

Course:

# **DEFENSE AND SECURITY ECONOMICS**

Distance Support Material

## ***TOPIC 9***

### **ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM**

**BRNO**

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# **Topic 9**



## **Economic Aspects of International Terrorism**

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# LEARNING OUTPUTS

## **Students will know:**

- basic concepts from economic of international terrorism,
- basic typology of terrorism.

## **Students will be able to:**

- make simple microeconomic analysis of terrorist activities.
- demarcate way of terrorist activities financing

## **Students will capable of:**

- discussion on economic impacts extent to society.

# ECONOMIC ASPECTS OF INTERNATIONAL TERRORISM

## KEY TERMS

Terrorism, domestic terrorism, international terrorism, terrorism funding, Impact of terrorism, macroeconomic and microeconomic impacts of terrorism.

## TIME NEEDED FOR CHAPTER STUDY

4 hours

## INTRODUCTION

In today's world there are hundreds of purely terrorist groups and mass organizations that use terror as a method of political struggle and achieve their goals. Naturally, they are all very different. Their goals are divided into realistic and utopian.

"Terrorists are able to seriously change the social atmosphere, to sow fear, uncertainty, distrust of institutions of power. Their actions could be particularly damaging to democratic states, where frustration and indignation of citizens may well be expressed in supporting the election of whose only promise is to put an end to terrorism ...other results of terrorist acts is a distrust of government, and no matter what the ideology of this government professes, as well as distrust of power structures, the desire to change them and, accordingly, the destabilization of society.

"Even such a preliminary selection of areas most often associated with terrorism on the basis of customary usage, lets you see the main thing: the basis of terrorism is violence.

# 1 BASIC CONCEPTS

## 1.1 Definition of international terrorism

"International terrorism" means activities with the following three characteristics:

- Involve violent acts or acts dangerous to human life that violate federal or state law;
- Appear to be intended (i) to intimidate or coerce a civilian population; (ii) to influence the policy of a government by intimidation or coercion; or (iii) to affect the conduct of a government by mass destruction, assassination, or kidnapping; and
- Occur primarily outside the territorial jurisdiction of the U.S., or transcend national boundaries in terms of the means by which they are accomplished, the persons they appear intended to intimidate or coerce, or the locale in which their perpetrators operate or seek asylum.

## 1.2 Definition of domestic terrorism

"Domestic terrorism" means activities with the following three characteristics:

- Involve acts dangerous to human life that violate federal or state law;
- Appear intended (i) to intimidate or coerce a civilian population; (ii) to influence the policy of a government by intimidation or coercion; or (iii) to affect the conduct of a government by mass destruction, assassination, or kidnapping; and
- Occur primarily within the territorial jurisdiction of the U.S.

## 1.3 Typology of international terrorism

Multiply the number of such classifications does not make sense because they are virtually endless, and "dimensionless": every time there is some new explanation for which will extend such a classification. It is difficult to assume, for example, productive variety of ideological classification - because in addition to left-and right-wing terrorism, there will always be some - some of his new species. And then, say, a Trotskyist terrorism will be indefinitely add Maoist, Pol Pot and all the other versions.

- a) Separatist;
- b) Ethno-centric;
- c) Nationalistic;
- d) Revolutionary;
- e) Political;
- f) Religious;
- g) Social;
- h) Domestic (IRA);
- i) International (Al-Kaida, Hezbollah).

## **2 CAUSES OF INTERNATIONAL TERRORISM EXISTENCE**

### **2.1 „Relative“ economic poverty**

Some scholars suggest that terrorism is rooted in 'relative' economic deprivation (which manifests itself, e.g., in poverty, within-country inequality and a lack of economic opportunities), where violence is generated when there is a discrepancy between what individuals think they deserve and what they actually receive in the course of an economic (distributive) process (Gurr 1970). Poor structural economic conditions create frustration, which in turn makes violence more likely. In environments where (relative) economic deprivation prevails, terrorist organizations should find it easier (less costly) to recruit frustrated followers or to receive funding from supporters. The lack of non-violent economic activities may also fill the ranks of terrorist organizations by lowering the opportunity costs of violence.

### **2.2 Socio-economic change from long-term social conditions**

Others emphasize the role of socio-economic change over long-run socio-economic conditions. They argue that terrorism is fostered by the process of modernization which creates different types of strain, e.g., from economic changes, new ideas (e.g., Western ideologies) and new forms of living (shift from agricultural to urban societies). All of these factors may create grievances associated with economic, demographic or social strain (Robison et al. 2006). For instance, medical progress changes the patterns of population development, resulting in populations with high youth burdens (Ehrlich and Liu 2002). In general, modernization is associated with economic, demographic and social changes. Terrorist organizations are able to capitalize on the grievances of 'modernization losers', thus making recruitment, financing or other forms of support more likely. Also, terrorist organizations may use modern means of communication to disseminate their opinions more effectively (Ross 1993). Modernization is likely to lower the costs of terrorist activity by creating grievances e.g. linked to economic dissatisfaction, new forms of alienated living or other challenges to traditional societal patterns.

