

# Financing contemporary terrorism in the context of globalization

-Summary-

## INTRODUCTION

“*Financing contemporary terrorism in the context of globalization*” is an up-to-date study that approaches an internationally-relevant subject. The main themes are the study of financing mechanisms of criminal structures and the relationship with underground financial markets. This research appears in a period when, at a global level, talks revolve around delicate subjects such as managing security and defense budgets, diplomatic negotiations, the proliferation of radical Islam or applying economic sanctions to states that support radical groups.

The financial infrastructure of international radical organization has suffered changes in the last years. A trend of diminishing funding from “sponsor-states” has been noticed, leading to radical structures seeking other means of supporting themselves, chief amongst these means being financial support from illegal activities associated with organized crime and the black market.

## ORIGINALITY

The originality of this paper resides in the fact that, up until now, the analysis of illegal activities associated with funding terrorism has been run privately, in the juridical sector, and underlining the economic implications is a novel aspect, as well as an opportune initiative. The contents of this research tries to stay pertinent to the subject, outlining the situations that governments and institutions face, analyzing malfunctions within these systems and identifying the connections with underground black markets. This economically-financial criminal phenomenon includes a series of processes: money laundering, illegal activities by international corporations, international financial organizations, banks, governments, up to the process of financing international terrorism.

According to the degree this theme has been research, with national and international databases provided by national and global organizations, ***the scope of this research*** is: **identifying the dynamics of underground financial markets associated with funding international terrorism**, presenting the evolution of non-fiscal sectors and connections with international terrorism, identifying criminal transactions and analyzing the impact on societies.

## Methodological and theoretical scientific base of the research

This research takes a *sequential approach* to the main illegal activities specific to underground economies, associated with organized crime and funding international terrorism. The main thread of the paper follows the evolution of these activities, the connection with the state and non-state players, the volume of transactions and the impact on the international community. Other important approaches are:

- *the synergetic approach*, which has insured the establishment of correlations between the transformations that occurred following the most important conflicts of the last twenty years and the sources of international terrorism funding.
- *the epistemological approach* of the underground market concept

**The statistical database used within this paper** is provided by the following national and international organizations and institutions: The International Monetary Fund (IMF), the World Bank, The Organization for Economic Co-operation and Development (OECD), The Global Terrorism Index, The United Nations Office on Drugs and Crime (UNODC), The European Monitoring Centre for Drugs and Drug Addiction (EMCDDA), The European Commission, The Heritage Foundation, The Fraser Institute and Transparency International. These organizations have facilitated combining theoretical knowledge with practical and statistical analysis.

To achieve the afore mentioned objectives, this paper has been split into **five chapters**.

## Chapter 1. GLOBALIZATION AND TERRORISM – A THEORETICAL APPROACH

The first chapter, “*Globalization and terrorism – a theoretical approach*” is meant to provide an introduction into this scientific undertaking and begins with a presentation of this concept as well as the effects of globalization and international terrorism. This chapter attempts to underline the effects of globalization as well as present the dynamics of contemporary terrorism.

The globalization process has influenced the proliferation of the terrorism phenomenon. **The sources that generate international terrorism are rooted in the unstable configuration of the international community.**

## Chapter 2. FACTORS THAT STIMULATE TERRORISM AND ITS IMPACT ON ECONOMIC ACTIVITY

The second chapter, “*Factors that stimulate terrorism and its impact on economic activity*” contains two branches. First, it has been attempted to *present the changes produced by globalization and their impact on terrorism*. The angle is both the positive and the negative effects of free circulation and technological process. The acceleration of the goods and capital flow has brought a growth in human circulation, and thus both legal as well as illegal migration have increased. Literature states that **the amplitude of underground financial markets is owed to the growth of illegal immigration in the last years**. The demographic explosion in the world’s poorest countries, affordable transportation costs and more relaxed customs controls are factors that have contributed to an unprecedented circulation of individuals from one side to the world to another. Along with the intensification of the immigration phenomenon, accelerated urbanization also enabled and proliferated organized crime and terrorist activities. **Scientific and technological evolution has strengthened the techniques of criminal structures, resizing their funding possibilities.**

The second branch of this chapter attempts to describe the impact of international terrorism on the global economy. Via quantitative analysis, the paper tracks the increase of contemporary terrorism's effects on services, financial markets and the business world. Terrorist activities can provoke a decrease in investments as well as a growth in trust in a state's economy. **The economic consequences of terrorist organizations' activities are divided in short term and long term consequences.**

### Chapter 3. MAIN SOURCES OF GLOBAL TERRORISM FINANCING

The Third Chapter, "*Main sources of global terrorism financing*", renders a sequential approach to the most important means of financing for contemporary criminal organizations. The chapter starts from the structure of the two funding types – "**financing from above**" (which includes financial support from states, companies, non-profit organizations or financial institutions) and "**financing from below**" (which includes funds from criminal activities: luxury vehicle theft, false currency traffic, gems and radioactive materials traffic, drugs and weapons trade or revenue generated from financial macro-criminal activities). Although **the purpose of terrorist does not include a financial side**, but more of a political one, these structures have **shifted from the economic support offered by sponsor-states** to much more efficient and readily available methods, such as **illicit activities associated with organized crime**.

