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THESIS

COVERT COERCION: A FORMAL ANALYSIS OF UNCONVENTIONAL WARFARE AS AN INTERSTATE COERCIVE POLICY OPTION

by

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13. ABSTRACT (maximum 200 words)

In the current global environment, interstate coercion methods are used to compel behavior modification amongst state and state-sponsored actors. Traditional compellence is commonly considered in its overt, diplomatic manifestation. However, in the age of low-intensity conflict where domestic and international exigencies often constrain U.S. coercive policy options, covert methods in the form of unconventional warfare, subversion, sabotage and other associated paramilitary and political actions are occasionally pursued as the means to support the U.S.'s coercive overtures. Under the rubric of covert coercion there are state-level decision frames, strategies, and resistance force alliance conditions that contribute to either the success or failure of covert coercion ventures that utilize unconventional warfare approaches. This analysis utilizes game theoretic models, as well as insights from prospect theory, to explain the conditions under which unconventional warfare could prove a viable U.S. coercive policy option.

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ABSTRACT

In the current global environment, interstate coercion methods are used to compel behavior modification amongst state and state-sponsored actors. Traditional compellence is commonly considered in its overt, diplomatic manifestation. However, in the age of low-intensity conflict where domestic and international exigencies often constrain U.S. coercive policy options, covert methods in the form of unconventional warfare, subversion, sabotage and other associated paramilitary and political actions are occasionally pursued as the means to support the U.S.'s coercive overtures. Under the rubric of covert coercion there are state-level decision frames, strategies, and resistance force alliance conditions that contribute to either the success or failure of covert coercion ventures that utilize unconventional warfare approaches. This analysis utilizes game theoretic models, as well as insights from prospect theory, to explain the conditions under which unconventional warfare could prove a viable U.S. coercive policy option.

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LIST OF ACRONYMS AND ABBREVIATIONS

CIA	Central Intelligence Agency
COIN	Counter-Insurgency
ICBM	Inter-Continental Ballistic Missile
ISCI	Islamic Supreme Council of Iraq
IW	Irregular Warfare
MEU	Maximizing Expected Utility
PKK	Partiya Karkerên Kurdistan (Kurdistan Workers' Party)
PRC	People's Republic of China
SCIRI	Supreme Council for Islamic Revolution in Iraq
SF	Special Forces
SOCOM	Special Operations Command
SOF	Special Operations Forces
UN	United Nations
USSR	Union of Soviet Socialist Republics (abbreviated as Soviet Union)
UW	Unconventional Warfare
WWII	World War II
WMD	Weapons of Mass Destruction

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I.   INTRODUCTION

"War is thus an act of force to compel our enemy to do our will."

—Carl von Clausewitz[1]

A.   BACKGROUND

The ideas of coercion and compellence are not new. Ever since man has had the ability to organize himself into tribes, cities, nations, and Westphalian state institutions, the use of force—or threats of force—has been used to compel an adversary to bend to one's will. It is the very definition of war itself according to the renowned war theorist Carl von Clausewitz, and war is said to be as old as antiquity. However, the modern manifestation of compellence through coercive diplomacy merits further examination. It is widely recognized among Cold War deterrence theorists such as Thomas Schelling that World War II and the advent of the atomic bomb drastically changed the ways and means of interstate compellence given man's accelerated and awesome capacity of mass destruction.[2] As the concept of nuclear deterrence evolved so did the coercive methods that the U.S. employed to counter its adversary, the Soviet Union, in the then bi-polar interstate system.

The appetite for mass destruction waned in the aftermath of World War II, but the need for compellence was as great as ever for the U.S. in its efforts to counterbalance the Soviet Union's communist influence. As the Cold War matured so did the U.S.'s approach. Then U.S. President Harry Truman was confronted with the communist expansionist threat posed by both the Soviet Union and Mao Tse-Tung's grassroots communist revolution that was rapidly spreading its influence throughout Southeast Asia. By 1948 significant portions of Asia and Eastern Europe were starting to turn red and Truman needed a policy to counter the perceived communist threat without provoking a nuclear World War III. Truman found such a policy in political scientist George

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[1] Carl von Clausewitz, *On War* (Prussia: circa 1780–1831, repr. with ed., trans., and preface notes by Michael Howard and Peter Paret, Princeton, New Jersey: University of Princeton Press, 1989), 75. Kindle edition.

[2] Thomas C. Schelling, *Arms and Influence* (New Haven, Connecticut: Yale University Press, 1966), 18–26.

Kennan's "containment" telegraph. Containment sought to prevent the further expansion of communism by developing a sphere of democratic influence in strategic states at risk to communist expansionism. However, containment was not enough to compel change in communist affected areas. The containment policy eventually evolved into a "roll-back" policy under President Dwight Eisenhower in an effort to take back states that had already turned to communism. Central to both the "containment" and "roll-back" policies were the necessitated activities identified within covert action.[3]

President Truman institutionalized covert action when he signed the National Security Council Directive 10/2 to establish to Office of Special Projects to be managed by the Central Intelligence Agency on June 18, 1948. This directive was significant in expanding the CIA's authorities from intelligence collection, analysis, and propaganda to direct and forcible intervention in another state's affairs.[4] According to the directive, covert action was defined as:

> … propaganda, economic warfare; preventative direct action, including sabotage, anti-sabotage, demolition and evacuation measures; subversion against hostile states, including assistance to underground resistance movements, guerrillas and refugee liberations groups, and support of indigenous anti-communist elements in threatened countries of the free-world.[5]

Covert action's inception as an instrument of U.S. compellence policy was novel in the U.S.'s adolescent history given the long-standing preference for mass and firepower in support of annihilation or attrition warfare strategies in the American military tradition.[6] Since its establishment, covert action has had a profound effect on the way the now hegemonic U.S. views its menu of coercive options. Why has covert action sometimes worked magnificently as a form of compellence in certain situations while it

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[3] John Jacob Nutter, *The CIA's Black Ops: Covert Action, Foreign Policy, and Democracy* (Amherst, New York: Prometheus Books, 2000), 39.

[4] Gregory F. Treverton, *Intelligence for an Age of Terror* (New York: Cambridge University Press, 2009), 210.

[5] National Security Council Directive 10/2, *National Security Council directive on Office of Special Projects* (Washington, DC: National Security Council, 1948), sec. 5.

[6] Russell F. Weigley, *The American Way of War: A History of United States Military Strategy and Policy* (Bloomington, Indiana: Indiana University Press, 1977), 17, 141, 317.

failed miserably in others? Is covert action even a viable coercive option in the contemporary interstate system? If so, why would covert action be preferred to traditional overt coercive diplomacy? It was these questions that led me to this project—an analysis of covert coercion.

B. THESIS PURPOSE AND SCOPE

The purpose of this thesis is to examine the use of unconventional warfare as a covert coercive policy option of the U.S.. Specifically, this thesis will attempt to model the interrelation of state-level decision frames, strategies, and resistance force alliance conditions that contribute to either the success or failure of a covert coercion venture that utilizes unconventional warfare approaches.

The conceptual scope of the thesis will focus on the use of UW as an instrument of interstate compellence. Specifically, the scope of the research and analysis will define and analyze a descriptive decision theory for understanding the conditions under which a UW campaign is both preferred and likely to be effective as a U.S. coercive policy option against another state actor. The two principal characteristics in support of this aim are: (1) the decision frames of the state actors, and (2) the U.S.'s perceived utility payoff of pursuing a covert coercion policy juxtaposed with the utility payoffs associated with the coerced state's ability and willingness to mollify the U.S. and/or insurgency through concessions in response to covert coercion. The UW definition that I will utilize within this scope is USSOCOM's active definition derived from the U.S. Army Special Forces Unconventional Warfare manual.[7]

C. RESEARCH QUESTION

This thesis intends to answer the following question in an effort to analyze the strategic utility and feasibility of covert coercion: *What decision frames and political*

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[7] U.S. Department of the Army, *Special Forces Unconventional Warfare, TC 18–01* (General Dennis J. Reimer Training and Doctrine Digital Library, 2011) accessed March 22, 2012, https://armypubs.us.army.mil/doctrine/DR_pubs/dr_c/pdf/tc18_01.pdf. TC18–01 defines unconventional warfare as, "Activities conducted to enable a resistance movement or insurgency to coerce, disrupt, or overthrow a government or occupying power by operating through or with an underground, auxiliary, and guerrilla force in a denied area."

conditions are necessary to establish covert coercion by means of unconventional warfare as a viable United States coercive policy option? This question allows for the broadening of U.S. compellence policy options while realistically and responsibly accounting for the risk and costs associated with likely UW coercion outcomes.

D.   THEORETICAL FRAMEWORK

The two hypotheses and corresponding warrant (assumption) identified as critical to test in the pursuit of the thesis research question resultant from the literature review are:

Hypothesis 1: The decision frames of the coercion actors largely determine the success or failure of covert coercion.

> **Hypothesis 1.a:** Domestic and international political constraints, probabilities of outcomes, and perceptions of prestige and legitimacy determine an actor's decision frame.

> **Hypothesis 1.b:** A state actor's decision frame is determinant in which coercion/response strategy the actor pursues.

> **Hypothesis 1.c:** The decision frames of the coercion actors can change through time.[8]

Hypothesis 2: A coerced state must have room to make concessions.[9]

> **Hypothesis 2.a:** If covert coercion targets a rogue state's gains (i.e., occupation of a third party state), it will be more likely to compel behavior modification, or gain concessions.

> **Hypothesis 2.b:** If covert coercion targets a rogue state's losses (i.e., threatening overthrow/regime change), where the rogue state is less able to make concessions, compellence will likely not be achieved.

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[8] The idea that decision frames change through time is based upon the Bayesian interpretation of Bayes' theorem. In principle, Bayes' theorem holds that a decision maker will update probabilities ascribed to event outcomes as new information is made known to the decision maker. See Ian Hacking, "Slightly More Realistic Personal Probability," in *Decision, Probability, and Utility: Selected Readings*, ed. by Peter Gardenfors and Nils-Eric Sahlin, 118–35 (New York: Cambridge University Press, 1988), 123.

[9] Daniel Kahneman and Amos Tversky's prospect theory is the underpinning premise for this hypothesis. Prospect theory and its relation to decision frames is discussed at length in Chapter III. See Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica* 47, no. 2 (March 1979): 263–92, accessed March 11, 2012, http://www.jstor.org/stable/1914185.

Assumption: All covert proxy force actions eventually become known. While the secrecy of the sponsor for a covert paramilitary or political action may remain veiled for a time, all covert actions using proxy forces become overt, or known, over time.[10]

E.   METHODOLOGY

This thesis will use Game theoretic analysis to explain the interrelation between the two principal actors involved in covert coercion by means of UW: the U.S. and a targeted rogue state.[11] This logical approach will allow for the advancement in the theory of covert coercion as it pertains to the nexus of the actors involved. The strength of utilizing game theory as the method for analysis is that game theory allows for cognizable, yet relatively simplistic, modeling of total and partial inter-actor conflict where the actors are assumed to be rational, however the outcomes of the conflict are dependent upon which strategy each actor pursues simultaneously or sequentially. Consequently, game theory conflict modeling has traditionally been advantageous in examining interstate conflict scenarios dating back to the Cold War era.[12] Given that covert coercion is an interstate conflict policy option, it is logical to analyze covert coercion's efficacy through the lens of game theory. Admittedly, the primary weakness associated with this method is the subjective cardinal value interval scaling used to model the decision behavior of the principal actors, which is resultant from the author's subjective assumptions extrapolated from various historical UW case literatures. This issue will be addressed by basing each of the game assumptions on grounded theoretical and empirical research, thereby lending greater credibility to each game analyzed.

F.   ORGANIZATION OF THE THESIS/CHAPTER OVERVIEW

In Chapter II the idea of covert coercion will be introduced and defined in detail. The aim of this chapter is to familiarize the reader with the strengths and weaknesses of

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[10] Nutter, *The CIA's Black Ops*, 167.

[11] For the purposes of this thesis, the proxy resistance force through which the U.S. is able to achieve a covert coercive effect will not be analyzed as a principal actor. However, the resistance force's power to undermine the efforts of either the U.S. or the rogue state are not to be understated and should be a consideration for future coercion game theory models and research.

[12] Frank C. Zagare, "Game Theory and Security Studies," in *Security Studies: An Introduction,* edited by Paul D. Williams, 44–58 (London: Routledge, 2008), 46, 53.

covert coercion vis-à-vis traditional overt coercive diplomacy to establish contrast between the two coercive strategies for game theory analysis. Chapter III will introduce Decision, Prospect, and Game theories, which are the foundational theories for the models of coercion conflict that this thesis is predicated upon. Additionally, game theory modeling will be introduced and discussed in the context of coercion conflict. Coercion game assumptions and a game model will be constructed, analyzed and outcomes explained in Chapter IV. The model's outcomes will be compared to select historical overt and covert coercion cases to substantiate the findings.

II.   COVERT COERCION: A VIABLE EXTENSION OF COERCIVE DIPLOMACY?

"All military actions are means to achieve certain political objectives, while military action itself is a manifested form of politics."

—Mao Tse-tung[13]

Coercive diplomacy and covert action have sometimes been thought of as two separate or mutually exclusive strokes of foreign policy. Perhaps this perception stems from the lack of discernment that some state policy makers, military or intelligence officials collectively share from the limited understanding of actions conducted by different organizations and bureaucrats, in part due to the secretive nature of the decision processes and the operations themselves. Moreover, conceivably the very nature of their definitions and operationalization suggests that coercive diplomacy and covert action are so contradistinctive that they cannot possibly be thought of as inclusive, much less one an extension of the other. After all, by definition covert action seeks to mask the identity of the state actor that sponsored a specific, or series, of antithetical actions towards another state actor; whereas, coercive diplomacy is used as a bargaining strategy amongst state actors, and as such requires an overtness to effectively communicate their messages to affect the other's decision behavior or actions.[14,15,16] Nevertheless, most aims of covert action seek to inflict some form of coercive effect on another state actor to dissuade or modify their behavior. Why is it then that the two entities are sometimes separated completely? Are coercive diplomacy and covert action really that incompatible, or are there instances where the two can work in concert with each other as a form of covert coercion (a compound of the two terms)? More pointedly, in this chapter I will seek to

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[13] Mao Tse-tung as cited by Christopher Felix, *A Short Course in the Secret War*, 4th ed. (New York: Madison Books, 2001), 139.

[14] Bruce Bueno de Mesquita et al., *The Logic of Political Survival* (Cambridge, Massachusetts: The MIT Press, 2003), 221. Kindle edition.

[15] David Tucker and Christopher J. Lamb, *United States Special Operations Forces*, (New York: Columbia University Press, 2007), 168.

[16] Paul Gordon Lauren, Gordon A. Craig, and Alexander L. George, *Force and Statecraft: Diplomatic Challenges of Our Time,* 4th ed. (New York: Oxford University Press, 2007), 200.

outline the U.S.'s primary coercive strategies as I attempt to answer the question: *Under what conditions might covert coercive diplomacy be used as a viable coercive policy option between two state actors in the current interstate system?* In my effort to answer this question I will analyze both coercive diplomacy and covert action separately, and will then proffer considerations as to when covert coercive diplomacy might be a viable option for policy makers.

A.   COERCIVE DIPLOMACY

Several political and military philosophers, both historical and modern, have postulated on ideas surrounding coercive diplomacy as it pertains to the use of force and statecraft, but coercive diplomacy's theory has become tricky to manipulate effectively with the advent of weapons of mass destruction enabled by technological advances.[17] This technological revolution in destruction has forced policy makers to carefully consider ideas involved in threats and use of force in statecraft.[18] The danger amongst modern state powers in the nuclear age is using too strong of a threat that they are not prepared to back up with the use of force, either rendering the threat impotent or leading to an unintended escalation containing the inconceivable consequences of mutual destruction.

