Money and Terrorism

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US Secretary of Defense Colin Powell acknowledged that the life-line of terrorism is money. Three years since 9/11 it has become apparent that economics, not politics or ideology, is the engine of the armed struggle. This is the unexpected and disconcerting truth unveiled by an economic analysis of five decades of modern terrorism.

During the period of decolonization after WWII, armed organizations were economically dependent from rich sponsors, i.e. former colonial powers. In 1949 in Indochina, France trained and bankrolled the *Maquis*, a guerrilla army whose aim was to contain Soviet expansion in the French colonies[1]. State sponsored terrorism became a familiar feature of the Cold War. The United States and the Soviet Union funded terror groups to fight wars by proxy on the periphery of their own spheres of influence. The high cost of this type of wars, coupled with its unpopularity at home, forced Western powers to resort to a mixture of legal and illegal revenues to channel money overseas. In 1984, amid widespread opposition to America's involvement in Nicaragua, the Reagan administration managed to get Congressional approval for a financial aid package of $24 million, which was used to arm 2,000 Contras. Although this figure was increased every year thereafter until the Iran Contras scandal erupted, it was insufficient to meet the high costs of bankrolling the Contras. To bridge the gap, several covert operations were put in place. Oliver North set up a scheme to defraud US insurance firms and banks, generating close to $1 billion per year for the Contras. In another illegal project, US weapons acquired by the CIA were sold to the Islamic Republic of Iran, using Israeli and Saudis businessmen, who charged handsome fees, as brokers. Iranian payments were then channeled through numbered Swiss accounts controlled by the Contra leadership[2]. Unsurprisingly, American taxpayers ended up paying for the cost of both legal and illegal funding; the full economic burden of state sponsored terrorism always falls on the domestic economy of the sponsor.

Terrorism has always been an expensive business to run. In the mid 1970s, the Red Brigades, the Italian Marxist terror group, had a yearly turnover of $8 to $10 million[3], equivalent to that of a medium to large size commercial enterprise operating in the industrialized regions of the north of Italy. Unlike the US, which was cash generous, the Soviet Union never funded Marxist groups directly, supplying them instead with free training, arms and ammunition. Groups like the Red Brigades and the Baader Meinhof had to raise their own cash. This required managerial finesse more than military expertise.

The willingness to gain financial independence from their sponsors, coupled with the raising cost of terrorist activity, motivated armed organizations to find ways of becoming self-sufficient. In the 1970s, Yasser Arafat masterminded the transition of the PLO from a state-sponsored to an economically independent armed group by developing the first model of what has become known as the privatization of terrorism. During the civil war in Lebanon, Arafat assembled the Palestinian state-shell, a de facto state held together by a well developed socio-economic infrastructure without the core, the right of self-determination. Over the last 30 years, similar shell-states have blossomed in war zones and in places where there is a high degree of political instability. Colombia and Peru as well as Chechnya, Afghanistan and today Iraq have become ideal breeding grounds for these entities.

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[1] Peter Harclerode, *Fighting Dirty,* (London: Cassell, 2001) p.81

[2] About the Contras covert operations see Al Martin, *The Conspirators,* (Montana: National Liberty Press, 2001) p.28; John Cooley, *Unholy Wars,* (London: Pluto Press, 2000); John Stockwell, *In Search of Enemies: A CIA Story,* (New York: W.W. Norton, 1979)

[3] Claire Sterling, *The Terror Network, The Secret War of International Terrorism,* (London: Weidenfeld and Nicolson, 1981)

Terror groups gain military control of the territory and proceed to destroy the existing socio-economic infrastructure, or what is left of it. Their final aim is to replace it with the armed groups' own socio-economic infrastructure, an economic system created exclusively to feed the armed struggle. The 2003 attacks against the UN and the Red Cross in Iraq are part of this strategy, so are the recent kidnapping of aid-workers in Baghdad.

