Competition or Cooperation: The Case of al-Qaeda and the Taliban in Afghanistan 1996-2001

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Abstract: al-Qaeda was formed in 1988 in Saudi Arabia during the Soviet invasion of Afghanistan, in which bin Laden was personally fighting with the Afghan mujahideen against the Soviet occupation. The Taliban, a regionally focused Afghan terrorist organization, was formed in 1994. Upon al-Qaeda being forced out of Saudi Arabia and later Sudan, it settled in Afghanistan, where the Taliban were already operating. This paper explores the interactions between these two organizations to understand why they chose to cooperate during this time frame and how this cooperation enhanced the productivity of each organization, relative to the costs of rivalry. Because the Taliban and al-Qaeda decided to cooperate rather than view each other as rivals, they were able to direct resources more effectively towards their organizational goals. This paper will examine the empirical relationship between 1996 and 2001, a period when both groups shared the same territory, and will employ the theory of the firm and cost-benefit analysis to understand why the collusion was successful. The analysis will conclude when the War on Terror begins, which changes regional dynamics with the United States' intervention in Afghanistan and the expulsion of al-Qaeda and the Taliban to Pakistan.

JEL Codes: H41; L31; L13

Keywords: Terrorism, Public Choice, Collusion, Competition

I. INTRODUCTION

This paper seeks to explain why al-Qaeda and the Taliban, who found themselves in the same areas of Afghanistan from 1996-2001, had a high degree of cooperation despite their separate political and practical goals and destructive natures. This paper will offer two unique contributions to address this puzzle: a theoretical framework for understanding their decision to cooperate and a case study illustrating this framework. The thesis is that al-Qaeda and the Taliban rationally and strategically cooperated from 1996-2001 because their goals were compatible at that time and the institutional environment facilitated cooperation; after 2001, the conditions and institutions changed forcing them from Afghanistan and adjusting their goals from offensive pursuit of their missions to a defense posture of fleeing US forces at the start of the War on Terrorism in the wake of the September, 2001 attacks.

The theoretical framework demonstrates why terrorist firms organize and the conditions under which they might cooperate, despite their different agendas and propensity to use violence to achieve their goals. First, similar to the logic of for-profit firms, terrorist groups create 'firms' to achieve goals more effectively than individuals acting alone. Second, terrorist firms respond rationally to incentives, costs, tradeoffs, and competitive pressures in a quasi-market environment. Third, when terrorist groups in proximity compete against or conflict with one another, it leads to zero-sum or potentially negative-sum outcomes for the members of terrorist groups. Fourth, cooperation and collaboration between terrorist groups in proximity can increase operational effectiveness, but there are some tradeoffs with efficiency. Fifth, the decision to compete or cooperate depends on the compatibility of their goals and the institutional environment in which they collaborate. al-Qaeda was formed in 1988 in Saudi Arabia during the Soviet invasion of Afghanistan, in which bin Laden joined the Afghan *mujahideen* fight against the Soviet occupation. The Taliban, a regionally focused Afghan terrorist organization, was formed in 1994 and emerged in Afghanistan, also rooted in a response to the Soviet occupation, led by Mullah Omar. al-Qaeda was formed and led by Osama bin Laden until he died in 2011, a Saudi native and the son of a billionaire. He had a network and resources in Saudi Arabia. Still, he was forced into exile under US-allied pressure and took al-Qaeda to Sudan in 1991, and finally, Afghanistan in 1996, where the Taliban were already operating. The theory of the firm literature offers insights into why al-Qaeda and the Taliban chose to cooperate, despite their differing organizational missions and goals. This provides insight into why and when we might expect terrorist organizations to operate, and whether, under those conditions, terrorism is more effective.

The interactive effects between al-Qaeda and the Taliban from 1996 to 2001 present a unique empirical opportunity to understand why each organization faced incentives that led to cooperative behavior. This has not and will not always be the case for terrorist non-profit firms, many of which emerged in the wake of the War on Terrorism. From a cost-benefit perspective, this allowed each group to further its mission rather than directing internal resources toward "firm" competition and rivalry. This paper presents a case study approach, guided by a theoretical framework, to facilitate the interpretation of events.

In doing so, this paper will fill a gap in the literature on why and when terrorist groups choose to cooperate or defect from cooperation and under what circumstances. A great deal of the literature focuses on terrorist collaboration and its effects (Phillips 2014; Asal et al. 2016; Bapat and Bond 2012; Moghadam 2008b; Jones and Libicki 2008; Karmon 2005), tactical cooperation (Horowitz et al. 2019), and cooperative networks (Cui et al 2024). Some literature explores industrial organization theory (Bradley 2006) and agency theory to understand how terrorists manage their members (Shapiro 2013, 2015). There are gaps in understanding the costs and benefits of group competition versus cooperation, as well as how different terrorist organizations manage these tensions.

The Taliban and al-Qaeda were together in Afghanistan during the third wave of Islamic terrorism (Shugart 2006), ushered in by the Iranian Revolution in 1979 (Enders and Sandler 2000). It was exacerbated in Central Asia by the withdrawal of Soviet troops in their war against the *mujahideen* and fueled in the Middle East by hostility to American support for Israel and pan-Islamic visions of a restored Caliphate that would enforce Sharia law (Shughart 2006; Rowley and Smith 2009). This represents a shift in the motivations of transnational terrorists in the 1960s through the 1980s, which were primarily motivated by nationalism, separatism, Marxism, nihilism, and economic equality (Wilkinson 1986). As conditions change, including regional dynamics, we can expect terrorism to evolve in both the organizational principles of the groups and the tactics they employ, including whether they would choose to collude with other terrorist organizations.