In this chapter, a macro level research on several regions has been attempted, for the most prolific illicit activities specific to international terrorism. Data has been analyzed regarding: drug trade money (a rather developed industry in Latin America and Asia), weapons trade money, natural resource traffic, counterfeit goods and human trafficking. Special attention has been given to alternative methods of trading currency, as well as digital payment systems, such as bitcoin. A short description of the largest informal value transfer systems has been attempted (*hawala, padala, fei ch'ien, gift services etc.*) as well as a presentation of how they work and their ties to the criminal world. Along with traditional payment systems, this research also notes the risks that the new payment methods can present, lacking proper regulation.

#### **a) Financing international terrorism in Latin America. The triple frontier.**

Latin America is one of the most worrisome regions, due to a high criminality rate, government and institutional corruption, activities by criminal and terrorist groups, as well as the vulnerable socio-economic climate and the legislation gaps that seriously encourage illegal activities. The instability in this region is sustained mostly by the precarious economic and political context characteristic to Columbia, Peru and the *Triple Frontier region* (Argentina, Brazil and Paraguay), as well as the Cuban state. Illegal business growth (drug production and distribution, weapons or human trafficking, illegal migration etc.) functions in the shadow of revolutionary politics or state-sponsored terrorism. Some studies show that Latin America has become an ideal location for organizations like Hezbollah and Hamas, for developing sophisticated financing structures in areas with less political and commercial

regulations, such as Panama, Venezuela's Isla Margarita, Paraguay's Ciudad del Este, Aruba etc.

Latin America also has a long history in regards to the effects that *weapons contraband* has generated, specifically in Colombia, Guatemala, Panama and Mexico. American-Mexican borders legislation has encouraged a significant increase in weapons traffic and financing international terrorism, in the New Mexico, Arizona and Texas area. Other sources of funding radical groups pertaining to Latin America are – *piracy, identity theft, contraband, stolen vehicle traffic, human trafficking etc.*

#### **b) Financing international terrorism in Asia**

Asia is a region characterized by *illegal activities ran by ethnic nationalist groups as well as religious extremist groups*. In time, these organizations have sought to instigate terrorist action in the area, extend their illegal activities, develop as many radical cells as possible and institute a logistic base for recruitment and financing which could interfere with the activities of transnational organized crime. Being a rich and prosperous region, **Asia became a desirable territory for the development of the drug industry**. In the Southeast, Bangkok, the capital of Thailand, has become a powerful player in the fake passports and documents trade, as well as a popular destination for radical Russian or Chinese organizations.

In the collective contemporary imagination, the geopolitics of opium is strongly connected to the existence of the *Golden Triangle*, the name given to a territory of more than 200.000km<sup>2</sup>, covered in jungle vegetation, and contained between Northeastern Burma, and the North of Thailand and Laos (*Labrousse, 2007, p.23*). One other region from where the so called "*Persian heroin*" comes is defined by large fields of opium poppy and cannabis, and it is controlled by the Asian drug lords. This region is called the "*Golden Crescent*" and includes Afghanistan, Pakistan and Iran. Control of these crops usually happens by introducing protection taxes. *Through the taxes imposed by the Taliban regime on the illicit opium production, radical cells are being financed indirectly, one of the best known cases being the association between the regime, Al Qaeda members, the Islamic Movement of Uzbekistan, the Liberation Tigers of Tamil Eelam and the Chechen guerrillas*. In these areas, drug traffic constitutes the main instrument for obtaining immediate material gains, gains that afterwards facilitate the purchase of weapons and contraband in most of Asia's regions.

Weapons contraband is present on most of the Asian continent. *Some of the most prolific radical structures engaged in weapons contraband are: PKK in Turkey, the Tamil Tigers of Sri Lanka, the insurgent groups of north-eastern India, the Burmese guerrillas and the insurgent Maoist groups of Nepal.*

#### **c) Financing international terrorism in Europe**

Radical groups and financing methods characteristic to the regions presented above can be found in European countries as well. Europe represents, for the most part, an important market for the drug lords in Asia, Africa and Latin America, a good location for the prostitution industry, clandestine migration, weapons contraband, oil contraband, counterfeit goods such as cheap cigarettes, sports gear, electronic devices and alcohol.

