The "New Economy of Terror:" The Financing of Islamist Terrorism

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Abstract

This paper exposes the ñroadmapò of how modern Islamist terrorism is financed, through both legitimate and illegitimate means: the networks and linkages between financing obtained on the one hand through sympathetic Islamic governments, Islamic charities and banks, seemingly legitimate businesses operating as fronts, and on the other hand through criminal activities running the full gamut from money laundering, petty crime, organized crime, people smuggling, arms dealing and the narcotics trade. Of particular interest, the paper focuses on the way in which Islamic charities and Sharia compliant financing structures are used as a central mechanism to divert significant funds from Islamic charitable donations and financial activities directly to fund Islamic terrorism, often under the very noses of Western authorities, who fail to understand the what ñSharia compliantò really means in terms of its facilitation of Islamic terrorist financing, both within the West, as well as within the Islamic world. The paper concludes that there is an opportunity for ñrecalibrationò of our existing approach to countering terrorist financing, by the development of a new integrated óuniform codeô to replace the existing, and often conflicting, series of *ad hoc* measures which have been developed on a piecemeal basis over time. And most importantly, the paper concludes that one of the central elements in this ñrecalibrationò is the need to directly confront the seemingly harmless ñIslamic aspectsò of terrorist financing, in the form of Islamic Charities and Sharia compliant financing structures, so as to effectively shut down the terrorist paymasters.

Key words: International Terrorism, Terrorism Financing, Counterterrorism, Security

Introduction – The Importance of the 'New Economy of Terror'

Much was written in the late 1990s and early 2000s by the worldôs economic pundits regarding the vaunted ñNew Economyò, a phrase coined to describe either the impact of the information and communications technology revolution on the global economy, or the economic implications of the new wave of globalization that has in recent decades swept the world. However, this process of globalization, in conjunction with the information and communications technology revolution, together with the ómutationô or óevolutionô of both the ñglobal illicit tradeò (Naim, 2005, p. 7) and the new era ñglobal Salafi jihadò (Sageman, 2004, p. 1) into new decentralized, network-based forms, have all conspired to create a much more ñchilling and é critical phenomenon in this period of our history - the New Economy of Terrorò (Napoleoni, 2005, p. xiii).

This óNew Economy of Terrorô is important because it represents a fast-growing international economic sub-system, which has, thanks to the historical features mentioned above, become an integral part of the global economy (at both illicit and legitimate levels), ñgenerating vast amounts of money é with a turnover of about $1.5 trillion, twice the GDP of the United Kingdomò (Napoleoni, 2005, pp. xviii-xix) and which represents the ñfeeding structure which sustains and nurturesò global Islamist terror (ibid., p. xiii). It provides the links through all points on a continuum from the global illicit trade (eg., drugs and arms dealing, people smuggling and money laundering), through seemingly legitimate banks, financial structures, trusts and charities, to the actual, direct or indirect support and logistical systems for Islamist terrorist groups and cells throughout the world. In so doing, it has ñdevastating effects on Western business ethics é and cements the many links, and opens new ones, between the óNew Economy of Terrorô and legal economiesò (Napoleoni, 2005, p. xix).

Accordingly, it is clear from the complex web of linkages which this enormous óGross Criminal Productô (coined by Baker, cited in Napoleoni, 2005, p. 205) represents, that if we are to be effective in our counterterrorist efforts, policies and procedures in the fight against global Islamist terror, we need to wage the war increasingly on an economic front, and not just on the military and security/intelligence fronts, across the full continuum noted above from the perpetrators of the global illicit trade to the terrorists themselves, and every point in between, on an integrated and coordinated basis. For indeed, as Ehrenfeld (2005, p. xviii) notes, the perpetrators of Islamist terror are ñonly the expendable foot soldiers; the true blame must lie with those who make their activities possible ï the paymastersò. This paper therefore seeks to examine this óNew Economy of Terrorô, its sources and linkages, structures and mechanisms, with a goal of formulating a view as to how best to shut it and its paymasters down, and what this may mean for counterterrorism policies.

Sources & Linkages: the Roadmap of the ‘New Economy of Terror’

Former US Attorney General, John Ashcroft, in his 2002 address to the American Chamber of Commerce (cited in Acharya, 2009, p. 7), famously stated that ñterrorists cannot terrorize without money, without resources; training costs money, planning costs money, and explosives cost money, plane tickets cost moneyò. Accordingly, as the Financial Action Task Force (FATF) notes (cited in Acharya, 2009, p. 7), a successful terrorist group must necessarily be able to ñbuild and maintain an effective financial infrastructure to generate income, launder the proceeds and make them available for committing terrorist actsò. With the demise of state sponsorship in the post-Cold War era, terrorist groups have learned to take full advantage of the prevailing political and economic conditions to meet these funding requirements, so that the óNew Economy of Terrorô has exploited all the features of the modern globalized economy, in effect, becoming óprivatizedô in a sinister óillicit economyô corollary of the privatization movement which took hold of the legitimate economy since the late 1970s, and thus turning ñthe fundamental strengths of the legitimate economies é into double-edged swordsò (id.).

