economic Reform in Egypt," *Third World Quarterly*, Vol. 14, No. 1 (March 1993), p. 160.

35. Jon C. Pevehouse, "Democracy from the Outside-In? International Organizations and Democratization," *International Organization*, Vol. 56, No. 3 (Summer 2002), pp. 527–528.

ences will emerge in a situation of some political disequilibrium, where previous interests and priorities are open to challenge.

Thus, initial U.S. inducements to China under Richard Nixon's administration (the 1969 offers of economic engagement and the prospect of diplomatic recognition) were meant to encourage China's political distance from the Soviet Union and its help with regard to U.S. policies in Southeast Asia. Steps taken within an exchange framework, however, eventually led to new patterns of needs, encouraging China's full integration into the global economy,³⁶ as well as a structure of domestic interests that now has far more to do with prosperity than ideological goals.

There are, of course, circumstances where weak or weakening regime support may not encourage successful positive engagement, in either an exchange or a catalytic context. The regime may have so alienated or decimated all political players except the hardest core of its supporters that there is no chance of enlisting new groups to its side as disaffection from its rule takes root. At the same time, the political benefits to be drawn from adverse foreign reactions to regime policies (e.g., rally effects) might be exhausted, although traditional supporters still fervently back the regime. This is not always an intrinsically unstable situation, as long as the traditional supporters can muster considerable coercive force (the current situation in Iran). If punitive measures can hurt these supporters, negative sanctions may provide the only effective leverage on the regime.

The Cases

In the following sections, I examine the effect of both positive inducements and coercive pressures on the regimes of three states: North Korea, Iran, and Libya. All three have been considered renegade regimes, though each has exhibited meaningful variation in its behavior. Contrary to some thinking, a small number of cases need not mean a high probability of bias,³⁷ but it does require particular attention to variance within the variables on which the analysis is based. There should be variance on the outcome variable (regime conduct); this is displayed, here, both between and within cases. Variation in the predictor variables is also important³⁸—especially with regard to strategies employed in dealing with these regimes. Thus, since the mid-1990s, U.S. policy

36. Susan L. Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms* (Washington, D.C.: Brookings Institution Press, 1994).

37. David Collier and James Mahoney, "Insights and Pitfalls: Selection Bias in Qualitative Research," *World Politics*, Vol. 49, No. 1 (October 1996), pp. 56–91.

38. Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge, Mass.: MIT Press, 2004), pp. 83–85.

toward North Korea has alternated between positive engagement and implacably hard stances. Although policy vis-à-vis Iran has exhibited less volatility, shifts of emphasis have been apparent. With Libya, an almost wholly punitive approach yielded, around 1999, to a search for alternatives. The regimes themselves differ economically, in terms of military power, and in the bases on which they have sought to establish their legitimacy. At the same time, these have not been regimes known for their transparency; thus, their concerns must often be inferred from the objective situation they face, especially with regard to the foundations on which they seek to establish their legitimacy, rather than from direct access to domestic political discourse.

North Korea's Nuclear Programs and Positive Incentives

The North Korean case demonstrates that the failure of negative sanctions need not guarantee the success of positive engagement, leading the United States to a consideration of how both coercive and noncoercive strategies can affect the domestic structure of power of an exceptionally closed and repressive regime.

EVIDENCE ON THE EXCHANGE MODEL

Almost all recorded progress toward curbing North Korea's nuclear programs and threatening demeanor has followed positive inducements within an exchange context; threats and sanctions have pushed the regime further toward external pugnacity and a nuclear weapons capability.

THE FIRST QUID PRO QUO AND ITS POLITICAL CONTEXT. With the 1994 Agreed Framework, Pyongyang promised to freeze operation and construction of its two graphite-moderated nuclear reactors and its plutonium reprocessing facility.³⁹ In exchange, it was to receive two proliferation-resistant, light water reactors (LWRs), furnished by the Korean Peninsula Energy Development Organization (KEDO), the initial members of which were the United States, Japan, and South Korea. Pending delivery of the LWRs, the United States would supply North Korea 500,000 tons of heavy fuel annually, to compensate for lost energy production. North Korea would rejoin the nuclear Nonproliferation Treaty, or NPT (from which it had withdrawn in March of that year) and allow International Atomic Energy Agency (IAEA) inspectors

39. The authoritative history of the process leading up to the Agreed Framework is Joel S. Wit, Daniel B. Poneman, and Robert L. Gallucci, *Going Critical: The First North Korean Nuclear Crisis* (Washington, D.C.: Brookings Institution Press, 2004), pp. 204–220. See also Leon V. Sigal, *Disarming Strangers: Nuclear Diplomacy with North Korea* (Princeton, N.J.: Princeton University Press, 1998).

access to areas of potential nuclear activity. Both sides pledged not to nuclearize the Korean Peninsula,⁴⁰ and to normalize political and economic relations.

On October 6, 2000, the parties issued a joint statement declaring that “international terrorism poses an unacceptable threat to global security and peace, and that terrorism should be opposed in all its forms.”⁴¹ Pyongyang indicated that it would ratify the 1999 International Convention for the Suppression of the Financing of Terrorism. There was progress with regard to its missile program, which included a variety of short-range missiles (capable of striking most areas within South Korea), as well as a medium-range missile (the Donong); a two-stage missile (Taepodong-1); and, later, the improved Taepodong-2. In 1999 North Korea declared a moratorium on further missile testing. President Bill Clinton responded by easing economic sanctions.⁴² When Washington worried that an underground site at Kumchangri might be used to revive North Korea’s dormant nuclear program, the regime consented to U.S. on-site inspections, which dispelled Washington’s concerns.⁴³ In October 2000, Madeleine Albright became the first U.S. secretary of state to visit North Korea.

Political dilemmas facing Pyongyang and its realization that these called for a reconfigured relationship with the outside world had, in part, made the Agreed Framework possible. By the 1990s, Pyongyang had cause to worry about latent instability. The main pillar on which the regime asserts its right to rule is its unique ideology, *juche*: an amalgam of Stalinism, Confucianism, and an extreme call to national self-reliance. According to Kim Il-sung, “People are enjoying a happy life to the full, without any worries about food, clothing, medical treatment, and education. There is no better ‘paradise’ and no better ‘land of perfect bliss’ than our country.” At the same time, the perfection that is *juche* endows North Korea with a “historical mission to save humanity from capitalist materialism, consumerism, decadent culture, and moral decay.”⁴⁴

Juche touted economic self-sufficiency based on heavy industry. Initially, the strategy seemed vindicated. The 1947–48 plan saw a 54 percent surge in industrial production, and the 1948–49 plan registered a 38 percent increase.⁴⁵ Until the mid-1970s, North Korean growth rates outpaced South Korea’s. In the

40. The United States had formally removed all of its nuclear weapons from South Korea in 1991.

41. Office of the Spokesman, U.S. Department of State, October 6, 2000.

42. Trade in non-dual-use items was now allowed, as was travel by U.S. citizens to North Korea.

43. Philip Shenon, “Suspected North Korean Atom Site Is Empty, U.S. Finds,” *New York Times*, May 28, 1999.

44. Quoted in Paul French, *North Korea: The Paranoid Peninsula—A Modern History* (London: Zed, 2005), p. 27.

45. *Ibid.*, p. 77.

1950s, mobilization campaigns took the form of the *Chollima*, akin to Mao's Great Leap Forward and the Soviet Stakhanovite drives.⁴⁶ Yet the inability to encourage growth via increased productivity, as well as the irrationalities associated with economic mismanagement, eventually brought growth to a halt. The country's two major rivals, South Korea and Japan, left North Korea increasingly far behind in their wake.

By 1990, *juche* notwithstanding, North Korea had come to rely on the Soviet Union for most of its coal and oil, as well as a third of its steel.⁴⁷ The Soviet collapse yanked this prop out from under the North Korean economy. The Third Seven-Year Plan was not met. By 1990 and 1991, citizens' food rations were cut amid appeals to the United Nations' World Food Program for help. The Land of Perfect Bliss seemed increasingly remote. North Korea became increasingly isolated, as Russia (in 1990) and China (in 1992) established diplomatic relations with South Korea. With growing external vulnerability, North Korea's nuclear program became increasingly important: it could be used to bargain for foreign economic assistance. It could induce the United States and others to negotiate, establishing North Korea as a consequential international player. If it could leverage U.S. nonaggression guarantees, another important purpose would be achieved, again benefiting the regime's position.

Aiding progress toward an agreement was former President Jimmy Carter's willingness to act as an intermediary between the two countries, an office he performed at a particularly tense moment, when Pyongyang's removal of irradiated rods from the Pyongyang nuclear facility in May 1994 (portending possible plutonium extraction) was met with U.S. threats of economic sanctions, followed by North Korea's declaration that it would consider this an act of war.⁴⁸ Fearing that a runaway crisis might impel the North to invade South Korea, the Clinton administration prepared to expand the United States' military presence just south of the demilitarized zone, to deter a possible attack.⁴⁹ At the same time, there were strong indications that a fissure had developed in Hanoi's ruling circles among a number of reformists and traditional hardliners,⁵⁰ reflecting a possible schism over the proper foundations of regime legitimacy. The circumstances were, thus, conducive to the first serious political quid pro quo between the United States and North Korea.

46. Adrian Buzo, *The Guerilla Dynasty: Politics and Leadership in North Korea* (Boulder, Colo.: Westview, 1999), chap. 2.

47. French, *North Korea*, p. 98.

48. Michael R. Gordon, "White House Asks Global Sanctions on North Koreans," *New York Times*, June 3, 1994.

49. Wit, Poneman, and Gallucci, *Going Critical*, pp. 204–220.

50. Selig S. Harrison, *Korean Endgame: A Strategy for Reunification and U.S. Disengagement* (Princeton, N.J.: Princeton University Press, 2002), pp. 33–38.

THE SECOND QUID PRO QUO AND THE LEGACY OF PUNITIVE PRESSURES. The solution to Pyongyang's problems was, paradoxically, to weaken another of *juche's* pillars by acquiring, and then bargaining away, its nuclear programs in exchange for desired concessions. The gamble could pay off, however, only if the economic and symbolic rewards were substantial and credible. They were not. Domestic political obstacles prevented serious movement by the Clinton administration on such objectives as restoring diplomatic relations and removing economic sanctions. It was difficult to get the congressional support needed to deliver 500,000 tons of oil annually. Invitations to bid for construction of LWRs were not issued before 1998; construction of the first reactor began only in 2002. Even after the partial lifting of sanctions, North Korea remained one of the few countries not granted normal trading relations, its exports remaining subject to the so-called column-2 tariff rates of the Smoot-Hawley Tariff Act of 1930 (these tariffs are highest for labor-intensive products, such as textiles, in which North Korea could conceivably be competitive). U.S. gestures fell short of what Pyongyang had expected. In October 2002, North Korea admitted the existence (an admission later repudiated) of a clandestine uranium enrichment program. KEDO then suspended oil deliveries; President George W. Bush effectively withdrew from the agreement and designated North Korea as a member of the "axis of evil." A five-year period (2001–06) of renewed threats and punitive pressures was launched. The North Korea that emerged from the renewed confrontation in 2006 was, by most measures, more threatening than it had been before. At the same time, progress toward the end of this period at mitigating the nuclear threat resulted from Washington's renewed offer of meaningful inducements.