Schelling offered a very discerning insight into the conceptual centralities that are at work in interstate coercion. In his work *Arms and Influence*, Schelling makes the distinction between deterrence as a *defensive* policy action and compellence as an *offensive* one, albeit both may be achieved through coercive methods such as threats of force or its actual use. Moreover, coercive deterrence seeks to *prevent* or *dissuade* a state from pursuing an action that is counter to the coercing state's preferences; whereas, coercive compellence *forces* an enemy state to retreat from an action or present course in policy that is counter to the coercing state's desires.[19] Ergo, Schelling perceives both deterrence and compellence to be similar, but nonetheless distinguishable manifestations

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[17] Lauren, Craig, and George, *Force and Statecraft*, 199.

[18] Lauren, Craig, and George, *Force and Statecraft*, 199.

[19] Schelling*, Arms and Influence*, 70–1.

of coercion. Coercion itself may then be defined as the use of threats of force, or some form of force itself to either deter or compel another state actor to comply with the coercing state's preferences.

As one would intuitively assume, coercive diplomacy has two sides to its characterization: coercion and diplomacy. As Schelling aptly describes it, "Diplomacy is bargaining; it seeks outcomes that, though not ideal for either party, are better for both than some of the alternatives."[20] The adjective in the compound term, coercive, speaks to the conditions or means by which the bargaining position is leveraged. Coercive diplomacy's ultimate aim is the influence of another state actor's behavior or decision logic. Again, Schelling articulates this concept masterfully:

> To inflict suffering gains nothing and saves nothing directly; it can only make people behave to avoid it. The only purpose, unless sport or revenge, must be to influence somebody's behavior, to coerce his decision or choice. To be coercive, violence has to be anticipated. And it has to be avoidable by accommodation. The power to hurt is bargaining power. To exploit it is diplomacy—vicious diplomacy, but diplomacy.[21]

Suppositions derived from these descriptions may lead one to assume that coercive diplomacy in its most laconic form is a "diplomatic strategy backed by the threat of force."[22]

For coercive diplomacy to be used effectively, there are axiomatic principles, similar to those used in deterrence theory, which should be respected in coercive diplomacy's application. First, the coercing state must effectively communicate to its opposition that there is an asymmetry in motivation pertaining to a posture or decision the coercing state is attempting to affect.[23] Second, the opponent state must perceive that the coercing state has both the *capability* to act on its communicated threats and that the threat itself is *credible*.[24] Third, careful attention should be given to what it is that the

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[20] Schelling, *Arms and Influence*, 1.

[21] Schelling, *Arms and Influence*, 2.

[22] Lauren, Craig, and George, *Force and Statecraft*, 201.

[23] Lauren, Craig, and George, *Force and Statecraft*, 201.

[24] Lauren, Craig, and George, *Force and Statecraft*, 202.

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coercing state is demanding from the opponent state. In their book *Force and Statecraft*, Paul Lauren, Gordon Craig, and Alexander George amplify, "The demand that an adversary *stop* a particular course of action requires appreciably less than a demand to *undo* whatever has already been gained at the cost of time, money, and perhaps even lives."[25]   Fourth, a coercing state's use of positive incentives in conjunction with the coercive threats can have a powerful effect on the opponent state's motivation; restated, the use of the 'carrot' in conjunction with the 'stick' may have a more profound influence on the opponent state's decision reasoning.[26] Lastly, practitioners of coercive diplomacy should consider what kind of time constraints to impose upon their opponents to meet the coercing state's demands. The coercing state can attempt to force its opponent to respond to coercive threats quickly by constraining the demanded timeline, thereby forcing the opponent into a crisis situation; or, the coercing state may seek a 'try-and-see' approach that allows more time for communication and provides it the opportunity to lend credibility to the communicated threat by gradually tightening the screws of coercion through a tiered progression of force.[27]

When searching for a modern historical example in which coercive diplomacy was applied, we find an interesting case study analyzed by Frank Harvey and Patrick James in their work *Deterrence and Compellence in Iraq, 1991–2003*. In its pages, the authors chronicle the decade long volley of coercive diplomacy exchanges between the United States (U.S.) and Iraq. In their conclusion, Harvey and James proffer the key observation that each of the diplomatic exchanges involved multiple actors and iterations across a complex global security environment.[28] As the U.S. continually sought to communicate the credibility of its threats, it relied heavily on the acquisition of international legitimacy through the United Nations (UN) to substantiate its coercive threats. This in turn led to the misperception by Iraq that "legitimacy" and the

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[25] Lauren, Craig, and George, *Force and Statecraft*, 202.

[26] Lauren, Craig, and George, *Force and Statecraft*, 202.

[27] Lauren, Craig, and George, *Force and Statecraft*, 202–3.

[28] Frank P. Harvey and Patrick James, "Deterrence and Compellence in Iraq, 1991–2003: Lessons for a Complex Paradigm," in *Complex Deterrence: Strategy in the Global Age*, edited by T.V. Paul, Patrick M. Morgan, and James J. Wirtz, 222–56 (Chicago: The University of Chicago Press, 2009), 245, 249–50.

"credibility" of the threat are one and the same, which ultimately caused Iraq to not take the U.S. threat seriously. This miscalculation ultimately led to the failure of coercive diplomacy, the demise of Iraq's leadership, and it underscored the constraints—the largest constraint being the collection of an international consensus to legitimize a state's use of force—that state actors operate under in the contemporary interstate system. It is these constraints that cause states to circumvent the legitimizing process in the interstate system as they work to achieve a coercive effect while avoiding the bureaucratic red tape that accompanies overt diplomacy. This then, is the appeal of a covert action strategy.

B.   COVERT ACTION

Covert action in its practice is nothing new. It is an art as old as antiquity, and its modern purpose is not all that different from its ancient form. Covert action seeks to use principles of applied force closely associated with acts of war without having to formally declare it, and subsequently undergo the bureaucratic process at the domestic and international levels inherent of making such a formal declaration. Though there are several allures towards covert action's raison d`être, John Nutter speaks to covert action's principle seductive attraction in his book *The CIA's Black Ops*:

> The attraction of covert action is probably inherent in (the U.S.'s) system of government. Power is diffuse, and presidential problems tend to be complex and full of uncertainty. Covert action promises a simple, or "clean," solution to the problem. It is one of the few exercises of power that is largely held within the sole purview of the executive, avoiding the need for messy, unsatisfying compromises and the need to answer hard questions from congressional committees. ... Finally, covert action offers the benefit of limited accountability, for even if it fails, one cannot, presumably, be blamed.[29]

In the same book, Nutter defines covert action as, "an operation intended to change the political policies, actors, or institutions of another country, performed so that the covert actor's role is not apparent, and if that role is discovered, the actor can claim he was not involved (this is called *plausible deniability*)."[30]   David Tucker and

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[29] Nutter, *The CIA's Black Ops*, 38.

[30] Nutter, *The CIA's Black Ops*, 19.

Christopher Lamb also offer a sound definition for the term and its close associates, clandestine and paramilitary:

> "Clandestine" typically means the operation itself is hidden in order to increase its chances of success, and "covert" means the identity of those carrying out the operations and the nation they represent are hidden, or at least plausibly deniable. Operations can be both clandestine and covert, and often are. Paramilitary typically refers to covert military operations.[31]

Lastly, speaking to covert action's purpose, W. Michael Reisman and James Baker offer a similar and parallel description in their book *Regulating Covert Action*:

> The covert use of the various instruments of strategy, whether proactively or reactively (for self-defense or as a countermeasure), with *the intention of inducing a target to modulate its behavior in ways that henceforth discriminate in favor of the state using the strategy* [my italics], will, we believe, continue to be used. … They appear, alas, to be part of contemporary international politics.[32]

In the above definitions and descriptions of the terminology, the reader may notice that there are similarities between the characterizations of covert action and coercive diplomacy. Both methods seek to change the behavior of its opponent at the interstate level; moreover, both seek to achieve behavior modification through some manifestation of coercion. However, the greatest dissimilarity lies in the word 'covert' itself. By definition, the action(s) that the word covert describes is to be non-attributing thereby giving the sponsor of the actions plausible deniability. Herein lay the paradox between coercive diplomacy, which requires effective and frequent communication of a threat to achieve a bargaining advantage, and covert action, the plausible coercive instrument that may lend credibility to the coercive threat but the action itself cannot be publicly claimed. So how might the two still be used together to achieve the same desired outcome? The answer, I believe, lies in another paradoxical truism which is that almost all paramilitary covert operations do not remain indefinitely covert.[33] Nutter supports

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[31] Tucker and Lamb, *United States Special Operations Forces*, 168.

[32] W. Michael Reisman and James E. Baker, *Regulating Covert Action: Practices, Contexts, and Policies of Covert Coercion Abroad in International and American Law* (New Haven, Connecticut: Yale University Press, 1992), 136 (my italics).

[33] This is the assumption outlined in the Introduction chapter.

this idea in the context of supporting surrogate forces, "If there is an ironclad lesson from the secret wars of the last fifty years, it is that these operations always come into the light of day."[34] Christopher Felix asserts the same point concerning covert political operations also known as state sponsored insurgency—known in the U.S. as *unconventional warfare*—in his book *A Short Course in the Secret War*, "Taken as a whole, unconventional warfare is a political operation, initially covert, then clandestine, and finally overt."[35]

Although seemingly counterintuitive, the points that these two authors raise suggest that since most forcible covert operations usually wind up overt in the end, the coercing state will then likely have to approach each operation as if it were being conducted overtly to use covert action responsibly. Critics of this idea may then argue what the point of covert action is then if the sponsor cannot remain entirely secretive? The answer is fairly straightforward; it allows the president, or similar leader, to fight an undeclared war on the cheap. Undeclared in the sense that the leader did not have to go to any extended effort to secure domestic and international support to generate a formal declaration of war; and cheap in the connotation that if the covert action is conducted on a larger scale to induce a greater coercive effect, then proxy armies may be used to preserve the military resources of the coercing state.[36] Nutter explicates further, "The reasons the United States has and will continue to employ proxy armies are the very reasons it engages in covert action in the first place. It is always better to use someone else's blood for warfare."[37]

The notion of pursuing forcible covert action instead of pursuing overt coercive threats and actions does not require the leader of a democratic state to enlist domestic support or legislative consensus to the degree that overt military action might. Dissimilarly several scholars debate that all other elements being equal authoritarian or autocratic states are not as politically constrained domestically as democratic states in

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[34] Nutter, *The CIA's Black Ops*, 167.

[35] Felix, *A Short Course in the Secret War*, 139.

[36] Bueno de Mesquita et al., *The Logic of Political Survival*, 220–223.

[37] Nutter, *The CIA's Black Ops*, 166.

their pursuance of overt coercive measures.[38] This idea is salient if one is to consider the principal value of covert action as an option that would allow for equilibrium of coercive action between the U.S.—a non-disputed democratic state—and another authoritarian or autocratic state such as the USSR. I would take the debate further to suggest that because a leader of a democratic state maintains their legitimate authority on the basis of elections, that leader is more politically constrained domestically than internationally. Inversely, the leader of an authoritarian or autocratic state may be more constrained on the international level than domestic if the majority of the populace perceives the incumbent leader to be legitimate through natural consensus or repressive control measures. In either case, covert action provides a democratic leader with the latitude to pursue forcible coercive action against another state, largely bypassing the need for domestic political consensus.

The semantic use of the aforementioned term "plausibly deniable" and "unacknowledged" also become important in that generally everyone in the world may know who is actively conducting forcible covert actions against whom, but the action is "non-attributing" in that no one can find the smoking gun that proves that the coercing state conducted the action. The state is then able to maintain its international prestige without the cost of having to garner 'legitimate' international support in the form of a UN Security Council resolution. Furthermore, and perhaps more importantly, it means that although an action may formally be called "covert," this does not preclude a coercing state from engaging its opponent vis-à-vis, metaphorically speaking, at the leader level to project its carefully crafted message that communicates the threat of coercive actions that will soon follow if the opponent state does not remedy their present course. If the opponent state were to try and raise the issue with the international community, the coercing state may "plausibly deny" that such actions ever took place if it crafted its communication equivocally enough.

This is where the cleverness of a state's strategic communication becomes important. There are several means by which a coercing state may communicate a

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[38] Kenneth A. Schultz, *Democracy and Coercive Diplomacy* (New York: Cambridge University Press, 2001), 13. Kindle edition.

strategic message to an opponent state so as to correlate what will follow if the opponent state does not emend its behavior. This effect can be accomplished similar to the covert action itself, through proxies such as unwitting media platforms, bureaucratic back-channels, or the very indigenous proxy force that the coercing state may be attempting to utilize to coerce the opponent state through. Domestic and international public statements such as "all military options are on the table" are also effective since they allow the opponent state to imagine a wide range of coercive military force options from the overt nuclear to the covert state sponsored insurgency. Though the message is indefinite enough to allow room for plausible deniability, it is clear enough to let the opponent state comprehend that there will be painful consequences if the opponent state does not modify its behavior to the liking of the coercing state. The reinforcement and amplification of the message comes through the credible demonstration of coercive force—sabotage and subversion through proxy forces—synchronized with the strategic messaging. With the idea established that coercive diplomacy may be possible through deliberate and shrewd strategic messaging further supported by covert coercive actions to lend the message credibility, I will now examine the idea of "covert coercion" further to gain understanding as to when this method would be conceivable, or even preferred.

C. COVERT COERCION

Covert action encompasses a wide array of tasks such as asset development, political action, propaganda and disinformation, economic warfare, and paramilitary action just to name the main categories.[39] Some of these categories can, and often do, overlap. For the purposes of this thesis, I will examine only the political and paramilitary action categories as they have direct application to the coercion of another state actor. To better understand this, we should explore the idea of unconventional warfare further. U.S. Army Training Circular 18–01 defines unconventional warfare as, "Activities conducted to enable a resistance movement or insurgency to coerce, disrupt, or overthrow a government or occupying power by operating through or with an underground, auxiliary,

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[39] Nutter, *The CIA's Black Ops*, 75.

and guerrilla force in a denied area."[40] As one might assume from this definition and the context of earlier discussion, unconventional warfare operations conducted by the U.S. typically involve Special Operations Forces and the Central Intelligence Agency. Notice that a key task in the above definition includes the term "coerce." This is an important concept as this definition demonstrates that U.S. SOF believe that they should be able to conduct U.S. sponsored insurgency actions, a subset of covert action, to coerce another sovereign state or occupying power to comply with U.S. policy demands. However, unconventional warfare is an exceptionally difficult and challenging mission to pull off as the U.S. has learned hard lessons through a long and distinguished list of political action and paramilitary failures—Indonesia 1957–64, Congo 1959–60, and Bay of Pigs 1961 just to name a few—throughout the years since earnest experimentation with the concept began in the early 1950s, the early dawn years of the Cold War.[41] Tucker and Lamb promulgate some key perceptions to this end, "In some cases, the concern about high risks for little effect is justified…independent unconventional warfare missions generally are not worthwhile when directed against well-prepared authoritarian regimes."[42] Tucker and Lamb go on to further highlight the challenges of unconventional warfare in working through indigenous personnel:

> Solving a problem indirectly often means objectives are achieved more slowly, with less certainty, and sometimes with questionable methods. … Working through other forces invariably means ceding a degree of control over behavior. In the case of the Kurdish Peshmerga in northern Iraq, Special Forces and other U.S. government representatives had to work hard to keep the Peshmerga from irritating the government of Turkey by pursuing their objective of an independent Kurdistan. SOF can use persuasion to guide indigenous forces, making it clear that continued U.S. support requires limits on their behavior, but working through third parties invariably is tricky business, and SOF must often settle for less than optimum outcomes and iron control over tactics in exchange for lower overall costs to the United States.[43]

Nutter also underscores the dilemma of non-harmonious political objectives:

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[40] U.S. Department of the Army, *Special Forces Unconventional Warfare, TC 18–01*, Glossary-4.

