

# NATIONAL DEFENSE AND SECURITY ECONOMICS

## Economic Aspects of International Terrorism



INVESTMENTS IN EDUCATION DEVELOPMENT

# **Ekonomické aspekty terorismu**

## **Obsah přednášky**

- **INTRODUCTION**
- **BASIC CONCEPTS**
- **CAUSES OF INTERNATIONAL TERRORISM EXISTENCE**
- **MICROECONOMIC ANALYSIS OF TERRORISM ACTIVITIES AND INTERESTS**
- **FINANCING OF INTERNATIONAL TERRORISM**
- **CONCLUSION**

# ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

## INTRODUCTION

# Economic Aspects of International Terrorism

## Introduction

- **Main Objective of this lecture** is to point out and to explain economic aspects of international terrorism with accent on its cost side.
- **As partial aims of this lecture, we can see:**
  - demarcation economic causes of international terrorism,.
  - Demarcation economic impacts of terrorist activities from different point of view (microeconomic and macroeconomic criterion, criterion of influence length,
  - Description of financial aspects of international terrorism existence

# ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

## BASIC CONCEPTS

# Economic Aspects of International Terrorism

## Basic Concepts

- Definition of international terrorism
- Definition of domestic terrorism
- Typology of international terrorism

ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

# CAUSES OF INTERNATIONAL TERRORISM EXISTENCE



INVESTMENTS IN EDUCATION DEVELOPMENT

# Economic Aspects of International Terrorism

## Causes Of International Terrorism Existence

- „Relative“ economic poverty
- Socio-economic change from long-term social conditions
- Political and institutional organization
- Political transformation and instability
- Clash of civilizations
- Economic and political integration
- Infection



ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

# **MICROECONOMIC ANALYSIS OF TERRORISM ACTIVITIES AND INTERESTS**

# Economic Aspects of International Terrorism

## Microeconomic Analysis Of Terrorism Activities And Interests

Economic models of terrorist behavior use the standard consumer choice models with individuals and groups facing an allocation and choice problem.

Terrorists aim to maximize their individual or group utility. But they are subject to limited resources (income, wealth, labour, time) which have to be allocated between various terrorist and non-terrorist activities.

# **Economic Aspects of International Terrorism**

## **Microeconomic Analysis Of Terrorism**

### **Activities And Interests**

Further allocation decisions are needed between alternative terrorist attack options, such as skyjackings, kidnappings, bombings, assassinations and the use of chemical, biological and nuclear weapons. These economic models of terrorism offer various predictions:

- a) Substitution effects**
- b) Income effects**
- c) Increase the costs of terrorism**
- d) Free riding**