### **3.3 Political and institutional organization**

The political and institutional order is also argued to be connected to terrorism. There is an ongoing academic debate on whether a certain political system (a democratic or autocratic regime) is more prepared to deal with terrorism. While the former can offer non-violent means of voicing dissent, it is also constrained in its efforts to realize 'hard' counter-terrorism (e.g., because civil liberties are protected). The latter can capitalize on its capability of 'hard' repression but may at the same time also generate grievances linked to political disenfranchisement. Some authors suggest that semi-open societies (partial democracies) are most prone to terrorism because they cannot capitalize on the advantages of either 'pure' political regime. Regardless

of the exact regime type, government strength (e.g., military power), government policies or ideological affiliation may also influence a terrorist's calculus. For instance, a large-scale government may make it more difficult for societal groups to pursue rent seeking, making it more attractive to gain rents through terrorist violence (Kirk 1983). Also, if the institutional order impedes economic participation (e.g., by means of corruption) it may also be more attractive for an individual terrorist to engage in violence. The opportunity costs of violence are expected to increase with institutional quality (Kurrild-Klitgaard et al. 2006). That is, terrorist activity should decrease with higher levels of institutional quality.

### **3.4 Political transformation and instability**

Political transformation and political instability are also sometimes regarded as causes of terrorism, in particular in popular discourse. This view argues that political change also matters to terrorism, regardless of the (long-run) political conditions. Changes in a political system create political vacuums which terrorist groups can use to push their agendas. First, these groups are less likely to be challenged by an instable government which is usually weak, making terrorism a less costly venture. Second, an individual may find it more attractive to support a radical organization because there are few non-violent alternatives (meaning low opportunity costs of violence) but high payoffs from terrorist success (meaning increased violence benefits). Third, instable countries may serve as schools of terrorism (Campos and Gassebner 2008). In times of domestic instability individuals gain an 'education' in violence they can also use for internationalized terrorist campaigns. State failure is commonly seen as one root cause of terrorism, as it is expected to maximize the promoting effects of instability on terrorism. Failed states are seen as safe havens for terrorist organizations (Rotberg 2002).

### **3.5 Clash of civilizations**

Huntington (1996) states that violence is also a consequence of civilizational clash. The main idea is that when groups exhibit different identities (e.g., in the sense of different religions or ethnicity), this leads to more conflict either between different groups within a country or between different country groups organized along civilizational lines (e.g., Islamic countries versus the West). For terrorist groups it should be less costly to muster support against antagonistic groups, in particular when terrorist groups build on identity-related ideologies that stress the supremacy of their identity (e.g., representing a 'chosen people'). Such a world view eliminates moral constraints and strengthens an organization's cohesion, thus making terrorism less costly and more effective (Bernholz 2006). The abstract conflict between world views also becomes manifest in real politic, where population groups with different identities pursue different (often diametrical) policies. Such behavior may, e.g., be

represented in rent seeking or other forms of social interaction between groups with different identities (Arce and Sandler 2003). Terrorism is used by the inferior group not only as a means to voice their world view but also to shift (material) outcomes in their favor. Identity (and opposition to other identities) works as a bond facilitating, e.g., terrorist recruitment and financial support.

### **3.6 Economic and political integration**

Economic and political integration is also sometimes linked to terrorism. On the one hand, this view transfers the idea that terrorism is rooted in socio-economic change and conditions to the global arena. That is, if individuals are incited by an existing global order (e.g., the existing global distribution of wealth) that is perceived as 'unfair', it should be easier for terrorist organizations to find support by building on related grievances. Then, terrorism is used as a political tool by the poor and disenfranchised, being a cost-efficient means to voice discontent. On the other hand, economic globalization may also have specific effects on terrorism. For instance, increased trade openness may lower the costs of transportation and cross-border activities for terrorists, thus contributing to increased terrorist activity (e.g., Mirza and Verdier 2008).

Furthermore, international politics (political integration) may also enter the terrorists' calculus. Here, foreign policy, alliance structures and foreign dominance (Western or US supremacy), may incite terrorist activity (cf. Lizardo and Bergesen 2004). For instance, a conflict between a government and an opposing group may be exported to a foreign ally of the government; the Israeli-Palestine conflict which has e.g. triggered Palestine terrorist activity in Europe may serve as an example (Addison and Murshed 2005). In times of global changes (e.g., hegemonic decline) terrorism is also anticipated to become more likely (Bergesen and Lizardo 2004). Here, e.g., punishment for terrorist activity becomes less probable (i.e. costs of terrorism decrease) and radical views can be more easily voiced and enforced in times of global instability and insecurity (i.e., the potential payoffs increase, while the costs of terrorism decrease).

However, international economic and political factors do not need to automatically generate violence. For instance, if political integration ameliorates the international distribution of wealth and power, it may reduce terrorist support as globalization grievances are reduced.

Similarly, if economic integration benefits the poor by stimulating economic development (e.g., through gains from trade), it may reduce terrorist support as non-violence becomes more attractive (Li and Schaub 2004). So while a globalization-terrorism nexus may very well exist, the exact mechanics of this nexus remain somewhat disputed.

### **3.7 Infication**

Lastly, contagion may be another factor explaining terrorism. Terrorism exhibits a strong self-energizing nature with respect to both time and space (Midlarsky et al. 1980). First, past terrorism bears new terrorism within one country (temporal contagion). For a terrorist organization it is more beneficial to run a terrorist campaign because this increases the benefits from terrorist activity (e.g., by making oneself heard through increased media attention). Second, if one country suffers from terrorism, it may infect other countries in its neighborhood (spatial contagion). For instance, emerging terrorist groups may capitalize on the experience of older groups in adjacent countries. Additionally, when terrorist organizations cooperate they may also reduce their costs (e.g., by sharing know-how) or increase their payoffs (e.g., by joint terrorist actions). Spatial and temporal proximity to terrorism thus already influences the cost-benefit considerations of terrorists in ways that may promote the generation of violence.