[41] Nutter, *The CIA's Black Ops*, 319.

[42] Tucker and Lamb, *United States Special Operations Forces*, 239.

[43] Tucker and Lamb, *United States Special Operations Forces*, 156.

One of the goals of *all* proxy forces is to openly involve the armed forces of the United States. This is, of course, the polar opposite of the aims of the United States, which will always seek to avoid these entanglements; the CIA engages proxy forces expressly to avoid the boot-sucking morass of risking American prestige and bloodshed by involving the armed forces…Thus, there is *always* tension in relations between the United States and the nations it uses to fight proxy wars.[44]

Given these complexities and challenges, one might wonder when is it ever possible, much less conducive, to wage an unconventional warfare campaign to coerce another government or occupying power? Looking at history closer we see that not all of the U.S.'s, and other states', unconventional warfare campaigns ended in abject failure. There were in fact some complete and partial successes that occurred. The U.S.'s involvement in Tibet from 1956–1971 was somewhat successful in that it harassed the People's Republic of China to gain some modest political bargaining advantages for the Nixon administration when it sought to develop Sino-U.S. trade relations in the early 1970s.[45] Another brief success was Iran in 1953 when the CIA engineered the political overthrow of the belligerent Mosaddeq in operation AJAX. This enabled the American-friendly shah to sit in power for a period of 25 years at which point the Islamic Revolution forced the shah to abdicate power in 1979.[46] Perhaps the greatest success for the U.S. though was Afghanistan in the 1980s. Through the CIA and SOF, the U.S. was able to wage an unconventional war with the mujahedin to effectively "coerce" the Soviet occupying power to abandon its policy in Afghanistan.[47]

What were the common threads that enabled these, and others not listed, unconventional warfare operations to successfully achieve a covert coercive effect on another interstate power? In *A Short Course in the Secret War,* Christopher Felix offers three characteristics for unconventional warfare to be successful. First, the operation must be based on something real; that is to say, some form of latent malcontent towards the

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[44] Nutter, *The CIA's Black Ops*, 162.

[45] John Prados, *Presidents' Secret Wars: CIA and Pentagon Covert Operations from World War II through the Persian Gulf* (Chicago: Elephant Paperbacks, 1996), 149–70.

[46] Nutter, *The CIA's Black Ops*, 318.

[47] Nutter, *The CIA's Black Ops*, 163.

current government, or occupying power, must exist amongst potential indigenous surrogate forces. The forces themselves do not have to be well organized or equipped, but their dissent and cause must be based on something substantive, not superficial or passing.[48]   Second, the operation must be conducted primarily through indigenous surrogates if it is not to be rejected outright by the population of the opponent state.[49] Lastly, Felix suggests that "it matters less what you do than how you do it;" restated, you cannot conduct these operations halfway, you are either all-in or should not conduct them at all.[50]

In suggesting when covert coercion might be successful, I would also offer that in addition to Felix's observations the decision frames of the state's principal decision makers also matters a great deal. That is to say to the extent that the coercing state is willing to accept risks to pursue covert coercion methods, and the extent that the coerced state is able to make concessions from a position of relative loss or gain directly affects the decision maker's strategy in either resisting coercive overtures or making concessions. Decision and prospect theories are both helpful in understanding this notion—both of which will be explained further in the next chapter. Illustratively speaking, some historical examples have shown that indirect approaches using unconventional warfare operations in support of indigenous forces working to overthrow an occupying, or "imperialist," power—such was the case in the U.S.'s involvement in Afghanistan against the Soviets and Iran's involvement in Lebanon against Israel—where the occupying power is the target of compellence, may have a greater chance of success than those conducted directly against the opponent state.

Having laid out the conditions under which a covert coercion campaign might be successful, this brings me back to my original thesis question: *Under what conditions might covert coercive diplomacy be used as a viable coercive policy option between two state actors in the interstate system?* I postulate that covert coercive diplomacy might not only be viable, but preferable to overt coercive diplomacy when the coercing state is

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[48] Felix, *A Short Course in the Secret War*, 142–3.

[49] Felix, *A Short Course in the Secret War*, 144–6

[50] Felix, *A Short Course in the Secret War*, 146.

structurally constrained in either the international or domestic system to gain "legitimate" approval for the pursuance of coercive measures defined by force against another state. By prosecuting an "undeclared war" through proxy forces, it may be possible for the coercing state to achieve the same desirable level of coercive credibility to leverage a bargaining advantage necessary for diplomacy to work successfully. Lastly, covert coercive diplomacy may be even more operable if it is used to coerce a state that able to both make concessions and in a decision frame to do so.

D.   CHAPTER CONCLUSION

In summary, in this chapter I have worked to analyze both coercive diplomacy and covert action in an effort to examine the relationship between the two and how, if possible, covert action can support coercive diplomacy. More precisely, I endeavored to discern if there were situations, or conditions, in which covert coercive diplomacy might be a more attractive and viable option than overt coercive diplomacy.

In my research and analysis, I have uncovered several potential deficiencies associated with the inappropriate or capricious employment of covert action; especially that of political action and paramilitary operations, which are closely associated with unconventional warfare. However, I have also contended that under certain conditions covert coercive diplomacy may be viable, if not preferable. I posited two such primary conditions where covert coercion may be achievable: 1) a domestic or internationally constrained environment that does not allow for the coercing state to pursue "legitimate" offensive coercive action without losing domestic or international prestige; 2) covert coercion may be employed against an opponent state that has both room to make concessions to the coercive act and is in a decision frame that fosters concession as opposed to incurring the costs of the coercive act.

While these conditions are in no way categorical or conclusive, they do accentuate the possibility that covert action can, and in some cases, should be used as a viable complement to coercive diplomacy. In the next chapter I will unpack the theories upon which the above deductively reasoned postulates are premised.

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III. THE THEORY

"If we pursue the demands that war makes on those who practice it, we come to the region dominated by the powers of intellect. War is the realm of uncertainty; three quarters of the factors on which action in war is based are wrapped in a fog of greater or lesser uncertainty. A sensitive and discriminating judgment is called for; a skilled intelligence to scent out the truth."

—Carl Von Clausewitz[51]

In the previous chapter I introduced the theoretical framework behind the strategy of pursuing both overt coercive diplomacy and covert coercion. To fully understand the argument presented in this thesis, a summary of three well-established approaches to formal modeling upon which the hypotheses are predicated is necessary. Furthermore, a decision analysis examination of the utility of covert coercion may only be introduced once the logic of decision, Bayesian analysis, prospect, and game theory are all unpacked. This chapter's primary purpose is to outline and explain the governing principles and relevant axioms in necessary detail in order to develop the decision analysis modeling of covert coercion in Chapter IV. In the first section of the chapter I will introduce decision theory as it is traditionally understood in its Bayesian expected utility form. Prospect theory and the evolution of contrasts that depart from the traditional maximizing of one's expected utility will be discussed in the second section. The third and final section of the chapter will introduce the fundamentals of game theory modeling and the synthesis of decision and prospect theory that will determine the value scaling of the decision analysis model for covert coercion in Chapter IV.

A. DECISION THEORY

Decision theory is a very broad subject. Every human being of all ages makes several decisions in the course of every day life. Some decisions are impulsive and made in haste while others are made from a more analytical and deliberate process. Nevertheless, it can be argued that for the majority of the people that have the cognitive intelligence to make a discerning decision, there is an element of personal decision logic

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51 Carl von Clausewitz, *On War*, 101.

involved which is influenced by an incalculable amount of external, cultural, and physiological factors. It is from this complexity of factors that decision theory attempts to simplify and explain how people make rational decisions. Though there are several modes of decision theory, for the purposes of this thesis I will only focus on the most common in terms of conventional Western rational thought. The first is "traditional" Bayesian decision theory.

B.   TRADITIONAL BAYESIAN DECISION THEORY

In their book *Decision, Probability, and Utility* Peter Gardenfors and Nils-Eric Sahlin describe "traditional" Bayesian decision theory in the most simplistic of factors. Gardenfors and Sahlin assert that decisions stem from two main elements: 1) an individual's *wants* and *desires*, which in turn determine the decision maker's *values* or *utilities* of potential outcomes resultant from the decision; and 2) an individual's *information* or *beliefs* about the world environment, which determine the decision maker's assessed *probabilities* of possible outcomes.[52]

Further breaking the components of a logical decision down to its most primitive components, Gardenfors and Sahlin enumerate three factors that constitute a decision situation. First, for a decision to occur the decision maker must make a choice between two or more *alternatives* or *acts*.[53]   In game theory the alternatives are referred to as a *player's strategies*.[54]   Second, a decision maker is typically not in complete control over all of the factors that determine the outcome of a particular decision, rather another component that accounts for the different *states* of the world environment figure into the equation to generate what is referred to as *uncertainty* in relation to the *consequences* of a player strategy.[55]   The third and final component of a decision is the different

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[52] Peter Gardenfors and Nils-Eric Sahlin, "Introduction: Bayesian Decision Theory—Foundations and Problems," in *Decision, Probability, and Utility: Selected Readings*, eds. Peter Gardenfors and Nils-Eric Sahlin, 1–15 (New York: Cambridge University Press, 1988), 1.

[53] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 2.

[54] Philip D. Straffin, *Game Theory and Strategy* (New York: The Mathematical Association of America, 1993), 3.

[55] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 2.

consequences or *outcomes* resultant from the varying player strategies.[56] Ergo, according to Gardenfors and Sahlin, "A decision situation is thus determined by the sets of alternatives, states, and outcomes."[57]

Having enumerated the components of a decision, Gardenfors and Sahlin identify four fundamental and necessary assumptions in "traditional" Bayesian decision theory, the first of which addresses how the player's strategies in a decision should be evaluated.[58] The first assumption *values of outcomes* supposes that a utility measure in the form of numerical values are associated with each outcome of a given decision situation for each player.[59] The values of outcomes assumption is common to not only most decision theories, game theory also ascribes numeric value to the *utility* of the various outcomes of a given decision situation as we will examine later.[60] Gardenfors and Sahlin provide amplifying commentary pertaining to the purpose of numeric utility measure involving values of outcomes:

> The purpose of utility measure is to reflect not only the ordinal preferences between the possible outcomes, but also the corresponding *numerical* value differences. It is not only of interest to know [the ordinal preferences], but also exactly how strong this preference is.[61]

The second assumption is closely related to the first. The *values of alternatives* assumption holds that only information pertaining to a decision maker's wants and desires influence the utility values associated with each decision alternative.[62] It should be noted here that this is perceived to be a great limitation of "traditional" Bayesian

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[56] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 2.

[57] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 2.

[58] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 3.

[59] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 3.

[60] It should be noted here that several contemporary game theorists no longer use numeric utilities as most prefer ordinal rankings associated with a game's outcomes instead. Ordinal ranking is what this thesis uses to describe coercion game outcomes.

[61] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 3.

[62] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 4.

decision theory in that no consideration for risk and other external factors that have bearing on values of outcomes to a decision maker.[63]

The third assumption *information about states* considers the perceptions and beliefs of the decision maker about the states of the world in a given decision situation. The information about states assumption embraces the notion that a decision maker's perceptions are then represented by a subjective probability measure defined over the states.[64,65]

Lastly, Gardenfors and Sahlin identify a fourth assumption necessary to "traditional" Bayesian decision theory, *probabilistic independence*. This assumption simply states that the probability of the state, or environment, is independent of the alternative, or player strategy, chosen.[66]

Collectively all of the above four assumptions will allow for the decision maker to calculate the *expected utility* of each decision alternative or player strategy. In the book *A First Course in Mathematical Modeling*, Frank Giordano defines *expected value*—value is sometimes used interchangeably with utility in this context—in technical terms:

> Suppose a game has **outcomes** $a_1, a_2, \ldots, a_n$ each with a **payoff** $w_1, w_2, \ldots, w_n$ and a corresponding **probability** $p_1, p_2, \ldots, p_n$ where $p_1 + p_2 + \ldots + p_n = 1$ and $0 \leq p_i \leq 1$, then the quantity
>
> $$E = w_1 p_1 + w_1 p_2 + \ldots + w_1 p_n$$
>
> is the **expected value** of the game.[67]

In "traditional" Bayesian decision theory the "rational" decision maker will almost always seek to *maximize* the *expected utility*. Restated, the decision alternative, or player

[63] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 4.

[64] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 4.

[65] As we will examine in Daniel Kahneman and Amos Tversky's prospect theory, the information about states assumption is further developed and defined to allow for a more psychological examination of a decision maker's perception in what is called a *decision frame*.

[66] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 5.

[67] Frank Giordano et al., *A First Course in Mathematical Modeling*, 5th ed. (Belmont, CA: Brooks/Cole, 2013), 343.

strategy, that offers the maximal expected utility should be the alternative of choice to the decision maker.[68]

Until recently, maximizing expected utility has long been a preferred method by economists, political scientists, and other social scientists to analyze a "rational" decision maker's logic. However, there are some fundamental shortcomings for solely relying on the MEU criterion. Principally the MEU method—as it is established on the assumptions above—gives little consideration for "risk" involved in singular decisions. Risk is a critical attribute to consider when analyzing a player's decision logic as it captures the costs and dangers associated with choosing a wrong alternative, or strategy, in the state of a decision situation. In moving forward in the decision analysis of covert coercion, risk is a component that should be of paramount consideration as the costs associated with choosing a wrong strategy are defined in blood and treasure that figures in the millions and billions of U.S. dollars.

Again in the book *A First Course in Mathematical Modeling*, Frank Giordano defines decision theory as, "… a collection of mathematical models and tools developed to assist people in choosing among alternative actions in complex situations involving chance and risk."[69] The important elements to note in this definition are two-fold: 1) decision analysis often occurs in complex situations, and 2) chance and risk are present factors in several decisions. Again, while MEU gives credence to chance it does little to consider substantial risk of one-time decisions. Frank Giordano elaborates, "Certainly, if you are repeating the decision many times, over the long haul maximizing your expected value is very appealing. But, even then, there may be instances when you want to consider explicitly the *risk* involved."[70] In addressing this issue, Giordano asserts the idea of using alternative decision criteria that gives fair situational consideration to the decision maker's objectives, chance, and risk involved.[71]

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[68] Gardenfors and Sahlin, "Introduction: Bayesian Decision Theory," 5.

[69] Giordano et al., *A First Course in Mathematical Modeling*, 339.

[70] Giordano et al., *A First Course in Mathematical Modeling*, 339.

[71] Giordano et al., *A First Course in Mathematical Modeling*, 372.

To further expound upon Giordano's proposed alternative decision criteria, the Figure 1 decision matrix illustration taken from Frank Giordano's book will be used:

Nature of the Economy

Your Plan	E	F	G	H
A	2	2	0	1
B	1	1	1	1
C	0	4	0	0
D	1	3	0	0

*Predicted values for a 5-year investment for alternative investment strategies (A-D) as a function of the nature of the economy (E-H).

Figure 1.   Investment strategy versus nature illustration.[72]

Using the example shown in Figure 1 Giordano offers several alternative decision criteria in lieu of MEU. However, for the purposes of this thesis I will only describe the *maximin* alternative criterion. The *maximin* criterion is focused on gaining the best possible outcome under the "worst case" scenario conditions. The maximin criterion is also assumed by most game theorists to be the default criterion for game theoretic model players. Under the conservative maximin criterion the minimum outcome value is considered for each strategy and then the maximum value of each of the minima is selected.[73] It is the maximum of the minima, ergo the term maximin.[74] Illustrated in the Figure 1 example, the minimums for each strategy "A" through "D" are "0," "1," "0," and "0" respectively. Taking the maximum value of the minima leads us to choose

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[72] From Giordano et al., *A First Course in Mathematical Modeling*, 369. Frank Giordano uses the Investment Strategy vs. Nature decision matrix to illustrate the elements inherent to all of Giordano's proposed alternative decision criteria. To summarize Giordano's descriptions as succinctly and clearly as possible, I have elected to utilize the same decision problem illustration.