In this case, al-Qaeda, a non-profit "firm", enters the "market", where an existing regional terrorist non-profit, a monopolist, meets a competitor with shared ideologies but different organizational missions and goals. The analysis will conclude when the War on Terror begins, when external pressures force al-Qaeda and the Taliban to hide in Pakistan. Section II provides a theoretical framework for understanding why terrorist firms organize and the conditions for cooperation. Section III details the emergence of both groups to understand their purpose and functions. Section IV examines the interactive effects that ultimately led to durable cooperation from 1996 to 2001, and ties that back to the theoretical framework. Section V concludes.

II. THEORETICAL FRAMEWORK

There is a vast literature on the economics of terrorism, particularly over two decades since the al-Qaeda attacks on September 11, 2001, in particular an emphasis on the microeconomic perspective, which assesses the individual choices of the terror agents (Pape 2003), and the macroeconomic focus which attempts to understand aggregate socioeconomic factors which lead to terrorism (Shughart 2011; Bradley et al. 2023)). The individual agents who join and support terrorist organizations are rational actors (Kydd and Walter 2006) who assess their environments and act based on what they perceive as true, influenced by opportunity costs and cultural beliefs. They seek to achieve defined ends, which include ideological and political goals (Bradley et al., 2023; Crenshaw 1981; Enders and Sandler 2000; Berman 2003; Pape 2003; Wintrobe 2006; Hoffman and McCormick 2004; Anderton and Carter 2005; Berman and Laitin 2005; Caplan 2006; Iannaccone 2006; Shughart 2006, 2011, 2009; Sandler 2015). They face scarcity and engage in cost-benefit (Frey 2004; Enders and Sandler 2011) analysis (Shughart 2011), evaluating their alternatives before acting and assessing changing risks (Enders and Sandler 2006). This section presents five theoretical propositions to enhance understanding of when and how institutional incentives align for cooperation between these non-profit firms.

Proposition 1: Rational terrorists form firms to accomplish their goals because within the firm, they obtain the benefits of the division of labor, specialization, and innovation and entrepreneurship based upon the members' relative comparative advantages. The "firm" allows them to monitor individual activity, reduce shirking and free riding, align internal incentives with organizational goals, and benefit from economies of scale, fostering long-term priorities that require saving and investment. Terrorist firms must consider the relative costs of group participation (Bradley et al. 2023) and decide upon their mission and activities. This firm formation is significant when the terrorist organization is not primarily funded by a state that supports the group through large financial endowments. The theory of the firm, as proposed by Coase (1937), applies to the terrorist non-profit firm, where the entrepreneur directs production.

The modern Islamic wave of terrorism, characterized by al-Qaeda and the Taliban, two distinct terrorist organizations, reflects an emergent order of human violence to satisfy particular ends. Their perceptions of the world and terrorism as a means of achieving their goals cannot be fully understood by outside observers. We have a limited understanding of patterns of behavior that are unlike our own (Hayek 1943). Nevertheless, to the terrorist participants and organizers of al-Qaeda and the Taliban, their activities are a means to an end (Frey 2009) and are emergent phenomena. Individuals respond to changes in their environment and use the group to achieve social and political change.

A terrorist group is deadlier and more lethal than a lone wolf (Alakoc 2015; Kenyon et al. 2021) unless the country has a firm counterterrorism policy that raises the cost of group formation (Phillips 2015). When terrorists form into groups, they can pool resources and talent, better market their services, raise funds, and increase their human capital to achieve goals that are unattainable for a lone wolf. Group-sponsored terrorism presents potentially larger negative externalities for those within the region who are not part of the group and do not share its ideals, particularly when the terrorist firm or firms in the region are effective. It also presents global negative externalities in terms of counter-terrorism policy responses, which existed before 9/11 but have intensified since then, particularly since 9/11, and the unintended consequences (Bradley et al., 2023) that can disrupt the activities of these firms.

Proposition 2: Terrorist organizations operate in a quasi-market scenario. They do not compete for monetary profit, unlike market firms. They respond rationally to incentives and costs, competing with other terrorist firms operating in the same geographical space for territorial supremacy, donor investments, influence over local markets, industries, resources, and the loyalty or fear of citizens. They make employment and recruitment decisions based on their current goals and objectives, and each group has a natural limit to its firm size. Terrorist organizations are risk-averse, avoiding detection and capture by using an organizational cost-benefit analysis to determine how to allocate their scarce resources engaged in the production of terror. The output includes violence such as bombing, killings, shootings, or assassinations. It also includes increasing fear and intimidation through suppression of speech, and daily activities, persecution of women and ethnic or religious groups, destruction of property, ongoing fear and intimidation tactics, as well as propaganda and ideological influence. All this output serves as a means to an end: social change.

Terrorist organizations are not pure firms, and they do not use market prices to direct internal resource allocation and investments. They do not explicitly "sell" attacks, although the attacks have beneficiaries, and there exists both a demand for and supply of terrorism, which may overlap at times. Unlike the activities of market firms, terrorism is a zero-sum or negative-sum game from the perspective of social welfare. Unless an individual "demands" terrorism, they are most likely harmed by its existence, unlike traditional firms. Terrorist organizations win on the margin when they successfully use violence against non-combatants and escalate a sense of fear and dread in anticipation of future attacks. Ratcheting up social fear is the mechanism by which terrorist organizations believe that they can obtain their stated ends; effective terrorism begets the growth of the organization.

The consumers of terrorism are those who have some willingness to pay for terrorist attacks and activities relative to their alternatives. The demand curve for terrorism is downward-sloping, and consumers can expect to respond to changes in the price of terrorism by shifting along their demand curves. Many factors can influence the demand for terrorism, including changes in preferences, ideology, expectations about the future, income, the prices of complementary and substitute goods (Bradley et al. 2023, p. 8), and shifts in political events and international counterterrorism efforts.