Confrontational U.S. moves included attempts to haul North Korea before the UN Security Council, military maneuvers in South Korea, and the boarding (by Spanish troops, at U.S. urging) of a North Korean ship transporting Scud missiles to Yemen. President Bush castigated Pyongyang's as a "repressive regime [whose] people live in fear and starvation." North Korea reacted by restarting, in December 2002, its Yongbyon reactor, expelling IAEA inspectors, quitting the NPT, and abandoning its moratorium on missile tests. U.S. Secretary of Defense Donald Rumsfeld urged regime change in North Korea,⁵¹ which, in June, scrapped its 1992 agreement with South Korea on the denuclearization of the Korean Peninsula. At this time, too, North Korea began construction of a plutonium-fueled reactor in Syria.⁵²

51. David Rennie, "Rumsfeld Calls for Regime Change in North Korea," *Daily Telegraph*, April 22, 2002.

52. "North Korea 'Helped' Syria Build Nuclear Reactor," *Financial Times*, April 24, 2008.

Tentative six-party talks,⁵³ launched in 2003, scudded along amid petulant rhetoric for two years. In August 2004, George Bush labeled Kim Jong-il a “tyrant.” Kim retaliated by calling the U.S. president an “imbecile.”⁵⁴ Condoleezza Rice designated Pyongyang as one of six “outposts of tyranny,”⁵⁵ leading it to suspend participation in the six-party talks. Two months later, North Korea shut down its nuclear reactor and extracted irradiated fuel rods for reprocessing to plutonium. Soon after, it fired a short-range missile into the Sea of Japan.

A new tack was then attempted, once again affording a comparison (from a near quasi-experimental perspective) of the relative merits of punitive and inducement-based strategies. In 2005 South Korea agreed to provide North Korea with food aid and electricity, and President Bush declared that the United States had no intention of attacking that country.⁵⁶ Soon thereafter, Pyongyang again offered to abandon its nuclear reactors and rejoin the NPT, if the United States would provide it with a light water reactor. The two countries were back to square one with regard to the Agreed Framework, an achievement almost immediately torpedoed by credible U.S. allegations that North Korea had engaged in drug trafficking and counterfeiting U.S. dollars. To deal with this, Washington pressured international banks, particularly the Banco Delta Asia of Macau, to cease doing business with Pyongyang, which then resumed building nuclear reactors. In July 2006, North Korea test-fired seven missiles, including the long-range Taepodong-2. South Korea suspended food aid; the UN Security Council, at U.S. urging, imposed sanctions on the regime. North Korea responded with its first (and apparently unsuccessful) nuclear test.⁵⁷

The six years following the Albright visit to Pyongyang had, with brief interludes, been years of negative pressures, exacerbating the threat they sought to control. Acknowledging that punitive policies had failed, Washington once again placed economic incentives on the table, offering \$25 million in food aid, following which the 2005 North Korean concession on its nuclear facilities was revived. In February 2006, a new agreement was reached, as Pyongyang agreed to shut down its Yongbyon reactor and plutonium reprocessing facility “for the purpose of eventual abandonment,”⁵⁸ and to provide an inventory of

53. The parties were China, Japan, North Korea, Russia, South Korea, and the United States.

54. James Brooke, “North Korea, Eyeing Election, Issues Stream of Insults at Bush,” *New York Times*, August 24, 2004.

55. “Rice Names ‘Outposts of Tyranny,’” *BBC World News*, January 19, 2005.

56. “N. Korea to ‘Give Up Nuclear Aims,’” *BBC World News*, September 19, 2005.

57. Emma Chanlett-Avery and Sharon Squassoni, *North Korea’s Nuclear Test: Motivations, Implications, and U.S. Options*, CRS Report for Congress (Washington, D.C.: Congressional Research Service, October 24, 2006), Order Code RL33709.

58. For the full text of the agreement, see Office of the Spokesman, U.S. State Department, “North

all its nuclear (including uranium enrichment) programs by the end of 2007. The other five parties to the nuclear talks would furnish 50,000 metric tons of heavy fuel oil, followed by another 950,000 tons once the facilities were disabled. Steps would be taken to improve bilateral relations; Washington would initiate the process of removing North Korea from its list of state sponsors of terrorism and of exempting it from the provisions of the Trading with the Enemy Act. Once the United States removed restrictions on Korean funds held at the Banco Delta Asia of Macau, an accord much like the Agreed Framework of 1994 was reached, but not before North Korea had strengthened its military position and only after diplomacy and quid pro quos had replaced confrontational pugnacity.

Incentives offered Pyongyang in 1994 closely resembled those offered in 2007. U.S. policy was distinguished not by the type of inducements offered at those two points in time, but by the choice of punitive or conciliatory policies over the longer period. Why were U.S. inducements well received at the latter juncture? Possibly it was because the regime's domestic problems had deepened, making foreign goodwill and assistance even more necessary to its standing than in the early 1990s. The Soviet implosion severed one of the economy's major lifelines; even China adopted a hard-nosed attitude in its dealings with Pyongyang.⁵⁹ Worsening energy shortages further contributed, along with deteriorating capital stock, to a slowdown in industrial production. By 2003 North Korea had entered its ninth consecutive year of famine, with the World Food Program feeding almost 20 percent of the population.⁶⁰ Although overall growth indicators improved modestly between 1999 and 2005, the trend reversed itself in 2006 (the year in which the final agreement was reached), when the economy stood at 18 percent below its 1989 levels.⁶¹

The problems coincided, in 2002, with the regime's first modest economic reforms and attempts to attract foreign investment, further increasing the need for international engagement. Military spending may have reached 34 percent of gross national product (GNP),⁶² an almost insuperable obstacle to domestic capital formation. At the same time, general societal needs have influenced the regime's legitimacy concerns while the backing of the armed forces has

Korea—Denuclearization Action Plan," February 13, 2007, <http://www.grip.org/bdg/pdf/g0987.pdf>.

59. International Crisis Group, "China and North Korea: Comrades Forever?" *Asia Report*, No. 112 (Brussels: February 1, 2006).

60. French, *North Korea*, p. 124.

61. Ali Akbar Dareini, "Iran's Ex-Nuke Negotiator Lambastes Ahmadinejad's International Dealings and Economic Policies," *International Herald Tribune*, October 11, 2007.

62. Karl R. DeRouen Jr. and Uk Heo, *Defense and Security: A Compendium of National Armed Forces and Security Policy*, 2 vols. (Santa Barbara, Calif.: ABC-CLIO, 2005), p. 537.

pushed in the other direction, imparting a lurching and volatile character to Pyongyang's behavior.

In 2008 North Korea's behavior regressed again. An initial problem was the different interpretation by Pyongyang and Washington of the former's commitments with regard to nuclear verification. In the U.S. view, the agreement was to allow inspectors to take soil and nuclear waste samples, with North Korea maintaining that it had consented only to let U.S. inspectors visit the Yongbyon plant. Pending resolution of the difference, the United States discontinued fuel aid to North Korea in December 2008. Further stoking tensions, newly elected South Korean President Lee Myung-bak ended his predecessor's "sunshine policy," with its unconditional food and fertilizer aid and trade concessions, making future aid contingent on progress with regard to nuclear matters. Since then, the regime has rejected foreign food aid and, on April 5, 2009, tested its Taepodong-2 missile.⁶³ The UN Security Council condemned the launch, tightening sanctions imposed after North Korea's 2006 missile tests. Pyongyang then boycotted the six-party talks and restarted its partially disabled Yongbyon reactor, hinting at further nuclear tests. On May 25, a second nuclear device was tested, followed by a spate of missile tests, and, when South Korea joined the international Proliferation Security Initiative, North Korea abandoned the truce that officially ended the Korean War.

The regime's overreactions can be interpreted in several ways. In the past, it has practiced brinkmanship to position itself high on the U.S. and international agenda and to improve its negotiating leverage; the election of a new U.S. president may have made this seem particularly desirable. More significantly, Pyongyang probably feared that Kim Jong-il's August 2008 stroke had created an impression of national vulnerability, which it wished to dispel. It is also likely that the provocative behavior was linked to politics of leadership transition, and the need to secure the support of the military establishment for Kim Jong-il's recently designated successor, his youngest son Kim Jong-un.^{64,65} Most importantly, intensely provocative behavior implies that, for the time being at least, the regime may have decided that the rewards of posi-

63. Choe Sang-Hun and David E. Sanger, "North Koreans Launch Rocket over the Pacific," *New York Times*, April 4, 2009.

64. In addition, the April 2009 promotion of Kim Jong-il's brother-in-law to the National Defense Commission (the most powerful group in the nation) can be interpreted as an attempt to secure military support should Kim's health fail.

65. As one Japanese foreign policy analyst observed in his study of the second round of U.S.–North Korean bargaining, "If Kim Jong-il wishes to maintain a hereditary system, his position vis-à-vis the military will necessarily be weaker, because he will need the military's endorsement. Moreover, the closer the time gets to the passing of power, the less effective Kim might become in terms of the military." Yoichi Funabashi, *The Peninsula Question: A Chronicle of the Second Korean Nuclear Crisis* (Washington, D.C.: Brookings Institution Press, 2007), p. 459.

tive engagement are too uncertain, and that its best prospects lie with conciliating the nation's powerful armed forces rather than pursuing a new set of economic interests.

Some retaliatory U.S. action appeared politically unavoidable. On June 12, 2008, the UN Security Council, with Russian and Chinese backing, decreed toughened sanctions against North Korea, including a broader ban on arms sales and inspection of North Korean ships suspected of carrying banned cargo.⁶⁶ Pyongyang retorted that, in addition to renewed plutonium production, it would begin enriching uranium, threatening a "thousand-fold" retaliation against the United States and its allies if provoked.⁶⁷ The success of increased negative pressures on the regime may depend on whether the legitimizing interests to which it clings can be harmed sufficiently in this manner. Ultimately, further progress along the path to nuclear disarmament will probably involve some measure of positive inducements. But even if temporary moderation were secured, the regime's volatility could imply an uncertain future, especially because nuclear knowledge has been acquired and the weapons themselves are unlikely to be abandoned. Could positive engagement eventually transform regime priorities such that stable achievements are feasible?