[73] Giordano et al., *A First Course in Mathematical Modeling*, 370.

[74] Giordano et al., *A First Course in Mathematical Modeling*, 370.

strategy "B" yielding a value of "1."[75] Giordano expounds on the conservative nature of this profit strategy, "The maximin strategy is *pessimistic* in that it chooses the strategy based only on the worst case for each strategy under consideration, completely neglecting the better cases that could result."[76]

The alternative maximin decision criterion is ideal to consider when examining the decision behavior and logic of interstate coercion. Notwithstanding, this alternative decision criterion alone is not adequate to elucidate the decision logic of covert coercion. A more thorough understanding of how a decision maker cognitively processes risk to decide on a given player strategy is needed. This problem is best addressed through the lens of prospect theory.

C.   PROSPECT THEORY

In 1979, Daniel Kahneman and Amos Tversky broke new ground in the world of social sciences and decision analysis by formulating what has emerged as the leading alternative to expected utility as a model to explain decision behavior under risk.[77] Kahneman and Tversky, two behavioral psychologists with backgrounds in economics and mathematics, believed that expected utility was flawed as a normative standard for describing the decision behavior of "rational" actors. Specifically, Kahneman and Tversky were taken by the large amount of documented incongruences in decision experiments that analyzed the decision behavior of observed subjects juxtaposed with what the decisions should have been according to the axioms of MEU.[78] Kahneman and Tversky argued in their innovative article "Prospect Theory: An Analysis of Decision Under Risk" that MEU assumes that a decision maker will rationally decide on a strategy that results in an outcome that optimizes the decision maker's net asset levels.[79] As was discussed in the previous section of this chapter, the MEU method functions well for the

[75] Giordano et al., *A First Course in Mathematical Modeling*, 370.

[76] Giordano et al., *A First Course in Mathematical Modeling*, 370.

[77] Jack S. Levy, "An Introduction to Prospect Theory," *Political Psychology* 13, no. 2 (1992): 171, accessed February 19, 2013, http://www.jstor.org.libproxy.nps.edu/stable/3791677.

[78] Kahneman and Tversky, "Prospect Theory," 263.

[79] Levy, "An Introduction to Prospect Theory," 171.

decision maker that is interested in long-term outcomes over several hundred decision iterations where the probabilities are either known or can be logically deduced in the stochastic realm of chance. However, decisions in the domain of international policy seldom occur recurrently over hundreds of iterations and the probabilities are seldom known in the objective and calculated sense due to the complexity of human cognitive psychology.

For example, consider a hypothetical "Deal or No Deal" game show situation where you are the contestant and you have a choice between two final briefcases that you and the banker know to contain either the $1,000,000 prize or the worst possible outcome of $0. In the final round of play with only the two briefcases left, the banker has made you an offer of $400,000 if you choose to not play the game any further. In deciding whether to take to deal or not you could apply a couple different decision criteria. In applying the MEU decision criterion you would arrive at the following expected value:

$$EV = \$1,000,000\ (1/2) + \$0\ (1/2) = \$500,000$$

Therefore, according to MEU criterion the rational choice would be to choose "No Deal" and continue play for the $1,000,000, as $500,000 is greater than the banker's offer of $400,000. However, because this is a one-time decision and the risk of attaining an outcome of $0 is considerable after you have successfully played the game thus far, your risk averse nature may lead you to apply the more conservative *maximin* decision criterion instead. Using this criterion, the minima of your two choices are the $400,000 if you were to make a "Deal," or $0 if you to choose "No Deal." The maxima of the minima would then be the $400,000 offer, which would require a rational choice of accepting the banker's deal. Both decisions could be considered "rational" depending upon which decision criterion is being applied and your perspective of the interplay between chance and risk. It is in the void between chance and risk that Kahneman and Tversky's prospect theory offers the best explanation for one-time decision making under risk.

Prospect theory envisages a new brand of thought with regard to risk. The central hypothesis to prospect theory conceives that individuals are more risk averse in their decision behavior with respect to gains and are more risk acceptant with respect to

losses.[80] In his article "An Introduction to Prospect Theory," John Levy aptly describes the fundamental difference of prospect theory from expected utility, "Prospect theory posits that individuals evaluate outcomes with respect to deviations from a reference point rather than with respect to net asset levels …"[81] With the central hypothesis of prospect theory defined it is necessary to outline the foundations and process of prospect theory to enable an understanding of how decision frames affect decision behavior.

There are six axiomatic foundations to prospect theory's hypothesis: Reference Point, Reflection Effect, Loss Aversion and the Endowment Effect, Framing, Certainty Effect, and the Isolation Effect. Each foundation will be discussed in modest length to provide the reader a rudimentary knowledge of the driving factors deterministic of decision behavior under risk.

Reference Point. As was pointed out, individuals are inclined to deliberate decisions from a perspective considerate of either gains or losses and not net assets as expected utility would assume.[82] Moreover, Kahneman and Tversky posit that individuals attribute more value to the *change* in assets and not the aggregate itself.[83] In considering this idea, it is important to note that Kahneman and Tversky are not supportive of the notion that an individual's outcome preference order of prospective outcomes are significantly altered by small or moderate changes to the individual's assets.[84] The *reference point* then usually refers to an individual's perceived status quo in asset position prior to any potential changes that occur resultant from a prospective outcome.[85] In addition to the status quo, the reference point may also be the aspiration level of the individual that is not equivalent to the status quo. The aspiration level scenario is governed by how the decision maker frames the decision situation—the

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[80] Levy, "An Introduction to Prospect Theory," 171.

[81] Levy, "An Introduction to Prospect Theory," 171.

[82] Levy, "An Introduction to Prospect Theory," 174.

[83] Kahneman and Tversky, "Prospect Theory," 273.

[84] Kahneman and Tversky, "Prospect Theory," 277.

[85] Levy, "An Introduction to Prospect Theory," 174.

framing foundation discusses this idea further.[86] To illustrate the reference point, consider the hypothetical value function shown in Figure 2. The graph shows the shallower change in slope with regards to value function for gains demonstrating loss aversion vis-à-vis the much steeper slope for the value function on the losses side suggesting greater risk acceptance. The reference point would then be a decision maker's perceived status quo—or aspired level—along the value function. The decision maker may then be risk averse initially if their reference point is on the gains side, and conversely risk accepting if the decision maker perceives him or herself to be on the losses side of the x-axis.

The selection of the reference point, whether it is the status quo or an aspiration level, is largely dependent upon how the decision is framed.[87] This is Kahneman and Tversky's idea of "reference dependence," which replaces the notion of net assets defined by an expected utility function by instead using a reference point defined by a value function similar to the one displayed in Figure 2.[88] The idea of reference dependence is critical towards explicating the hypothesis that individuals overvalue losses relative to comparable gains.[89] This loss aversion is depicted in Figure 2 by the steeper slope of the value function on the losses side juxtaposed to the shallower slope of the value function on the gains side.

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[86] Levy, "An Introduction to Prospect Theory," 174.

[87] Brett A. DeAngelis, "A Line in the Sand: Prospect Theory and Nash Arbitration in Resolving Territorial Disputes" (Master's Thesis, Naval Postgraduate School, 2012), 9.

[88] Jack S. Levy, "Loss Aversion, Framing, and Bargaining: The Implications of Prospect Theory for International Conflict," *International Political Science Review* 17, no. 2 (1996): 181, accessed February 19, 2013, http://www.jstor.org.libproxy.nps.edu/stable/1601302.

[89] DeAngelis, "A Line in the Sand," 9.

VALUE

LOSSES ———————————————— GAINS
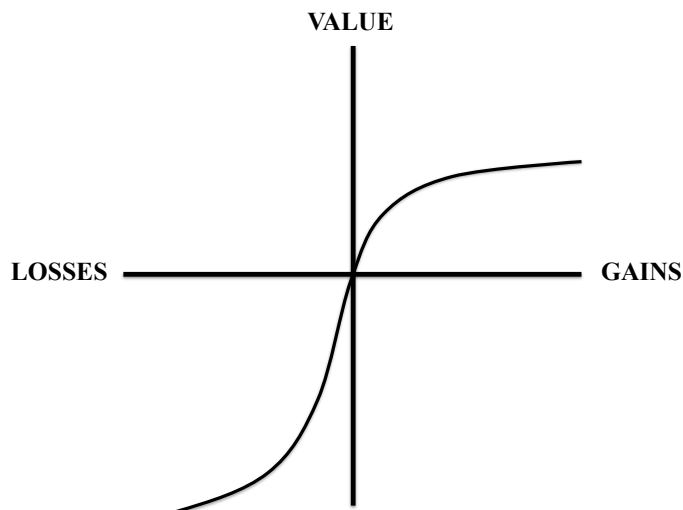
Figure 2.   A hypothetical value function.[90]

Reflection Effect. The *reflection effect* is a foundation built around the aforementioned reference point. The reflection effect posits that an individual's utility function is convex in the domain of gains and concave in the domain of losses and is reflective around the reference point as is depicted in Figure 2.[91] Principally this implies that an individual's sensitivity to changes in assets decreases in both the domain of gains and losses as the individual moves further away from their previously established reference point.[92] A simple illustration of this idea can be found in food. Consider a large slice of pizza for dinner when an individual has not eaten since breakfast. Hungry, the individual's desire for the pizza is at a considerable level. After the first bite, the individual's desire for the pizza is still great, but marginally less than it was before the first bite of pizza was taken. With each ensuing bite the individual's appetite becomes more and more satiated and as a consequence their desire for the pizza becomes less and less. Similarly, as one moves from their initial reference point, the sensitivity to changes

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[90] From Kahneman and Tversky, "Prospect Theory," 279.

[91] Levy, "An Introduction to Prospect Theory," 174.

[92] Levy, "An Introduction to Prospect Theory," 174.

in gains or losses will decrease; just as the desire resultant from a quenched appetite became less in the illustration.

Loss Aversion and the Endowment Effect. The *loss aversion* foundation has already been alluded to in the discussion of reference point and reflection effect. Building up to now it was suggested that gains are treated differently than losses in that losses loom larger than gains.[93] John Levy best articulates loss aversion as the idea "… that people prefer the status quo (or another reference point) over a 50/50 chance for positive and negative alternatives with the same absolute value. It also implies that people value what they have more than 'comparable things they do not have.'"[94] In acquiring an asset, the very act of owning the new object enhances the value of the object in the mind of the owner. The process of ascribing a higher value to the asset by virtue of it being in the possession of the individual is what is described as the *endowment effect*.[95]

The endowment effect is a stumbling block for utility theorists because it violates the principle of transitivity of preferences. Restated, if an individual prefers object A over object B but then comes into ownership of object B, according to the endowment effect the individual will now prefer object B over object A thus making the preference order inconsistent and therefore intransitive.[96] With regards to the endowment effect it should also be noted that the length of time that an individual possesses an asset and the level of exertion by the individual to acquire the asset would increase the asset's value all the more in the mind of the owner.[97] This is a key consideration when attempting to discern a decision maker's potential decision frame.

Framing. The *framing* foundation is an extremely important and salient concept for this thesis. Framing is best described as the location of the reference point along the decision maker's value function before a decision is made.[98] Framing the decision

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93 Levy, "An Introduction to Prospect Theory," 175.

94 Levy, "An Introduction to Prospect Theory," 175.

95 Levy, "An Introduction to Prospect Theory," 175.

96 DeAngelis, "A Line in the Sand," 11.

97 DeAngelis, "A Line in the Sand," 11.

98 Levy, "An Introduction to Prospect Theory," 176.

situation ultimately determines whether or not the decision maker will view the choice at hand through a *gains frame* or a *loss frame*. The difference is critical since the decision frame through which the problem is perceived will ultimately determine if the decision maker is more risk accepting or risk averse.

It should be noted that an individual's reference point changes over time as was alluded to in the endowment effect discussion. How quickly a person's reference point recalibrates or renormalizes to the acquisition of an object becomes a key consideration as it is determinant of whether or not the individual views the object from a gains frame or loss frame. To this point Brett DeAngelis writes in his thesis that, "Accommodating to losses creates risk aversion (feeling no need to recover sunk costs) and accommodating to gains creates risk seeking (to keep the gains recently acquired)."[99] Further illustrating this idea Jack Levy writes:

> Is the reference point for each choice problem framed cumulatively with respect to one's asset position at the beginning of the series of choices, or with respect to one's asset position at each individual choice? A gambler who sustains a series of losses will be more inclined to be risk acceptant if he or she adopts the cumulative frame of the asset position at the beginning of the evening and attempts to recover the losses, whereas on who uses current asset levels would be more risk averse. Someone on a winning streak, however, will be more risk averse if he or she frames the choice in terms of initial assets rather than total assets at the time of each new bet.[100]

Certainty Effect. Similar to the endowment effect, the *certainty effect* holds that a person will overweight outcomes that are certain juxtaposed to outcomes that have an element of probability to them.[101] Moreover, decision makers are likely to overweight smaller probabilities and underweight larger probabilities in comparison.[102] This concept also interacts with the reflection effect to reinforce risk accepting behavior in the domain of losses and risk averse behavior in the domain of gains.[103]

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[99] DeAngelis, "A Line in the Sand," 13.

[100] Levy, "An Introduction to Prospect Theory," 177.

[101] Levy, "An Introduction to Prospect Theory," 178.

[102] Levy, "An Introduction to Prospect Theory," 178.

[103] Levy, "Loss Aversion, Framing, and Bargaining," 185.

Isolation Effect. The *isolation effect* is the idea that people attempt to simplify a choice between alternatives by disregarding the similar components or attributes that each alternative share, and instead focus on the attributes that distinguish the alternatives.[104] In doing so, the decision process may result in inconsistent preferences due to the reality that prospective alternatives can be decomposed into common and distinguishing attributes multiple ways; the different categorizations could then lead to differing order of preferences.[105]

With the foundations of prospect theory now defined it is possible to discuss the prospect theory process. According to John Levy, there are two distinct phases to the prospect theory decision process: an *editing phase* followed by an *evaluation phase*.[106] The editing phase is the preliminary analysis of a decision situation by the decision maker. It includes identifying choice alternatives, the assessed consequences with choosing each alternative, and the self-ascribed values and probabilities to each outcome.[107] During the editing phase a decision maker *codes* the outcomes as either gains or losses thus establishing the decision maker's reference point along the value function for the decision.[108] The decision maker also *simplifies* the choice by rounding off probabilities or outcomes which includes discounting extremely unlikely outcomes altogether by rounding their probability to zero.[109] This leads to the *combination and segregation* of probabilities where alternatives that have identical prospects can have their probabilities combined and similarly riskless components of the alternatives can be segregated out to allow only the components of alternatives that bear risk to be evaluated.[110] Also important to the editing process is the *detection of dominance* where the decision maker searches for, identifies, and then eliminates dominated alternatives.[111]

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104 From Kahneman and Tversky, "Prospect Theory," 271.