Being situated at a crossroads between transport corridors, Europe is considered one of the main consumers of drugs, both for those in the East (afghan opium) as well as those in the West (cocaine from Colombia, Peru and Bolivia) and the South (Cannabis from Morocco and Northern Africa).

#### **d) Financing international terrorism in Africa.**

Illicit trade of gold and gems is a reality in most of Africa's regions, as well as Latin America and Europe. **Gemstones constitute a stable financial base for terrorist organizations.** Such activities register significant profits in the long term and ensure the cloaking of capital or black money obtained on the black market. Gradually, these goods became ideal for the budgets of criminal structures, for these reasons:

- they maintain their value over time
- are easy to transport
- cannot be detected by scanners
- are easy to hide
- can be converted to cash quickly

Africa is identified with a large number of conflict zones due to certain groups' needs to control the various types of rare ores and hydrocarbons: oil or natural gases. The most affected states are Angola, Congo, Sierra Leone and Sudan, as well as a large part of North Africa (Algeria, Mali, Libya). Diamonds, rubies, emeralds, jade, ivory, tanzanite, gold, sapphires etc are often the objects of illicit traffic, a large portion of the production of these gems being controlled by insurgent groups located in Namibia, Belgium, South Africa or Israel. A large quantity of the world's rough diamonds are directed towards Antwerp, Belgium, the largest commercial center of the diamond industry, followed by New York, Tel Aviv, Mumbai and London.

**The violent conflicts in Africa** (Sierra Leone, Liberia, Angola and the Democratic Republic of Congo) **persist due to the interest given to mineral resources and to the influence that rebel groups generate in the area, one of the most powerful being the Revolutionary United Front (RUF).** The continent holds one of the largest reserves of cobalt, copper and diamonds in the world, as well as important reserves of gold and oil. These so called *blood diamonds* represent 4% of the worldwide diamond trade, while illicit traffic of such minerals amounts to 20% of the global trade. (Passas and Jones, 2006, p.6).

Another illegal activity associated with financing international terrorism and organized crime groups is **ivory and rhino horn traffic.** Usually, ivory and rhino horn traffic is associated with radical groups that use this method in order to procure weapons. Africa remains the most exposed region to illicit ivory traffic, **Uganda, Kenya, Sudan or Tanzania representing the areas of exploitation and the transit corridors for such goods.**

## **Chapter 4. DYNAMICS OF UNDERGROUND FINANCIAL MARKETS IN THE CONTEXT OF FINANCING TERRORISM**

In the fourth chapter, "*Dynamics of underground financial markets in the context of financing terrorism*", a definition of criminal instruments has been attempted, the accent falling on theoretic aspects that describe the non-fiscal economy concept, and the

identification of its dimensions and effects. Also, the chapter presents a comparison between the ways radical structures function and the causes of non-fiscal economy. This chapter highlights the lack of financial transparency, the importance of bank secrecy and the activities of destinations for recycling the funds obtained from economic crimes (“tax havens”, cash contraband, shell companies, NGOs etc.). For understanding how underground financial markets function, an epistemological analysis has been employed. **Attention is being drawn to the possibility for liberalization of certain markets** (drugs or prostitution) and the risks that could incur in such a case. After decades in which the traffic and use of drugs couldn’t be stopped, a lot of states came to the conclusion that **legalization could be the most efficient measure in fighting against financing terrorism and organized crime**. Most of the time, regulating the drug market produced more negative effects than positive. Huge costs sustained the “war on drugs”, leading to this business being pushed towards criminal and radical structures more prone to violence and risk-taking.

## **Chapter 5. Econometric modeling – the connection between the underground economy and “terrorism”**

The financial infrastructure of international radical organizations has suffered changes in the last few years. A tendency of diminishing funds from ‘sponsor-states’ has been noticed, situation that reoriented these structures towards other means of support, the most convenient and efficient one being financial support from illicit activities on the black markets.

### **1. Limitations of econometric models.**

A. Determining underground economy. At a statistic level, the underground economy has been, for many years, a rather interesting subject, both for determining the causes and effects as well as for its size. **The underground economy is a phenomenon that is very hard to estimate due to a lack of records of its activities.**

B. Determining terrorism. **Financing international terrorism is a subject that’s difficult to evaluate and quantify**, as revenue made from illicit activities by radical groups are not monitored and indexed in a global database. Most studies are inclined towards estimation that cannot describe correctly or explicitly this type of financial infrastructure.

C. Database time range. While elaborating the econometric testing, the **2003-2011** period has been taken into consideration, due to reasons related to updates to the variables used.