The óroadmapô of the óNew Economy of Terrorô begins with its sources of financing, which as Giraldo and Trinkunas (2007, p. 24) note, encompass both legitimate and illegitimate means, and which can be grouped under the following broad headings (Ehrenfeld, 2005, p. 3):

a. Sympathetic governments, such as Saudi Arabia and Iran;
b. Islamic charitable organizations;
c. Legitimate businesses operating as fronts;
d. Exploitation of financial markets, especially the unregulated commodities markets;
e. Money laundering and trade diversion;
f. International trade, which can, for example, convert cash into precious commodities such as diamonds and gold;

g. Criminal activities, in the context of both ópetty crimeô and óorganized crimeô, such as;
    i. Extortion;
    ii. Smuggling;
    iii. Kidnapping;
    iv. Prostitution rings and people trafficking;
    v. Credit card fraud, identity theft and counterfeiting;
    vi. Pirating of videos, compact discs, tapes and software;
    vii. Arms dealing;
    viii. Narco-terrorism, or the illegal trade in drugs such as heroin, hashish, cocaine and methamphetamines.

The most important feature of this óroadmapô is the interconnectedness between these various financing sources that are at the heart of the óNew Economy of Terrorô, which as Ehrenfeld (2005, p. 3) points out, has the effect of linking ñmoney, geography, politics, arms, and tacticsò to create a devastatingly powerful óalternativeô or óundergroundô economy with (as we have seen above) an annual global turnover of roughly twice the GDP of the United Kingdom. As is readily apparent from the above list, these links fall into two main categories: linkages between terrorism and crime (whether organized or petty crime), and linkages between terrorism and apparently legitimate business, charitable and financial structures and mechanisms.

Much has been made, validly, of the former category, with authors such as Curtis & Karacan (2002) outlining, in the context of the European nexus between terrorism and organized crime, how the linkages have generally evolved in three stages over time (p. 22):

A. Linkages for mutual benefit, in which terrorists enter agreements with transnational criminals solely to gain funding, without engaging directly in commercial activities or compromising their ideologically based mission;
B. Direct involvement of terror groups in crime, removing the ómiddlemanô, but maintaining the ideological premise of their strategy; and
C. A complete melding of terrorist and criminal, where the terrorist ideology is replaced almost entirely by the criminal profit motive.

Indeed, as Williams notes in Biersteker & Eckert (2008, Chapter 6, p. 136), this last stage, whereby terrorist organizations actually appropriate crime methods for their own direct use for financing (whether methods of organized crime or petty crime), ñwill become increasingly frequent and importantò in the future, especially in the context of the modern era of decentralized global Islamist terrorism, where individual terrorist cells tend to finance themselves through criminal activities at various levels of sophistication.

Similarly to Curtis & Karacan, Marenko (cited in Biersteker & Eckert, 2008, p. 128) contends that the óterror-crime nexusô represents a law enforcement continuum with traditional organized crime on one end of the spectrum and terrorism on the other, with a ñgray areaò in the middle where ñcrime and terrorism are indistinguishable from one anotherò, with on the one hand, criminal organizations using terrorist tactics as an operational tool to pursue political objectives, and on the other hand, terrorist groups ñinitially [using] criminal activities as a source of financing but subsequently [changing] from political to financial motivations. Marenko (id.,) further develops this analysis by identifying four general óterror-crime nexusô relationships: ñalliances, operational motivations, convergence, and the óblack holeô syndrome, in which convergence between criminal and political motivations within a single group allows it to subsequently gain economic and political control over a stateò.