# Economic Aspects of International Terrorism

## Microeconomic Analysis Of Terrorism Activities And Interests

### Simple Rational Choice Model of Terrorism

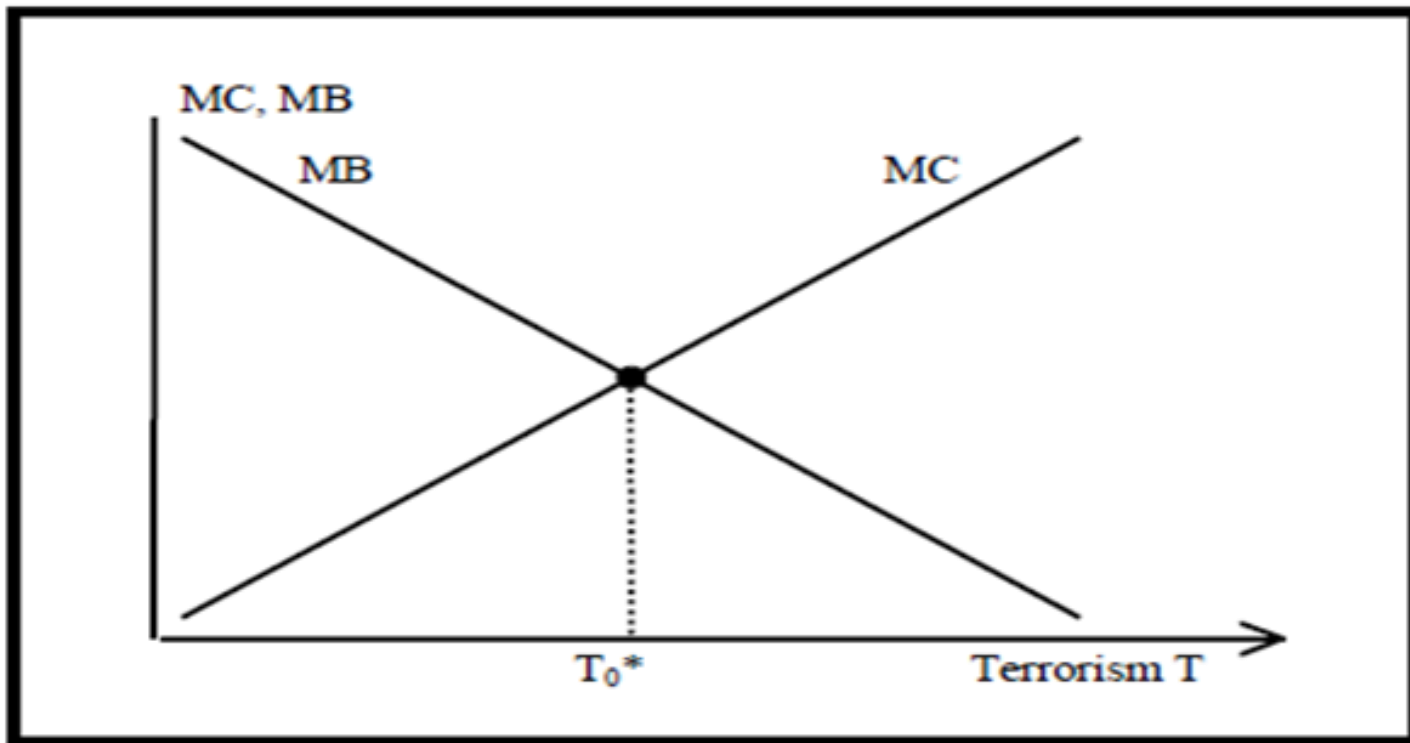


Figure 1: Marginal Cost and Benefit of Terrorism

# Economic Aspects of International Terrorism

## Microeconomic Analysis Of Terrorism Activities And Interests

### Raising the Cost of Terrorism

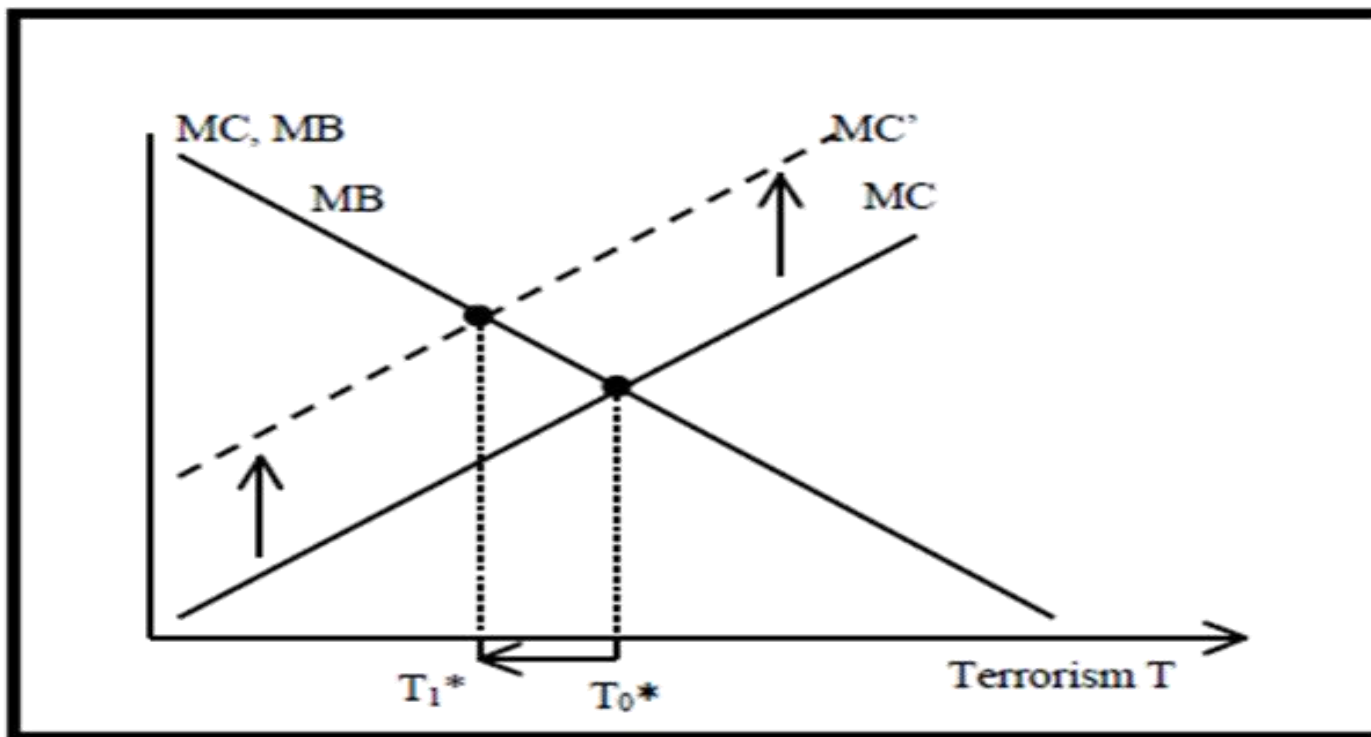


Figure 2: Increasing the Cost of Terrorism

# Economic Aspects of International Terrorism

## Microeconomic Analysis Of Terrorism Activities And Interests

### Reducing the Benefits of Terrorism

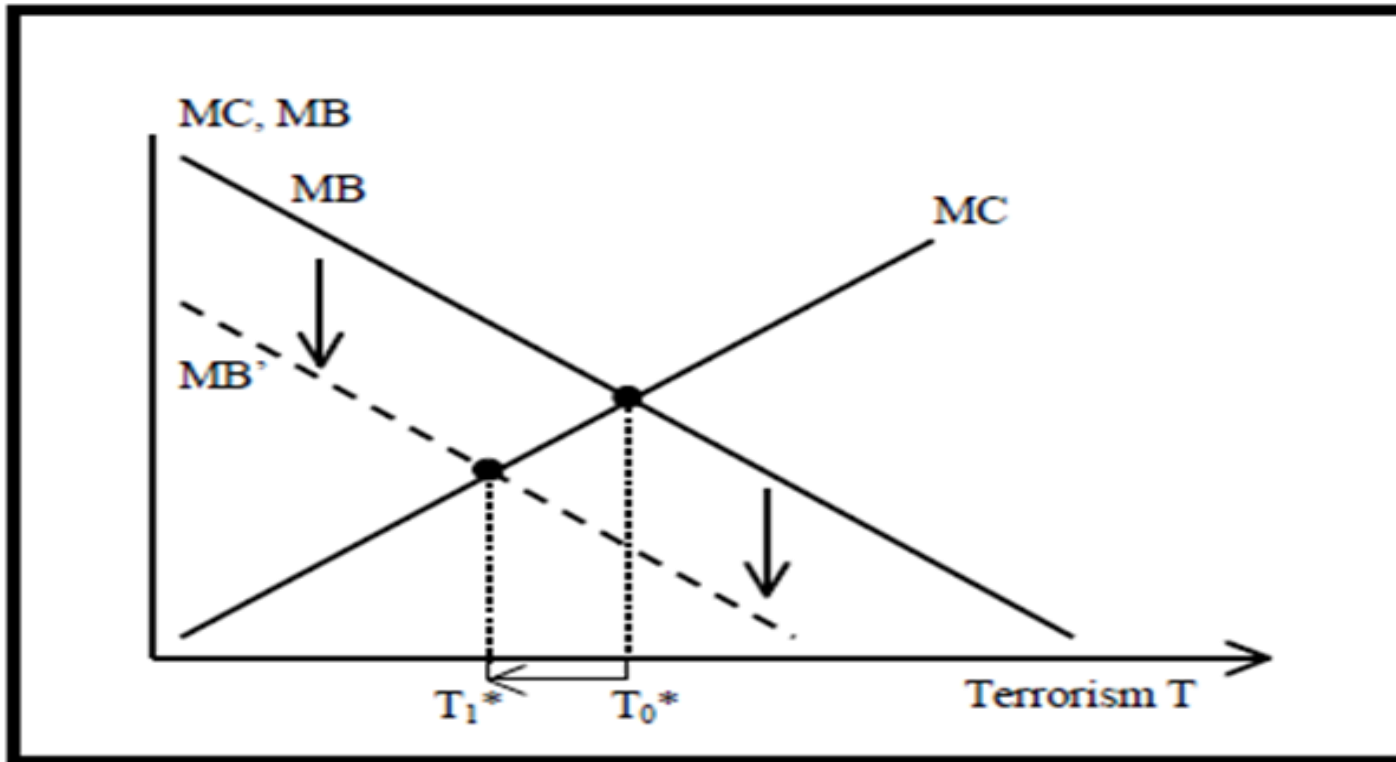


Figure 3: Reducing the Benefits of Terrorism

ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

# FINANCIAL ASPECTS OF INTERNATIONAL TERRORISM EXISTENCE



INVESTMENTS IN EDUCATION DEVELOPMENT

# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

- **Terrorist financing** refers to the processing of funds to sponsor or facilitate terrorist activity.
- A terrorist group, like any other criminal organization, builds and maintains an **infrastructure to facilitate the development of sources of funding**, to channel those funds to the providers of materials and or services to the organization, and, possibly, to launder the funds used in financing the terrorist activity or resulting from that same activity.



# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

Terrorist organizations derive income from a variety of sources, often combining both lawful and unlawful funding, and where the agents involved do not always know the illegitimate end of that income. The forms of financing can be grouped in two types:

- 1. Financial support** - In the form of donations, community solicitation and other fundraising initiatives. Financial support may come from states and large organizations, or from individuals.
- 2. Revenue generating activities** - Income is often derived from criminal activities such as kidnapping, extortion, smuggling or fraud. Income may also be derived from legitimate economic activities such as diamond trading or real estate investment.

# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

- The terrorist financier will want to disguise the illegal end of the funds, while trying to maximize the revenues for the organization sponsored.
- It may be necessary to disguise the source of the funds, as well, either because such funds have an illegal origin, or because the organization wants to preserve the continuity of the legitimate financing.
- The need to camouflage the source of the funds means that terrorist financing has certain similarities with traditional money laundering, namely the use of three stages to place, layer and integrate the funds in the international financial system.

# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

- There is a crucial difference between traditional money laundering and terrorist financing, however. The monitoring of financial transactions in traditional money laundering, from a financial investigator point of view, is done in order to link the funds to a criminal act that has taken place already and to strip the criminal and any accomplices from the economic benefits of engaging in criminal behaviour. In terrorist financing, however, the investigation is done in order to prevent individuals to gain access to funds that could finance future criminal activity and, therefore, it is done in order to prevent a crime from happening. The monitoring of financial transactions with the purpose of identifying terrorist financiers, therefore, must take into account the intentions of those engaging in the financial transactions observed.

# Economic aspects of international terrorism

Financial aspects of international terrorism

existence

## Resource of terrorism financing

1. **Direct support from legal resources**
  - a) Sympathize state support
  - b) Sympathize firms support
  - c) Sympathize citizens support
  - d) Own legal resources carrying out return
2. **Abuse legal resources**
3. **Support from illegal resources**
  - a) From own criminal activities
    - In legal economy
    - In criminal economy
  - b) From criminal activities of sympathizers

# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

### Mechanism of international terrorism financig

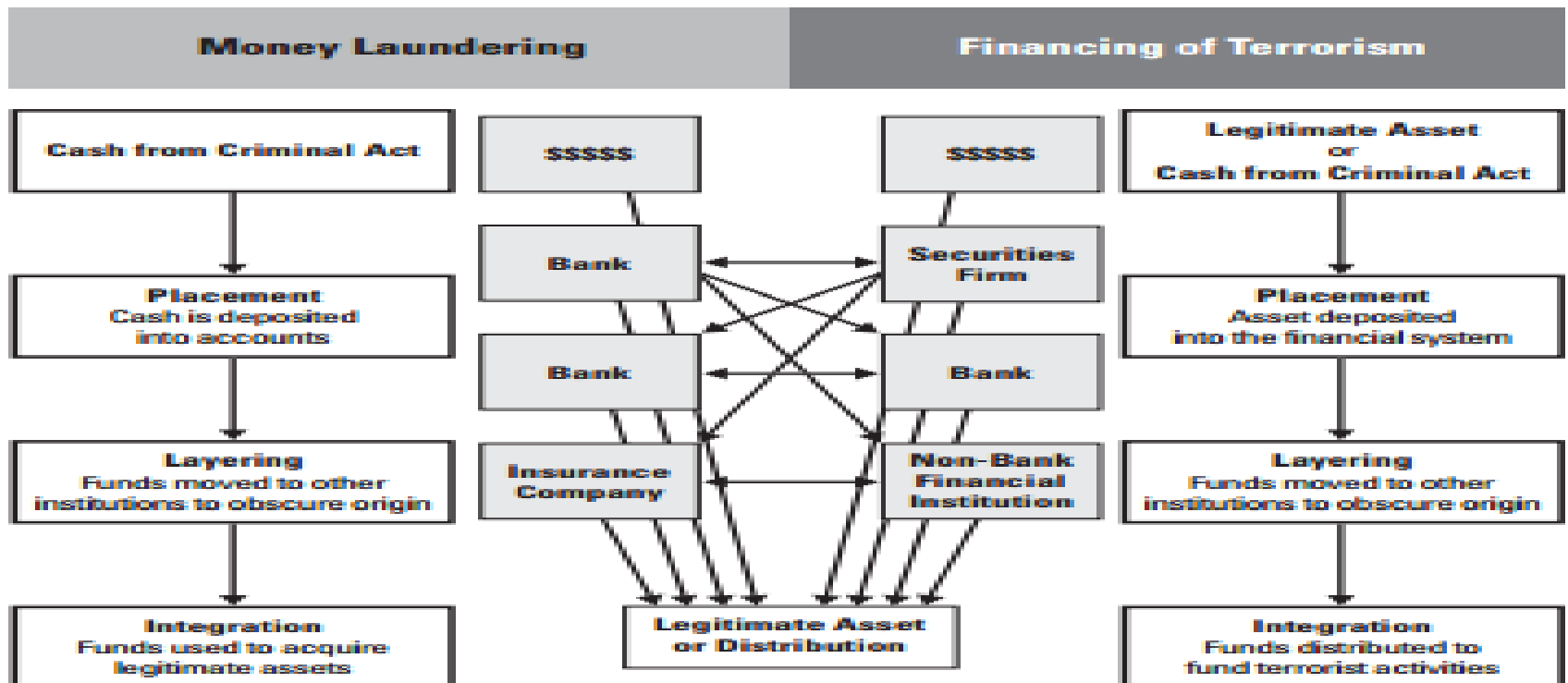
**Small groups financing** – donation from individuals are sufficient