POSITIVE ENGAGEMENT AND THE CATALYTIC MODEL

Given that regime decisions on the value of concessions are shaped around domestic interests and values, it is these that inducements must affect: encouraging nascent interests and values driving the regime toward improved international conduct. One might object that the only valid goal is to promote, through continued pressure, the Kim dictatorship's collapse. The path to this outcome, however, is never adequately described; even if complete collapse could be ensured, possible international consequences—from massive flows of refugees to the actions of desperate military leaders armed with nuclear weapons—do not bear close scrutiny. Barring regime implosion,⁶⁸ a possible path for North Korea is that of "Market Leninism," toward which positive inducements could nudge the regime, reducing its need to cater to traditional supporters while enhancing the political significance of those who benefit

66. Associated Press, "U.N. Imposes Tough New Sanctions on North Korea in Wake of Missile Tests, Nuke Threats," *Washington Post*, June 13, 2009.

67. "North Korea Warns of Retaliation," *BBC World News*, June 17, 2009.

68. For a discussion of the likelihood of regime collapse, see Paul B. Stares and Joel S. Wit, *Preparing for Sudden Regime Change in North Korea* (New York: Council on Foreign Relations Press, 2009).

from economic liberalization and the opportunity for expanded foreign contacts.

Market Leninism assumes centralized political control paired with economic liberalization, implying domestic interests that press for integration into the international economy. Although China furnishes the leading model of Market Leninism, an example relevant in terms of scale to North Korean conditions is that of the Socialist Republic of Vietnam. In 1986 Vietnam undertook significant market reforms, known as *Đổi Mới* (Renovation), encouraging market mechanisms, economic deregulation, and private ownership of farms and companies.⁶⁹ Foreign investment was sought, especially from the expatriate community in Europe and the United States. Although the Communist Party remains in control, priorities have shifted from ideological objectives to the welfare aims common to most modern societies. Hanoi established diplomatic and commercial relations with the Association of Southeast Asian Nations and most of the countries of Europe and Northeast Asia. Diplomatic relations with the United States followed in 1995; the country joined the World Trade Organization (WTO) in 2006.

A similar prospect for North Korea would benefit from international cooperation, improving the position of those who would profit most from economic liberalization. A deal on Pyongyang's nuclear programs, providing access to the International Monetary Fund and the Asian Development Bank, as well as WTO membership, could spur meaningful market reforms and new opportunities for gain. As those who desire market reforms and foreign economic opportunities matter more to the political authorities, and as reform is validated by economic success, nuclear weapons and external pugnacity lose their political rationale. This assumes, however, foreign willingness to help fold the country into the world economy and a propitious domestic political climate. The regime should not fear that economic liberalization would undermine its political control, and external security fears should no longer justify nuclear programs: both expectations benefit from a receptive external environment.

International economic opportunities and domestic reform have a chicken-or-egg quality, but, to a very limited extent, the regime had undertaken the latter in the hope that the former would follow. Pyongyang's 1984 joint venture law opened possibilities for foreign investment, and a 1986 policy allowed enterprises to retain 20 to 50 percent of earnings above their required contribution to the government.⁷⁰ In 1991 the regime created a free-trade and invest-

69. Peter Boothroyd and Pham Xuan Nam, eds., *Socioeconomic Renovation in Viet Nam: The Origin, Evolution, and Impact of Doi Moi* (Singapore: Institute of Southeast Asian Studies, 2000).

70. Harrison, *Korean Endgame*, p. 31.

ment zone in the Rajin-Songbong area. Although the idea was to create an important container port and hub for export industries, little foreign interest followed, owing to poor infrastructure, difficult transportation, and bureaucratic interference. The recently built Kaesong Industrial Park near the demilitarized zone attracted some South Korean investment. Additional reforms, in 2002, included an increase in official prices and wages, increased scope for private farming, and a slightly decentralized system of industrial and agricultural management.⁷¹ Informal local markets and small-scale business appeared in 2004.⁷² In a November 2007 visit to Vietnam, Kim Jong-il publicly expressed his admiration of *Đổi Mới*.⁷³

Nevertheless, the North Korean economy remains mired in structural incongruities and misplaced priorities. The “military-first” policy, directing so large a share of the national product to the armed forces, stifles capital formation and infrastructural reconstruction; bureaucratic roadblocks and political uncertainties discourage foreign investment. The deterioration of the country’s physical stock has not been reversed, while declining energy production (one reason for the pursuit of a nuclear energy-generating capability) hobbles recovery. The transportation infrastructure continues to crumble. Famine remains possible.⁷⁴ What growth has been recorded in recent years was fueled by unilateral transfers from China and South Korea, not by increased domestic production, which, in fact, had been stagnant or declining during these years. Given China’s decreasing willingness to give Pyongyang unconditional support, this is not a prop on which the regime could comfortably rely.

A major problem involves the imprint of history: decades of colonization by Japan followed by sixty years of Stalinist economics have furnished neither bureaucrats nor ordinary citizens the skills required to cope with market conditions. There are other reasons why Vietnam’s success might not be replicated in the North Korean context. Much of the flow of foreign capital to Vietnam came from its expatriate community in the West; North Korea can count on nothing of the sort. Also, because North Korea’s economy has focused on heavy industry, change could be more disruptive than in a predominantly agricultural economy.

Yet reforms cannot be written off. The economic situation in North Korea is

71. Dick K. Nanto, “North Korea’s Economic Crisis, Reforms, and Policy Implications,” in Young Whan Kihl and Hong Nack Kim, eds., *North Korea: The Politics of Regime Survival* (Armonk, N.Y.: M.E. Sharp, 2006), pp. 118–144.

72. “Through a Glass, Darkly,” *Economist*, March 11, 2004, pp. 41–43.

73. Park Hyun Min, “Kim Jong Il Praises the Doi Moi Economic Reforms of Vietnam at a Delicate Time,” *Daily NK* (Seoul), October 29, 2007.

74. Stephan Haggard and Marcus Noland, *Famine in North Korea: Markets, Aid, and Reform* (New York: Columbia University Press, 2008).

dire by any standard (in 2007 the country's gross domestic product [GDP] was estimated to be only about 2.6 percent the size of South Korea's).⁷⁵ Moreover, although new elites stand to benefit most from progressive integration into the international system, old elites, too, may discover advantages. As Selig Harrison observes, "North Korean leaders have watched the sons of Deng Xiao Peng in China grow wealthy overnight running giant import-export companies. North Korean generals, in particular, are aware that their counterparts in the armed forces of China, Indonesia, Thailand, and other Asian countries have claimed a profitable role in economic development."⁷⁶ The "smell of money" factor could affect not just potential reformers, but also those who gained control of productive assets under the old regime, assets that could provide a source of considerable corporate and individual profit under liberalized economic conditions.

The chances that North Korea would march down an authentic Market Leninist path are no better than fifty-fifty. The challenge is to improve the odds of a desirable development or, at least, to ensure that they do not deteriorate.

Iran and the Problem of Asynchronous Policies

In both the Iran and North Korea cases, nuclear weapons serve a regime-legitimizing end and provide enhanced security in a threatening world. But unlike North Korea, Iran does not view the weapons as a means of extorting foreign assistance. Accordingly, as far as the exchange model is concerned, economic incentives are likely to play a lesser role in the Iranian case. At the same time, the Iran record indicates that unrelieved threats and pressures rarely achieve their goals, and that the regime's political needs can create opportunities for positive inducements. In this case, however, concessions were offered when, from the regime's perspective, they were less badly needed than at times when they were withheld.

NUCLEAR PROGRAMS AND THE RECORD OF PUNITIVE PRESSURES

Iran's uranium enrichment program has been perceived as an international threat, while support of Hezbollah and Hamas has made Iran, according to the U.S. State Department, the world's "most active state sponsor of terrorism."⁷⁷ Following Hezbollah's U.S. Marine barracks bombing, with which Tehran was

75. Associated Press, "A Look at North Korea's Economy," *Washington Post*, June 13, 2009.

76. Harrison, *Korean Endgame*, p. 38.

77. Office of the Spokesperson, U.S. Department of State, "Joint U.S.-DPRK Statement on International Terrorism," <http://www.globalsecurity.org/wmd/library/news/dprk/2000/dprk/001006c.htm>.

complicit, President Ronald Reagan labeled Iran a state sponsor of terrorism, making it ineligible for U.S. foreign assistance. In 1987 the U.S. Navy clashed with Iranian forces (some confrontations were initiated by the Iranians). That year the United States banned oil imports from Iran. The 1992 Iran-Iraq Nonproliferation Act prohibited the sale of “dual-use items,” a measure largely directed against Iranian weapons of mass destruction (WMD) programs. In 1995 President Clinton issued an executive order banning U.S. contributions to the development of Iranian petroleum facilities. The following year, the Senate passed the Iran and Libya Sanctions Act, to discourage European investment in Iran’s energy sector.

Yet Iran continued to be considered a major supporter of terrorism, and its stance toward Middle East peace had not, from Washington’s perspective, improved. This was also the time when Iran accelerated its efforts to acquire nuclear fuel. President Bush increased sanctions and threats. His 2002 National Security Strategy of the United States allowed U.S. military force to be used preemptively,⁷⁸ the president ultimately declaring that “all options are on the table” to prevent Tehran from acquiring nuclear weapons.⁷⁹ Plans for contingency strikes extended beyond Iran’s nuclear sites, encompassing most of the country’s military infrastructure,⁸⁰ including attacks against the Iranian Revolutionary Guard Corps (IRGC).⁸¹ Aircraft carrier battlegroups were deployed to the Persian Gulf.

From the poor success of economic sanctions under the Bush administration’s predecessors, it was inferred that Tehran should be pressed yet harder. In 2006 the UN Security Council, at U.S. urging, banned trade of all items that could contribute to Iran’s uranium enrichment program. President Mahmoud Ahmadinejad refused to back down, and Iran began producing nuclear fuel on an industrial scale.⁸² Five months later, the Security Council expanded the previous sanctions, banning arms exports to Iran and imposing a freeze on the assets of individuals and entities involved in the nuclear program. Tehran responded by reaffirming its right to “peaceful” nuclear energy, threatening to discontinue cooperating with the IAEA. In March 2008 the Security Council imposed a third wave of sanctions, including asset freezes and travel bans on top regime officials. Iran declared that it would ignore the sanctions.⁸³

78. The text can be found at <http://whitehouse.gov/nsc/nss.html>.

79. “Bush Keeps Iran Military Option,” *BBC World News*, April 18, 2006.

80. “U.S. ‘Iran Attack Plans’ Revealed,” *BBC World News*, February 20, 2007.

81. “U.S. Weighs Possible Strike on Iran’s Military: Report,” Agence France-Presse, September 30, 2007.

82. Elaine Sciolino, “On Nuclear Seesaw, the Balance Seems to Shift to Iran,” *New York Times*, November 30, 2007.

83. “UN Approves New Sanctions on Iran,” *BBC World News*, March 8, 2008.