### 3 MICROECONOMIC ANALYSIS OF TERRORISM ACTIVITIES AND INTERESTS

An economic view on terrorism assumes that terrorists are rational actors. The average terrorist behaves more or less as a homo economicus, considering their response to incentives, their narrow self-interest and the rationality of their expectations (Caplan 2006).

As rational actors they commit terrorist actions in order to maximize their utility, given certain benefits, costs and constraints linked to these actions (e.g., Sandler and Enders 2004). The calculus of terrorists includes their marginal benefits and costs. The utility-maximizing level of terrorism is the level where the marginal costs equal the marginal benefits of terrorism. Benefits from terrorism arise from obtaining the tactical and strategic goals of terrorism.

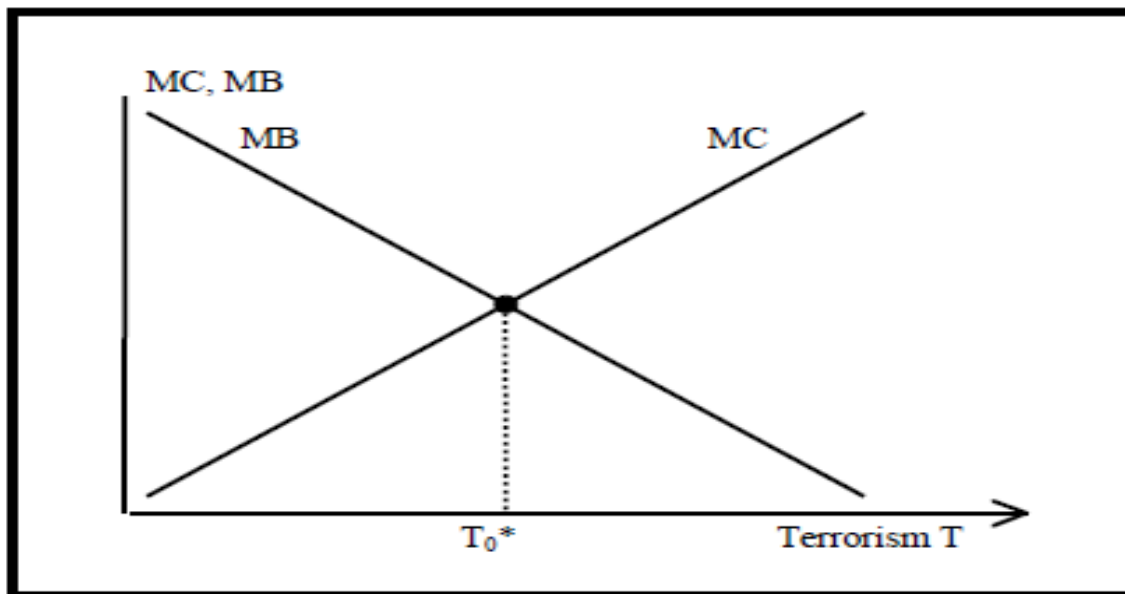
The costs of terrorism are linked to e.g. the use of resources and to the opportunity costs of violent behavior (e.g., Frey and Luechinger 2004). 'Aggregate' factors that are country-specific impact the terrorists, cost-benefit matrices and thus their behavior. Such determinants may either raise the price of terrorism or the opportunity costs of terrorism, causing a decline in terrorist activity.

Economic models of terrorist behaviour use the standard consumer choice models with individuals and groups facing an allocation and choice problem. Terrorists aim to maximise 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. 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.** If a government increases the price of one form of attack, terrorists will seek lower-cost alternatives. For example, increased airport security might mean more bombings of other civilian targets (eg. city centres).
- b) **Income effects.** Governments can try to reduce terrorist activity by denying access to funds (budget constraints).
- c) **Increase the costs of terrorism.** Deterrence is one option (tit for tat policies). Or, costs might be imposed on nations supporting terrorist groups (eg. Afghanistan).
- d) **Free riding.** Nations have incentives to free ride on any nation (eg. USA) which actively pursues **international terrorist groups**.

### 3.1 A Simple Rational Choice Model of Terrorism

**Figure 1** depicts the marginal costs and marginal benefits of terrorism to the prospective terrorists as a function of the extent and intensity of terrorism  $T$ .



*Figure 1: Marginal Cost and Benefit of Terrorism*

The variable  $T$  is open to measurement as shown by the considerable number of indicators existing of terrorist acts. Examples are the number of incidents in general or special types of attack. Another frequently used indicator for the extent and intensity of terrorism is the number of victims, especially the number of deaths (see e.g. Abadie and Gardeazabal 2001).

The *marginal cost* curve  $MC$  reflects the costs of engaging in an additional terrorist act. It slopes upwards because it is increasingly costly to undertake terrorist acts<sup>3</sup>. To begin with, the easiest and most conveniently available targets are chosen.