105 From Kahneman and Tversky, "Prospect Theory," 271.

106 Levy, "An Introduction to Prospect Theory," 179–80.

107 Levy, "An Introduction to Prospect Theory," 179.

108 Levy, "An Introduction to Prospect Theory," 180.

109 Levy, "An Introduction to Prospect Theory," 180.

110 DeAngelis, "A Line in the Sand," 16–7.

111 Levy, "An Introduction to Prospect Theory," 180.

This is also a process espoused by game theory. Lastly during the editing phase, the *cancellation* of irrelevant alternatives or decision components occurs due to the aforementioned isolation effect.[112]

The evaluation phase is the process by which the now edited prospective decision alternatives are evaluated, leading to the choosing of the preferred alternative.[113] To evaluate the remaining alternatives the decision maker processes the decision alternatives in a *value* and/or *weighting* function process.[114] The value function evaluation places the emphasis on the value of the outcome from either a gains or losses domain reference point shown in Figure 2. The weighting function takes into account the decision maker's ascribed probability weight to a given alternative, which is heavily influenced by the aforementioned prospect theory foundations. The more likely an outcome is assessed to be, the heavier the weighting of the value for the outcome will be.[115]

I believe the integration of prospect theory principles—namely that of decision framing in terms of either a *gains frame* or a *loss frame*—as a decision theory substitute for expected utility is requisite to fully appreciate the decision analysis for strategic policies commensurate with interstate compellence. The integration of prospect theory and game theory in the fields of political science and international relations is not new. Political scientist and modern deterrence theorist Jeffrey Berejikian recognized the limits of traditional expected utility as a model for international relations theory in his groundbreaking journal article "A Cognitive Theory of Deterrence:"

> Increasingly, the use of classic rationality as a foundation for international relations theory—or any political theory—is contested. Time constraints, huge amounts of information, and uncertainty, combined with cognitive limitations, make it difficult for foreign policy actors to evaluate all possible scenarios and make a universally rational choice.[116]

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[112] Levy, "An Introduction to Prospect Theory," 180.

[113] Levy, "An Introduction to Prospect Theory," 180.

[114] DeAngelis, "A Line in the Sand," 19.

[115] DeAngelis, "A Line in the Sand," 19.

[116] Jeffrey D. Berejikian, "A Cognitive Theory of Deterrence," *Journal of Peace Research* 39, no. 2 (March 2002): 167, accessed February 19, 2013, http://www.jstor.org.libproxy.nps.edu/stable/1555297.

In his piece, Berejikian incorporates prospect theory as the model of rational thought into his deterrence game models to suggest a new model for deterrence behavior that is not based upon classic rationality explained by expected utility; rather, a model based upon that subjectivity of decision making from a gains and losses perspective. As Berejikian incorporated prospect theory as the underpinning model for rational choice of policy decision makers in his deterrence model, I am attempting to do the same in the model of covert coercion.

It should be noted here that Berejikian offers the critical observation that prospect theory does not predict the content of the decisional frame, that is, whether a decision maker views the status quo from a gains or loss decision frame.[117] Berejikian goes on to say that it is the state's empirical assessment of the status quo that will determine a state actor's deduction of the decision frames in relation to another state actor.[118]

The decision framing based upon Kahneman and Tversky's prospect theory will serve as the foundation in determining how both the U.S. and a hypothetical Rogue State will perceive each decision alternative and their corresponding outcomes. Moreover, the ordinal values ascribed to preferences of outcomes in the game theoretic models will also largely be determined by prospect theory foundation principles. However, before the models of covert coercion can be analyzed through the prospect theory lens it is necessary to briefly describe the theory behind the game models.

D.   GAME THEORY

Like decision theory, game theory has a very large general scope that is applicable throughout the entire social sciences field of study. Albeit, I will only discuss the portions of game theory that are relevant to the covert coercion models of conflict that will be

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[117] Berejikian, "A Cognitive Theory of Deterrence," 173.

[118] Berejikian offers that a decision maker could assume that a near perfect correlation exists between a state's objective condition and that state's perception of that condition. By making this simplifying assumption one could interpret changes in the status quo to serve as a guide to the content of the decision frame. However, it is commonly understood that decision makers possess unique worldviews that lead to asymmetry between a state's objective condition and the decision maker's perception of that condition. Therefore, a great deal of political subjectivity is required to empirically determine both the state's actual condition and the decision maker's perception of the objective condition in order to determine a state's decision frames. See Berejikian, "A Cognitive Theory of Deterrence," 173.

introduced in Chapter IV. Game theory is principally the study of mathematical models of conflict and cooperation between intelligent and rational decision makers.[119] To this end game theory is largely used in the study and analysis of strategic decision-making. Game theory is a unique manifestation of decision theory in that it is interactive in nature between two or more actors—or *players* in game theory parlance. Central to the analyses that game theory models advance is the notion that the decision alternative, or *strategy*, that a player chooses is largely contingent upon the strategies and choices of the other player(s). This interplay of strategies and players has led some scholars to label game theory as *Interactive Decision theory* or *Conflict Analysis* as potentially more descriptive vernacular.[120] Whatever the nomenclature may be it is largely indisputable that game theory modeling has contributed much intellectual value to the social sciences community and will assumedly contribute a great deal more.

Game theory is a relatively new concept. It first appeared in the early part of the 20th century with mathematician John von Neumann as the most notable of the founding game theorist patriarchs.[121] Game theory's evolution and development exploded during World War II and the ensuing decade, and it was found that game theory was very useful in modeling interactive decision models in economics, political science, and international relations. It was during this period that expected utility was the largely undisputed standard for rational decision making. The integration of more contemporary and more nebulous decision theories of human psychological cognition, such as prospect theory, are relatively new in comparison. Nonetheless, the tenets of game theory are very firm and established.

According to mathematician Philip Straffin a *game* is defined as any situation in which:

- There are at least two players.[122]

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[119] Roger B. Myerson, *Game Theory: Analysis of Conflict* (Cambridge, Massachusetts: Harvard University Press, 1991), 1.

[120] Myerson, *Game Theory*, 1.

[121] Myerson, *Game Theory*, 1.

[122] Philip D. Straffin, *Game Theory and Strategy* (New York: The Mathematical Association of America, 1993), 3.

- Each player has a set of possible alternatives, or *strategies*, which are courses of action that the player may decide upon.[123]

- The strategies selected by all of the players determine the *outcome* of the game.[124]

- A numerical utility value, or *payoff*, is associated with each possible outcome for each individual player.[125] The payoff can be either an ordinal preference positive integer value or cardinal preference integer value.

It should be noted here that there two primary argued limitations against game theory modeling. The first argument is that the "real-world" is immeasurably complex and any model of a "real-world game" would not be adequate to account for all of the decision stakeholders and their preferences, delineate all conceivable strategies available to each player, or assign true payoffs reflective of each player in the process. Notwithstanding, defenders of game theory modeling suggest that the purpose is to construct a simple game that models the most relevant variables of a "real" decision situation to gain understanding through the thoughtful analysis of a simplified expression and not through the reconstruction of reality itself.[126] The second argued limitation is that game theory assumes that all players are *rational*. Rationality is defined as a player's ability to logically analyze the best decision strategy towards achieving the player's ends while simultaneously assuming that the other game players are logically analyzing their respective strategies as well.[127] As was discussed with prospect theory, until recently rationality was thought of in terms of expected utility. That notion was challenged in past two decades by leading social sciences theorists and has shown that rational (expected utility) and cognitive choice can coexist as complementary parts of the larger whole.[128]

Though there are multiple and diverse game structures in game theory, the most predominant are matrix form games and extensive form games—which resemble traditional Bayesian probability decision trees. This thesis will only use matrix form

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[123] Straffin, *Game Theory and Strategy*, 3.

[124] Straffin, *Game Theory and Strategy*, 3.

[125] Straffin, *Game Theory and Strategy*, 3.

[126] Straffin, *Game Theory and Strategy*, 4.

[127] Straffin, *Game Theory and Strategy*, 4.

[128] Berejikian, "A Cognitive Theory of Deterrence," 167.

games. The matrix format is an accommodating model structure for two players. Although it is possible to assess games for three or more players in the matrix form, the game becomes increasingly complex to analyze and solve. This thesis will only examine the two principal players in the covert coercion model: the U.S. and a hypothetical Rogue State that is the target of U.S. compellence. To better illustrate the structure of a two-player matrix game model consider the diagram shown in Figure 3:

Colin

	C	D	E
A	(1, 5)	(2, 1)	(-3, 0)
B	(2, -5)	(3, 4)	(1, -1)

Rose (label to the left, rows A and B)

Figure 3.   Sample 2 x 3 matrix format game model.

In the Figure 3 sample matrix game there are two players: a row player named "Rose" and a column player named "Colin." The matrix indicates that Rose has two player strategies (A and B) while Colin similarly has three strategies (C, D, and E) in comparison. The payoffs for each player are located in each of the corresponding matrix fields representative of all of the outcomes resultant from each combination of player strategies. The row player's payoffs are always listed first (demonstrated by Rose's payoffs shown in blue) while the column player's payoffs are listed last (demonstrated by Colin's payoffs shown in red). For example, if we were to play the game in Figure 3 where Rose chooses her "A" player strategy and Colin chooses to play his "C" strategy, the outcome of the game would result in a payoff of "1" for Rose and "5" for Colin in accordance with their utility values defined for the game.

To analyze a matrix game a *movement diagram* can be used to find an *equilibrium outcome* solution to the game. An equilibrium outcome, as it will be used in this thesis, can be defined as the solution point in the matrix where neither player is able to unilaterally improve their position. Using a movement diagram to show how each of the player's payoffs interacts in the matrix will identify the equilibrium outcome in the most direct manner. An example of how a movement diagram is applied to find the equilibrium outcome is illustrated in Figure 4:
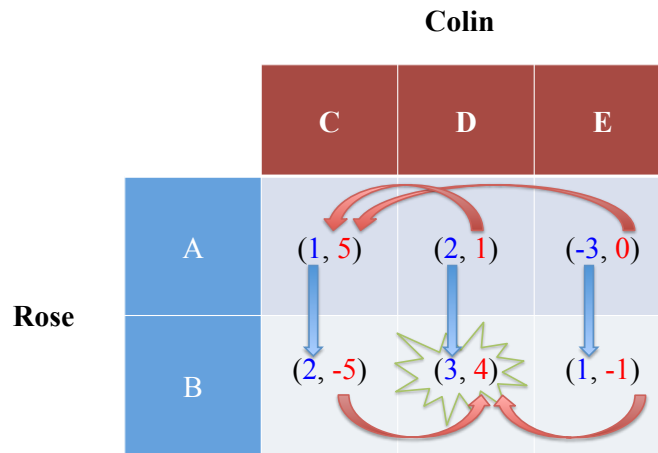
Figure 4.   Sample 2 x 3 game matrix with movement diagram and equilibrium outcome.

In Figure 4 the colored directional arrows associated with each of the players represent the movement diagram. The directional arrows indicate how each player can improve their respective payoff outcomes dependent upon which strategy the other player chooses. For example, if Colin chooses his "C" strategy then Rose can improve her outcome by playing her "B" strategy resulting in a payoff of "2" for Rose. Similarly, if Rose chooses to play her "B" strategy then Colin can achieve his best outcome by opting to play his "D" strategy resulting in a payoff of "4" for Colin. By applying the directional arrows of the movement diagram for all of the players' strategies we see that there are no arrows exiting from the "B-D" cell. This is the point at which no player can unilaterally improve their payoff position without a strategic move or arbitrated solution. This point is

called an equilibrium outcome, as it is the inevitable stable solution to the game. Also of note, the movement diagram shows that Rose has a *dominant strategy* of "B." Strategy "B" is said to *dominate* strategy "A" if every outcome corresponding to strategy "B" is greater than or equal to respective corresponding outcomes in strategy "A," and at least one outcome in "B" is strictly greater than the corresponding outcome in "A."[129] The significance of a dominant strategy is that it presupposes that a player with a dominant strategy will *always* play their dominant strategy during zero-sum games of total conflict or partial conflict games without communication—if the player is indeed rational.

There are several other components and dimensions to game theory modeling such as: mixed strategy solutions; zero-sum games of total conflict; and strategy solutions that use sequential moves, threats and promises, and Nash arbitration to achieve a Pareto optimal outcome. Nevertheless, the tenets discussed thus far will suffice to enable the reader to understand the covert coercion model.

E.   CHAPTER CONCLUSION

This chapter introduced the core theories foundational to the models of conflict pursuant of analyzing the relevant decision frames for practitioners of interstate coercive policy. Decision theory was presented as a broad domain that seeks to analyze the logic of complex decisions. In the tradition of Bayesian decision theory, MEU has long been defended as the gold standard for explaining *rational* decision logic. However, MEU is limited in its ability to fully incorporate the cognitive dimension of human decision behavior in one-time decisions under risk where the probabilities of chance are not known or subjectively ascribed at best. As an alternative to MEU, Frank Giordano suggests an alternate decision criterion—*maximin*—that is calibrated towards the decision frame of the individual. Additionally, Daniel Kahneman and Amos Tversky's prospect theory offers a compelling alternative model for rational decision behavior under risk. Unlike MEU, prospect theory posits that individuals do not think of outcomes in terms of net assets gained towards maximizing one's utility; rather, people tend to think more in terms of gains and losses when it comes to risk. Furthermore, prospect theory suggests

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[129] Straffin, *Game Theory and Strategy*, 8.

that individuals are prone to overweight losses with respect to comparable gains, and will likely be risk averse in the domain of gains contrasted with a more risk accepting behavior in the losses domain. The result is that the decision maker will operate in either a *gains frame* or a *loss frame* in relation to their reference point when the decision maker is cognitively analyzing a choice between prospective alternatives. Consequently, the decision frame is critical to determining a decision maker's risk behavior and valued preferences when he or she is considering one-time decisions under risk. Lastly, elements of game theory modeling were discussed to familiarize the reader with concepts that will be needed to understand the decision analysis of the covert coercion models in the next chapter.

IV. THE COVERT COERCION MODEL OF CONFLICT

"He who knows the art of the direct and the indirect approach will be victorious. Such is the art of manoeuvring."—Sun Tzu130

"To a surrounded enemy you must leave a way of escape. Do not press an enemy at bay."—Sun Tzu131

"Wild beasts, when at bay, fight desperately. How much more is this true of men! If they know there is no alternative they will fight to the death."—Prince Fu Ch'ai132

The previous two chapters introduced the relevant substantive and methodological literature. This chapter will analyze the theory of covert coercion through the development of a game theoretic model, informed by the insights of prospect theory, and applied to four separate covert coercion decision frame models to answer this thesis's research question: *Under what decision frames and political conditions might covert coercion by means of unconventional warfare be a viable United States coercive policy option?*

A. COVERT COERCION GAME HYPOTHESES

The first hypothesis introduced in Chapter I posited that the decision frames— *gains frame* or *loss frame*—of the coercion game actors will largely determine either the success or failure of a covert coercion policy.[133] Prospect theory was used to validate the logic of decision frames, which are determinant of a state actor's perception of outcomes and the risk associated with high stakes, one-time decisions. Hypotheses 1.a and 1.b were initially explored in Chapter II's discussion of domestic and international political constraints that might influence a U.S. policy maker to choose either overt coercive

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[130] SunTzu, *The Art of War* (China: circa 544–496 BC, repr. with ed., trans., introduction and preface notes by Samuel B. Griffith, New York: Oxford University Press, 1963), 106. Kindle edition.

[131] SunTzu, *The Art of War*, 109–10.

[132] SunTzu, *The Art of War*, 110.

[133] Hypothesis 1: The decision frames of the coercion actors largely determine the success or failure of covert coercion.

diplomacy or covert coercion as a coercive policy option.[134][135] If a U.S. policy decision maker is constrained more domestically than authoritarian or autocratic states by virtue of the U.S.'s democratic nature, then covert coercion may be a more attractive tool of compellence for consideration. In the context of prospect theory decision frames, the U.S. policy maker operates under the greatest domestic constraint when political conditions are relatively favorable for the incumbent U.S. Presidential administration thereby closely aligning the decision maker with a gains frame mentality that is risk averse. Conversely, the U.S. policy maker may be more aligned with a loss frame when political conditions are adverse due to the U.S.'s feeling threatened as it was with the extreme examples of Pearl Harbor during WWII and the more recent 9/11 attacks. In these conditions, the domestic opinion would favor a more risk accepting military action to coerce the alleged antagonistic state. Thus, the interaction of domestic and international political constraints and perceptions of the state's prestige and legitimacy will largely determine whether or not the critical decision makers are in either a gains or loss decision frame in the covert coercion game.