However, notwithstanding the clear importance from a counterterrorism policy perspective of this first category of linkage (viz., terrorism and crime), it is the thesis of this paper that it is the second category of linkage (viz., terrorism and apparently legitimate business, charitable and financial structures and mechanisms) which is the most critical to understand if we are to be able to effectively shut down the ôNew Economy of Terrorö. This is so because the first category of linkage represents the overt and observable side of the óterror-crime nexusô (eg., drugs smuggling, arms dealing, people trafficking, prostitution and credit card fraud) and is therefore well-known, capable of being identified, and relatively susceptible to well executed surveillance and enforcement measures. In contrast, the second category of linkage represents what is effectively the opaque and arcane óinvisible handô of the óterror-crime nexusô (eg., front companies and businesses, Islamic banks and religious charities, mosques and Islamic centres, international trade and commodities dealing, and offshore banking), and as such is much less visible and less susceptible to enforcement measures, especially in the context of traditional counterterrorism policies and procedures. It therefore represents our critical area of weakness in the fight to shut down the ôNew Economy of Terrorö, because without effective countermeasures in this area, all efforts to counter the elements comprising the first category of linkage will be to little or no avail in the long term, since, to paraphrase Ehrenfeldôs point noted above, we still will not effectively have dealt with óthe paymastersô.

Accordingly, we will now, for the bulk of this paper, turn to an examination of the elements and manifestations of this critical second category of linkage ï the structures and mechanisms of how the ôNew Economy of Terrorö actually works, with a view to suggesting what policy steps can be recommended to effectively shut it down by dealing definitively with the paymasters.

Structures & Mechanisms: How the 'New Economy of Terror' Actually Works

In delving more deeply into our óroadmapô of the ôNew Economy of Terrorö, we find that there are seven primary categories of structures and mechanisms which actually make it work, and we shall consider each of them in turn in some detail below (noting that some of these are also, in themselves, sources of terrorist financing, beyond merely being facilitative structures and mechanisms for that financing):

a. Islamic Banks:

One of the most important lynchpins that is at the heart of facilitating the ôNew Economy of Terrorö is the Islamic banking system, the operation of which is global and governed by Islamic jurisprudence, or Sharia Law, and is therefore not yet well understood by us in the West, whether we come from the financial industry or the law enforcement and counterterrorism sector.

As Acharya (2009, pp. 72-74) points out, the organization of a typical Islamic bank provides insights into how the system can be, and is, misused for both money laundering and the financing of terrorism (whether within the Islamic world, or within the West under the guise of the increasingly common ôSharia-compliantö financing divisions being introduced by Western banks to accommodate Islamic immigrants). The Islamic bank (or in the West, a ôSharia-compliantö financing division within a Western bank) is obliged to have a control committee called the ôSharia Committeeö (more commonly known in the Islamic world as the ôIslamic Legal Control Committee for the Preservation of Islamic Lawö), which acts as a religious and accounting standards committee, making decisions about what financial instruments are able to be used by the bank under Sharia Law. The majority of the members of the committee are always Islamic clerics well-versed in Sharia Law, and the committee has wide-ranging powers over the bankøs activities, investments and operations, including its dealings in all different accounts.

One of the key accounts relevant to our discussion is the õMudaraba accountö that the customer is obliged, under Sharia Law, to open with the bank to keep a part of the proceeds from investment for charity in compliance with Islamic obligations. Depending on the nature of the account, the investor is free to choose the charitable deed that he wishes to finance (a ófree Mudaraba accountö), or surrenders this responsibility to the Sharia Committee (a órestricted Mudaraba accountö); the most important task of the committee in the latter case is to decide on the amount of *zakat* (alms or donation) and where this amount should go. In addition to the õMudaraba accountsö, Islamic banking also involves the use of what are effectively óinstitutional asset management structuresô for Muslim assets, known as õMusharakaô (joint enterprises) and õMurabahaô (corporate enterprises in which the bank buys and sells goods for profit).

It is noteworthy that in all these structures, with the exception of the ófree Mudaraba accountsö, the customer has no insight into the financial institutionøs actual business operations or strategies, and no input as to which charities the *zakat* is placed with. Accordingly, given the generally lax oversight of Islamic banks and financial institutions within the Islamic world (Acharya, 2009, p. 73), and the lack of general understanding of the operation of the Sharia Committees within Western-based Sharia-compliant financing structures, the potential for abuse, particularly in the context of diversion of the *zakat* to Islamic charities which channel their contributions to Islamic terrorist groups, is significant. In addition, it goes without saying that in the case of the ófree Mudaraba accountsö, there is no restriction on the customer directly deciding to place the *zakat* with such a terrorist supporting charity.

As Acharya (2009, p. 72) notes, many Islamic banks have been implicated, through these Sharia-compliant structures, in the financing of diverse Islamist terrorist groups (such as Arab Bankøs New York branch), through funnelling money into accounts controlled by charities affiliated with terrorist groups. The infamous case of the Bank of Credit and Commerce International (BCCI), which played a major role in financing the mujahidin fight against the Soviets in Afghanistan, was a classic case of how an Islamic bank can be infiltrated and misused for criminal money laundering and terrorist financing: at its height just before its collapse in 1991, the bank was incorporated in the Cayman Islands and Luxembourg and had branches in more than 70 countries, and masked its financial transactions through multiple layers of accounts in the names of charities, NGOs and businesses all controlled by Al Qaeda, with money from these entities being skimmed off and channelled to Al Qaeda cells and operatives who held accounts with the bank in false names (see Acharya, 2009, p. 73).