European officials then restricted financial transactions with Iran.⁸⁴ Accusing the IRGC, especially its Quds division, of being the main force behind Iran's nuclear program and its major supporter of terrorism, Washington blocked the IRGC's financial accounts within U.S. jurisdiction,⁸⁵ and pressed for even harsher multilateral sanctions.

Tehran was unyielding and unrepentant. Attempts to use Hamas and Hezbollah to further Iranian regional ambitions continued. Obstructionism in Iraq was supplemented by efforts to arm the Taliban in Afghanistan.⁸⁶ The uranium enrichment program continued unabated, although programs to weaponize the fuel were discontinued in 2003. Supreme Leader Ali Khamenei warned that U.S. interests worldwide would be targeted if his country came under attack. However, as threats to a regime's domestic position often portend improved receptiveness to positive inducements, there have been junctures in U.S.-Iranian relations when such receptivity was exhibited.

DOMESTIC CHALLENGES AND OPPORTUNITIES FOR ENGAGEMENT

As with North Korea, the legitimizing narrative claimed for Iran a unique ideational mission and privileged place in history, while its credibility eroded along with the regime's practical failings. And again, as with North Korea, legitimacy concerns opened opportunities for positive engagement; in this case, however, they were not acted upon.

The legitimizing narrative's essence was religious. The conviction that government is in God's hands vested absolute authority in the Prophet Mohammed, the infallible imams, and the *faqih*s (clerical guardians), bearers of temporal and spiritual authority pending the arrival of the Mahdi to rule the affairs of humanity. In the meantime, a "government of God" had thus far been established in a single "redeemer nation," making Iran the "only true Islamic independent country and the only depository of the essence and message of God."⁸⁷ Also, the interests of the poor and downtrodden would enjoy far more attention in a proper Islamic society. The country's position in Islam's vanguard implied a duty to promote a theocratic vision considered universally applicable.

Some instability has been inherent in the regime's architecture and legitimizing narrative. The force that brought the regime to power—zeal rooted in a

84. Steven R. Weisman, "European Officials Agree to Widen Economic Sanctions against Iran over Nuclear Program," *New York Times*, February 13, 2007.

85. Helene Cooper, "New Steps by U.S. against Iranians," *New York Times*, October 11, 2007.

86. "U.S. Concern at 'Iran Afghan Arms,'" *BBC World News*, October 25, 2007.

87. Shireen T. Hunter, *The Future of Islam and the West: Clash of Civilizations or Peaceful Coexistence?* (Westport, Conn.: Praeger, 1998), p. 132.

radical conception of Islam—has lacked the ability to sustain itself over the long term. The economy, pairing a large (but not exclusive) focus on the petroleum industry with an ambiguous relation to market forces, failed to ensure a viable combination of social justice and growth. Early in its history, the regime faced some measure of latent instability. With the 1990s, latent became manifest amid expressions of domestic dissatisfaction and electoral victories of political reformists. By 2005, with the election of Ahmadinejad, major challenges were fended off, and the political disequilibrium again receded to latent proportions.

Although outright wealth production was never the Islamic Revolution's leading purpose,⁸⁸ no regime retains its support for long if people's material aspirations are continuously frustrated; the economic structure instituted by the clerical elite, however, ensured that they would be. The state sector dominated the economy, and its monopolies were protected from foreign competition by the rule prohibiting the import of goods that could be produced domestically in sufficient amounts. Merchant associations with close ties to conservative factions were encouraged; elements of the regime's coercive apparatus carved out positions of economic power and privilege. These are not features of a dynamic market economy.

By the time of Ayatollah Ruhollah Khomeini's death in 1989, much of the Islamist fervor of 1979 had been spent. This might not have been critical had there been appreciable economic growth and improved social justice. The regime did its best to control outright poverty, but economic performance was sluggish. Further, Iran had not assumed the international role claimed for it, and its subversive efforts at establishing regional dominance were unsuccessful. Riots by Iranian pilgrims in Mecca, apparently orchestrated by the Revolutionary Guards,⁸⁹ led to the rupture of diplomatic relations between Iran and Saudi Arabia. An attempted coup in Bahrain that would have installed a pro-Iranian cleric as head of a theocratic state on the Iranian model failed. Thus, by 1989, Iran's foreign policy had achieved virtually none of its objectives.⁹⁰

The election of Akbar Hashemi Rafsanjani to the presidency in 1989 presaged possible change, as he initiated modest efforts at liberalizing the economy and attracting private investment, while easing restrictions on Iran's cultural life. Still, there were signs of public disaffection. The year 1992 wit-

88. William O. Beeman, "Images of the Great Satan," in Nikki R. Keddie, ed., *Religion and Politics in Iran: Shi'ism from Quietism to Revolution* (New Haven, Conn.: Yale University Press, 1983), p. 192.

89. Kenneth Katzman, "The Politico-Military Threat from Iran," in Jamal S. al-Suwaidi, ed., *Iran and the Gulf: A Search for Stability* (London: I.B. Tauris, 2002), pp. 195–210.

90. Ray Takeyh, "Qadhafi's Libya and the Prospect of Islamic Succession," *Middle East Policy*, Vol. 7, No. 2 (February 2000), p. 65.

nessed demonstrations at Tehran University, where students resisted a government-appointed dean. Workers at the Tehran Oil Refining Company went on strike, and work stoppages were reported elsewhere.⁹¹ Voters in the parliamentary elections of 1992 appeared far more concerned with economic than religious issues. One voter grumbled, "The more difficult the economic situation gets, the more people lose their religious beliefs. . . . I don't think any of the promises of the revolution have been met."⁹² Some former supporters voiced reservations about the clerical regime. Abdolkarim Soroush, of Tehran University, who earlier had enthusiastically backed the regime, now argued that religion should be compatible with democracy and pluralism. Another influential cleric, Mohsen Kadivar, chastised ruling mullahs for creating an "Islamic kingdom" rather than a republic, arguing that this order strayed from proper religious norms.⁹³ The Association of Militant Clergy became a major critic of the regime's antidemocratic tendencies. Signs of deteriorating regime legitimacy culminated most vividly in the weeklong, antigovernment student demonstrations in 1999 that included burning pictures of the Supreme Leader.⁹⁴

Coincident with manifest instability, the regime expressed interest in developing external links. Rafsanjani offered the U.S. firm Conoco a \$1 billion contract to develop two Iranian offshore oil fields, the first such offer to a foreign entity since the 1979 revolution.⁹⁵ This was rebuffed by President Clinton, who, under pressure from a Republican-controlled Congress, barred Americans from investing in or managing oil development projects in Iran.

Upon his election in 1997, Mohammad Khatami invited "relations with any state that respects our independence," calling for a "dialogue of civilizations." He praised the United States' Puritan ethic, expressed regret over the hostage episode, and recommended, as a first step toward reconciliation, an exchange of "professors, writers, scholars, artists, journalists, and tourists."⁹⁶ Although intrigued by these possibilities, the Clinton administration was afraid of making insufficiently required concessions to Iran, especially as Khatami's overture was not mirrored in similar sentiments from regime hard-liners. State Department spokesman Barry Rubin announced that the United States would use a dialogue to raise concerns about Iranian behavior. Khatami had hoped for a tangible concession, not a forum for criticizing Iran.

91. "Violence Spreads in Iran as the Poor Are Evicted," *New York Times*, June 1, 1992.

92. Elaine Sciolino, "Iran Vote Expected to Turn on Economy," *New York Times*, April 11, 1992.

93. Scott MacLeod and Nahid Siamdoust, "Iran: Still Defiant," *Time*, December 6, 2004, p. 98.

94. "Voices of Dissent," *NewsHour with Jim Lehrer*, July 13, 1999, http://www.pbs.org/newshour/bb/middle_east/july-dec99/iran_7-13.html.

95. Hooman Estelami, "A Study of Iran's Responses to U.S. Economic Sanctions," *Middle East Review of International Affairs*, Vol. 3, No. 3 (September 1999), p. 6.

96. Mohammad Khatami, *Islam, Liberty, and Development* (Binghamton, N.Y.: Institute of Global Cultural Studies, Binghamton University, 1998), p. 150.

In the wake of September 11, Khatami condemned the terrorist attacks, and Iranian crowds turned out to hold candlelit vigils for the victims. Sixty thousand spectators observed a minute of silence at Tehran's soccer stadium. When the United States took military action against Afghanistan's Taliban regime, Iran offered to allow U.S. pilots in distress to land on Iranian soil;⁹⁷ it supported Afghanistan's Northern Alliance, the United States' major military ally in that country; and it helped to devise a broad-based government to replace the Taliban.⁹⁸ Tehran expected U.S. reciprocation. Instead, a few weeks later, President Bush declared Iran part of the "axis of evil."

Another chance for progress appeared in May 2003, following the U.S. march into Baghdad. The overture took the form of a letter suggesting an agenda for comprehensive talks between Iran and the United States. Tehran offered to discuss just about everything of concern to Washington, including its WMD programs and its obligation of full cooperation with the IAEA, the issue of Iranian support for terrorism, and its attitude toward the Middle East peace process. In return, it asked that the United States discuss a halt in its hostile behavior, repeal economic sanctions, and recognize Iran's "legitimate security interests" in the region.⁹⁹ The letter apparently had support at the highest levels of the country's political hierarchy, but received no response from the Bush administration. In a further gesture of flexibility, and responding to pressures by the EU-3 (Britain, France, and Germany, representing the European Union), Iran, in October 2003, suspended uranium enrichment for nine months and agreed to allow snap IAEA inspections of its nuclear facilities.

If, at the time, Iran was receptive to positive engagement, the circumstances behind this receptivity were not immutable, and, by 2005, the regime's domestic position had strengthened. Conservative and anti-American Mahmoud Ahmadinejad won the presidential election, helped by the inability of reformists to improve the welfare of most Iranians. To the extent that their failures were partly linked to U.S. sanctions, he and other hard-liners were the beneficiaries. The election meant that the reformist challenge to the regime

97. There may appear to be some inconsistency between Iran's efforts to arm the Taliban insurgents after the U.S. invasion of Iraq, on the one hand, and its apparent willingness to help the U.S. mission in Afghanistan in 2001, on the other. This begins to make sense when one considers that Iran was responding to what it perceived as the greater current threat. Given the treatment of Shiites in Afghanistan under the Taliban, Iran was eager to see them removed from power in 2001 (especially if this would mean some counterconcession on the part of the United States). Given the subsequent threat of having the United States (especially under the Bush administration) militarily entrenched on both its eastern and western flanks, it seemed more important to weaken this presence where possible.

98. Barbara Slavin, *Bitter Friends, Bosom Enemies: Iran, the U.S., and the Twisted Path to Confrontation* (New York: St. Martin's, 2007), pp. 197–198.

99. The full text of this letter is provided in the appendix of *ibid.*, pp. 230–232.

was, for the foreseeable future, suppressed. Other circumstances bolstered the regime's position.