There is an upward-sloping supply of terrorism that responds similarly to changes in price. Terrorism is supplied in the form of a command-and-control organization that recruits members according to their marginal contributions and operates like a non-profit. It responds to the forces of supply and demand and must adapt to changing circumstances. Terrorists thus modify their goals and activities; they may partner with or compete against other local terrorist groups. In some cases, they may form cooperative networks (Cui et al. 2024). Moreover, the benefits of the terrorist organization, along with the attacks and other activities or services it produces, may have public good traits (Shughart 2011; Bradley et al. 2023). The benefits of these public goods are shared by anyone who favors the terrorist group (Rathbone and Rowley 2002). Buchanan's (1965) economic theory of clubs offers insight into the structure and behavior of terrorist organizations. He argues that club goods—situated between public and private goods—require economic calculation, making the theory applicable to groups like al-Qaeda or the Taliban, which function as quasi-market non-profits. These organizations offer economic incentives such as salaries and benefits, and require internal resource allocation. Club membership fosters alignment with group goals by providing both material rewards and a sense of belonging, which can substantiate individual commitment to the group's values.

Terrorist organizations are not maximizing profit in the pure sense of managing total revenue minus total cost. They are, however, providing a service that benefits them and others who are not direct participants in the organization. The resources they need have alternative and competing ends, so the terrorist organization acts to maximize benefits and minimize the costs of their production.

Proposition 3: Competition and conflict among different terrorist groups in the same region with similar goals will become zero-sum, possibly negative-sum, undermining their ability to achieve their goals and diverting scarce resources away from obtaining their goals toward fighting off predatory and competitive groups. This may include competing for donor funds and limited financial resources, as well as competing for territorial dominance, recruits (employees), loyalty among citizens, and market share or influence. Traditional non-profit organizations face the same competition over scarce financial resources and may have different ideologies, strategies, or priorities, leading to conflict over which approach or strategy will prevail. The same is true for terrorist organizations.

Terrorist organizations have diverse funding portfolios, which include funds from donors, the sale of legal and illicit goods and services, nefarious circumvention of non-governmental organizations (NGOs), and humanitarian aid (U.S. Department of the Treasury 2024). They could view themselves as competitors in a zero-sum game when they share the same geographical space, desire political control, and compete for the same financial resources, whether from donors or the sale and trafficking of assets. In some cases, they invest in more violence to "outbid" other terrorist groups within the same region for brand differentiation (Conrad and Greene 2015).

When there is more than one terrorist organization in a region, they can become more like price-takers. When they compete against one another, they compete for regional "constituent" loyalty and dominance of local resources and markets. Competing terrorist groups will likely have different missions and organizational goals, but may battle for political power or influence over the same constituents. Thus, this competition may be viewed as a winner-take-all, zero-sum battle.

Proposition 4: In some instances, terrorist organizations have incentives to cooperate, especially when ideologically aligned. Collaboration can increase their operational effectiveness, but it may also lead to inefficiencies associated with monopolies, such as resource misallocation, deadweight loss, reduced output, and stagnation in innovation. These monopoly pathologies, which are harmful in traditional market settings, can produce positive social externalities in the context of terrorism, specifically resulting in fewer or less effective attacks. This inverts the conventional logic of monopoly: whereas monopolists typically benefit from reduced output at society's expense, in the terrorism context, reduced output harms the organization and its supporters while benefiting the broader public.

Terrorist organizations acting as monopolies may behave differently from those competing within a crowded militant landscape. As Harberger (1954) observed, monopolies distort resource allocation and reduce aggregate welfare by restricting output and redistributing income to themselves. Similarly, terrorist "cartels" may have less incentive to innovate, diminishing the efficacy of their operations over time. While monopolies in traditional markets reduce consumer welfare by limiting access to desired goods, terrorist groups provide "services" that benefit only a narrow ideological base. For society at large, these services represent "bads"—manifested as fear, violence, and instability.

Proposition 5: The mission and goals of the terrorist groups and where they are situated will largely determine whether they compete or collude. If the goals are sufficiently aligned, it is in the direct interest of decision-makers in these organizations to cooperate. If goals are mutually exclusive or zero-sum, they will compete with one another. What brings them together is typically the formation and production of terrorism for political and social change, where cooperative behavior results in greater output, mission advancement, or cost and resource sharing.

The environments in which terrorist organizations are most likely to form are those characterized by poor economic, civil, legal, and political institutions (Bradley et al. 2023). Scholars have found that the most significant contributor to terrorist affiliation is a lack of civil liberties, rather than specific qualities of any given region, demographic, race, or ethnicity (Hassan 2001; Krueger et al. 2003; Lee 2011). Dysfunctional legal, economic, religious, and cultural institutions, exacerbated by low levels of economic, human, and political freedom, lower the relative opportunity costs of using terrorism as a mechanism for social change (Bradley et al. 2023). Greater economic freedom reduces the likelihood of terrorist attacks in societies characterized by ethnic tensions (Basuchoudhary and Shughart 2019). Moreover, intense group grievances and low levels of the rule of law are correlated with terrorism (Institute for Economics and Peace 2005).

There are either real or perceived limited outlets for civilians to voice their discontent or achieve economic advantage peacefully, and 'weak' states ruled by power structures—sympathetic to the terrorism cause or otherwise corrupt—enable terrorist organizations to operate within state territory (Pašagić 2020). A healthy domestic economy not only lowers the risk of ethnic violence but—by a statistically significant measure—lessens the chance of ethnic tension culminating in transnational terrorism (Basuchoudhary and Shughart 2019).