Thereafter it becomes increasingly difficult to undertake terrorist acts. The costs involved for the terrorists consist in material resources, collecting information, as well as the time needed to prepare the attacks. Finally, costs also reflect the danger involved in actually undertaking the act. A terrorist may be hurt or lose his or her life while preparing or undertaking the act, may be captured, interrogated, possibly tortured, imprisoned or even put to death. For the sake of simplicity, the marginal cost curve is drawn as a straight line, but it may well be, of course, that the marginal cost curve becomes increasingly steep. But the basic gist of the following analysis is thereby unaffected.

The marginal cost curve for terrorist acts is governed by terrorists' behaviour. The marginal benefit curve  $MB$  reflects the benefits to terrorists of undertaking additional terrorist acts. The curve is assumed to slope downward according to the number and

intensity of terrorist acts. This is the case if additional terrorist acts have less and less effect on the targeted country and population. But this need not necessarily be the case; one could imagine situations in which the society targeted becomes more and more affected by terrorism so that stepping up terrorism increases its marginal benefit. But, as will be argued below, this is unlikely to happen, because the persons and societies targeted learn to react to terrorist acts in such a way that their marginal effects tend to diminish over time. The position and slope of the marginal benefit curve for terrorism thus depends on the behaviour of the persons targeted.

The intersection of the marginal cost and marginal benefit curves identifies the **equilibrium extent and intensity of terrorism  $T^*$** . Rational choice theory suggests that this corresponds to the number of terrorist acts observed in reality, measured by the indices of terrorism. The following sections look more closely at what determines this equilibrium and therewith the empirically observed extent of terrorism. They raise the question of how much terrorism is to be expected when the marginal cost and marginal benefit curves shift.

### 3.2 Raising the Cost of Terrorism

The marginal cost curve depends on the **behaviour of terrorists**. Two extreme assumptions may be made:

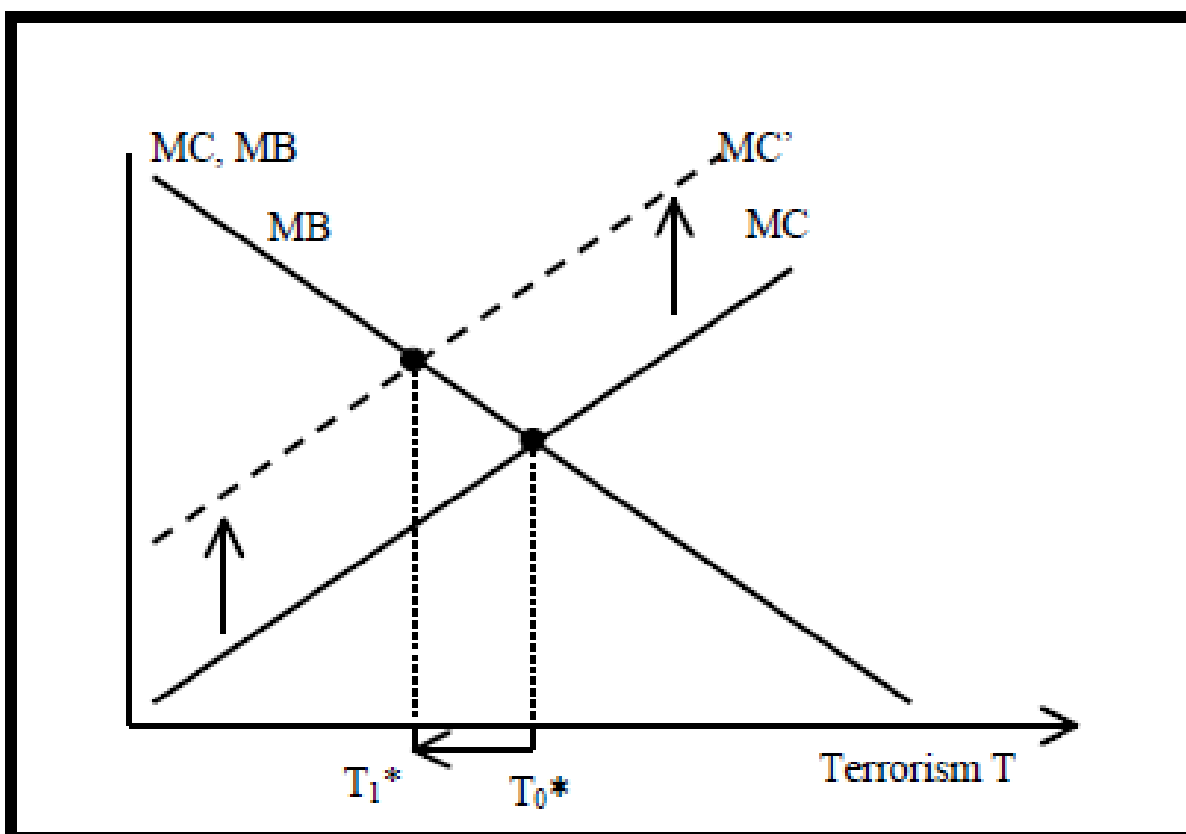
(1) The persons engaging in terrorism are solely extrinsically motivated. They undertake their attacks because of the compensation they receive. In most cases, compensation takes the form of gaining recognition and admiration from the persons supporting their cause. Many terrorists also enjoy the fame achieved in the international and local press. In some cases, terrorists even receive monetary compensation for their acts, or their families are guaranteed financial support. Other compensations may be attractive political positions in the future and corresponding rents in the case terrorists are able to win over the existing government. While the analysis does not depend on whether the terrorists receive any inducement in the form of money, a careful reading of the evidence suggests that it often plays at least some role. An exogenous increase in (any type of) extrinsic incentive produces a rightward shift of the supply curve resulting in a larger equilibrium amount of terrorism.