In addition, Ehrenfeld (2005, pp. 45-51) chronicles numerous cases of other, major name, Islamic banks being involved in the financing of Islamic terrorism through these Sharia-compliant financing structures and mechanisms, including:

- Al-Rajhi Bank: founded in 1987 and one of the top-ten companies in Saudi Arabia, comprising 378 branches in Saudi Arabia and seventeen international subsidiaries in offshore financial centres (mostly in Jersey and other U.K. locations, as well as the Netherlands Antilles), and which was the bank that held the accounts of Al Qaedaøs main European operative, Muhamma Galeb Kalaje Zouaydi, who used the bank to transfer funds directly to the perpetrators of the 9/11, Bali and Madrid attacks. In addition, the bank has extensive connections with, and moves money for, the key Islamic charities which support Al Qaeda and its satellites globally, such the SAAR, the

Muslim World League, the International Islamic Relief Organization and the al-Haramain Islamic Foundation.

- National Commercial Bank (NCB): the first commercial bank of Saudi Arabia, founded in 1950 in Jeddah, and which counted, among its other investments, a 30% controlling shareholding in the corrupt BCCI. Of particular interest in our present context is the fact that an official Saudi government audit of the NCB revealed that for over ten years, the bankôs *zakat* committee had transferred over $74 million to Islamic charities, which then channelled the money to Al Qaeda.
- Al-Barakaat Bank: headquartered in Dubai, which, in addition to being, as we shall see later, a major Islamic offshore banking centre and free trade zone, is one of only three world governments which maintained diplomatic relations with the Taliban (the others being Saudi Arabia and Pakistan). Al-Barakaat was founded in 1989, by a Somali financier and close friend of Osama bin Laden, Ahmed Nur Jimale. Ehrenfeld (2005, p. 49) quotes former US Treasury Secretary Paul OôNeill as stating that the bank and its subsidiaries and affiliated companies ñare the money movers, the quartermasters of terror é [and] are the principal source of funding, intelligence and money transfers for bin Ladenò; its operations were shut down and its assets frozen by executive order of the U.S. President on November 7, 2001.
- Al-Taqwa Bank: established in 1988 in the Bahamas by the naturalized Italian citizen Youssef Nada, with operations in more than thirty countries, the bank has been a key money launderer for Al Qaeda and has been described by the Italian anti-terrorist agency, DIGOS, as ñthe most important financial structure of the Muslim Brotherhood and Islamic terrorist organizationsò (Ehrenfeld, 2005, p. 50); it has funded not only Al Qaeda, but also HAMAS, the Algerian Salvation Front and Armed Islamic Group and Tunisiaôs An-Nahda terror organization. In particular, through its funding of the Qatar Charitable Society (QCS), it funded Al Qaedaôs 1998 bombing of the U.S. Embassies in Kenya and Tanzania, as well as providing funding to Al Qaeda terrorists in Chechnya. Moreover, it has also funded and sponsored the seemingly innocuous (at least to Westerners) Islamic Centre in Geneva and the Islamic Cultural Centre of Milan. In November 2001, the U.S. Treasury Department, at the same time as the shutting down of the Al-Barakaat Bank, froze the assets of Al-Taqwa Bank and sixty-two organizations associated with both banks.

b. Islamic Charities and Mosques:

As can be seen from the preceding section, and driven by the fact that one of the five pillars of Islam and the religious duty of all Muslims is to give at least 2.5 percent of their income to Islamic charities, these charities are a particularly important mechanism for the storage, movement and laundering of terrorist funds (Greenberg, 2002, p. 7). Indeed, ñthey are the conduits through which billions of dollars reach the Islamist network every year, [such that] é it is reasonable to assume that a large portion of charity funds act as a sort of international pool of money, ready to be channelled to whichever armed group is in need in the Muslim worldò (Napoleoni, 2005, p, 173).