Olsen (1993) argues that a functioning and productive society requires a peaceful order, as anarchic violence cannot be rational without incentives to make investments. This anarchic violence approximates life in Afghanistan beginning in the 1970s with civil war and lasting through the 1990s. Afghanistan became a haven for the Taliban and al-Qaeda to make investments in their organizations, and cooperation fueled their firm enterprises.

III. THE EMERGENCE OF AL-QAEDA AND THE TALIBAN

The emergence of both al-Qaeda and the Taliban stems from the Soviet invasion of Afghanistan, both leaders' ties to Afghanistan and Pakistan, as well as ideological alignment. al-Qaeda becomes a radical Islamic transnational terrorist organization, while the Taliban, motivated by similar religious and ideological commitments, is focused on the control of Afghanistan. In this section, both Proposition 1, which states that terrorists form organizations to achieve their objectives, and Proposition 2, which posits that these organizations operate in a quasi-market environment, are evident.

The development of al-Qaeda

For this paper, the history of al-Qaeda, which, until 1996, was longer and more complex than that of the Taliban, is divided into five phases.

Phase One: The emergence of al-Qaeda. During the 1970s, Osama bin Laden, the son of a Saudi billionaire, traveled to Afghanistan, viewing the Soviet invasion as a holy war against atheistic communism. During this time, the Soviet Union forces invaded Afghanistan to prop up Khalq, a faction of the People's Democratic Party of Afghanistan. The Khalq's rule entailed harsh measures against political opponents, religious leaders, and intellectuals, resulting in widespread discontent. Its supporters were mainly rural Pashtuns (Kakar 1995). The reforms, which included rejecting Islamic traditions and canceling farmers' debts, incited powerful landowners and sparked revolts across the country (Goodson 2001). During this time, bin Laden began to gain influence by organizing various *mujahideen* factions, emerging as a significant figure in the resistance against the Soviets. According to Lawrence Wright (2006), bin Laden's message of fighting for a pan-Islamic cause appealed to many who were disillusioned by the tribal infighting among Afghan groups. Moreover, Bergen (2001b) and Wright (2006) both note that bin Laden used his resources to build roads, camps, and hospitals in Afghanistan, helping mujahideen groups. These factions directly benefited from the presence of bin Laden in support of Proposition 1, which suggests that there were early benefits to form into a terrorist firm.

At this time, the United States and other countries provided money and weapons to the Afghan fighters through Pakistan's intelligence service (ISI) through Operation Cyclone (Bergen 2001b), which began under President Carter in 1979 and was extended by Ronald Reagan; it was the most protracted and most expensive covert intelligence program, transferring up to 500 million dollars per year. (www.ict.org). While the U.S. supported the Afghan fighters in hopes they would defeat the Soviets, it did not monitor these groups to see who was leading them (9/11 Commission Report). The funds were directed by the ISI to fundamentalist group Gulbuddin Hekmatyar (Kotarski 2018), rather than to more moderate forces. This emboldened fundamentalist factions early, which matters for the ultimate cooperation between al-Qaeda and the Taliban beginning in 1996.

In 1988, Abdullah Azzam, head of Maktab al-Khidamat (Afghan Service Bureau), wanted volunteer Afghans and Arab Afghan resistance fighters to join al-Qaeda against the Soviets in Afghanistan. bin Laden wanted al-Qaeda to fight both the Soviets in Afghanistan and in other countries that were a threat to Islam (Gunaratuna 2005). Abdullah Azzam, despite some disagreements with bin Laden, helped form al-Qaeda, and later Hamas and Lashkar-e-Taiba (Jaquard 2002), thereby satisfying Proposition 1. With bin Laden's financial wealth and with the help of senior leaders of Egyptian Islamic Jihadist al-Qaeda, al-Qaeda was formed. Its stated goal was to fight against global enemies of Islam (jihad) and restore the Caliphate. In 1989, the Soviets left Afghanistan but still supported the government, and al-Qaeda's tactical goals were, rather than defeat America, to attract support among Muslims and organize to wage a broader jihad (Henzel 2005).

Phase Two: Saudi Discontent. After the Soviets' exit, Osama bin Laden returned to Saudi Arabia from Afghanistan and was celebrated as a jihadist hero. He sought to leverage his newfound influence to challenge the Saudi monarchy while continuing to be involved in his family's construction business. His radical beliefs and popularity emboldened him to try to use al-Qaeda fighters to overthrow the pro-Soviet Yemeni Socialist Party (YSP) in South Yemen; he faced obstruction from the Saudi government. When he sought to prevent Yemen's unification through political assassinations, his efforts were thwarted, exacerbating tensions with the monarchy. In March 1989, Osama led 800 Arab fighters in the Battle of Jalalabad against the Soviet-backed Afghan government, but his poor leadership resulted in heavy losses (9/11 Commission Report).

By 1990, Bin Laden allied with General Shahnawz Tanai, a communist plotting to overthrow Afghan Prime Minister Benazir Bhutto. Despite their ideological differences, bin Laden financed the coup attempt, which ultimately failed. His subsequent efforts to rally support from Pakistan's government for a no-confidence vote against Bhutto were rebuffed. Early on, al-Qaeda can be seen as firm, moving around in search of partnerships.