(2) The prospective terrorists are solely *intrinsically* motivated.<sup>5</sup> They are convinced of doing the right thing, irrespective of any reward from outside. It may certainly be the case that *some* persons are motivated solely from within, in which case the marginal cost curve would be steeper: such persons react less to either cost or rewards of their actions.

The available evidence suggests that most prospective terrorists are strongly influenced by their social environment, and react to external offered incentives. Both extrinsic and intrinsic motives play a role. It follows that the marginal cost curve is positively sloped and shifts upwards (downwards) with an exogenous increase in the cost (rewards) of undertaking terrorist acts.

Deterrence policy is based on this behavioural assumption. It aims at raising the cost of terrorist acts by making them more difficult to undertake and by punishing the actors more severely. As shown in figure 2, the marginal cost curve is shifted upwards, resulting in a smaller equilibrium amount of terrorism.

**Figure 2** Increase of Terrorism Costs



*Figure 2: Increasing the Cost of Terrorism*

In the (unlikely) event that terrorists are *solely* intrinsically motivated, they would not respond to negative incentives like higher risk and more severe punishment. A deterrence policy would have less effect because the marginal cost curve is then steeper. Such a policy is also ineffective if it is offset by rewards. This would be the case if a larger punishment is interpreted as an indication to prospective terrorists that their cause is particularly worthy and will be rewarded accordingly in afterlife.

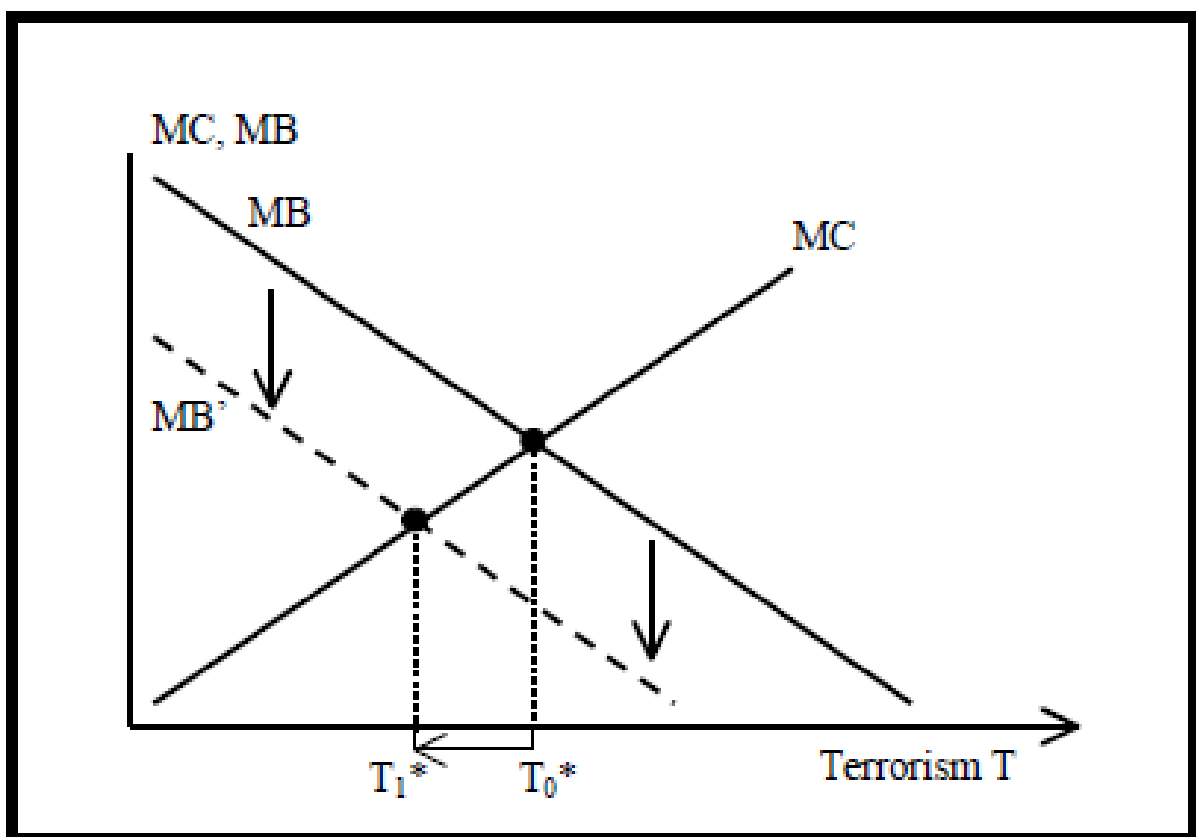
But deterrence policy does not solely depend on the incentives of the potential terrorists. It also seeks to prevent terrorist acts by making them more difficult to undertake. A case in point is tightening up security measures to prevent the hijacking

of planes. It follows that deterrence policy in many cases is able to shift the perceived cost of terrorism upwards and to therewith reduce the intensity and number of terrorist acts. This is the reason why deterrence is at the forefront of anti-terrorist policy. Indeed, it is often taken to be the *only* possibility, both in the literature and in practical policy.