The Bush administration mistakenly expected the Iraq War to weaken the Iranian regime. Instead, the Taliban's ouster from Afghanistan removed a government with whom Iran had nearly gone to war in the 1990s. In addition, the invasion of Iraq eliminated an even greater threat to Iran's security and brought to power the Shiite majority, many of whose leaders had spent their exile years in Iran. Tehran's position also benefited from the improved status of Hezbollah, following its performance battling Israeli forces in Lebanon in the summer of 2006. When Hamas assumed power in Gaza, yet another Iranian ally controlled a vital position in the Middle East. It is likely that the regime's domestic standing benefited accordingly.

The Iranian government's position also gained from resisting U.S. pressures to abandon its nuclear program. As the confrontation with the United States developed in 2004, *Time* reported that "millions of Iranians are avidly following the showdown on Iranian TV talk shows, and the ruling clerics have earned more popular support than they have in years. Even Iranians who dislike the mullahs are showing pride at the idea of Iran becoming an atomic power."¹⁰⁰ Polls indicated that more than 80 percent of Iranians backed the goal of atomic energy production.¹⁰¹ Even President Khatami closed ranks with the hard-liners, asserting his country's right to nuclear power. Some Iranians reacted to U.S. pressure by arguing that the U.S. threat actually required atomic weapons.¹⁰²

With Iran's improved regime stability and declining need for foreign favors, the United States and its allies made their overtures. In October 2004, the EU-3 group offered Tehran a package of incentives to freeze its uranium enrichment activities.¹⁰³ Washington concurred, announcing that it might endorse Iran's application to join the WTO and allow it to purchase U.S. spare parts for its commercial aircraft.¹⁰⁴ In addition, in June 2005, Britain, China, France, Germany, Russia, and the United States offered to provide Iran with proliferation-proof light water reactors, for which the uranium would be enriched in Russia. The six countries would also ease Iranian access to Western agriculture goods.¹⁰⁵

100. MacLeod and Siamdoust, "Iran: Still Defiant," p. 46.

101. Mahan Abedin, "Iranian Public Opinion and the Nuclear Stand-Off," *Mideast Monitor*, Vol. 1, No. 2 (April/May 2006), http://www.mideastmonitor.org/issues/0604/0604_3.htm.

102. Ray Takeyh, *Hidden Iran: Paradox and Power in the Islamic Republic* (New York: Times Books, 2006).

103. "Three U.S. Allies to Offer Iran Inducements," *USA Today*, October 15, 2004.

104. "U.S. to Lift Objections against Iranian Bid to Join WTO," *H.T. Media*, March 11, 2005.

105. Glenn Kessler, "Six Powers Reach Accord on Iran Plan: U.S. Supports Combination of Incentives, 'Disincentives,'" *Washington Post*, June 2, 2006.

Now, however, Tehran was inflexible. The inducements came several years too late to address a domestic predicament, and they probably seemed insufficient to Tehran. The offer of light water reactors whose fuel would be enriched outside Iran appeared only to increase its dependence on foreign powers, and the removal of U.S. objections to membership in the WTO was swaddled in qualifications.¹⁰⁶

Even had the incentives been extended years earlier, they would have had to offset the benefits that Iran's nuclear program provided the regime. The program addressed the problems of declining oil production resulting from Iran's deteriorating petroleum infrastructure. Theoretically, nuclear energy could meet domestic needs, allowing the country to export more oil, generating larger foreign currency revenues to be plowed back into economic growth. Further, an ability to make nuclear bombs would have deterred the perceived U.S. threat—especially as it was remarked how gingerly the United States dealt with nuclear-capable North Korea. Finally, U.S. opposition to the nuclear programs fueled a politically useful rally-round-the flag effect.

To its single "cascade" of 164 gas centrifuges, the regime added a second cascade, claiming it would soon have 3,000 centrifuges operating (enough, eventually, to fuel several nuclear weapons each year), a threshold Mohamed ElBaradei soon confirmed that Iran had crossed.¹⁰⁷ When, in March 2008, the UN Security Council expanded sanctions on Iran, with asset freezes and travel bans for Iranian officials, Iranian responses were unrepentant and inflexible. In April 2009, Iran announced that it was testing two new high-capacity centrifuges, and that it had 7,000 operating at Natanz.¹⁰⁸ This went hand-in-hand with advances in missile technology. In early February 2009, a telecommunications satellite was launched on the Safir-2 rocket, portending a ballistic missile with intercontinental range.¹⁰⁹ On May 20, a medium-range, surface-to-surface, solid-fueled missile was tested, placing parts of Europe within its range.¹¹⁰

Iran's record is consistent with the hypothesis that regime openness to positive engagement, in a quid pro quo context, improves with credible challenges to the regime's domestic position, deteriorating as such challenges lessen. Moreover, if inducements are to attract significant counterconcessions, they

106. Secretary of State Condoleezza Rice stated that, after Iran was allowed to apply, it would still have to meet the conditions brought up in negotiations on accession, and that the United States would have to agree to the accession separately.

107. Mark Landler and David E. Sanger, "Chief UN Nuclear Monitor Cites Iran Enrichment Plan," *New York Times*, January 27, 2007.

108. Borzou Daragahi and Ramin Mostaghim, "Iran Announces a New Achievement in Nuclear Program," *Los Angeles Times*, April 9, 2009.

109. "Iran Launches Homegrown Satellite," *BBC World News*, February 3, 2009.

110. "Iran Tests New Surface-to-Surface Missile," *CNN*, May 20, 2009.

should offset whatever political benefits the weapons programs offer the regime. The incentives offered Iran hardly matched the counterconcessions demanded. Given the inability of the United States to deliver on the KEDO commitments to North Korea, an issue of credibility may have been superimposed on that of sufficiency.

THE CATALYTIC MODEL AND THE IRANIAN CHALLENGE

As for possibilities for externally catalyzed change, Iran and North Korea are not directly comparable. The relatively vigorous political life of the former is very different from the latter's extreme closure and implacable repressiveness, while North Korea's insulation contrasts with Iran's integration into many international flows. An advanced and complex economy and relatively developed civil society describe a country that, prior to the Islamic Revolution, had made the West an important model.¹¹¹ Networks of interest and values desiring full integration into the global community exist alongside groups with opposite inclinations.

No simple taxonomy encompasses the complexity of Iran's political life, but major distinctions are captured by a tripartite division, distinguishing traditional conservatives, pragmatic conservatives, and genuine reformers.¹¹² Iranian conservatives are not as monolithic as they once appeared. There remains a strong core of traditional conservatives, with an inflexible commitment to Iran's nuclear program, little interest in meaningful economic reforms, and no desire to be part of a globalized economy. At the same time, another group, the pragmatic conservatives, can no longer be ignored. Displaying continued fealty to the Islamic Revolution and its institutions, they appreciate that its challenges could be eased if international pressure on the regime were relaxed and the economy reformed.

There are also authentic reformers, including leading economists and businessmen and large segments of university youth, wanting the voice of the people to dominate that of the political clergy and desiring true market reforms. The social base of the reformists is, potentially, the largest, and the long term may favor their power. Failure of meaningful reform during the Khatami years, however, discredited the movement in the eyes of some Iranians, while the Guardian Council's refusal to allow many reformists to stand for election blocked their access to institutional power.¹¹³ In the medium term, it appears

111. In addition to the petroleum sector, major areas of economic activity include a developed service sector, automobile manufacturing, consumer electronics, the petrochemical industry, tourism, and agriculture.

112. Takeyh, *Hidden Iran*, especially chap. 2.

113. Some 2,000 candidates, mostly reformist, were barred by the regime's Guardian Council from

that the course of Iran's politics, including its nuclear programs, will be determined by the ability of reformers and pragmatic conservatives to find common cause against traditional conservatives within the current political structure.

The position of pragmatic conservatives improved as several prominent figures, previously considered traditional conservatives, joined their ranks. In addition to former President Rafsanjani, these now include Ali Larijani, presidential candidate in 2005, Iran's former nuclear negotiator, and now speaker of the parliament; Hasan Rowhani, also a former nuclear negotiator; Mohammad Qalibaf, mayor of Tehran; and even Mohsen Rezaee, once commander of the Revolutionary Guards. Within the Majlis, pragmatic conservatives are associated principally with the Executives of Construction Party (founded by Rafsanjani) and the Moderation and Development Party. Generally, they urge nuclear restraint, the privatization of state enterprise, and an openness to international economic opportunities.¹¹⁴

Pragmatic conservatives have challenged President Ahmadinejad's policies. In January 2007, 150 legislators criticized his economic policies; another 50 demanded he appear before parliament to justify his nuclear policies. A newspaper controlled by Larijani complained that Ahmadinejad's defiant rhetoric made it harder to resolve the nuclear-induced crisis.¹¹⁵ Rafsanjani castigated the president's failure to curb the country's reliance on oil revenues and to enact constitutionally mandated privatization plans.¹¹⁶ In the aftermath of the tumult following the 2009 presidential election, a number of traditional conservatives moved close to the reformist candidate, Mir Hossein Mousavi.

The balance between pragmatic and traditional conservatives will depend, in part, on the inclinations of dominant economic actors. A significant portion of Iran's economy (up to 20 percent of national GNP¹¹⁷) is controlled by organizations called *bonyads*, nominally charitable organizations run by the clerical establishment. The *bonyads'* assets mushroomed with the 1979 revolution, as the wealth of the shah and his followers was turned over to them. They enjoy preferential access to the banking system, giving them an edge when competing with private-sector firms. The wealthiest is the Shrine of Imam Reza: a reli-

running in the March 2008 parliamentary elections. Thus reformist candidates were on the ballot in only 106 of 290 districts. "Iran: Reformist Candidates Barred from Election," *Human Rights Watch*, March 13, 2008, <http://www.unhcr.org/refworld/country,HR,,IRN,,47da3fcac,0.html>.

114. Ray Takeyh and Nikolas K. Gvosdev, "Pragmatism in the Midst of Iranian Turmoil," *Washington Quarterly*, Vol. 27, No. 4 (Autumn 2004), pp. 33–51.

115. Nazila Fathi and Michael Slackman, "Rebuke in Iran to Its President on Nuclear Role," *New York Times*, January 19, 2007.

116. Robert Tait, "Ahmadinejad Challenged for Control of Iran's Economy," *Guardian*, February 4, 2008.

117. Paul Klebnikov, "Millionaire Mullahs," *Forbes.com*, July 21, 2003.

gious center and business conglomerate owning mines, textile factories, a bus factory, a pharmaceutical plant, an engineering company, a bakery, and dozens of other properties.¹¹⁸ Major *bonyads* are also semi-independent of government supervision (no official auditors review their books), and many are linked to leading pragmatic conservatives, Rafsanjani and his family especially.