Comras (2005) provides an excellent overview of the various significant Islamic charities implicated in the financing of Al Qaeda and its satellites, which is indicative of the importance of the role of Islamic charities more generally as one of the key mechanisms facilitating the financing of the óNew Economy of Terrorô. He recounts (ibid., pp. 3-5) how, in the wake of the 9/11 attacks, intelligence and enforcement agencies around the world put together ña composite sketch of the activities of more than 50 international and local [Islamic] charities é which were used é to assist in financing Al Qaeda é [including] some of the major Islamic umbrella organizations headquartered in Saudi Arabia é [such as] the International Islamic Relief Organization (IIRO), the Benevolence International Foundation, the al Haramain Islamic Foundation, Blessed Relief (Muwafaq) Foundation é the Muslim World League é and the [Pakistan-based] Rabita Trustò.

As has been alluded to in the preceding section, the issue of terror funding through the mechanism of Islamic charities is particularly grave because of the opacity of the ósources and uses of fundsô by them. Donations in large measure remain anonymous and there is almost no oversight of them, primarily because they hide behind the fact that they are charities, and rely on the general lack of knowledge, particularly in the West, about the real nature of Sharia Law and Islamic financing structures, which together means that there is a general assumption that, being charities, they exist to do ógood worksô (rather than understanding that, more often than not, these ógood worksô are a mask for their other more nefarious activities regarding the financing and support of terror and Islamic jihad). Indeed, in this connection, Napoleoni (2005, p. 173) importantly notes that ñthe combination of humanitarian aid and illegal activity is typical of Islamic charitiesò. In addition, the importance of this issue is magnified when one notes that, in one form or another, Al Qaeda has ñinfiltrated one-fifth of all Islamic charities ï which, even if we limit ourselves to the jurisdictions of England and Wales and the Netherlands, would amount to some 2,000 charities [based on] é the rough estimate that there are of the order of 10,000 Islamic charities in these two jurisdictionsò (Gunning: ñTerrorism, charities and diasporasò, in Biersteker & Eckert, 2008, chapter 5, p.94). This is a truly terrifying figure from a counterterrorism policy perspective when used as a proxy for the number of Islamic charities operating globally that are likely being used for the purposes of supporting the óNew Economy of Terrorô.

And no consideration of the role of Islamic charities as a key financing mechanism for Islamic terrorism would be complete without reference to the role that mosques and Islamic centres worldwide play in this equation. As Comras (2005, p. 3) points out, ñAl Qaeda has taken full advantage of [the] lack of oversight [of both mosques and charities] to open its own charities and to solicit funds through collection boxes at mosques and Islamic centresò, and Napoleoni (2008) notes that in the West, the network of mosques and Islamic centres has been so successful in this process of ñrecruiting and fundraising é that [many] have now become hotbeds of potential terror fighters, who have been fed an explosive mixture of religion and political ideologyò (p. 133), and that in Europe, counterterrorism agencies perceive the mosque network ñas the most powerful instrument for recruiting, funding and coordinating the activity of cells and armed groups linked to Islamist terror in Europe and abroadò (p. 221). Indeed, recent press articles by Hengst (2010) and Morgan (2010) regarding the closure of Hamburgôs main Taiba Mosque due to its use by Islamic extremists for the support of Islamist terrorism, including the 9/11 attacks, are timely indications of the recognition of the role of the mosque network in the facilitation of the óNew Economy of Terrorô, especially in view of recent proposals in the U.S. regarding the óGround Zero Mosqueô.

Accordingly, in tandem with Islamic banks, the global network of Islamic charities, mosques and Islamic centres can clearly be seen to be major contributors to the óNew Economy of Terrorô phenomenon, which together represent ñan international network of economic and financial ties as a ópredatory alternativeô to the traditional world economyò (Napoleoni, 2008, p. 140).

c. Informal Value Transfer Systems (IVTS):

Informal Value Transfer Systems (IVTS) are systems or networks that transfer value outside the conventional regulated financial system, in which transfers generally take place through non-bank financial institutions or other business entities whose primary business activity may not be money transfer; many of these systems predate the emergence of modern banking and financial practices, and in many countries (particularly in the Islamic world) they function in parallel with, or as a substitute or alternative for, the formal banking system, operating in relative obscurity, using mechanisms that involve close-knit networks with little or no transparency (Acharya, 2009, p. 75).

These IVTSs have been extensively used for the facilitation of capital flight, tax evasion, fraud, money laundering, and most especially, terrorist financing. The most common system, prevalent ñin almost all continents of the worldò (Acharya, 2009, id.), is the Islamic IVTS, the *Hawala,* which in Arabic means ótransferô. The size of annual *Hawala* transactions throughout the Islamic world is enormous: for example, in Pakistan, between $2-5 billion in foreign remittances annually pass through the *Hawala* system, as compared with around $2.5 billion which are transferred via the banking system, and in Malaysia in 1998, when the Government introduced capital controls to prevent capital flight and counter the óAsian Currency Crisisô, the *Hawala* system became the main source of foreign exchange in that country (Napoleoni, 2009, p. 218). Indeed, Acharya (2009, p. 76) quotes a World Bank estimate that over $300 billion have been transferred around the world in the past two decades using *Hawala* networks.