### 3.3 Reducing the Benefits of Terrorism

The equilibrium amount of terrorism may also be diminished by reducing the marginal benefits of terrorist acts to the actors, thereby shifting the marginal benefit curve downwards. This is shown in figure 3.

**Figure 3** Reduction of Terrorism Benefits



*Figure 3: Reducing the Benefits of Terrorism*

The basic idea is to make terrorism a less attractive option to potential terrorists. In order to achieve this result, the benefits of terrorism to terrorists must be identified. Terrorism is often seen as a specific form of political participation: “Terrorists attempt to assert their interests in the complicated process of deciding ‘who gets what, when, how’, the process of politics” (Badey 1998, p. 96). The ultimate aims of terrorism are – among others – the redistribution of power and property rights and the extortion of

rents. For this they seek to attain three main tactical goals, all aimed at imposing the maximum possible cost on the country under attack:

(1) **Terrorists seek the attention of the media in order to make their cause more widely known.** Laqueur (1977: 106) goes so far to claim that “terrorist action is nothing, publicity is everything”. Terrorists have shown themselves to be very skilful in that respect. They find it a waste of time, effort and resources to undertake terrorist acts which the press and other media do not report. Thus they prefer to undertake terrorist acts in cities, and especially in capitals, where they can be assured of maximum media attention. When terrorists find ways to magnify their acts through the media, terrorism becomes more attractive. The marginal benefit curve shifts upwards and the equilibrium amount of terrorism increases.

(2) **Terrorists seek to *destabilise the polity*.** When the government loses power and, more importantly, when the political system’s legitimacy is eroded, the terrorists’ chances of achieving their goal improve. Respective actions result in an upward shift in the terrorists’ marginal benefit curve. Terrorism becomes a more attractive option, leading to a higher equilibrium level of terrorism.

(3) **Terrorists seek to *damage the economy*.** They want to impose material cost on the population in order to make them yield to their demands. Empirical research has shown that terrorist acts significantly reduce the number of tourists (see Enders and Sandler 1991 for the case of Spain; Enders, Sandler and Parise 1992 and Drakos and Kutan 2001 for Mediterranean countries) as well as foreign direct investment (see Enders and Sandler 1996), gross domestic income and stock prices (see Abadie 2002 for the case of the Basque country) and trade (Nitsch and Schumacher 2002; Walkenhorst and Dihel 2002). The consequences of the attacks of September 11th, 2001 on the United States have been estimated to be in excess of \$100 billion in direct cost, and as much as \$ 2 trillion in total cost (Navarro and Spencer 2001, Rathbone and Rowley 2002). The more an economy is affected by terrorist acts, the more the terrorists’ marginal benefit curve shifts upwards, and the equilibrium amount of terrorism increases.

The three goals are intertwined. The extent of attention attributed to terrorist acts by the media affects both the polity and economy. In all societies the politicians in power react to the media (and therefore want to control them). The effect on the economy of the media works through consumers’ and investors’ expectations about the future state of business. The importance of terrorist acts is strongly shaped by how they are reported in the media. The more prominence they get, the more strongly they depress expectations about the future state of the economy.

Economic conditions systematically affect the government, as has been empirically shown in the literature on popularity and election functions. A rise in unemployment

and inflation, and a fall in the rate of growth in income lower the survival prospects of the government. But bad economic conditions, a deep recession or depression, may even destroy the very constitutional foundations and may lead authoritarian or dictatorial governments taking over.

The policy influences the economy through policy changes. Thus, for example, public expenditures for military purposes may be stepped up, or the flow of finance may be interfered with. More fundamentally, policy changes may affect the basic rules within which the economic actors make their decisions. This is, for example, the case when regulations undermine the workings of an economy based on free markets.

In order to achieve these goals, the terrorists undertake various types of acts (see e.g. Hoffmann 1998 and Wilkinson 2000). One possibility are targeted attacks, for example assassination of a powerful political leader. Another possibility are attacks against targets with a high symbolic value. A third possibility is to disperse fear and panic among the population by attacking civilians (seemingly) at random. The anti-terrorism policy developed in the next section concentrates on the first two type of terrorist acts.

## 4 FINANCIAL ASPECTS OF INTERNATIONAL TERRORISM EXISTENCE

Last year's FATF Typologies report made a distinction between "fundraising" or the collection of funds and the "laundering" or processing of those funds. This distinction is taken up again in this year's report as a means of providing a context for the discussion of the misuse of non-profit organisations and the informal transfer systems by terrorist organisations.

Experts believe that the two principal sources of funding for terrorist groups are from **illegal and legal revenue generating activities**. Terrorist groups may derive income from criminal acts in much the same way that organised crime groups do. One group given as an example both in previous and current typologies exercises derives the bulk of its capital from kidnapping (demanding ransoms) and extortion (of so-called "revolutionary tax" or protection money) in the area that it operates.

Another group, also mentioned in previous exercises, uses funds obtained through narcotics trafficking for the bulk of its income. In obtaining funds from illegal activities, the actions of the terrorist group do not differ from those of a non-terrorist criminal organisation.