The discussion of prospect theory's foundational principles also reflect that the reference point of a decision maker's value function can recalibrate to change their decision frame over time. This corroborates what was conjectured in Hypothesis 1.c.[136]

Hypothesis 2 proposed that a coerced state must have room to make concessions if a compellence policy of any kind is to be successful.[137] Restated, if interstate coercion targets a rogue state's gains (i.e., the Rogue State's occupation of a third party state), it will be more likely to elicit behavior modification, or gain concessions, than if covert coercion were to target a rogue state's losses (i.e., the threat of overthrow/regime change

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[134] Hypothesis 1.a: Domestic and international political constraints, probabilities of outcomes, and perceptions of prestige and legitimacy determine an actor's decision frame.

[135] Hypothesis 1.b: A state actor's decision frame is determinant in which coercion/response strategy the actor pursues.

[136] Hypothesis 1.c: The decision frames of the coercion actors can change through time.

[137] Hypothesis 2: A coerced state must have room to make concessions.

within the Rogue State), where the Rogue State is less able to make concessions.[138][139] As the war theorist Sun Tzu opined, you must always leave your enemy a way out lest they fight to the death because there is nothing to lose otherwise.[140] Prospect theory described this phenomenon from a loss decision frame standpoint where the decision behavior is very risk accepting. However, if the enemy state were to have an acceptable way to make concessions from a reference point position in the gains domain, then the decision behavior of the enemy state would be more risk averse and therefore less willing to incur additional costs resultant from the compellence action. Collectively, these two hypotheses and sub-hypotheses are essential to the construct of the coercion model game.

B.   COVERT COERCION GAME ASSUMPTIONS

Like all models, there must be a few critical assumptions upon which the valued outcomes of the models are based. The assumptions are made to fill the information gap that exists barring the polling of state actor decision makers, and apart from the assumptions there is no absolute way of discerning what each player's ordinal preferences may be in each model situation.[141] Therefore, the ordinal values must be derived from the following rational player behavioral assumptions that I define to be transitive in nature with the first assumption listed as the most valued, and the third the least:

1.   The prestige, reputation, and credibility of the state's government, both domestically and in the international system, are of paramount value to both states.

2.   Each state prefers the ability to act as responsively and decisively as possible to a perceived security threat.

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[138] Hypothesis 2.a: If covert coercion targets a rogue state's gains (i.e., occupation of a third party state), it will be more likely to compel behavior modification, or gain concessions.

[139] Hypothesis 2.b: If covert coercion targets a rogue state's losses (i.e., threatening overthrow/regime change), where the rogue state is less able to make concessions, compellence will likely not be achieved.

[140] Thomas Schelling also recognizes this truism in his seminal work *Arms and Influence.* See Schelling, *Arms and Influence,* 45, 48.

[141] Leo J. Blanken, *Rational Empires: Institutional Incentives and Imperial Expansion* (Chicago: The University of Chicago Press, 2012), 34. Kindle edition.

3.   Each state prefers to have a "justice of cause" perception of its actions amongst its domestic population first, and the international community second.

With these assumptions in mind we can now define the games to determine strategies for both the U.S. as the coercer, and a target "Rogue State" as the coerced.

C.   COVERT COERCION GAME PLAYER STRATEGIES

In each of the four covert coercion models there will be a set of alternatives, or player strategies, that both the U.S. and its hypothetical Rogue State opponent can choose from. Each model pre-supposes that: 1) the U.S. has already elected to pursue a policy of compellence against the Rogue State, and 2) there is an active insurgent resistance force operating against the Rogue State in an effort to either affect regime change or gain political concessions substantive enough to mollify the resistance force's political objectives.

Given this proposed scenario, the models will afford the U.S. decision maker with two player strategies: 1) compel the Rogue State through the use of overt coercive diplomacy, or 2) compel the Rogue State through the use of covert coercion UW methods. In response to the U.S.'s coercive overture, the Rogue State decision maker has three player strategies that it might use to respond to both the U.S. and insurgent resistance force existential threats: 1) make the requested concessions to the U.S., but conduct Counter-Insurgency operations against the resistance force; 2) resist the U.S. coercive act by making no concessions, and conduct COIN against the resistance force; and 3) resist the U.S. coercive act by making no concessions, but make placating concessions to the resistance force.

Which strategy each player will choose is dependent upon the aforementioned decision theories and game assumptions. How each player perceives the outcome associated with each strategy based on the other player's action will be decided by the decision frame of the players as we will now see in the coercion models themselves.

D.   COVERT COERCION GAME MODELS

There are four coercion models that will be examined. Each model will analyze the outcome payoffs for both the U.S. and the Rogue State utilizing either a gains or loss decision frame for each player. The object of analysis is to examine which combination of gains and loss decision frames for both players will result in an optimal condition for covert coercion to be a suitable coercive policy option with an optimal chance of gaining a successful outcome.

1.   Model 1: Rogue State in a Loss Frame / U.S. in a Loss Frame

Model 1 examines a scenario where both the Rogue State and the U.S. are in a loss decision frame. The Model 1 scenario presupposes that the Rogue State actors find themselves in a reference point position of relative loss in accordance with their hypothetical value function. As was discussed in Chapter III, the loss frame puts the Rogue State in a posture that is typically more risk acceptant.

Several factors can lead to the causation of this condition. First, the Rogue State is under immense international and regional pressure from threats of military force, sanctions, or foreign invasion and is feeling imperiled with not way out. The Rogue State may have even already been coerced to cede territory, lands, or resources to other antagonistic regional or international states.

Second, the domestic legitimacy of the incumbent authority is waning to the point where the Rogue State feels as though its only recourse is to retain its position of authority through repressive and oppressive control measures, thereby seeding further malcontent amongst the population. Third, the Rogue State incumbent authorities have been accused rightly or wrongly of crimes against humanity from both their domestic constituents and the international or regional community, thus congealing the authorities' view that the only way out is to survive by resisting both the resistance force and the international community. This is arguably the case with the embattled Syrian President Bashar al-Assad resultant from the harsh crackdown his administration has imposed on the Syrian population as a result of insurgent uprising.

Fourth, the Rogue State is overly concerned with appearing "weak" in the eyes of the domestic and international audience, and feels as though resisting is the only way to maintain its prestige and legitimacy.[142] These are just the principal few of the many causes that could contribute towards the Rogue State identifying itself in the domain of losses.

These considerations contribute to the following ordinal preference payoffs for the Rogue State for each outcome where "six" is the most preferred outcome and "one" is the least preferred as shown in Table 1:

Table 1.   Ordinal preference payoffs for the Rogues State in a loss frame.

6	The Rogue State chooses to "Resist the U.S./Conduct COIN" if the U.S. chooses its "Overt Coercion" strategy: the Rogue State cannot be perceived as weak. In the domain of losses, resistance is therefore the Rogue State's only preferable option. The Rogue State prefers the U.S. choosing the "Overt Coercion" strategy to that of "Covert Coercion" because it reasons that the U.S. will be too constrained domestically and internationally to impart significant costs upon the Rogue State that it cannot withstand. The Rogue State also hopes to draw the U.S. into an action that will either tarnish U.S. prestige, or turn international and Rogue State domestic opinion against the U.S. for being "unjust," thereby increasing sympathy and support for the Rogue State regime.
5	The Rogue State chooses to "Resist the U.S./Conduct COIN" if the U.S. chooses its "Covert Coercion" strategy: the Rogue State cannot be perceived as weak and is threatened to the point where it identifies with the domain of losses, resistance is therefore the Rogue State's only preferable option. However, the Rogue State perceives the U.S. strategy of "Covert Coercion" as less desirable than "Overt Coercion" because it serves only to fuel the domestic insurgency and the Rogue State cannot appeal to the international community for support against an unjust U.S. action because of the plausible deniability of the covert action.

(Continues on next page)

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142 In his book *Blunder*, Zachary Shore cites this phenomenon as the cognitive trap of *exposure anxiety*. Exposure anxiety is the fear of being thought of as weak and that a failure to act in a fashion that is perceived as firm will result in the weakening of one's position. See Zachary Shore, *Blunder: Why Smart People Make Bad Decisions* (New York: Bloomsbury, 2008), 13. Page references are to the Kindle edition.

4	The Rogue State chooses to "Make Concessions to the U.S./Conduct COIN" if the U.S. chooses its "Covert Coercion" strategy: the Rogue State prefers to make concessions to the U.S. before it makes concessions to the resistance force lest the resistance force become too legitimate and powerful. The Rogue State believes that a "quiet deal" with the U.S. will cost the Rogue State less domestic and international prestige and legitimacy than if the concessions were in response to an overt coercive act. Furthermore, assumedly making concessions to the U.S. will weaken the resistance force enough for the Rogue State COIN effort to dissolve the insurgency thus allowing the Rogue State to maintain power. Ergo, a loss on the international stage does not hurt the Rogue State as much as a loss against the insurgency possibly leading to regime change.
3	The Rogue State chooses to "Make Concessions to the U.S./Conduct COIN" if the U.S. chooses its "Overt Coercion" strategy: if it must choose between making concessions to either the U.S. or the resistance force in a loss frame, the Rogue State believes that it can recover from making concessions to the U.S. but not to the resistance force.
2	The Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force" if the U.S. chooses its "Covert Coercion" strategy: this is the least preferable strategy for the Rogue State and the second to worst preferable outcome. The Rogue State can ill afford to lose further domestic legitimacy, and from a loss frame feels that if concessions to the U.S. are not palatable, then making a temporary alliance with the resistance force to "flush out" the embedded clandestine U.S. operatives is the next best thing towards gaining bargaining leverage. At the very least an alliance with the resistance force will deny the U.S. a covert option.
1	The Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force" if the U.S. chooses its "Overt Coercion" strategy: this is the least desirable outcome for the Rogue State in the loss frame. Perceptibly, not only does the Rogue State lose precious domestic legitimacy by significantly empowering the resistance force movement, but it is also besieged at the international level by the U.S..

Table 1 (continued from previous page)

Similar to the Rogue State, the U.S. policy makers also identify their reference point from a position of relative loss in congruence with their hypothetical value function for the Model 1 scenario. Like the Rogue State, the U.S. is also operating from a more risk accepting decision frame.

The first of the principal contributing factors responsible for pressing the U.S. into the self-identified domain of losses is that the U.S. may have been recently attacked in a

fashion similar to Pearl Harbor at the onset of WWII or the 9/11 al-Qaeda terrorist attacks. Such an attack would likely shape the perception that the U.S.'s national security is under a significant threat thus generating overwhelming domestic support for policy makers to eliminate the perceived existential threat. Second, the livelihood of several American citizens and/or diplomats are in peril on the order of the Iran hostage crisis in 1979 that compels an aggressive U.S. response commensurate with the amount of domestic support behind the action. Third, a WMD attack of the U.S. homeland is assessed as likely or imminent as was the case of the Cuban Missile Crisis in October 1962. Fourth, the U.S. feels threatened by a growing political or religious ideology that seeks to counter or destroy the American democratic ideology, as was the case during the height of the Cold War communist expansion that led to communism paranoia within the U.S. and its Western allies. Fifth, U.S. territory, air space, resources, alliances, or other security interest is threatened to the point that the domestic opinion demands an overt response to counter and assuage the threat. In all of the above cases it should be noted that the domestic opinion is moved to support the policy makers in pursuing coercive action against the Rogue State threat—even to the point of war which is the definitive manifestation of coercion. Such domestic support significantly reduces the political constraints placed upon policy makers that make overt coercion not only likely, but also necessary to quench the domestic appetite for justice and restore a sense of security for the U.S. population.

These considerations contribute to the following ordinal preference payoffs for the U.S. for each outcome where "six" is the most preferred outcome and "one" is the least preferred as shown in Table 2:

Table 2.   Ordinal preference payoffs for the U.S. in a loss frame.

6	The U.S. chooses its "Overt Coercion" strategy and the Rogue State chooses to "Make Concessions to the U.S./Conduct COIN": the U.S. is not as constrained domestically in the loss frame and it feels compelled to act overtly to counter the Rogue State threat with a domestic and international justice of cause. Therefore, the U.S. will not want to subvert domestic and international support for coercive action by pursuing the secretive and deception filled method of covert coercion.
5	The U.S. chooses its "Covert Coercion" strategy and the Rogue State chooses to "Make Concessions to the U.S./Conduct COIN:" while the U.S. does not prefer the less politically legitimate covert coercion recourse to that of overt coercion, the U.S. does prefer the Rogue State to make the necessary concessions to the U.S. juxtaposed to any of the other Rogue State strategies.
4	The U.S. chooses its "Overt Coercion" strategy and the Rogue State chooses to "Resist the U.S./Conduct COIN:" if the Rogue State is to resist the U.S., the U.S. still prefers to coerce overtly given the greater likelihood of maintaining a justice of cause perception and claim to legitimacy of action with domestic and international support. The U.S. also prefers to see the uncooperative Rogue State plagued in dealing with an insurgency further bleeding away the Rogue State's prestige and legitimacy.
3	The U.S. chooses its "Covert Coercion" strategy and the Rogue State chooses to "Resist the U.S./Conduct COIN:" the U.S. would prefer to help the resistance force towards attaining its political goals and objectives than to have to continue to deal with an uncooperative Rogue State regime.
2	The U.S. chooses its "Overt Coercion" strategy and the Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force:" this is the second to least preferable outcome for the U.S.. The Rogue State's alliance with the resistance force negates the possibility of a regime change to a potentially more cooperative Rogue State governing authority for the U.S. to deal with.
1	The U.S. chooses its "Covert Coercion" strategy and the Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force:" this is the least desirable outcome for the U.S. in the loss frame. If the Rogue State were to ally with the resistance force while the U.S. was funding and supporting the same organization, the situation could compromise clandestine operatives working with the resistance forces and severely damage the U.S.'s prestige and legitimacy of action.

Collectively, the Rogue State and U.S. ordinal preference payoffs will now allow Model 1 shown below in Figure 5 to be examined.

Rogue State Strategies
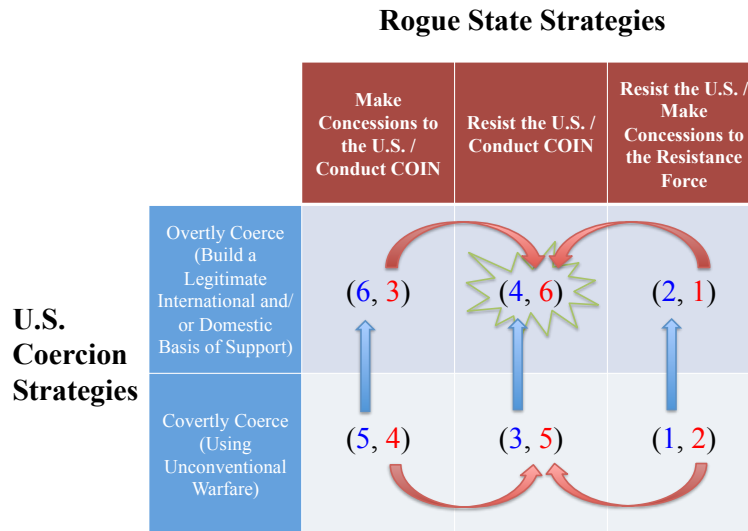
Figure 5.   Model 1: Rogue State in a loss frame / U.S. in a loss frame.

Both the U.S. and the Rogue State use the maximin decision criterion, which is consistent with each player's objectives to maximize the outcome with respect to both players' payoffs determined by their decision frames.[143] As the game is played with the movement diagram, an equilibrium outcome is reached when the U.S. plays its "Overt Coercion" strategy and the Rogue State responds with its "Resist the U.S./Conduct Coin" strategy. Because the partial conflict game does not involve strategic moves with communication, both the U.S.'s "Overt Coercion" and the Rogue State's "Resist the U.S./Conduct COIN" strategies can be identified as dominant strategies for each respective player.