And predictably, the great advantage to Islamist terror groups is that this unregulated, opaque and informal *Hawala* system is widespread in all the areas of the Islamic world where Islamist terror is growing and the banking system is weak. As Acharya (2009, id.) notes, despite the advent of new technologies changing the *Hawala* system into an updated, relatively sophisticated means of monetary exchange, the essential features of the practice, ñwhich include lack of paper trails, expediency of transfers, and low costs, remain unchanged é there is no physical transfer of money é [and] the settlement of accounts between *Hawaladors* is accomplished through various mechanisms such as reciprocal remittances, manipulation of trade invoices, smuggling of gold or drugs, or through the physical movement of cash by trusted couriersò. Further, Ehrenfeld (2005, p. 15) notes that *Hawala* transactions are often completed more rapidly than international wire transfers that involve legitimate banks, which is quite astonishing.

Clearly, its speed, coupled with the facts that no paperwork is needed and no money physically crosses borders, makes the *Hawala* system an ideal financial structure and mechanism for the underpinning of the óNew Economy of Terrorô. In a chilling example of how useful this *Hawala* system is in the facilitating of Islamist terror, Acharya (2009, p. 76) cites the investigative work of Willman, who found that Mohamed al-Owhali, one of the suicide bombers of the U.S. Embassy in Nairobi, received $1,000 at the Nairobi office of a *Hawalador* without carrying any identification (due to his having destroyed all his identification papers in preparation for the suicide attack), because the transferring party wrote a note requesting that ñThis person doesnôt have any proper documents é please give him [money] without documentsò. Acharya (2009, id.) also documents the fact that the *Hawala* system was used to transfer funding for the July 2006 Mumbai train bombings, and the transfer of money from Sweden to Islamist militants in Northern Iraq. And Napoleoni (2009, p. 218) cites the use of the *Hawala* system by Western backers of Islamist terror as well: for example, in 2002, the Indian police unmasked a scheme through which money was raised by a pro-Kashmiri Islamist charity group in Britain, and transferred to the Kashmiri Islamist terror organizations via *Hawaladors.*

d. Correspondent Banking:

In the formal financial sector, it is well known that the weakest link, from a supervision, security and law enforcement perspective, is the international network of ócorrespondent banksö. Correspondent banking refers to the global network of relationships between major, óbrand nameô banks and smaller banks in foreign jurisdictions (including, but not limited to, tax havens), which the major banks have used since the early days of modern banking in the 19^{th} century, to service the needs of their clients in foreign jurisdictions, but which Naim (2005, pp. 145-146) explains, surged ñin the 1990s on the strength the emerging markets boomò, with the major banks wanting to access new clients in new markets, and to give the impression of having an office in every market, but which has unfortunately brought with it the opening of ña conduit to the international bankøs global network that it cannot directly monitor and police, and through which funds can pass at the stroke of a computer keyò.

Not surprisingly, this difficult to police network of correspondent banking has been heavily used by terrorists in the financing of their operations, and represents a key element of the infrastructure of the ñNew Economy of Terrorò. For example, Naim (2005, p. 144) notes that during his time in the Sudan from 1991 to 1996, Osama bin Laden used accounts at Khartoumøs al-Shamal Islamic Bank to access the world banking system and purchase aircraft which were used in the transport of Stinger missiles from Pakistan to the Sudan; this was made possible because, although ñestablished only in 1984, not to mention [being] located in a country considered at the time to be a dusty backwater, al-Shamal was a local correspondent for Credit Lyonnais, Commerzbank, Barclays and a Saudi affiliate of ABN Amroò. Similarly, Acharya (2009, p. 72) notes how the correspondent banking network was used by Osama bin Laden and his associates to transfer money to facilitate the 9/11 attacks, from accounts in Dubai with the Dubai Islamic Bank to the 9/11 hijackersô accounts with SunTrust Bank in Florida by wire transfer.

e. Offshore Banking, Offshore Financial Centres and Free Trade Zones:

That part of the international financial system which has historically been largely beyond the reach of the law and the appetite of tax authorities of Western jurisdictions has long been called óoffshoreö. As Naim (2005, pp. 140-141) notes, óoffshore bankingô and óoffshore financial centresô (OFCs) have the ñexpress aim of attracting capital from other countries, which they reward with more lenient rules than it would encounter at homeò, with the benefits to the host nation being revenues generated by ñcharging fees for the issuance of various licenses and documents, such as articles of incorporation or licences for banking services and mutual and hedge fundsò. As such, their more lenient rules, lax supervision and general opacity to regulatory scrutiny make them perfectly suited for performing their role as part of the day to day financial infrastructure of organized crime and the óNew Economy of Terrorö, through facilitating funds transfers through the international banking system, while at the same time effectively concealing both the true identities of the real owners and the actual purpose of the funds transfers (Ehrenfeld, 2005, p. 13).