In August 1990, Saddam Hussein's invasion of Kuwait posed a direct threat to Saudi Arabia. Bin Laden offered to defend Saudi Arabia with fighters, but King Fahd rejected his proposal. Instead, he reached out to the U.S. for military support against Iraqi aggression. Secretary of Defense Dick Cheney agreed to deploy U.S. forces to Saudi Arabia. This decision outraged bin Laden, who perceived the presence of U.S. troops in the Arabian Peninsula as a violation of Islamic law (Bin Laden 1996; Wright 2006; Bergen 2001b). In retaliation, he condemned the Saudi monarchy, invoking Islamic scripture and pressuring Saudi clerics to issue a *fatwa* (a non-binding legal opinion or religious ruling on Islamic law or doctrine issued by an Islamic scholar or expert) against the U.S. troop presence. The Saudi monarchy did not support bin Laden's call for a fatwa against the U.S.

On November 8, 1990, FBI agents raided the home of El Sayyid Nosair in New Jersey, uncovering substantial evidence of terrorist activities linked to al-Qaeda, marking the first known al-Qaeda plot on American soil. This discovery underscored the growing transnational threat posed by bin Laden's network. Propositions 1 and 2 are evident in Phase Two as al-Qaeda grows and develops its mission and brand.

Phase Three: The early Sudan Years. In 1991, Bin Laden's vocal denunciations of the Saudi government led to his exile. At this time, he was also under U.S. surveillance because of his connection to global terrorist activities. The U.S. was monitoring local operatives and intercepting bin Laden's communications, and the Saudi government placed him under house arrest (Council on Foreign Relations 2007). He relocated to Sudan under the urging of a Sudanese leader, Hussan al-Turabi (9/11 Commission Report), where he established several legitimate businesses, including a tannery, farms, and a road construction company. Sudan allowed thousands of former *mujahideen* to immigrate, and bin Laden facilitated the relocation of many fighters to the region.

In Sudan, his investments in infrastructure and agriculture garnered local support. While the U.S. government monitored his activities, it did not take any direct action against bin Laden in Sudan. On December 29, 1992, a bomb exploded at a hotel in Aden, Yemen, previously frequented by U.S. troops before their deployment for a humanitarian mission in Somalia. Although the Americans had left, two Austrian tourists were killed, marking the first al-Qaeda-sponsored terrorist incident. That same year, bin Laden issued a fatwa calling for jihad against the Western "occupation of Islamic lands (9/11 Commission Report, 59).

Phase Four: Specialization and Entrepreneurship. On February 26, 1993, a truck bomb detonated in the parking garage beneath the World Trade Center in New York City, killing six people and injuring over a thousand. Investigators traced the truck to Islamic fundamentalists, leading to the arrest of several al-Qaeda-linked suspects, including Mohammad Salameh and Nidal Ayyad. The attack's mastermind, Ramzi Yousef, avoided capture, but investigators uncovered further plots against U.S. landmarks, including the UN building and the Holland and Lincoln tunnels (Goldman and Jackson 1993). In 1994, following leads from the 1993 bombing investigation, FBI agents stormed a warehouse in New York, apprehending several al-Qaeda terrorists who were assembling explosives (FBI.gov, World Trade Center Bombing 1993). These activities are the operationalization of al-Qaeda's transnational non-profit mission, differentiating it from the Taliban.

In addition, U.S. intelligence believed bin Laden was financing terrorist training camps and cells in various countries (9/11 Commission Report, 60), which fostered specialization and division of labor within the firm, evidence of Propositions 1 and 2. His continued opposition to the Saudi monarchy and support for extremist movements led to the revocation of his citizenship and the freezing of his assets within the country. King Fahd pressured Bin Laden's family to cut off his $7 million annual stipend. The U.S. subsequently declared Sudan a state sponsor of terrorism. As Sudan's Islamist political leader, Hassan al-Turabi, began to lose influence, the Sudanese government sought closer ties with the U.S., which were not established until 2000.

In 1995, Ramzi Yousef, the mastermind of the 1993 World Trade Center bombing, was captured by U.S. operatives in Pakistan. Discontent grew within Sudan over bin Laden's extremism. This led to secret discussions between the Sudanese and Saudi governments regarding Bin Laden's expulsion. However, Saudi Arabia refused to accept him (Wright 2006). bin Laden was frustrated with the Saudi government and wanted to organize a guerrilla campaign to remove U.S. troops from Saudi soil (Wright 2006). At this time, U.S. forces were stationed in Saudi Arabia by invitation.

The culmination of al-Qaeda's efforts and desire to defeat the United States and restore the Caliphate was the transnational attacks on the United States on September 11, 2001. Al-Qaeda, under the management of bin Laden, demonstrated a desire to play the long game. It did not focus primarily on political goals in Pakistan, Sudan, Saudi Arabia, or Afghanistan. They moved around out of necessity, regrouped, and formed new alliances in each location. Al-Qaeda's unique goals were broad and focused on removing the involvement of the United States in the Middle East, restoring the caliphate, and disentangling the US-Israel alliance.

Phase Five: Migration to Afghanistan. In 1996, under mounting international pressure from the United States and Saudi Arabia, Sudan officially expelled bin Laden (Wright 2006; Bergen 2001a). To cultivate closer diplomatic ties with the U.S., Sudan hoped that this move would help alleviate its status as a state sponsor of terrorism, and it relocated to Afghanistan. Bin Laden was forced to liquidate his assets in Sudan and some of his funding, creating financial worries (9/11 Commission Report, 62). He lost some of his resources, and upon his arrival in Jalalabad in the eastern part of Afghanistan with 300 of his Arab fighters, he reinforced his terror network. He forged a crucial alliance with Mullah Mohammed Omar, the founder of the Taliban. This relationship would prove instrumental in al-Qaeda's growth within Afghanistan.