With both players in a loss frame, the outcome of the model produces no concessions while imposing costs on both players. An example of this type of coercion

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[143] In partial conflict, one-time decision games it is assumed that both players will choose their maximin strategy since both player are trying to maximize their outcomes with respect to each players' respective ordinal preference payoff scale commensurate with their decision frame.

model includes the Korean War stalemate that resulted between the South Koreans and the U.S. led NATO coalition against North Korea sponsored by communist China.

2. Model 2: Rogue State in a Gains Frame / U.S. in a Loss Frame

Model 2 examines the coercion conflict game when the Rogue State is in a gains frame and the U.S. is in a loss frame. Unlike Model 1, the Rogue State now approaches the coercion game from a reference point position of relative gains, which shifts its risk behavior towards a more averse posture.

A principal influence that contributes towards this condition could be the acquisition of new territory. If the Rogue State were to annex new lands that belonged formerly to a third party state, the gains frame logic suggests that the Rogue State would not be willing to incur as much cost to retain the newly acquired territory juxtaposed to having the Rogue State's original sovereign territories threatened. This idea is compatible with the notion that a nation will fight harder for its homeland than for a foreign land acquired in an imperialistic conquest.

Second, the Rogue State could be in a gains frame resultant from newly gained regional political influence. A great example of this phenomenon is Iran's growing political influence extending to Lebanon, Egypt, Turkey, and Iraq through proxy organizations like Hezbollah, Hamas, Kurdish PKK, and Iraqi Da'wa and SCIRI—now ISCI—respectively. Though Iran has not annexed these neighboring countries outright, Iran's resultant growing political influence in the region is largely undisputable. Some of this influence is reasonably new and could therefore be argued as a relative gain for Iran. Similarly, if the Rogue State were to gain "soft" political influence in neighboring countries and the U.S. wanted to target those relative gains through coercion, prospect theory's principles suggest that the Rogue State may be more risk averse in protecting those gains relative to its own domestic sovereignty.

Third, the Rogue State may have gained some other security advantage such as a forward deployed military instillation or ICBM site. This is similar to the situation when USSR First Secretary Nikita Khrushchev forward deployed nuclear missiles to Cuba in the summer and fall of 1962, an action that precipitated the Cuban Missile Crisis.

The ordinal preferences for the Rogue State operating in the gains frame will be different than the loss frame. Specifically, by virtue of operating from a position of relative gains, the Rogue State is now in a better position to give concessions to a coercive demand. The risk averse or avoidance behavior also highlights the unwillingness of the Rogue State to incur too much cost by resisting coercive action as is noted in the ordinal preference payoffs shown in Table 3:

Table 3.   Ordinal preference payoffs for the Rogue State in a gains frame.

6	The Rogue State chooses to "Make Concessions to the U.S./Conduct COIN" if the U.S. chooses its "Covert Coercion" strategy: the Rogue State's optimal strategy and outcome for a gains frame decision that is risk averse. The gains frame perspective of costs imposed by the U.S.'s covert coercive efforts leads the Rogues State to discretely make required concessions to the U.S. in an effort to prevent further exogenous support to a pestilent insurgency. The Rogue State prefers the discrete form of covert coercion to that of overt coercion because concessions do not come at a price of looking as weak internationally or domestically. The Rogue State also prefers to make concessions to the U.S. over the resistance force because the insurgency problem threatens the domestic legitimacy of the Rogue State government thereby maintaining a reference point closer to the domain of losses than concessions to the U.S. might.
5	The Rogue State chooses to "Make Concessions to the U.S./Conduct COIN" if the U.S. chooses its "Overt Coercion" strategy: the optimal strategy and second best outcome for the Rogue State. Though the Rogue State would prefer to make concessions in a less open fashion so as to not damage its international or domestic prestige by appearing weak, the Rogue State still prefers to make concessions to the U.S. over the resistance force based on ordinal placement along the value function that suggests concessions towards the resistance force would hurt more than concessions to the U.S. because concessions to the resistance force is closer to the domain of losses.

(Continues on next page)

4	The Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force" if the U.S. chooses its "Covert Coercion" strategy: though the Rogue State would prefer to make concessions further away from its domestic sphere and domain of losses, the Rogue State's risk avoidance nature determined by the gains frame suggests that the Rogue State would prefer to abdicate some power to the resistance force than to incur additional costs and potentially lose power completely. Under these conditions the Rogue State would prefer to ally itself with the resistance force in an effort to stymie U.S. covert coercive efforts, and possibly compromise or capture U.S. clandestine operatives for the purposes of diminishing U.S. prestige internationally while gaining bargaining leverage. The U.S.'s overt coercion would not afford the Rogue State such an opportunity.
3	The Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force" if the U.S. chooses its "Overt Coercion" strategy: though it would prefer to make concessions under one of the previous three conditions, the Rogue State would still prefer to make concessions to avoid greater incurrence of cost. Additionally, making concessions to the resistance force improves the Rogue State's position to resist the U.S.'s overt coercion methods.
2	The Rogue State chooses to "Resist the U.S./Conduct COIN" if the U.S. chooses its "Covert Coercion" strategy: the least preferred strategy and the second to worst outcome for the Rogue State in the gains frame. Resisting both the U.S. and the resistance force will incur the greatest cost for the Rogue State. However, with the U.S. pursuant of covert coercion the Rogue State reasons that dealing with the insurgent threat sponsored by the U.S. is better than dealing with both the insurgency and overt coercive pressure from the U.S. which will challenge the Rogue State's prestige internationally.
1	The Rogue State chooses to "Resist the U.S./Conduct COIN" if the U.S. chooses its "Overt Coercion" strategy: the least preferred strategy and outcome for the Rogue State in a gains frame. Additional costs are incurred at both the domestic and international levels and the Rogue State's prestige could be severely degraded.

Table 3 (continued from previous page)

In contrast to the Rogue State, the U.S. is still in a loss frame for the Model 2 scenario. The contributing causal factors discussed in Model 1 apply to the U.S. still in Model 2. The U.S. is still operating in the domain of losses where the decision behavior is risk accepting and domestic, and possibly international, opinion does not constrain U.S. policy makers. Therefore, the U.S.'s ordinal preference payoffs remain unchanged as shown in Table 2. With the payoffs for both players defined the Model 2 coercion game shown in Figure 6 can now be examined.

Rogue State Strategies

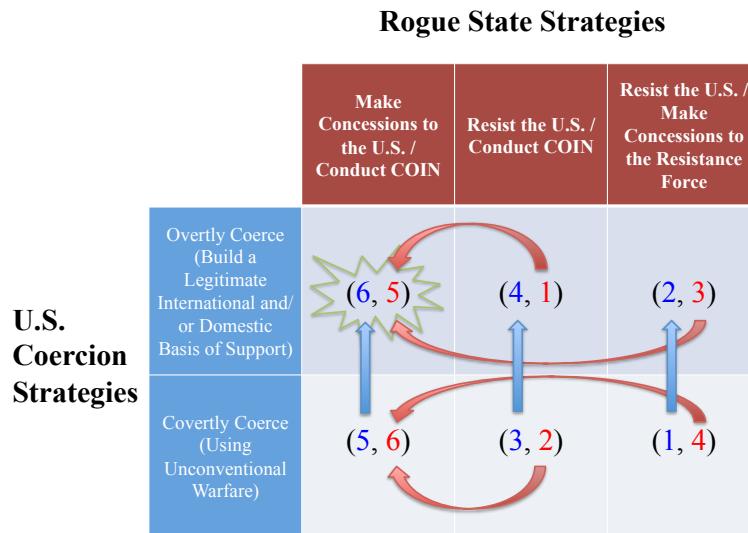|		Make Concessions to the U.S. / Conduct COIN	Resist the U.S. / Conduct COIN	Resist the U.S. / Make Concessions to the Resistance Force
U.S. Coercion Strategies	Overtly Coerce (Build a Legitimate International and/or Domestic Basis of Support)	(6, 5)	(4, 1)	(2, 3)
	Covertly Coerce (Using Unconventional Warfare)	(5, 6)	(3, 2)	(1, 4)

Figure 6.   Model 2: Rogue State in a gains frame / U.S. in a loss frame.

Like Model 1, both the U.S. and the Rogue State apply the maximin decision criterion as the players try to maximize their outcomes for a one-time decision in a partial conflict game without communication. The Rogue State's recalibrated payoffs for a gains decision frame coupled with the U.S.'s develop the movement diagram shown in Figure 6. An equilibrium outcome results when the U.S. plays its "Overt Coercion" strategy and the Rogue State responds by playing its "Make Concessions to the U.S./Conduct COIN" strategy. It may also be said that because this is a partial conflict game without strategic moves resulting from communication, the U.S. still has a dominant strategy of "Overt Coercion" while in the loss frame while the Rogue State's dominant strategy now becomes "Make Concessions to the U.S./Conduct COIN," which is different from the Rogue State's previous dominant strategy in the loss frame.

The equilibrium outcome is the most desirable outcome for the U.S. in the loss frame when compared with Model 1. The coercive action is perceived as "just" and the necessary concessions are obtained from the Rogue State. A historical example of this game could be found in the Cuban Missile Crisis. Though President Kennedy did make some concessions of his own with regards to removing U.S. missile systems from Turkey, the overt coercive mechanism of the naval blockade coupled with the threat of

invading Cuba was an effective imposition of cost for Khrushchev and his advisors to consider from the USSR's gains frame point of reference.

3. Model 3: Rogue State in a Loss Frame / U.S. in a Gains Frame

The Model 3 scenario flips the decision frames of Model 2 to place the Rogue State back into a loss frame and the U.S. into a gains frame. Like the coercion game in Model 1, the Rogue State's reference point is in the domain of losses which produces a more risk accepting decision behavior. The causal factors contributing towards the Rogue State's position in the domain of losses also mirror the factors discussed with Model 1. Consequently, the Rogue State's ordinal preference payoffs utilized in Model 1, depicted in Table 1, are to be utilized for Model 3.

Conversely, the U.S. now identifies its reference point along the value function in the domain of gains which brings the U.S.'s decision behavior into a more risk averse or avoidance mode. The first probable causal factor inducing the U.S. into a gains mode is war weariness. To explicate, the U.S. may have recently gained a brief period of peace at the expense of tremendous costs in blood and treasure from a previous conflict. The recent gain of peace makes the prospect of another armed conflict unsavory to the American public and/or leadership. This was the case following almost every major conflict the U.S. engaged in in the 20th, and now 21st, century. For example, the U.S. sought to keep the cost of coercion as low and opaque as possible to the American public in the early Cold War years of the post WWII era. Though not every coercive overture utilized covert action approaches—the Korean War is the principal exception—the period of the Dwight D. Eisenhower administration during the 1953–1961 period would become known as the "golden age of covert action." Coincidentally, this was also a period of tremendous economic growth in the U.S..

This introduces the second factor, periods of economic prosperity, expansion, and growth may induce the U.S. towards a gains frame along the value function. This was the case not only in the 1950s, but also more recently in the economic boom of the 1990s during which the U.S. relied increasingly upon the use of SOF in smaller Irregular Warfare conflicts like Operation Just Cause in Panama and Operation Restore Hope in

Somalia. As an inverse corollary to the U.S. in a loss frame, the U.S. in a gains frame operates in a much more constrained political space where significant risk aversion to costs exists. The domestic and international political constraints coupled with national security exigencies thereby create the conditions for covert coercion to be the preferred strategy of compellence.

With the U.S.'s gains frame causal factors defined, the ordinal preference payoffs for the U.S. can now be described in Table 4:

Table 4.   Ordinal preference payoffs for the U.S. in a gains frame.

6	The U.S. chooses its "Covert Coercion" strategy and the Rogue State chooses to "Make Concessions to the U.S./Conduct COIN:" this is the optimal strategy and outcome for the U.S.. The gains frame and subsequent risk aversion attitude towards costs in blood and treasure that is determinant of a politically constrained environment makes "Covert Coercion" the preferred strategy. The desired response to any manifestation of coercion is the gaining of concessions from the Rogue State.
5	The U.S. chooses its "Overt Coercion" strategy and the Rogue State chooses to "Make Concessions to the U.S./Conduct COIN:" though "Overt Coercion" is not the optimal strategy for the U.S. in a gains frame, the outcome of gaining concessions from the Rogue State is preferred to pursuing "Covert Coercion" and failing.
4	The U.S. chooses its "Covert Coercion" strategy and the Rogue State chooses to "Resist the U.S./Conduct COIN:" this is not the preferred outcome, but the gains frame renders "Covert Coercion" as the preferred strategy. The U.S. reasons that if it is to attempt a coercive policy and fail, the U.S. will loose less prestige and incur less cost than the alternative "Overt Coercion" strategy.
3	The U.S. chooses its "Overt Coercion" strategy and the Rogue State chooses to "Resist the U.S./Conduct COIN:" this is neither the preferred outcome nor strategy, but this outcome is preferred to the Rogue State making concessions with the resistance force. The U.S. reasons that it is better to have the uncooperative Rogue State plagued in dealing with an insurgency, thereby further eroding the Rogue State's prestige and legitimacy, than for the Rogue State to be at peace with the resistance force and collectively unified against the U.S..

2	The U.S. chooses its "Overt Coercion" strategy and the Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force:" the U.S. prefers "Overt Coercion" to "Covert Coercion" because of the potential international and domestic damage that could result if the U.S. were to have its clandestine operatives compromised and exposed as a result of the Rogue State cutting a deal with the resistance force. The U.S. reasons that it would be better to try "Overt Coercion" and fail than to experience the loss of credibility, prestige, and justice of cause in an exposed covert action failure.
1	The U.S. chooses its "Covert Coercion" strategy and the Rogue State chooses to "Resist the U.S./Make Concessions to the Resistance Force:" though "Covert Coercion" is largely the preferred strategy in a gains frame, the outcome resulting in the compromise of clandestine operatives is the least preferred.

Table 4 (continued from previous page)

With the ordinal preference payoffs defined for both players, Model 3 can now be examined in Figure 7.
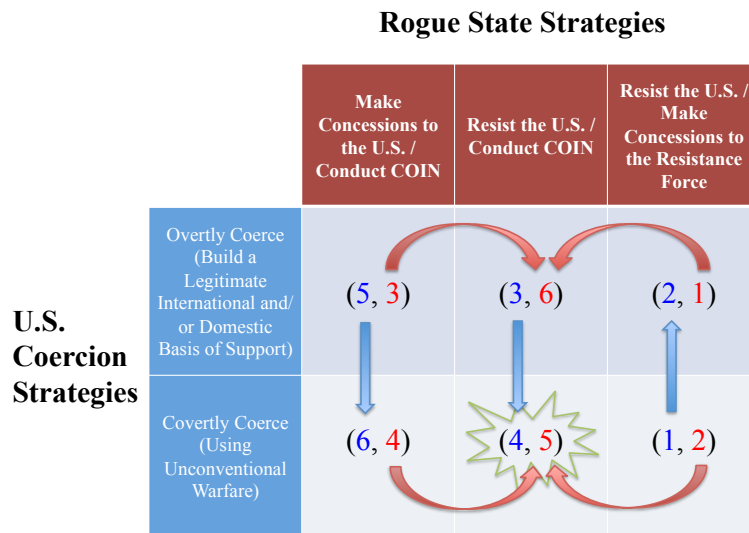
Figure 7.   Model 3: Rogue State in a loss frame / U.S. in a gains frame.

Because the game depicted in Model 3 shown in Figure 7 is partial conflict with no strategic moves based on communication, the Rogue State has a dominant strategy of "Resist the U.S./Conduct COIN" similar to Model 1. Conversely, the U.S. does not have a dominant strategy in the game. Additionally, this model portrays the Rogue State choosing to apply a maximin criterion, which is also the Rogue State's dominant strategy

similar to the previous two models. The U.S. recognizes that the Rogue State has a dominant strategy of "Resisting the U.S./Conduct COIN" and will seek to maximize its outcome by playing its "Covert Coercion" strategy. The movement diagram depicts the game's equilibrium outcome when the U.S. chooses to use its "Covert Coercion" strategy and the Rogue State responds with its "Resist the U.S./Conduct COIN" strategy.