**Supranational groups financing** – required bigger amont of financial means and complex support

# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

### The Processes of Money Laundering and Financing of Terrorism



# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

### Money Laundering as a mechanism for terrorism financing

#### Definice

Money laundering refers to the processing of the financial proceeds resulting from criminal activity.

- It includes any type of predicate crime ranging from tax evasion and forgery, to drug- and people-trafficking.
- It is assumed that the criminal will want to disguise the illegal source of the money, while trying to maximize profit.

*Being an illegal activity, there are no official measures of its size – but, estimates from the International Monetary Fund suggest that the volume of funds being laundered every year is in the range £500 billion to £1 trillion worldwide.*

# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

### Money Laundering as a mechanism for terrorism financing

**Money launderers** will use both the financial and the non-financial system to launder their money. The method involves three stages:

- Placement
- Layering
- Integration

*Money laundering causes major economic and social disruption, which is why national governments and international organizations alike invest considerable resources in tackling the problem.*



# Economic aspects of international terrorism

## Financial aspects of international terrorism existence

### Overall costs conneted with realization of terrorist attack - examples

Attack	Date	Estimated cost <sup>3</sup>
London transport system	7 July 2005	GBP 8 000 <sup>4</sup>
Madrid train bombings,	11 March 2004	USD 10 000
Istanbul truck bomb attacks,	15 & 20 November 2003	USD 40 000
Jakarta JW Marriot Hotel bombing	5 August 2003	USD 30 000
Bali bombings	12 October 2002	USD 50 000
USS Cole attack	12 October 2000	USD 10 000
East Africa embassy bombings,	7 August 1998	USD 50 000

## ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

# CONCLUSION

# Economic aspects of international terrorism

## Conclusion

- **Terrorism has** long history in human being existence. Its aims, shape and tools and means of support was changed quickly as reaction on changed societal conditions.
- **Terrorism** is phenomenon with multidimensional level of causes of existence.
- **Terrorism** is very complex and complicated problem.
- **Terrorism causes** very high societal and individual costs.

# ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

## STUDY RESOURCES



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ

# Economic aspects of international terrorism

## Study Resources

- SANDLER, Todd. Political Economy of Terrorism.
- SCHNEIDER, Friedrich., BRÜCK, Tilman., MEIERRIEKS, Daniel. The Economics of Terrorism and Counter-Terrorism: A Survey (Part I). Berlin: German Institute for Economic Research, 2010. 52 s. ISSN 1433-0210
- SCHNEIDER, Friedrich., BRÜCK, Tilman., MEIERRIEKS, Daniel. The Economics of Terrorism and Counter-Terrorism: A Survey (Part II). Berlin: German Institute for Economic Research, 2010. 52 s. ISSN 1433-0210
- Terrorist Financing. Paris: Financial Action Task Force/OECD, 2008. 37 s.

# THANK YOU FOR YOUR ATTENTION !!!

## IN CASE OF QUESTIONS, CONTACT ME ON

Dipl. Eng. **Aleš OLEJNÍČEK**, Ph.D.  
Department of **ECONOMICS**  
Section of **NATIONAL DEFENSE**  
**ECONOMICS**  
Office **K-65/100**  
Phone number: **+420973443153**



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