Ahmadinejad has shored up the IRGC as a political counterweight under his control. Benefiting from no-bid government contracts, the Revolutionary Guards have carved out important positions in the construction industry, oil and gas development, and farming. The IRGC engineering arm (Ghorb) is one of Iran's largest contractors, whose finances are, conveniently, audited by an IRGC-owned firm and which enjoys privileged credit from publicly owned banks.¹¹⁹ In addition to its legitimate business, and through its control of the country's borders, the IRGC is suspected of operating a network of unauthorized docks and border posts through which enter as much as 60 percent of illegal imports into the country,¹²⁰ providing a major source of Revolutionary Guard funding.

Such paths to profit naturally annoy many within the private sector who labor without these privileges. In addition, IRGC business interests often compete with those of large *bonyads*, such as the Shrine of Imam Reza.¹²¹ Many of these *bonyads* are likely torn in two directions with regard to the regime: on the one hand, they benefit from the lack of transparency and occasional fiscal privileges they are allowed; on the other hand, they often must compete with those, such as the Revolutionary Guards, directly supported by the state. As *bonyads* encompass modern and dynamic enterprises, they would benefit from direct access to international economic opportunities, the *Wall Street Journal* reporting that the Shrine of Imam Reza wanted foreign investors for joint ventures.¹²² Many such ventures would be regional to the Middle East, and there is fear that Iran's nuclear programs might drive crucial Gulf nations away from Tehran and into Washington's embrace.¹²³

Positive engagement should strengthen the position of those within the legitimate private sector and the *bonyads* who prefer the market-economic path, along with its political corollaries, over statist economics. By contrast, international threats and isolation typically benefit the principal agents of state power,

118. Andrew Higgins, "Inside Iran's Holy Money Machine," *Wall Street Journal*, June 2, 2007.

119. Ali Alfoneh, "How Intertwined Are the Revolutionary Guards in Iran's Economy?" *Middle Eastern Outlook*, No. 3 (October 2007), pp. 1–10.

120. Ibid. See also Ally Buzbee, "Iran Revolutionary Guards' Role Growing," Associated Press, November 13, 2007.

121. *Wall Street Journal*, 2007.

122. Ibid.

123. Takeyh and Gvozdev, "Pragmatism in the Midst of Iranian Turmoil," p. 42.

such as the Revolutionary Guards. Undeniably, the position of the Revolutionary Guards has been strengthened under Ahmadinejad, prompting Secretary of State Hillary Clinton to speculate that Iran may be becoming a military dictatorship,¹²⁴ but patterns of power within Iran are not unresponsive to international conditions. Liberalization and possibilities for international engagement could bolster pragmatic conservatives; continued punitive pressures would probably favor traditional conservatives and their allies (including the IRGC). A 2008 study published by RAND, though recognizing the Iranian regime's considerable stability, concluded that a policy of positive engagement remains the best hope for creating domestic conditions conducive to moderate behavior.¹²⁵

Iran's clerics are not monolithic, and the *velaya-e faqih* (rule of the jurispudent) imposed by Khomeini was not the model preferred by all within the mullah class. At the revolution's outset, Grand Ayatollah Mohammad Shariatmadari opposed granting ultimate political authority to the Supreme Leader; more recently, followers of Ayatollah Montazeri questioned the wisdom of a system placing religion at the service of government.¹²⁶ For many younger clerics, the appropriate model is that advocated by Iraqi Ayatollah Ali al-Sistani, who argues that although Islam should inform all aspects of social life, the proper role of clerics is outside government. Thus, rifts appear even within the Islamic establishment, with the possibility that broader coalitions could dampen regime excesses, but, again, this is least likely in an atmosphere of external threat and hostility.

One could then reason that positive engagement could bolster those who prefer the market-economic path, along with its political corollaries, over statist economics, as well as those who do not accept the regime's view of the necessary political role of the clergy—encouraging, in this fashion, a new equilibrium of political forces. At the same time, as international threats and isolation typically benefit state strength, they also improve the position of the principal agents of state power, such as the Revolutionary Guards.¹²⁷ Liberal-

124. Mark Landler, "Clinton Raises U.S. Concerns of Military Power in Iran," *New York Times*, February 15, 2010.

125. Keith Crane, Rollie Lal, and Jeffrey Martini, *Iran's Political, Demographic, and Economic Vulnerabilities* (Santa Monica, Calif.: RAND, 2008), chap. 6.

126. Slavin, *Bitter Friends, Bosom Enemies*, chap. 8.

127. It does not follow that indiscriminate sanctions against the Revolutionary Guards would promote a desirable political result. See, for example, Karim Sadjadpour, "The Wrong Way to Pressure Iran," *Washington Post*, September 28, 2007. The point is that there is some evidence that divisions exist even with the IRGC: Larjani and Qalibaf are former Guard functionaries, and Moshem Rezi, who has for years advocated reconciliation with the United States, is the organization's former commander. Parallels with Mikhail Gorbachev's reform movement in the Soviet Union may be appropriate: whereas some KGB leaders were inveterate cold warriors, others (including Vladimir

ization along with possibilities for international engagement could strengthen the hand of pragmatic conservatives within the power structures of Iranian politics; continued punitive pressures would, in all likelihood, favor the position of traditional conservatives and their allies.

Much as Ahmadinejad's ascent to the presidency in 2005 consolidated hard-line rule, subsequent developments could have created new rifts within the Iranian power structure along with new opportunities for external engagement. Although no specific proposals were offered Tehran, Barack Obama had campaigned on a foreign policy platform of engagement with the United States' traditional adversaries, including Iran. Had this been coupled with specific inducements, it might have weakened the hand of the most conservative and virulent within the clerical establishment. Iran's 2009 presidential election revealed the new political fissures. Almost universally recognized as fraudulent, Ahmadinejad's 63 percent to 34 percent win over his main challenger, reformist Mir Hossein Moussavi, was vocally and massively contested. Powerful members of the clerical establishment had backed Moussavi, including former President Rafsanjani and major conservative figures such as Ali Akbar Natek Nuri, former Foreign Minister Ali Akbar Velayat, and Tehran Mayor Mohammad Qalibaf. After the disputed election, a leading group of religious leaders, the Association of Researchers and Teachers of Qom, declared the new government illegitimate—undermining the authority of the Supreme Leader, whose word was not supposed to be open to debate. Abbas Milani, director of the Iranian Studies Program at Stanford University, described the political fissure as “the most historic crack in the thirty years of the Islamic Republic.”¹²⁸ Even Grand Ayatollah Hossein Ali Montazeri, in an open communication to the BBC, lamented that “there are some sincere individuals in the country among some sections of the government who are committed to Islam and to the interests of the country and the revolution. Unfortunately, those people are not the ones who take the major decisions. The current decisions, which are being taken by the minority faction that is in power, are mainly against the interests of the country, and are not in keeping with Islamic principles and values.”¹²⁹

A potentially threatened regime position was soon strengthened in an unex-

Putin) could, from the vantage point of their positions, clearly grasp the system's weaknesses and the need for serious reform. At the same time, whereas many guardsmen benefit economically from a climate of international crisis and the possibilities for illicit economic gain, others, especially those associated with the IRGC's above-board economic activities, might be tempted by the money to be had from fuller access to international economic opportunities.

128. Michael Slackman and Nazila Fathi, “Clerical Leaders Defy Ayatollah on Iran Election,” *New York Times*, July 4, 2009.

129. “The Full Text of Grand Ayatollah Montazeri's E-mail,” *BBC World News*, October 19, 2009.

pected way. The United States revealed, in September 2009, that Iran had been secretly building an underground uranium enrichment plant, with a 3,000-centrifuge capacity, near Qom. Western leaders reacted strongly, amid renewed talk of “crippling” sanctions. Without the Qom issue, President Obama’s earlier calls for dialogue and engagement could have made it hard for Iran’s leadership to build a rally effect around claims of a foreign threat. Yet, confrontation with the United States, traditionally a major source of regime power, has “paid huge dividends to the ruling ayatollahs and helped them survive three tumultuous decades in power.”¹³⁰ With the new bone of contention, the regime could choose either to conciliate its opponents with policy moderation or to rely on the established methods of shoring up its support. The second path, coupled with intensified repression by the Revolutionary Guards and the Basij (a paramilitary volunteer militia), was the regime’s first choice. Under the circumstances, Tehran turned U.S. objections to its program into an emotional national cause,¹³¹ even printing the atomic symbol on its 50,000 rial bills.

One day after the U.S. House of Representatives approved sanctions targeting exports of refined oil to Tehran,¹³² the regime announced it had proof that opposition leaders had tried to instigate an antigovernment revolt, and, in a move consistent with a desire to stoke tensions even further, it test-fired its medium-range and solid-fueled Sajjil-2 rocket, a weapon that has Israel and U.S. Gulf troops in its range.¹³³ After China and Russia supported the IAEA’s rebuke of Iran over the Qom uranium enrichment facility, Tehran declared that it would build ten more such plants and perhaps withdraw from that body.¹³⁴

Still, a situation of manifest instability generally is the best juncture at which to dangle significant inducements, and President Obama’s decision to abandon his halting interest in engagement, though understandable in terms of domestic politics, may have encouraged the clerical regime to choose the path of domestic repression, coupled with nationalistic mobilization, over that of attempts to conciliate political opponents. Nevertheless, if it is to survive, Iran’s regime will have to broaden its support base and build its legitimacy on more than domestic repression and confrontation with the United States. Meanwhile, U.S. policies that bolster those who prefer a conciliatory stance toward the outside world may create a new critical juncture for the regime, with an al-

130. Mohsen M. Milani, “Tehran’s Take: Understanding Iran’s U.S. Policy,” *Foreign Affairs*, Vol. 88, No. 4 (July/August 2009), p. 47.

131. *Ibid.*, p. 51.

132. “House Passes Iran Gasoline Sanctions Bill,” *Washington Post*, December 15, 2009.

133. “Iran Test-Fires Advanced Missile,” *BBC World News*, December 16, 2009.

134. “Iran Stokes Tensions with Huge Nuclear Expansion,” *Times* (London), November 30, 2009.

tered expectation of where the greatest domestic political rewards lie, increasing the likelihood that new paths, leading to a reintegration of Iran in the international community, would be opened.

The Lessons of Libya

Many observers were surprised when, in December 2003, Muammar Qaddafi renounced all of Libya's nuclear ambitions. A few years earlier, he had repudiated terrorism; several few weeks after the December declaration, Libya began adhering to the Chemical Weapons Convention and the NPT's Additional Protocol (allowing intrusive inspections of nuclear facilities). For the Bush administration and its supporters, the explanation for this about-face was to be found in the U.S. invasion of Iraq and Qaddafi's fear that Libya could be next. According to President Bush, "Speaking clearly and sending messages that we mean what we say, we've affected the world in a positive way. Look at Libya. Libya was a threat. Libya is now peacefully dismantling its weapons programs."¹³⁵ In William Safire's view, "Colonel Qaddafi took one look at our army massing for the invasion of Iraq and decided to get out of the mass-destruction business."¹³⁶

Such claims are unconvincing, given that the origins of Qaddafi's metamorphosis preceded the U.S. invasion by several years, whereas the December 2003 announcement culminated a long diplomatic process with substantial positive inducements. Two U.S. diplomats who participated in the associated negotiations—Flynt Leverett, a senior Clinton State Department official, and Martin Indy, assistant secretary of state at the time—have described the process similarly.¹³⁷ In the late 1990s, Qaddafi's representatives engaged in secret discussions with U.S. and British diplomats on normalizing relations between the two countries; from the outset, the Libyans offered to surrender their WMD programs, to cooperate in the campaign against al-Qaida, and to stop supporting "rejectionist" groups in the Middle East.