**2. Scope.** Backed by literature and recent statistical analysis (*Singh, A., Chandra, S.J., Mohommad, A., 2012*), **this paper proposes an econometric analysis with the role of highlighting the relation or influence of underground economy determinants on terrorism, using a sample of 10 Eastern European countries (Bulgaria, the Czech Republic, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Hungary).**

**3. Hypotheses.** The relation between the determinants of the underground economy and terrorism has been established by proving the following hypotheses:

- *Hypothesis 1.* Terrorism develops in country with a highly active underground economy;
- *Hypothesis 2.* A larger degree of economic freedom leads to less political violence/terrorism;

- *Hypothesis 3.* A correlation exists between economic freedom and underground economy;
- *Hypothesis 4.* A better quality of institutions determines a lower degree of political stability, the absence of violence/terrorism;
- *Hypothesis 5.* Countries in transition/post-communist countries present an increased degree of terrorism.

4. **Methodology.** In order to identify the main determinants that influence the dimensions of underground economy in the selected countries, a **descriptive method has been used (principal components analysis)**, the purpose of which was revealing the correlation between variables. Then, in order to measure the relation between the determinants of the underground economy, **multiple regression analysis** and **correlation analysis** were used.

5. **Interpreting the results of the econometric model and analyzing the hypotheses.** Through econometric modeling it has been revealed that the underground economy is heavily influenced by the *quality of institutions* in the analyzed countries. Mentioned amongst the most important factors that influence and maintain the values of the underground economy at such high levels are *political stability* and the *absence of violence/terrorism* – viewed as a branch of terrorism – and overregulating. Also, all four hypotheses are analyzed following the results obtained by statistical testing. Literature states that countries or regions with a more active underground economy can develop activities associated with terrorism. In the case of the 10 countries in the sample group, the political stability and absence of violence/terrorism indicators reveal a powerful correlation with the underground economy indicator – more specifically, a higher degree of *underground economy* determines a drop in *political stability* and the *absence of violence/terrorism*.

## CONCLUSIONS

The ending of this research is dedicated to presenting conclusive ideas that chiefly target the financing mechanisms of international terrorism and the connections with the black market. Research based on literature lead to the **conclusion that radical structures, once funding from “sponsor-states” diminishes”, reorient themselves towards other means of financial support, the most convenient and efficient one being undertaking illicit activities on the black markets.**

All the same, **the benefits of the globalization process have increased new insecurity factors, which influenced the way radical groups operate.** Terrorism is a virulent phenomenon with particular implications on an international level, a phenomenon that has extended to a high level, using non-fiscal economy forms, the vulnerability of religious communities and conflict zones, the operating patters of organized crime groups, as well as positive factors that contain a factor of insecurity (free circulation, technological progress, freedom of speech, trade etc.).

Analyzing these changes, it can be observed that **contemporary terrorist proliferates as a result of serious local problems left unsolved, or as a result of interests and claims of great powers, which reverberate on the global outskirts.**

**Financing international terrorism expanded due to vulnerabilities encountered within societies, and human vice.** A high degree of corruption, political problems and non-fiscal economy have exacerbated these financing mechanisms. One of the best examples is the situation in some countries in South America, Africa and Asia. South America was and still is a poor region, rife with political problems, economic crises inherited from old regimes, a high degree of corruption and underground economy and weak institutions that allowed the growth of criminal structures. Such a region abetted the drug market, human trafficking, weapons contraband, money laundering etc.

**Probably the most difficult to control and administer are the vulnerabilities of cultural and religious communities.** The Middle East is a rather vulnerable region from this point of view, due to religious intolerance and the totalitarian spirit it displays. The black market and funding international terrorism have proliferated in the shadow of faiths, values and closed/opaque states. However, these are only surface characteristics, as these communities have been living a paradox for very many years, seeing how they haven't been Islamized as it was expected. The youth doesn't live by what Islam represents, more and more of them dreaming of what the West can offer, which is freedom. This idea is also confirmed by a drop in mosque attendance and the failure to observe Ramadan or pray.

**Fighting the funding of international terrorism can be made efficient with minimizing organized crime, which is in tight connection with the radical networks,** with a more rigorous system of monitoring financial flows both at a national and regional level, and with strong cooperation between intelligence services at an international level. The international community has to make use of more efficient and coherent methods in order to combat the phenomenon of international terrorism financing.

**Funding international terrorism represents a theme that's hard to evaluate and quantify,** as earnings from illicit activities by radical groups aren't monitored and indexed in a global database. Most studies are inclined to make estimates that cannot explicitly and correctly describe this financial infrastructure. **Diminishing the effect of underground markets needs to come from within present day society.** It is necessary to confine these informal sectors by improving the quality of institutions, political stability and government efficiency. Also, regulation is considered, both in literature and through statistic testing, a problem that encourages these markets to function at such a high level. At any rate, focus must be kept on the quality of regulations and not on accumulating measures that burden the system more and more.