The key to the survival of the shell-state rests upon the management of its finances, and on its interdependency with traditional economies. The Palestinian shell-state was run as a de facto legitimate state; for example, a 5% income tax was levied on Palestinians working abroad. The Arab states where Palestinian workers resided were held responsible for collecting the tax. Legally and illegally generated money was then invested in legitimate activities through the international financial markets. In 1976, following the legendary bank robbery of the British Bank of the Middle East, Arafat chartered a flight and took the PLO's share of the loot to Switzerland, to invest it; the Christian phalange and the Corsican mafia, the other partners in the robbery, used their shares to buy arms.

CIA estimates show that in the 1990s the PLO's total wealth was ranging from $8 to $14 billions. If we take this figure as a rough estimate of the GDP of the PLO, then at the time it was higher than the yearly GDP of several Arab countries, such as Yemen ($6.5 billion), Bahrain ($6 billion) and Jordan ($10.6 billion)[4]. As Palestinian wealth grew, so did its interdependency with the economy of its neighbor and enemy, Israel. In 1987, the Israeli finance minister Adi Amorai released a PLO courier who had been stopped at the Allenby Bridge, the transit point between Jordan and Israel. The man was carrying a suitcase with $1 million in cash. Amorai knew that the money would be exchanged in shekels and spent inside Israel, an injection of cash which was badly needed by the inflation-ridden Israeli economy[5].

In the 1990s, the further deregulation of international economic and financial markets gave birth to the globalization of terrorism. As economic and financial barriers came down, armed groups linked up economically and become transnational, that is, they were able to raise money across borders and to operate in more than one country. The business empire of Osama bin Laden, whose profits bankrolled terror attacks against Western interest across the Muslim world before 9/11, is a striking example of this phenomenon. His portfolio was truly transnational and highly diversified.

The globalization of terrorism greatly increased the interdependency between terror money and traditional economies. While residing in Sudan, bin Laden acquired 70% of Gum Arabic Ltd, a company which held a monopoly of this product[6] (80% of world supply). By far the largest importer of gum arabic is the US, which enjoys a special price agreement with the supplier. In 1998, the Clinton administration's decision to impose economic sanctions on Sudan met with opposition from lobbies representing US importers of gum Arabic. Eventually they convinced the administration to exclude it from the list of sanctioned products. Their argument was very simple: the sanctions would hurt American importers. Why? Because the Sudanese were going to sell the product to the French, the second largest importer, who in turn would offer it to the Americans at a premium[7]. This event outlines how much the terror economy is interlinked to the Western economy.

Terror leaders are well aware of the degree of dependency between traditional economies and the New Economy of Terror, the international economic system run

[4] Neil C. Livingstone and David Halevy, *Inside the PLO* (New York: William Morrow, 1990) chap. 5
[5] Neil C. Livingstone and David Halevy, *Inside the PLO* (New York: William Morrow, 1990); James Adams, *The Financing of Terror,*(New York: Simon and Schuster, 1986)
[6] Gum Arabic is used to fix the print in newspapers, in soft drink solution to prevent it from separating and in pills and sweets to crate a protective shell around them.
[7] Peter Benesh, 'Did US need for Obscure Sudan Export Help bin Laden?', *Investor's Business Daily*, 21 September 2001.

primarily by armed organizations to self finance the armed struggle. In the 1990s bin Laden issued a *fatwa* urging his followers to refrain from attacking Saudi Arabia because the revenues from the oil industry were needed to consolidate the Islamist revolution. These revenues came from legal businesses, run by Saudis who backed al Qaeda. They found their way into the New Economy of Terror via donations or share of profits, which are not illegal activities. The *fatwa* was lifted in the spring 2003 when Al Qaeda waged the first spectacular attack inside Saudi Arabia.