REENGAGEMENT AND SUCCESSFUL EXCHANGE

The initial condition for a reconciliation set by Britain and the United States was Libya's assumption of responsibility for the 1988 bombing of Pan Am flight 103 over Lockerbie, Scotland, and its surrender of the responsible agents.

135. "Transcript of the Candidates' First Debate in the Presidential Campaign," *New York Times*, October 1, 2004.

136. "Spinning into Control," *New York Times*, January 12, 2004.

137. Flynt Leverett, "Why Libya Gave Up on the Bomb," *New York Times*, January 23, 2004; and Martin S. Indyk, "The Iraq War Did Not Force Gaddafi's Hand," *Financial Times*, March 9, 2004.

Tripoli's compliance led, in 1999, to the suspension of UN sanctions; in 2003 they were lifted. U.S. unilateral sanctions were maintained until 2005, pending verified WMD disarmament and compensation by Libya of the Lockerbie victims' families. This was achieved, and in 2006, diplomatic relations were restored. Inducements and quid pro quos were offered throughout the process, as concessions by Libya were matched by political and economic counterconcessions. Because a major carrot was the removal of sanctions, it could be argued that economic pressures were the ultimate cause of Qaddafi's U-turn, so it is useful to compare a plausible scenario of what could have transpired absent punitive sanctions to the trajectory actually experienced.

THE RECORD OF SANCTIONS. Tripoli's policies on the Middle East and terrorist support triggered an escalating series of punitive U.S. responses. In 1978 President Carter banned military exports to Libya, which, one year later, was designated a state sponsor of terrorism, barring it from most forms of economic assistance and curbing allowable U.S. exports. In 1982 President Reagan embargoed crude oil imports from Libya and restricted sales of sophisticated oil and gas technology and equipment. In 1986 this ban was expanded to a comprehensive trade embargo and freeze on Libyan government assets in U.S. banks, followed, in 1996, by the Iran and Libya Sanctions Act discouraging foreign investment in both countries' petroleum sectors. By most standards, these measures were ineffective.

Most of Libya's oil and oil-related exports, barred from the U.S. market, were redirected to Western Europe, with little loss of revenue. The 1986 freeze on Libya's assets cannot have hurt the economy much, because less than 2 percent of its overseas liquid investments came under U.S. jurisdiction.¹³⁸ The trade ban made it harder for Libya to modernize its oil fields, but the economy's stagnation through much of the 1980s and early to mid-1990s was more plausibly attributable to sluggish global oil prices. The Libyan economy also suffered from Qaddafi's economic experiments, by which the country's private sector was dismantled, while private ownership of the means of production and commerce was replaced by public ownership and a public distribution system.

In any case, the foreign policy goals of sanctions appeared elusive. Tripoli remained obstructive on Middle East peace; an undiminished commitment to terror included attacks on the Rome and Vienna airports in 1985, the 1986 bombing of a Berlin discotheque frequented by U.S. servicemen, and the 1988 attack on Pan Am flight 103 (and a similar attack on the French UTA 772 airliner in 1989). The 1986 U.S. bombing raids in retaliation for the discotheque

138. "Country Profile: Libya," *Economist Intelligence Unit* (London: Economist, 1986).

attack had little immediate effect, given that the Pan Am and UTA incidents occurred despite the military action. The Libyan regime persisted with its nuclear program.¹³⁹ UN-mandated sanctions had a stronger bite. In response to Lockerbie, the UN Security Council, in 1992, decreed a total arms and air embargo on Libya, banned the sale of petroleum equipment to the country, and froze its government assets abroad. Such comprehensive sanctions blocked Libya from substituting one market for another, whereas the embargo on petroleum-related equipment made it hard to renew and modernize its aging oil-extraction technology. One could argue that the combination of UN and U.S. sanctions gave the international community the leverage that made the subsequent quid pro quos effective.

Still, one must consider how the regime might have behaved absent sanctions. The claim that Libya's conduct would have been even worse assumes that regime misbehavior is driven by fixed incentives, which adequate punishments can offset. Such incentives, however, generally are shaped by the responses they evoke, so that there may be less or more that ultimately must be offset, raising the possibility that punishment can be counterproductive. In fact, sanctions may have bolstered Qaddafi's domestic position, as the international response validated some claims of his legitimizing narrative. According to Dirk Vandewalle, "Within its ideological framework, the confrontation with the West became a self-fulfilling prophecy [the Libyan regime] eagerly embraced as a vindication of its own ideological stance. It became a rallying point around which the revolution could be deepened internally."¹⁴⁰

DOMESTIC CHALLENGES AND REVISED PRIORITIES. By the late 1980s, the Libyan regime's ability to sustain its position on the basis of a rentier economy had been compromised. Neither oil prices nor Libyan GNP recorded meaningful growth; in the meantime, the population was growing rapidly. While economic problems mounted, the two main strands of the regime's legitimizing narrative—Arab nationalism and Qaddafi's Third Universal Theory—began to lose their credibility.

Eager to assume Nasser's mantle on behalf of the pan-Arab cause, the Libyan leader sought unification with several Arab nations, but none of his seven unification projects reached fruition.¹⁴¹ Libya's unwillingness to join the 1973 war against Israel chilled relations with Egypt and Syria. Several years

139. Wyn Q. Bowen, *Libya and Nuclear Proliferation: Stepping Back from the Brink*, Adelphi Papers, No. 380 (London: International Institute for Strategic Studies, 2006).

140. Dirk J. Vandewalle, *A History of Modern Libya* (New York: Cambridge University Press, 2006), p. 99.

141. These were the 1969 unification schemes with Egypt and Sudan, the 1971 project with Egypt and Syria, with Egypt again in 1972, with Algeria in 1973, with Chad in 1981, and with Morocco in 1984.

later, the Camp David accord terminated cooperation with Cairo. By the 1980s, Arab nationalism had ceased to be part of the Libyan regime's legitimizing narrative. The narrative's second strand was a political philosophy grandly titled the Third Universal Theory, described in Qaddafi's *Green Book*.¹⁴² The goal was direct democracy, the citizens ruling without intermediaries in a "state of the masses" (*jamahariya*). This vision of equality and attenuated hierarchy reflected a tribal ethos; in ideal implementation, it might have been popular, but the vision was tarnished by a less idyllic reality. Although economic disparities declined, the private sector's collapse undermined Libyan living standards and prospects for growth. Still, equality in poverty is a tenuous basis for regime legitimacy. The myth of direct democracy failed to carry conviction, as it became apparent that real power resided in a narrow circle of Qaddafi intimates.¹⁴³ The main arm of the regime became the Revolutionary Committees. Manned by young and motivated cadres, these functioned as a security apparatus and a vehicle for local indoctrination and mobilization.¹⁴⁴ To this were added various layers of intelligence and security services. The chasm between *jamahariya* theory and observed practice is unlikely to have escaped many Libyans.

Even these problems might have been absorbed had the Islamic establishment stood behind the regime. It did not. The *Green Book's* philosophy clashed with property rights and commerce, both endorsed by the Koran. Clerics were unimpressed when Qaddafi responded that "the *Green Book* is the gospel. The new Gospel. The gospel of the new era, the era of the masses."¹⁴⁵ Relations with the Islamic establishment were further strained by the Libyan leader's rejection of the hadith, the collected sayings of the Prophet Mohammed. Most ominously for the clerics, Qaddafi declared that the relationship between God and man required no caste of priestly intermediaries.¹⁴⁶

A reaction was apparent by the 1980s.¹⁴⁷ The Islamic Liberation Party and the Muslim Brotherhood emerged as committed sources of opposition. The Libyan Islamic Fighting Group, which made its first appearance in 1995,¹⁴⁸ and many of whose 2,500 members were former Afghan mujahideen, repeatedly clashed with Libyan security forces in the Benghazi region. As Etel Solingen

142. Muammar Qaddafi, *The Green Book* (London: Martin, Brian, and O'Keefe, 1976).

143. Vanderwalle, *A History of Modern Libya*, p. 119.

144. Library of Congress, *A Country Study: Libya* (Washington, D.C.: Government Printing Office, 1989), chap. 4.

145. Oriana Fallaci, "An Interview with Colonel Muammar al-Qaddafi of Libya," *New York Times Magazine*, December 16, 1979, p. 17.

146. Ronald Bruce St. John, "The Ideology of Mu'ammār Al-Qadhafi: Theory and Practice," *International Journal of Middle East Studies*, Vol. 15, No. 4 (November 1983), p. 476.

147. George Joffe, "Islamic Opposition in Libya," *Third World Quarterly*, Vol. 10, No. 2 (April 1988), pp. 615–631.

148. Luis Martinez, *The Libyan Paradox* (New York: Columbia University Press, 2007), p. 61.

has explained, "The declining legitimacy of Qadhafi's inward-looking model revived domestic groups interested in ending international isolation."¹⁴⁹ Reinvigorated legitimacy required that the interests of such groups be addressed. Tentative reforms in the late 1980s included curtailing the power of the unpopular Revolutionary Committees and some economic liberalization. The ban on retail trade was rescinded; private shops and farmers' markets reappeared.¹⁵⁰ A reduction in the number of state-owned enterprises and public employees was proposed in 1990. New laws theoretically allowed joint stock and private companies.

Had these reforms been fully implemented, significant interests associated with market activities might have emerged, rejecting radicalism and seeking involvement with the international economy. Instead the reforms languished, partly because of uncertainties and economic pressures implied by the 1992 multilateral sanctions. According to Luis Martinez, the "process of economic liberalization came to a halt . . . with the United Nations Security Council's decision to impose sanctions on Libya."¹⁵¹

The regime's position did not improve during the 1990s. In addition to several attempted military coups,¹⁵² radical Islamists became more assertive, frequently clashing with regime security forces.¹⁵³ Unemployment rates reached 30 percent, as the population's average age dropped to twenty-four,¹⁵⁴ adding the threat of student unrest to that of Islamist and military discontent.¹⁵⁵

Now, Libyan conduct was mixed. In 1999 Qaddafi denounced terrorism,¹⁵⁶ closing Libya's terrorist training camps. Libyan obstructionism in the Middle East abated when Qaddafi recognized the Palestine Authority as the sole legitimate voice of the Palestinian people. At the same time, this was a period of accelerated nuclear programs and deals with Abdul Qadeer Khan's Pakistan-based network. From 1999 to 2002, Libya progressed down the gas centrifuge path to enriched uranium.¹⁵⁷ Mixed messages went hand-in-hand with a likely realization that the regime's domestic position was not as secure as before.