The use of OFC financing structures and mechanisms is well known and well documented by the leading practitioners in the field of counterterrorism financing, and the various permutations are exhaustively summarized by Pieth et al., (2009) in their collection of papers from the second óGiessbachô seminar on counterterrorist financing organized by the Basel institute of Governance in October 2008. Indeed, the Financial Action Task Force (FATF), established in 1989 by the G-7 Summit, and now comprised of 34 member jurisdictions and 2 regional organizations, representing most major financial centres in all parts of the globe, with the specific mission of ensuring global action to combat money laundering and terrorist financing, has introduced a range of recommendations and requirements aimed at reducing the utility of OFCs to organized crime and terrorist organizations, through enhanced transparency and disclosure, increased regulatory supervision and electronic tracking of financial transactions.

However, notwithstanding these important and positive regulatory and enforcement developments in relation to OFCs generally, from the materials reviewed in connection with the writing of this paper, one ójewelô in the modern Islamic world stands out above all other jurisdictions and OFCs as warranting close and ongoing scrutiny in connection with our efforts to shut down the paymasters of the óNew Economy of Terrorô: the Emirate of Dubai and its óFree Trade Zoneô (FTZ) of Jebel Ali. In regard to the facilitation of Islamic terrorist financing, Cassara (2007, pp. 107-131) notes pointedly that ñall roads lead to Dubaiò, and he documents in great detail the results of his investigative work as a CIA Case Officer which show the significant extent (as has already been revealed earlier in this paper) to which, as the historical smuggling hub of the Arab world, Dubai and its modern-era FTZ have for decades been routinely at the centre of the financing of Islamist terror operations through the utilization of the full comingled spectrum of illicit tools from banking, charities, *Hawala,* smuggling, fraud, money laundering, mis-invoicing of trade goods, and front companies. Accordingly, as Cassara (id., p. 111) concludes, detailed investigation of Dubai and its FTZ continue to provide valuable insights into ñthe riddleò that is Islamic terrorist financing, as well as important clues for effective enforcement action, so it is essential that they should remain a sharp point of the focus of our efforts to shut down the óNew Economy of Terrorô.

f. Trade Diversion:

deKeiffer (cited in Biersteker & Eckert, 2008, p. 150) notes that international trade diversion is heavily used in connection with the financing of Islamic terrorism and is ñone of the most sophisticated methods of laundering large amounts of money é [because] unlike other transactions [it] relies upon óhiding in plain sightô é [whereby] large transactions are disguised as legitimate, using well-known and respected firms to accomplish the transferò. It includes mis-invoicing of trade goods in respect of both price and destination, and in addition to being an effective method of laundering money, it can also be used to actually raise significant amounts of funding; for example, ñby simply understating the value of a commodity, the seller can easily provide funds to the buyer, who sells it at a higher price and keeps the difference é to finance é terrorist operationsò (Giraldo & Trinkunas, 2007, Pp. 30-31).

As Giraldo & Trinkunas (2007, id.) note, trade diversion functions in the ñnearly unregulated international trading system, where it is almost impossible to disentangle truthful from deceptive international trade and invoicing practices é where tremendous wealth crosses borders without leaving traces and without raising suspicions é [in transactions amounting] to billions of dollars é each year é [to] provide cover for terrorist financeò. Further, deKeiffer (cited in Biersteker & Eckert, 2008, p. 150) confirms that ñnot only is trade diversion difficult to detect, it is also versatile in that it can allow funds to remain in numerous countries (including the United States) without prompting serious inquiry by the authorities é [and] therefore has important implications for terrorist financing in that it potentially enables terrorist groups to raise and hide funds while evading government scrutinyò.