Meanwhile, U.S. President Bill Clinton signed a secret order formally initiating America's covert war against al-Qaeda (9/11 Commission Report 2004). Although definitive evidence directly linking bin Laden to various terrorist attacks was still lacking, Clinton authorized the CIA to employ all necessary means to dismantle the al-Qaeda network. bin Laden remained in the spotlight, raising the costs of firm operation for al-Qaeda and solidifying his position as the primary adversary of the United States. He issued many statements in which he made his grievances about American intervention in the Middle East, specifically in Saudi Arabia, which was the impetus for al-Qaeda's emergence. In a 1996 interview, Bin Laden stated:

> The ordinary man knows that [Saudi Arabia] is the largest oil producer in the world, yet at the same time, he is suffering from taxes and bad services. Now the people understand the speeches of the ulamas in the mosques--that our country has become an American colony. They act decisively with every action to kick the Americans out of Saudi Arabia. What happened in Riyadh and [Dhahran] when 24 Americans were killed in two bombings is clear evidence of the huge anger of the Saudi people against America. The Saudis now know their real enemy is America (*The Washington Post* 8/23/98).

Following the Khobar Towers bombing, the United States convened a grand jury to build a legal case against Osama bin Laden, authorizing his capture or elimination (9/11 Commission Report 2004). In June 1996, Bin Laden issued a Declaration of Jihad against the U.S. (Bergen 2008). al-Qaeda continued to train militants and finance terrorist attacks and develop its transnational agenda, which would culminate in the attacks of September 11, 2001.

The Taliban

The Taliban emerged under the same political circumstances as al-Qaeda during the Afghan Civil War, which refers to a series of conflicts in Afghanistan that followed the Soviet withdrawal in 1989. After the Soviets withdrew, various *mujahideen* factions battled for control of the country, resulting in significant instability and a power vacuum.

Phase One: During the Afghan-Soviet war, the would-be leaders of the Taliban fought for Hezb-e Islami (Khales) and Mohammad Nabi Mohammadi's Harakat-I Ineqelab-ye Islami factions of the *mujahideen* (Australian Government, Department of Immigration and Citizenship 2013). Mullah Omar, the initial leader of the Taliban, was one of the 90,000 forces supported by Operation Cyclone through Pakistan (Price 2012).

Phase Two: (1992-1996): The Afghan civil war. Following the fall of the communist government in 1992, infighting among the mujahideen factions intensified, resulting in widespread violence and the collapse of central authority. In 1992, various Afghan parties reached a power-sharing agreement through the Peshawar Accords. This created the Islamic state of Afghanistan, ruled by the Taliban, which formed in the Pashtun areas (Maley 1998). The word Taliban comes from the Pashto word "students" and was formed from students from the religious schools and madrassas (Qureshi 2014). Proposition 1 is evident in the formation of the Taliban into an organization seeking regional control and producing terrorist "output."

Phase Three: Taliban Ascendancy (1994-1996). During this period, the Taliban emerged as a powerful force, gaining control of extensive areas and ultimately capturing Kabul in 1996, soon after al-Qaeda's arrival (9/11 Commission Report, 65). They were able to control most of Afghanistan's cities and provinces (Qureshi 2014). They ruled with strict Sharia law and disarmed all rival militias that had been roaming the provinces (Matinuddin 2001) and destroyed monuments and religious artifacts to subdue and control the population.

Phase Four: The Taliban-Al-Qaeda Partnership (1996-2001). The Taliban ruled Afghanistan until the U.S.-led invasion in 2001, which occurred after the September 11 attacks. The Taliban had a shorter and swifter evolution than al-Qaeda. It imposed an authoritarian Islamic state over three-quarters of Afghanistan until 2001. The Taliban received support from Pakistan and fought the Northern Alliance in the 1996-2001 war, taking over Kabul in 1996. The Northern Alliance would ultimately defeat the Taliban in 2001 with support from the US, and they fled the country (US Army Center for Military History, Operation Enduring Freedom 2008).

IV. INTERACTIVE EFFECTS: 1996-2001

Al-Qaeda came face to face with the Taliban in 1996 when it was expelled from Sudan and came to Afghanistan. It is during this time that Propositions 3, 4, and 5 are evident.

The ultimate relationship between al-Qaeda and the Taliban can be traced back to the Afghan jihad against the Soviet Union (Mir 2020). The Soviets faced the same problem in invading Afghanistan as the former government had in governing Afghanistan: the strong social and political ties along parochial, tribal lines characterized by dysfunctional economic and political institutions grounded in chaos. Proposition 3 argues that this situation is ripe for violence between these organizations, potentially leading to zero-sum or negative-sum games because fighting each other is high cost, creates social externalities, and raises the cost of doing business or advancing their missions.

At some point before the September 11 attacks, likely soon after they arrived in Afghanistan, bin Laden swore an oath of allegiance *bay'ah* to Taliban leader Mullah Omar (Joscelyn 2021; el-Bay 2021) as the Amir al-Mu'minin, which means "The Commander of the Faithful." al-Qaeda, through bin Laden, offered military support and training as well as financial resources to the Taliban (9/11 Memorial Museum). They were able to do this because of years of specialization and entrepreneurship, aided by bin Laden's ability to grow his firm's output and enhance its skills. This pledge to the Taliban was renewed several times (BBC). This indicates that al-Qaeda relied on the ideological alignment to secure a haven and collaborative benefits from the Taliban. Proposition 4 argues that in this case, there are clearly revealed incentives to cooperate based on shared ideological goals, reducing the risks of potential conflict between the groups that could erupt at any time. However, since the organizations have different missions, aligning them also incurs costs for each firm. The benefit to al-Qaeda is a place to grow and train for the 9/11 attacks. The cost involves deferring to Taliban leadership, which may have constrained activities that would otherwise have been undertaken. The Taliban benefits directly from military training and financial support but does not share al-Qaeda's transnational goals. Moreover, the Taliban were tired of bin Laden being in the spotlight and the attention that it brought to Afghanistan from the United States. The 1996 *fatwa* issued by bin Laden brought pressure on the Taliban from Saudi Arabia. It motivated Mullah Omar to invite bin Laden to move to Kandahar, so that he could be more easily controlled. The Taliban's cooperation with al-Qaeda brought clear costs. However, the benefits of cooperation outweighed those costs despite bin Laden continuing to break his promises to stop giving "inflammatory interviews", such as the one he gave with CNN in 1997 (9/11 Commission Report, 65). This supports Proposition 4, which argues that there are gains to cooperation, but they come at a cost. There is no free lunch for either group. The Taliban is concerned with the rhetoric of bin Laden and the international attention that it brings, which creates operational inefficiencies for the Taliban. It also creates inefficiencies or added costs for al-Qaeda, which now must constrain itself.