Though the Model 3 coercion game does not result in the desired outcome of gaining concessions from the Rogue State, the gains frame leads the U.S. to select a strategy that does not incur as much cost in political prestige or American blood as an overt coercion enterprise might. An example of this model can be found in the U.S.'s sponsorship of the anti-Sandinistas—commonly referred to as Contras—that fought against the communist government in Nicaragua during the mid-1980s. President Ronald Reagan hoped to use the proxy resistance force as a tool to secure the release of American hostages and foster the spread of democracy in Latin America during the process. However, the enterprise would ultimately fail.

4.   Model 4: Rogue State in a Gains Frame / U.S. in a Gains Frame

The last scenario is depicted in Model 4. In this model both the Rogue State and the U.S. are operating in a gains decision frame. Similar to Model 2, the Rogue State's reference point is self-identified in the domain of gains along the Rogue State's value function thus defining the Rogue State's risk behavior as averse. The causal factors discussed in Model 2 also apply to Model 4 as do the ordinal preference payoffs depicted in Table 3.

Similarly, the U.S. is also identifies its reference point in the domain of gains according to the U.S.'s value function. Like Model 3, the U.S. will still maintain a risk avoidance decision posture for the same reasons discussed in the previous model's value analysis. The ordinal preference payoffs, shown in Table 4, for the U.S. also remain unchanged from Model 3. With the ordinal preference payoffs defined, the Model 4 coercion game shown in Figure 8 can be examined.

Rogue State Strategies

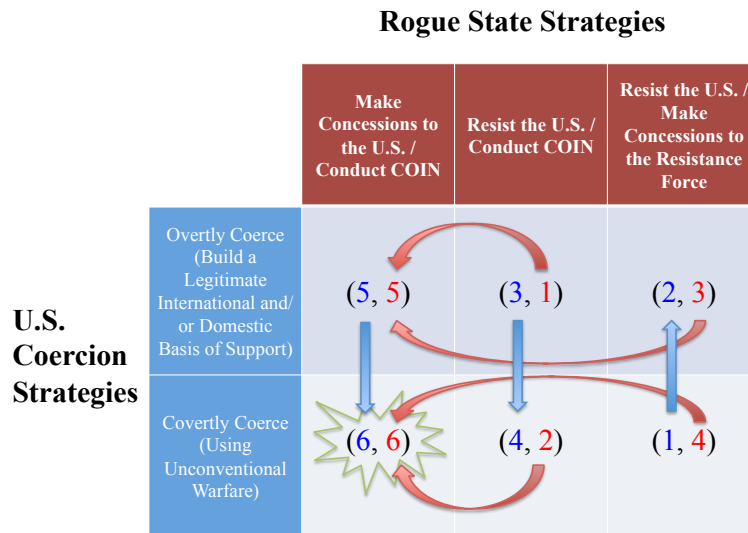|	Make Concessions to the U.S. / Conduct COIN	Resist the U.S. / Conduct COIN	Resist the U.S. / Make Concessions to the Resistance Force
Overtly Coerce (Build a Legitimate International and/ or Domestic Basis of Support)	(5, 5)	(3, 1)	(2, 3)
Covertly Coerce (Using Unconventional Warfare)	(6, 6)	(4, 2)	(1, 4)

U.S. Coercion Strategies

Figure 8.   Model 4: Rogue State in a gains frame / U.S. in a gains frame.

Because the game depicted by Model 4 shown in Figure 8 is partial conflict with no strategic moves based on communication, the Rogue State has a dominant strategy of "Make Concessions to the U.S./Conduct COIN," which is similar to Model 2. Conversely, like Model 3 the U.S. does not have a dominant strategy in the game. Additionally, this model portrays the Rogue State choosing to apply a maximin criterion, which is also the Rogue State's dominant strategy similar to the previous three models. The U.S. recognizes that the Rogue State has a dominant strategy of "Make Concessions to the U.S./Conduct COIN" and will seek to maximize its outcome by playing its "Covert Coercion" strategy. The movement diagram shows the game's equilibrium outcome to be the U.S. playing its "Covert Coercion" strategy while the Rogue State responds with its "Make Concessions to the U.S./Conduct COIN" strategy.

The outcome is optimal for the U.S. as covert coercion allows the policy maker to bypass domestic and/or international political constraints resultant from the gains frame environment. The result of Model 4 is significant in that it answers the research question that was originally posited in Chapter I. The decision frames required for covert coercion to be a viable U.S. coercive policy option exist in the domain of gains for both the U.S. and the Rogue State. An example of this model displayed in the context of a historical

UW case is the U.S.'s sponsorship of the Afghanistan Mujahidin in the coercion of the USSR to withdrawal its military forces from Afghanistan in the 1980s. Another case example can be found in the CIA sponsorship of the Tibetan resistance against the People's Republic of China during the 1960s. President Richard Nixon was able to leverage this covert coercion effort to gain diplomatic concessions from Mao Tse-tung for rapprochement to further exploit soured Sino-Soviet relations in the U.S.'s effort to neutralize a key communist alliance in the Cold War.[144] A third example can be found in Iran's proxy use of Hezbollah in Lebanon to covertly coerce Israel into withdrawing its defense forces from Lebanon in the mid 1980s.

E.   A COVERT COERCION DECISION FRAME TYPOLOGY

The above four coercion model outcomes can be depicted in a decision frame typology shown in Figure 9:

	Rogue State Loss Frame	Rogue State Gains Frame
U.S. Gains Frame	U.S. Prefers Covert Coercion → Outcome Unsuccessful	U.S. Prefers Covert Coercion → Outcome Successful
U.S. Loss Frame	U.S. Prefers Overt Coercion → Outcome Unsuccessful	U.S. Prefers Overt Coercion → Outcome Successful

Figure 9.   Covert coercion decision frame typology.

The covert coercion decision frame typology provides an illustrative analysis or the coercion models' outcomes. The rows of the matrix depict the binary decision

[144] Mikel Dunham, *Buddha's Warriors: The Story of the CIA-Backed Tibetan Freedom Fighters, the Chinese Communist Invasion, and the Ultimate Fall of Tibet* (New York: Penguin, 2004), 382–3.

frames—gain or loss—for the U.S. while the columns portray the Rogue State's decision frames. The typology exhibits the thesis hypotheses discussed at the beginning of the chapter by showing the effects of the players' decision frames on the outcome of coercion. Similarly, as was depicted in the coercion game Models 2 and 4, the decision frames were determinant of whether or not the Rogue State would be in a position to make concessions demanded by the U.S..

Model 4 was of significant interest as it suggested that the U.S. could successfully pursue a covert coercion policy if the action were to target the Rogue State's assets located in the domain of gains in accordance with the Rogue State's value function. Corroborating this notion, the examples mentioned in the Model 4 discussion intimated that the further away from the Rogue State's domain of losses the targeted assets for coercion were, the more risk averse the Rogue State would be to incurring costs resultant from the U.S.'s compellent action. Restated, there may be a relationship between the successes of covert coercion's targeting Rogue State political, territorial, informational, military, or economical peripheral gains vis-à-vis waging a limited UW campaign against the Rogue State authority's existence and livelihood found in the domain of losses for the limited purpose of coercion. In the latter scenario the Rogue State has no room to make concessions and will predictably fight as though it has nothing to lose. In this situation, it may be more prudent to pursue the unreserved UW objective of instituting a regime change.

Bringing this observation into the context of the contemporary interstate environment, an illustration concerning Iran's widening influence can be offered. Some security policy analysts might favor a covert coercion campaign within Iran itself to generate behavior modification towards its meddling in regional affairs. However, the analysis conducted in this chapter suggests that this will only serve to embolden the resistance of the Iranian authorities towards the compellent action as it is targeting Iran's domestic legitimacy—which can be found in the domain of losses on the Iranian value function. Conversely, if the U.S. were to wage a covert coercion campaign against Iran's peripheral political gains themselves in Lebanon, Kurdistan, Egypt and Iraq the U.S. may have a better chance at gaining concessions from Iran in removing its military influences

within exogenous states because covert coercion is targeting Iranian assets in the domain of gains in accordance with Iran's value function.

This notion is reinforced by the views of war philosophers and strategists Sun Tzu and B.H. Liddell Hart. Both advocate an indirect approach that targets an opponent's peripheral assets so as to not force them into a fight or die situation provoked by directly targeting the opponent's assets located in the domain of losses. The idea of coercion is to invoke behavior modification by making resistance to concessions just costly enough without breaking the bank for the Rogue State, unless a more total political objective of regime change is desirable.

F.   CHAPTER CONCLUSION

In summary, this chapter utilized models that have been constructed using prospect theory decision principles with the application of coercion policy towards a hypothetical Rogue State actor. The thesis hypotheses re-introduced at the beginning of the chapter proposed that decision frames have a governing effect on the successful outcome of covert coercion, and the ability of the Rogue State to make concessions—also linked to decision frames—is a principal determining factor of the covert coercion outcome. The assumptions and values of the coercion models were then introduced, which led to the analysis of four models by presenting the interaction of the U.S. and Rogue State in a exhaustive combination of gains and loss decision frames for each player. A covert coercion decision frame typology was then introduced to visually summarize the outcomes of the four coercion models and depict the logical value of decision frames on the effectual outcome of a covert coercion policy. The typology suggests that Rogue State concessions in response to a coercive action are more likely to occur when the Rogue State is in a gains frame. Furthermore, in answering the research question posited in Chapter I, I concluded that the gains frame for the U.S. would result in covert coercion becoming a viable coercive policy option whereas the loss frame impels the U.S. towards an overt coercion approach instead. Moreover, a gains frame for both the U.S. and the Rogue State is a decision frame—and consequently political condition—that will likely result in the successful application of covert coercion.

V. CONCLUSION

"For to win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill. Thus, what is of supreme importance in war is to attack the enemy's strategy; next best is to disrupt his alliances; the next best is to attack his army; the worst policy is to attack cities. Attack cities only when there is no alternative."—Sun Tzu[145]

Statecraft exhibited through diplomacy is the highest order of conflict resolution that one could aspire to. Nevertheless, the interstate system will always be rife with actors that pursue interests spawned from ideals malign to U.S. national security interests, thereby requiring coercive force to compel an amenable resolution. Traditional coercive diplomacy for the democratic state can be a laborious process constrained politically at both the domestic and international levels. Covert action in its paramilitary and political action manifestation provides an indirect alternative to traditional overt coercive diplomacy.

Analyzing covert coercion's suitability through the lens of decision and prospect theory provided some insight as to when covert coercion may be considered to be a viable coercive policy option. Prospect theory's foundational principles provided the underpinning premise that this thesis's hypotheses were founded upon. The explored and theoretically tested hypotheses were:

Hypothesis 1: The decision frames of the coercion actors largely determine the success or failure of covert coercion.

> **Hypothesis 1.a:** Domestic and international political constraints, probabilities of outcomes, and perceptions of prestige and legitimacy determine an actor's decision frame.
>
> **Hypothesis 1.b:** A state actor's decision frame is determinant in which coercion/response strategy the actor pursues.
>
> **Hypothesis 1.c:** The decision frames of the coercion actors can change through time.

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[145] SunTzu, *The Art of War*, 77–8.

Hypothesis 2: A coerced state must have room to make concessions.

> **Hypothesis 2.a:** If covert coercion targets a rogue state's gains (i.e., occupation of a third party state), it will be more likely to compel behavior modification, or gain concessions.

> **Hypothesis 2.b:** If covert coercion targets a rogue state's losses (i.e., threatening overthrow/regime change), where the rogue state is less able to make concessions, compellence will likely not be achieved.

Chapter II introduced covert coercion as a potential substitute for traditional overt coercive diplomacy. The Chapter's discussion also identified potential deficiencies associated with the inappropriate or capricious employment of covert action; especially that of political action and paramilitary operations, which are closely associated with unconventional warfare. Nevertheless, there are also certain conditions under which covert coercive diplomacy may be viable, if not preferable. I posited two such primary conditions where covert coercion may be achievable: 1) a domestic or internationally constrained environment that does not allow for the coercing state to pursue "legitimate" offensive coercive action without losing domestic or international prestige; 2) covert coercion may be employed against an opponent state that has both room to make concessions to the coercive act and is in a decision frame that fosters concession as opposed to incurring the costs of the coercive act. While these conditions are in no way categorical or conclusive, they do accentuate the possibility that covert action can, and in some cases, should be used as a viable complement to coercive diplomacy.

Chapter III introduced the core theories foundational to the models of conflict necessary to analyze the relevant decision frames for practitioners of interstate coercive policy. Decision theory was presented as a broad domain that seeks to analyze the logic of complex decisions. In the tradition of Bayesian decision theory, MEU has long been defended as the gold standard for explaining *rational* decision logic. However, MEU is limited in its ability to fully incorporate the cognitive dimension of human decision behavior in one-time decisions under risk where the probabilities of chance are not known or subjectively ascribed at best. Daniel Kahneman and Amos Tversky's prospect theory offers a compelling alternative model for rational decision behavior under risk.

Unlike MEU, prospect theory posits that individuals do not think of outcomes in terms of net assets gained towards maximizing one's utility; rather, people tend to think more in terms of gains and losses when it comes to risk. Furthermore, prospect theory suggests that individuals are prone to overweight losses with respect to comparable gains, and will likely be risk averse in the domain of gains contrasted with a more risk accepting behavior in the losses domain. The result is that the decision maker will operate in either a *gains frame* or a *loss frame* in relation to their reference point when the decision maker is cognitively analyzing a choice between prospective alternatives. Consequently, the decision frame is critical to determining a decision maker's risk behavior and valued preferences when he or she is considering one-time decisions under risk.

Chapter IV utilized game theory models of conflict to analyze the relationship of Prospect Theory decision principles with the application of coercion policy towards a hypothetical Rogue State actor. The resulting analysis produced a covert coercion decision frame typology to visually summarize the outcomes of the four coercion models and depict the logical value of decision frames on the effectual outcome of a covert coercion policy. The typology suggests that Rogue State concessions in response to a coercive action are more likely to occur when the Rogue State is in a gains frame. Furthermore, in answering the research question posited in Chapter I, I concluded that the gains frame for the U.S. would result in covert coercion becoming a viable coercive policy option whereas the loss frame impels the U.S. towards an overt coercion approach instead. Moreover, a gains frame for both the U.S. and the Rogue State is a decision frame—and consequently political condition—that will likely result in the successful application of covert coercion.

There is still much more research and study to be done on the topic of covert coercion. I made some simplifying assumptions in my analysis to hold other independent variables constant to focus on the interaction between two state actors. One such variable that deserves further study is the relationship between the U.S. and the proxy covert coercion force. Specifically, are there unique antecedent or operational conditions that will lead to a successful UW campaign in pursuant of compellence? How should the relationship between the U.S. and the proxy force by defined in the context of covert

coercion? Is it different than other UW campaigns that pursue either disruption or instituting regime change through the overthrow of a government or occupying power? These questions, and others, are valid ones and should be explored further.

In the new era, the U.S. is endeavoring to establish a global "light" footprint in order to build networks and capacity with allied partners towards the political aim of conflict prevention. This strategy is increasingly preferred to what until now has been a coercive policy based on unilateral direct action in reaction to a threat. Covert coercion fits nicely into this new grand strategy paradigm as it focuses on indirect approaches that utilize indigenous host-nation networks to achieve compellent effects. However, this analysis has shown that there is no one "magic bullet" to successfully achieve concessions in response to a compellent action, if at all. Rather, it is a decision under risk influenced by the cognitive perceptions of the principal decision makers that have the heavy responsibility to discernably assess the mind of the antithetical state. Covert coercion is a viable option, but like all instruments of foreign policy it must be applied judiciously and correctly for success.

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