A good illustrative example of trade diversion being actually used in the U.S. to finance Islamist terrorism in the Middle East is cited in Biersteker & Eckert (2008, p. 157-158), where Mohamad Youssef Hammoud and his associates were convicted in 2003 and sentenced to 155 years imprisonment for using trade diversion in connection with cigarette smuggling to fund activities and make purchases for Hezbollah. In that case, the enterprise would obtain low-taxed or un-taxed cigarettes in North Carolina and the Cattaraugus Indian Reservation in New York, and bring them into Michigan for the purpose of evading Michigan cigarette taxes, while selling the cigarettes as if taxes had been paid, thus diverting an amount equivalent to the Michigan tax to Hezbollah.

g. Multiple Redundancies:

Finally, it is critical to emphasize that one of the most troubling features of the fundraising structure of the óNew Economy of Terrorô remains its decentralized, network-based system, which, in the financial parallel to Sagemanôs (2004) characterization of the modern decentralized óSalafi jihadô itself, is ñcompartmentalized, flexible and diverse é [and] characterized by layers and redundancies é [and which] raises money from a variety of sources and moves money in a variety of mannersò (Greenberg, 2002, p. 6).

While this point may verge on stating the obvious, it is an absolutely essential final point to make in leading into our following discussion of the policy conclusions to be drawn from the above analysis: for at the beginning and end of any consideration of the ways to shut down the óNew Economy of Terrorô, we are confronted continuously by the complexity created by the decentralized, network-based, multiple redundancy ridden nature of modern Islamist terrorism, which has itself taken every conceivable advantage afforded to it by the modern era of globalization, thus making our task of dealing with the ópaymasters of terrorô that much more difficult.

Conclusion: A View on the Implications for Counterterrorism Policy

We have seen from the above analysis that the óNew Economy of Terrorô consists of a continuum of linkages between terrorists and their supporters, from the full spectrum of organized and petty crime activities, to both the legitimate and illegitimate sectors of traditional economies, all integrated together in what Napoleoni (2005, p. 225) has described as a ñweb based on terror, crime, corruption and deceitò. Clearly therefore, the central implication of this for counterterrorism policy is that, if we are to be effective in óshutting down the paymasters of terrorô our primary approach must be to push for a fully integrated óholisticô scheme, which integrates all the different segments of our existing response into a single unified ócounterterrorism financing task-forceô, comprised of a multi-disciplinary staff drawn from law enforcement, security/intelligence forces, counterterrorism bodies, financial regulatory authorities and also from the private sector in business and finance. Such a scheme can be created firstly at national level, by governments which understand the full implications of the nexus of linkages that form the óNew Economy of Terrorô as described in this paper, and from that national level, then build up an international cooperation strategy between like-minded countries on a bi-lateral and multi-lateral basis, and then use that international cooperation strategy as a springboard to the potential creation of a uniform international ócriminal code for terrorism and terrorist financingô with strong enforcement provisions using bodies such as the International Criminal Court (including enforcement provisions requiring the confiscation of assets accumulated in the course of aiding and abetting terrorist financing, which would extend to confiscation of such assets accumulated by Islamic banks, charities, mosques and Islamic centres).

In this regard, the analysis in this paper can be viewed as an opportunity for órecalibrationô of the existing counterterrorist financing regime, which is flawed in that it is based on a series of *ad hoc* approaches and measures, developed over time, and is not in fact a single regime at all, but a series of measures ñbased on the idea that one set of measures against one sort of actor can resolve the problem of terrorism or its financing for all timeò (Pieth et al., 2009, p. 283). Accordingly, I suggest that this paper serve as a starting point for the development, by interested national governments in the West, of the new integrated óuniform codeô referred to above.

In doing so, if we are to truly stem terrorist financing and shut down the óNew Economy of Terrorö, which I am convinced is absolutely achievable, political will and leadership is a must, as is the requirement of resisting the ever-present march toward political correctness which prevents us from confronting the thorny details of the real enemy in this equation: resurgent Islamism. For the clearest message which rang loudest in all the materials reviewed in the course of writing this paper is that the overriding issue confronting us in dealing head-on with the óIslamic aspectsô which are at the heart of the óNew Economy of Terrorö, and that we in the West continue to fail to understand properly (if at all), is this one: the central role that Sharia-compliant financing, Islamic charities, mosques and Islamic centres, and the worldwide *Hawala* system, all play in the network of paymasters for Islamic terror. For it is only by confronting these unique óIslamic aspectsô of terrorist financing, which on the surface look so beguilingly normal and harmless to us in the West (until we look deeper), that the new recalibrated óuniform codeô that I am suggesting can have a chance of being successful in severing the channels of interaction which facilitate the ongoing financing of the óNew Economy of Terrorö. These may seem like hard choices, but as Napoleoni (2005, p. 227) correctly observes, ñsimilar hard choices have been required of us in wartime é [and] the threat of inaction may be more fateful, and more global, than at any other time in our historyò. We must, therefore, take the hard choices and recalibrate our approach, for otherwise, we will surely fail.

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