The Haqqani network, which is the Taliban militia based in Pakistan's tribal regions, is another regional player that altered the incentives for an alliance between al-Qaeda and the Taliban. Jalaluddin Haqqani has been the head of the Haqqani network and has had a relationship with bin Laden, the leader and one of three heads of al-Qaeda, since its inception in the mid-1980s. The Haqqani network plays a vital role in the successful cooperation of al-Qaeda and the Taliban. The Haqqani network shares the ideological goals of a Sunni Islamist militant organization and also came out of the Afghan Soviet War. Haqqani himself was an associate of Osama bin Laden and one of his mentors during the early years of al-Qaeda's formation (Office of the Director of National Intelligence 2025). This supports Proposition 5, which argues that the goals of both the Taliban and al-Qaeda were sufficiently aligned to bring about cooperation. They both use terrorism to obtain their stated social, ideological, and political goals.

Palestinian journalist Abdel Bari Atwan, who interviewed bin Laden in 1996, argues that bin Laden did Mullah Omar a favor when he introduced the Taliban leader to Jalaluddin Haqqani, who later became a prominent Taliban military commander. Some argue that they remain allied today, partly because of marriage ties among key leaders. (Mir 2020; Reidel 2020). al-Qaeda is opportunistic in its geographical location and partnerships. al-Qaeda became allied with the Taliban beginning in 1996, and that relationship endured beyond 2001. al-Qaeda served as a voice for the global jihad movement, a cause the Taliban also supported. When al-Qaeda entered Afghanistan, it sought an alliance with the Taliban, and the two groups soon formed a partnership. al-Qaeda positioned itself as an organization that would support the Taliban's regional goals within Afghanistan, rather than challenge them. In return, the Taliban provided al-Qaeda with a safe haven: its leadership was welcomed, allowed to operate freely, and given access to training bases and facilities for their families (Sharifi 2016).

After the U.S. intervention in 2001, both the Taliban and al-Qaeda fled together to the hills of Pakistan. Both groups "fit into each other's ideological projects" (Mir 2020; Staniland et al. 2018), allowing them to form a cooperative partnership in which al-Qaeda pledged allegiance to the Taliban and received a haven, while also continuing to pursue its transnational agenda. Jihadism is a subgroup of terrorism that arose out of the Afghan war and the ascendancy of al-Qaeda and has two components. It justifies armed struggles and brutal violence and downplays the spiritual, non-violent side. It adheres to Salafism, a "puritanical" version of Sunni Islam (Neumann 2014, p. 9), which rejects "man-made laws and democracy" (Voortman 2015, p. 5). This Salafi ideology is the guiding doctrine of al-Qaeda and forms its internal group identity. Moreover, it allows al-Qaeda to define its struggle in military terms (Moghadam 2008a). However, despite their jihadist agreements, all was not rosy between the Taliban and al-Qaeda.

The Taliban has incurred costs for its alliance, including internal strife within the Taliban, many of whom were upset by bin Laden's declarations of war and attacks against the United States before the September 11, 2001, attacks (Bacon 2018; Strick et al. 2014). al-Qaeda helped train local Taliban commanders to make improvised explosives; scholars have argued that al-Qaeda acts as a subcontractor for the Taliban, offering expertise in special operations, terrorist attacks, and human capital. During the 1996-2001 period, the Taliban benefited from and relied on funds from al-Qaeda (Bacon 2018), which were necessary for its financial support in those early days.

The alliance allows them to maintain durable cooperation during this period and provides more evidence for Proposition 4, which suggests that financial support and training provided sufficient incentives for cooperation. Moreover, that cooperation did not end when US troops entered Afghanistan in 2001; instead, they fled together to Pakistan.

It was the shared ideological commitments, along with mutual gains from trade and at least nominal shared enemies, that allowed this durable cooperative equilibrium to persist during their shared time in Afghanistan. The relationship is fragile because each of these non-profit firms has its own identity and goals. Shifting regional political or economic events, changing geopolitics, and exogenous variables could at any time have upended this cooperation. Each group expected the payoff from cooperating to outweigh that from competition, which would force them to divert resources to violence and sabotage the other.

In 1998, bin Laden ordered an operation that surpassed all previous ones—coordinated bombings of U.S. embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania, resulting in 224 fatalities. In response, the United States launched cruise missiles at locations suspected to be bin Laden's bases in Afghanistan (FBI.gov, East Africa Embassy Bombing). In 2000, al-Qaeda executed another bombing, this time targeting the USS Cole, an American warship docked in Yemen, which led to the deaths of 17 sailors (FBI.gov, USS Cole Bombing). These actions bring high costs to both groups, costs which spill over onto the Taliban in terms of the attention of US foreign and military policy. In 1999, the UN Security Council adopted the al-Qaeda Taliban Sanctions Committee, which marked the two as terrorist organizations and imposed sanctions on their "funding, travel, and arms shipments" (Council on Foreign Relations). The mounting pressure from the United States and the UN increases the costs of partnership at the time. To reiterate al-Qaeda's loyalty to the Taliban, al-Qaeda forces assassinate Ahmad Shah Massoud, leader of the anti-Taliban Northern Alliance, on September 9, 2001. This also ensures that the Taliban will protect al-Qaeda in the wake of the September 11 attacks (Bergen 2006).