Unlike other criminal organisations, however, **terrorist groups may also rely on apparently legal sources of income**. Such methods as solicitation of donations, sales of publications, collection of membership dues or subscriptions, and charging fees for cultural or social events are all examples of legitimate sources of funding that may be used by terrorist groups. In some instances, these individual donors may not be aware that their contributions are being used by terrorist groups. In other cases, however, it may be that the donors are aware of the ultimate use that their donations will serve.

While terrorist groups may support themselves with funding from illicit and legitimate sources, they "process" these funds – that is, move them from the source to where they will be used – in much the same way that non-terrorist criminal groups launder funds. The FATF experts continue to find that there is little difference in the methods used by terrorist groups or criminal organisations in attempting to hide or obscure the link between the source of the funds and their eventual destination or purpose.

## **4.1 Basic techniques and mechanisms of international terrorism financing**

### **4.1.1 Basic techniques of international terrorism financing**

One member indicated the following series of techniques and mechanisms that had been detected in relation to terrorist financial activity in his country:

**Front Companies** – companies which actually carry on business where illegal profits can be co-mingled with revenues derived from legitimate undertakings.

**Shell Companies** – businesses without substance or commercial purpose and incorporated to conceal the true beneficial ownership of business accounts and assets owned.

**Informal Money or Value Transfer Systems** – funds transfer systems provided through such systems as hawala<sup>2</sup>, hundi, fei-chien and the black market peso exchange.

**Nominees** – use of family, friends or associates who are trusted within the community, and who will not attract attention, to conduct transactions on their behalf to disguise the source and ownership of funds.

**Structuring (smurfing)** – depositing of cash or purchasing of bank drafts at various institutions by several individuals, or the carrying out of transactions below reporting thresholds.

**Credit Cards** (front-end loaded) – creating credit on a card by paying cash on the card allowing the credit to be converted to cash.

**Electronic Funds Transfer** – use of wire transfers services to transfer funds to associates.

**Currency Smuggling** – the physical movement of cash from one location to another to disguise its source and ownership.

When looking at the individual steps that might be taken to move or dissimulate funds – wire transfers, commingling with legitimate monies, set up of non-transparent legal entities, transfers through informal money or value transfer systems, etc. – it would be difficult if not impossible to determine by the activity alone whether the particular act was related to terrorism or to organised crime. For this reason, these activities must be examined in context with other factors in order to determine a terrorist financing connection.

#### 4.1.2 Basic mechanisms of international terrorism financing

Small groups financing – donation from individuals are sufficient

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

### 4.2 Funding of international terrorism

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.

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.

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**.

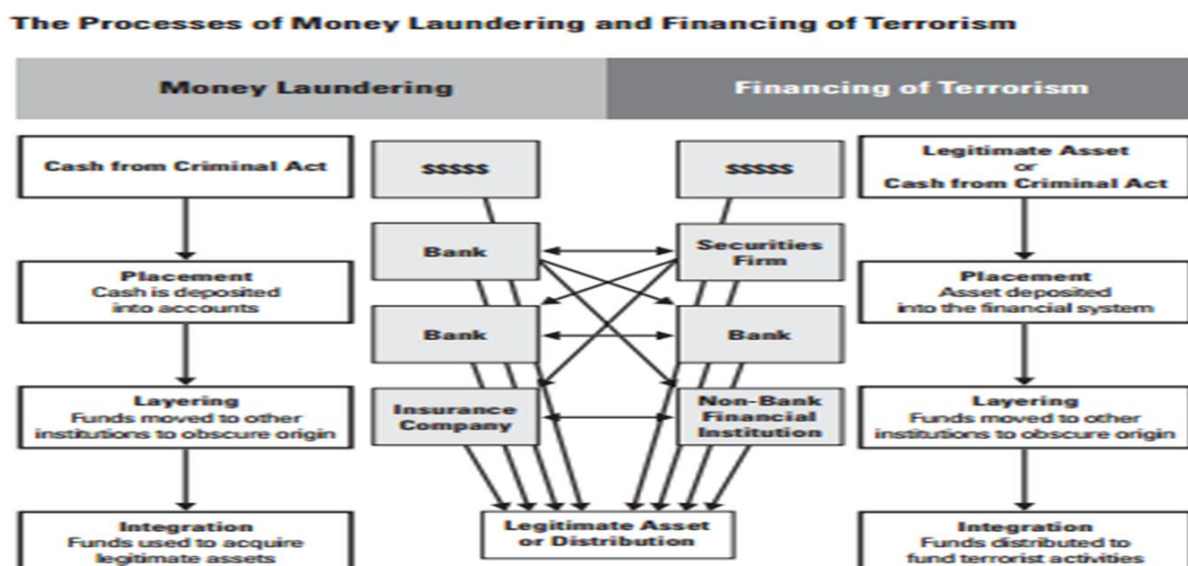
There is a crucial difference between traditional **money laundering** and **terrorist financing**, however.

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.

**Figure 4** Mechanism of terrorism funding – Financing and Money laundering



Source:

#### 4.2.1 Money laundering as source terrorism funding

##### Definition

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.