149. Etel Solingen, *Nuclear Logics: Contrasting Paths in East Asia and the Middle East* (Princeton, N.J.: Princeton University Press, 2007), p. 192.

150. Vandewalle, *A History of Modern Libya*, pp. 64–66.

151. Martinez, *The Libyan Paradox*, p. 17.

152. *Ibid.*, pp. 93–95.

153. Takeyh, "Qaddafi's Libya and the Prospect of Islamic Succession."

154. Central Intelligence Agency, *The World Factbook, 2009*, <https://www.cia.gov/library/publications/the-world-factbook/>.

155. Patrick E. Tyler, "Libyan Stagnation a Big Factor in Qaddafi Surprise," *New York Times*, January 8, 2004.

156. "Libya Denounces Terrorism," *BBC World News*, December 12, 1999.

157. Bowen, "Libya and Nuclear Proliferation," pp. 39–41.

THE LIMITS OF DOMESTIC TRANSFORMATION

By the mid-1990s, confrontation was brewing between pragmatic moderates, who urged economic reforms and foreign investment, and radicals steeped in revolutionary values.¹⁵⁸ The former gained the ear of Qaddafi, who purged the Revolutionary Committees, increasingly despised by the Libyan public. These also were years of economic reform. In 1999, secret negotiations with the United Kingdom and the United States were launched, followed by Qaddafi's statement discarding the anti-imperialist struggle in favor of more pragmatic priorities. "Now is the era of the economy, consumption, and investments," he proclaimed. "This is what unites people irrespective of language, religion, and nationalities."¹⁵⁹

The Libyan experience casts light on both the exchange and the catalytic models. With regard to the former, it illustrates how inducements can work. Finite demands were made of the regime, with regard to the Lockerbie affair and Libya's WMD programs. Inducements were similarly specific and carried the promise of economic reengagement with European trading partners and the United States. Some probing, especially on Libya's part, was needed to clarify what concessions it would need to make, which would have been difficult absent negotiations.¹⁶⁰ These made it possible to ensure the credibility of commitments, especially once Libya agreed to intrusive WMD verifications measures, and once compensation was disbursed in the case of the Lockerbie settlement.

Broader questions with less conclusive answers are involved where catalytic effects are concerned. Plainly, economic links with other countries and domestic economic reforms were reciprocally strengthened. After 2003, foreign trading partners and investors galvanized several sectors of the Libyan economy, with major investors including Britain, France, Italy, and the United States. Most foreign investment flowed into the hydrocarbons sector, which accounts for some 95 percent of the country's export earnings and 60 percent of GDP.¹⁶¹ Some investment, both foreign and domestic, has bolstered the nation's crumbling infrastructure.¹⁶² This has been coupled with efforts at privatization (which, as yet, have not affected the oil and natural gas sectors). The banking system has been reformed and state subsidies reduced. Libya has applied for WTO membership.

158. Ray Takeyh, "The Rogue Who Came in from the Cold," *Foreign Affairs*, Vol. 80, No. 3 (May/June 2001), p. 66.

159. *Ibid.*

160. Jonathan B. Schwartz, "Dealing with a 'Rogue State': The Libya Precedent," *American Journal of International Law*, Vol. 101, No. 3 (July 2007), p. 553.

161. Central Intelligence Agency, *The World Factbook*, 2009.

162. "Libya Attracts Foreign Business," *Forbes*, September 18, 2008, pp. 11–14.

Although reintegration into the international community has had a desirable catalytic impact on Libya, political reform has lagged behind economic change. Despite talk of reforming the penal code and abolishing the much-feared People's Courts, the former has not been done, and the latter have been replaced by the similarly conceived State Security Appeals Court.¹⁶³ Human rights have not improved much, and there is no talk of ushering in authentically democratic institutions. Meanwhile the country's structure of political authority makes it unlikely that Libya's international postures will soon reflect the preferences of its most liberal segments. Rather, the hope is that its foreign policies will reflect the economic interests of those empowered by the reforms, which in turn will reflect the links forged with foreign economies.

Oil and natural gas continue to dominate the economy and, in this area, Libya remains an attractive venue for foreign investment, with its relatively low-cost oil production, proximity to European markets, and largely unexplored and underexploited petroleum resources. Tourism is another economic area that requires cordial relations with the rest of the world: it may become a significant part of the non-oil economy with the vested interests this implies. Although no more than 130,000 tourists currently visit Libya each year, the hope is that, with proper infrastructural development and advertising, the figure could reach 10 million; considerable investment is being directed toward that end.¹⁶⁴

The goal should be to solidify, as much as possible, Libya's links to the international economy and the position of those who welcome such links.

Conclusion

This article has sought to extend scholarly thinking on positive incentives, offering a theoretical framework within which to view their potential as instruments of foreign policy, and comparing the record of both punitive pressures and inducements with regard to three of the United States' most troubling post-Cold War adversaries. Two paths were suggested through which inducements might achieve their objectives: through providing specific quid pro quos and, more ambitiously, by catalyzing desirable internal change (the latter, most often, sequentially following the former). Success, in either case, depends not only on the nature of the concession offered but also on domestic political circumstances within the recipient nation, a state of unstable regime equilibrium boding best for success.

163. Fred Abrahams, "Human Rights in Libya," *New Statesman*, January 14, 2008, pp. 18–31.

164. See "Libya Sees Thriving Tourism Industry Ahead," *MSNBC*, October 10, 1999. See also Mike Donkin, "Libya's Tourist Treasures," *BBC World News*, July 23, 2005.

The policies of North Korea, Iran, and Libya, and the way each country has responded to external punishment, are generally consistent with the hypotheses suggested by the theoretical framework. In none of the cases has a pure strategy of threats and sanctions produced the desired transformations. In the case of North Korea, and within the context of the exchange model, only incentives deemed sufficient and credible have led to significant progress, whereas Pyongyang's interest in concessions, always limited, has been partly linked to domestic political challenges. However, given the regime's apparent calculus that support from the nation's hard-line military has not been exhausted, and the need for this support to ensure dynastic continuity, neither negative nor positive measures may ultimately alter its conduct in the short term. Despite the failed search for *quid pro quos* with North Korea, the most plausible political transformation here, an embrace of Market Leninism, could be encouraged by positive engagement. In the Iranian case, receptivity to inducements has also been greatest when domestic political stability seemed tenuous, decreasing as it improved. Here, however, U.S. incentives have been modest, generally failing the standard of sufficiency and offered during politically less propitious periods, virtually ensuring that significant counterconcessions would not be forthcoming. It is also necessary, in this case, to consider how external incentives could produce a beneficial catalytic effect. Although the immediate outlook in the Iranian case is worse than it once was, unrest following the 2009 presidential election may portend a change in the political circumstances surrounding regime behavior. With Libya, inducements were a key to the successful bargaining process that eventually led to its renunciation of terrorism and weapons of mass destruction, and they had a welcome, if so far limited, catalytic effect on regime priorities.

One might ask whether, if internal instability improves receptivity to positive incentives, one ought not to embrace negative pressures, as a way of creating the conditions for internal instability within renegade regimes, thus improving the subsequent outlook for successful inducements. Sometimes this will work; the problem is that a regime's domestic position may benefit from such pressures, at least in the short run. This counterproductive result could be reversed in the longer term, as domestic dissatisfaction produced by externally imposed deprivations come to imperil the regime, but, as the North Korea, Iran, and Libya cases demonstrate, the long term may be long indeed, and many dangers fester in the meantime. Another problem is that if coercive measures appear to weaken the regime, if only to a limited extent, a transition to positive inducements could be politically impossible, as proponents of threats and sanctions point to their apparently beneficial effects. Further cycles of mutually threatening behavior with no satisfactory resolution become probable. At the same time, as pointed out in the general discussion of the catalytic

model, there may be occasions when the gulf between the regime and all but its traditionally staunchest supporters is so great as to preclude a search for new sources of support, while the political benefits to be garnered from foreign responses to renegade behavior have been exhausted—under the circumstances, negative pressures may harm the interests of regime supporters while providing no domestic benefits, thus causing the government to reconsider its policies. This combination of conditions, and its foreign policy implications, would benefit from closer academic scrutiny.

Positive inducements to adversaries encounter political resistance within the United States. Apart from concerns that reduced costs to renegade behavior make such behavior more likely, psychological mechanisms involved with cognitive dissonance foster convictions that “bad” (i.e., punitive) means are appropriate when dealing with “bad” parties.¹⁶⁵ In any case, U.S. political history suggests greater electoral costs for policies deemed overly conciliatory toward adversaries than for those that appear excessively harsh.¹⁶⁶ Several conditions must be met for inducements to be feasible in terms of domestic politics. At times, an even more threatening rival may confront the United States, the lesser adversary appearing a desirable counterweight, which, through positive inducements, can be brought to one’s side. Thus, the initial U.S. policy of rapprochement toward China owed much to a perceived need to offset Soviet power. Similarly, conciliatory policies toward Iraq, under the Reagan administration, had much to do with balancing Khomeini’s Iran. At times, too, the sheer weight of the evidence that coercive policies do not work may weaken arguments on behalf of their value. For example, the failure of five decades of punitive policies toward Castro’s Cuba finally seems to be revising conceptions of how best to deal with that regime.¹⁶⁷ It is also possible that the sheer magnitude of a threat and the virtual impossibility of dealing with it coercively could impel a change of position (as might eventually be the case with a nuclear-armed Iran). In any case, a presidential administration in its second term is usually better positioned to absorb the domestic risks of positive engagement, as is an administration with strong support in both houses of Congress.

Although much must happen before positive inducements can become effective and politically feasible tools of U.S. foreign policy, political science

165. Joel Cooper, *Cognitive Dissonance: Fifty Years of a Classic Theory* (Los Angeles, Calif.: Sage, 2007).

166. See, for example, Miroslav Nincic, “U.S. Soviet Policy and the Electoral Connection,” *World Politics*, Vol. 42, No. 3 (April 1990), pp. 370–396.

167. U.S. Senate Committee on Foreign Relations, *Changing Cuba Policy—In the United States National Interest* (Washington, D.C.: Government Printing Office, February 23, 2009).

would benefit from increased attention to the manner in which such strategies can contribute to a more secure international community. Because more is generally understood about the logic of bargaining and exchange than about ways of inducing domestic political transformations from abroad, a starting point might be to trace the causal mechanisms involved in greater analytic detail than allowed by the preliminary character of this study. Also, it would be wise for policymakers to be more aware of the counterproductive consequences of many coercive measures.