Ultimately, this would impose a twenty-year setback for the Taliban because the United States, after 9/11, launched the War on Terror, part of which included the quick overthrow of the Taliban by US forces in 2001 (9/11 commission report, Falkenrath, 2004, Council on Foreign Relations). Moreover, al-Qaeda has transformed its organizational structure in the wake of bin Laden's death and the War on Terrorism, such that today its organizational structure is entirely different.

5. CONCLUSION

This paper attempts to explain the strategic cooperation between al-Qaeda and the Taliban from 1996 to 2001, despite their differing political aims and organizational missions. Using the theory of the firm as a conceptual lens, the paper proposed five key propositions to understand why terrorist organizations might rationally choose cooperation over competition. The case study of al-Qaeda's entry into Afghanistan and its alignment with the Taliban illustrates the explanatory power of this framework.

First, terrorist groups, like for-profit firms, organize to achieve their goals more effectively than individuals acting alone. Both al-Qaeda and the Taliban emerged in response to foreign invasions and instability, and they evolved into structured entities capable of mobilizing resources, training recruits, and the use of violence. Their firm-like structures allowed them to coordinate violence, logistics, and messaging more efficiently, increasing their operational effectiveness in a chaotic environment. They both saw clear gains from cooperative exchange.

Second, these terrorist firms respond rationally to incentives, costs, tradeoffs, and competitive pressures. al-Qaeda, seeking a stable operational base and local protection, found it rational to cooperate and support the Taliban, who in turn benefited from al-Qaeda's resources, training capabilities, and international networks. Rather than acting purely ideologically, both groups weighed the strategic benefits of cooperation based on their surrounding environment.

Third, when terrorist groups in proximity compete, it often results in zero-sum or negative-sum outcomes and risks conflict, which detracts from the firm's mission. For both the Taliban and al-Qaeda, competition could have weakened their respective capacities to resist common adversaries or maintain territorial control. Cooperation, by contrast, reduced internal rivalry and allowed both groups to focus on external goals.

Fourth, cooperation in such contexts can improve operational effectiveness, even if it comes at some cost to efficiency or autonomy. al-Qaeda subordinated certain aspects of its global ambitions to avoid challenging the Taliban's regional authority. The Taliban tolerated al-Qaeda's transnational agenda, despite the risks it posed, because the partnership enhanced their military strength and international visibility. Each group sacrificed some independence, which allowed them to maintain their distinct missions.

Fifth, whether groups choose to cooperate depends on the compatibility of their goals and the institutional environment. From 1996 to 2001, the Afghan environment was characterized by a political power vacuum, violence and the rise of various informal power structures. After 2001, however, the U.S. invasion disrupted this equilibrium, forcing both groups into a survival mode that altered the cost-benefit calculus of cooperation. The once-aligned incentives fractured under the pressure of external military force and changing strategic priorities.

Together, these five propositions explain not only why al-Qaeda and the Taliban cooperated during this period, but also why such cooperation is not guaranteed in other contexts. Terrorist organizations, while ideologically motivated, are also strategic actors operating under constraints and responding to shifting institutional and competitive dynamics.

This theoretical framework contributes to the broader literature by offering a theoretical framework for understanding terrorist alliances. It also carries normative implications for counterterrorism.

al-Qaeda and the Taliban are non-profit firms which have the same geopolitical roots in the Soviet invasion of Afghanistan and the emergence of the mujahideen resistance. They share Islamic fundamentalist ideology and met at the right time and the right place for opportunistic cooperation, which was durable during the 1996-2001 era. There are potential normative implications arising from applying the theory of the firm to empirical case studies, which could offer guidance for counterterrorism efforts.

The first is that terrorism will always exist so long as individuals value it as an effective means to achieve their ends, and firm cooperation can increase the efficacy of terrorist organizations. There will be costs and benefits to cooperation, and understanding the nature of terrorist non-profit cooperation could inform weaknesses and potential vulnerabilities that could potentially be exploited. The Taliban's cooperation with al-Qaeda imposed costs that would ultimately cause them to lose control of Afghanistan for twenty years.

The second is that there are no generic terrorist groups; they respond to incentives and are products of their environments. Understanding their aligned goals and ideology can inform and perhaps help predict which terrorist groups will choose to cooperate, but this will not always be the case. Counterterrorism policy must account for the strategic rationality of any terrorist group and attempt to anticipate unintended consequences. Suppose counterterrorism policy drives a terrorist group from one region to another. In that case, it will be important to understand their potential new environments to understand better whether they will choose cooperation with any new groups they encounter.

The third is that we should avoid over-generalizing terrorist group behavior. The cooperation between these two groups was not without division and discord, yet it persisted until the Taliban was defeated in 2001 and fled Pakistan. These groups effectively utilized each other to support the advancement of their unique goals, and the collaboration was effective over that period. This was durable because they were not competing directly for regional political control. This has not been the case between al-Qaeda and other terrorist groups, like ISIS, whose rivalry is one of competing for affiliate partnerships (Byman 2015). Using the theory of the firm and the cost-benefit approach can aid our understanding of whether terrorist groups will cooperate or compete. Applying this theoretical framework can provide policy insights into how and when terrorist groups might cooperate and what this implies for altering the incentives they face.[1]

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NOTES

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