Western corporations are also often aware that they are doing business with groups which are closely linked with the illegal and terror economy. One way Islamist armed groups have funded themselves is via smuggling of electronic products in Asia. According to Daniel Pearl, the Wall Street Journalist kidnapped and killed by Jaish-I-Mohammed (Army of Mohammed) in Pakistan, the Sony Corporation used a contraband network in Asia as a part of its overall strategy in the region[8]. Consumers are also dependent on terror money. In the Tri-Border region of Latin America, Arabs linked to Hamas and the Hizbollah run a buoyant money-laundering business of drug funds through smuggling of duty free products from Central America. This activity supplies the Colombian population with foreign goods that they otherwise could not afford.

By far the most damaging effect of the deregulation of markets has been the merging of the New Economy of Terror with the international illegal and criminal economy. This phenomenon took place in the 1990s thanks to the deregularization of the international financial markets. As economic barriers came down, armed groups were able to link up with each other and with organized crime. They money laundered dirty money via the same channels, they purchased arms from the same dealers. Today they amount to about $1.5 trillion, higher than the GDP of the United Kingdom. A break down of this economy follows:

- $500 billions are capital flights, money which moves illegally from country to country, undetected and unreported[9];
- $500 billion in what is commonly known as the Gross Criminal Product, money generated primarily by criminal organizations[10];
- $500 billion in the New Economy of Terror - money produced by terror organizations - of which as much as one third is represented by legal businesses and the rest comes from criminal activities, primarily the drug trade and smuggling[11].

The bulk of this $1.5 trillion flows into Western economies, where it gets recycled in the US and in Europe. It is a vital element of the cash flow of these economies.

Even more shocking is the discovery of the interdependency between the terror/illegal economy and the US money supply. The means of exchange of this economy is the US dollar, in particular 100 dollars bills. Arms, drugs, smuggling of people; all illegal activities are cleared in US currency. Therefore the rate of growth of this economy is roughly indicated by the yearly infusion of new US dollars. Recent studies from the Federal Reserve in Saint Louis show that since the 1960s the stock of new dollars issued in the US and taken abroad for good has been steadily rising[12]. In 2000 as much as two thirds of the US M1, equivalent to $500

[8] Daniel Pearl and Steve Stecklow, 'Taliban Banned TV but Collected Profits on Smuggled Sonys', *Wall Street Journal,* 9 January 2002
[9] Raymond Baker, "Money Laundering and Flight Capital: The Impact on Private Banking', Senate Committee on Governmental Affairs, Permanent Subcommittee on Investigations, 10 November 1999
[10] Kimberly L. Thachuk, *Terrorism's Financial Lifeline: Can it be Severed?,* Strategic Forum, Institute for the National Strategic Studies Defense University, Washington DC, No. 191, May 2002
[11] Author's own calculation and estimate of the size of the New Economy of Terror.
[12] Richard D. Porter and Ruth a. Judson, *The Location of US Currency: How Much Is Abroad?* (Federal Reserve of ST Louis, 1996);

billion, has been taken out of the US monetary system and is held abroad[13]. This figure does not include stocks of dollars held by central banks in the form of reserve currency. If these statistics are correct, then the rate of monetary growth of the terror/illegal economy is higher than that of the US economy.

Because the US dollar is considered the reserve currency, the stock of dollars held abroad is a considerable source of revenue for the US Treasury through seignorage. In other words, the US Treasury can issue T bills and borrow against the total stock of dollars held in the world, not just on the stock held inside the US. This amounts to a considerable tax write-off.

To conclude, the interdependencies between Western economies and the illegal/terror economies are so deeply rooted that unilateral measures to sever them may actually backfire. The Patriot Act, for example, has had an impact upon the dollar. The recent fall in the value of the dollar seem to be related to a new tendency of both legal and illegal businesses in Asia and Africa to denominate their transactions in dollars. Switching to the euros avoids the restrictions imposed by the Patriot Act and allows the illegal/terror economy to continue growing. Any attempt to curb the international illegal/terror economy will have to take into consideration these interdependencies and be the result of a concerted multilateral strategy.

[13] Richard G. Anderson and Robert H. Rasche, *The Domestic Adjusted Monetary Base,* working paper 2000-2002, Federal Reserve Bank of St. Louis, www.research.stlouisfed.org

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