**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.

## **4.3 Resources of Terrorism Financing**

### **4.3.1 Direct support from legal resources**

- a) Sympathize state support
- b) Sympathize firms support
- c) Sympathize citizens support
- d) Own legal resources carrying out return

### **4.3.2 Abuse legal resources**

### **4.3.3 Support from illegal resources**

- a) From own criminal activities
  - In legal economy
  - In criminal economy
- b) From criminal activities of sympathizers

## **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.

## TASKS FOR SELFSTUDY



1. Definujte pojem „terorismus“. Je tento fenomén novodobá záležitost nebo se lidstvo s tímto problémem „bojuje“ již po staletí?
2. Proved'te historickou analýzu teroristických útoků a srovnajte jejich formu, zacílení, a použité prostředky se soudobými příklady terorismu.
3. Vyberte si několik příkladů teroristických útoků a stručně je charakterizujte (např. kdo jej realizoval, jak velký počet útočníků, byl zapojen, jaké následky byly spojeny s tímto útokem atd.).
4. Vysvětlete ekonomické aspekty terorismu a teroristických útoků. Uveďte příklady vlivu teroristických aktivit na vybraná odvětví národního hospodářství rozvinutých zemí.
5. Pokuste se provést tzv. nákladovou analýzu vedení teroristických útoků - jak nákladné je připravit teroristický útok? (vyberte si některý teroristických útoků a pomocí kvalifikovaného odhadu nebo z dostupných populárních a odborných zdrojů stanovte jeho pravděpodobné celkové nebo dílčí náklady).
6. Jaká je cena mezinárodního terorismu – pokuste se vyčíslit náklady některého z vybraných teroristických útoků (přímé a nepřímé, hmotné a nehmotné náklady apod.), které jsou nesený společností.
7. Vysvětlete, jakým způsobem funguje systém financování terorismu, z jakých zdrojů je terorismus financován a jakým způsobem může světové společenství národů bojovat s tímto fenoménem a jak může zamezit teroristickým skupinám ke zdrojům financování jejich aktivit.

## REFERENCES



### 1 Books

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- SANDLER, Todd., ENDERS, Walter. Terrorism: Theory and Application (Chapter 9). In HARTLEY, Keith., SANDLER, Todd. *Handbook of Defense Economics*. Amsterdam: Elsevier, 1995. 601 s. ISBN 0-444-81887-1
- KRUEGER, Alan., B. What make a terrorist. Economics and the Roots of Terrorism. Woodstock: Princeton University Press, 2007. 173 p. ISBN 978-0-691-13438-3  
Extract dostupný na: [http://www.amazon.com/What-Makes-Terrorist-Economics-Terrorism/dp/0691134383#reader\\_0691134383](http://www.amazon.com/What-Makes-Terrorist-Economics-Terrorism/dp/0691134383#reader_0691134383)
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- Terrorist Financing. Paris: Financial Action Task Force/OECD, 2008. 37 s.

### 2 Studies

- BARTH, James. Economic Impact of Global Terrorism: From Munich to Bali. Santa Monica: Milken Institute, 2006. 36 s. Dostupné na: [http://www.milkeninstitute.org/pdf/econ\\_impact\\_terrorism.pdf](http://www.milkeninstitute.org/pdf/econ_impact_terrorism.pdf)
- SAXTON, Jim. *The Economics Costs of Terrorism*. Washington: Joint Economic Committee, 2002. 12 s. Dostupné na: <http://www.house.gov/jec/terrorism/costs.pdf>
- BUENO DE MESQUITA, Ethan. *The Political Economy of Terrorism: A Selective Overview of Recent Work*. Dostupné na: <http://home.uchicago.edu/~bdm/PDF/pe-terror.pdf>
- The Economics of Terrorism and Counter-Terrorism: A Survey. Dostupné na: [http://ideas.repec.org/p/ces/ceswps/\\_3012.html](http://ideas.repec.org/p/ces/ceswps/_3012.html)

### 3 Databases

RAND Database of Worldwide Terrorism Incidents. Dostupné na:

<http://www.rand.org/nsrd/projects/terrorism-incidents.html>

Memorial Institute for the Prevention of Terrorism. Dostupné na:

<http://mipt.org/Home.aspx>

The National Consortium for the Study of Terrorism and Responses to Terrorism.

Dostupné na: <http://www.start.umd.edu/start/>

### 4 Videos

Loretta Napoleoni: The intricate economics of terrorism:

[http://www.ted.com/talks/loretta\\_napoleoni\\_the\\_intricate\\_economics\\_of\\_terrorism.html](http://www.ted.com/talks/loretta_napoleoni_the_intricate_economics_of_terrorism.html)

Memorial Institute for the Prevention of Terrorism. Dostupné na:

<http://mipt.org/Home.aspx>

The National Consortium for the Study of Terrorism and Responses to Terrorism.

Dostupné na: <http://www.start.umd.edu/start/>

## FOR BETTER UNDERSTANDING PROBLEM



Nowadays terrorist attacks databases exist and provide deep insight into problem of terrorism description and definition. Researchers can use following sources of information:

### GLOBAL TERRORIST DATABASE

Global terrorist database. Accessible on: <http://www.start.umd.edu/gtd/>

**Figure 1** Description of webpages: Global terrorist database

The screenshot shows the homepage of the Global Terrorism Database (GTD). At the top, there is a navigation bar with the GTD logo and links for 'ABOUT GTD', 'USING GTD', 'FAQ', 'TERMS OF USE', and 'CONTACT'. A 'START HOME PAGE' button is also present. The main content area is divided into several sections:

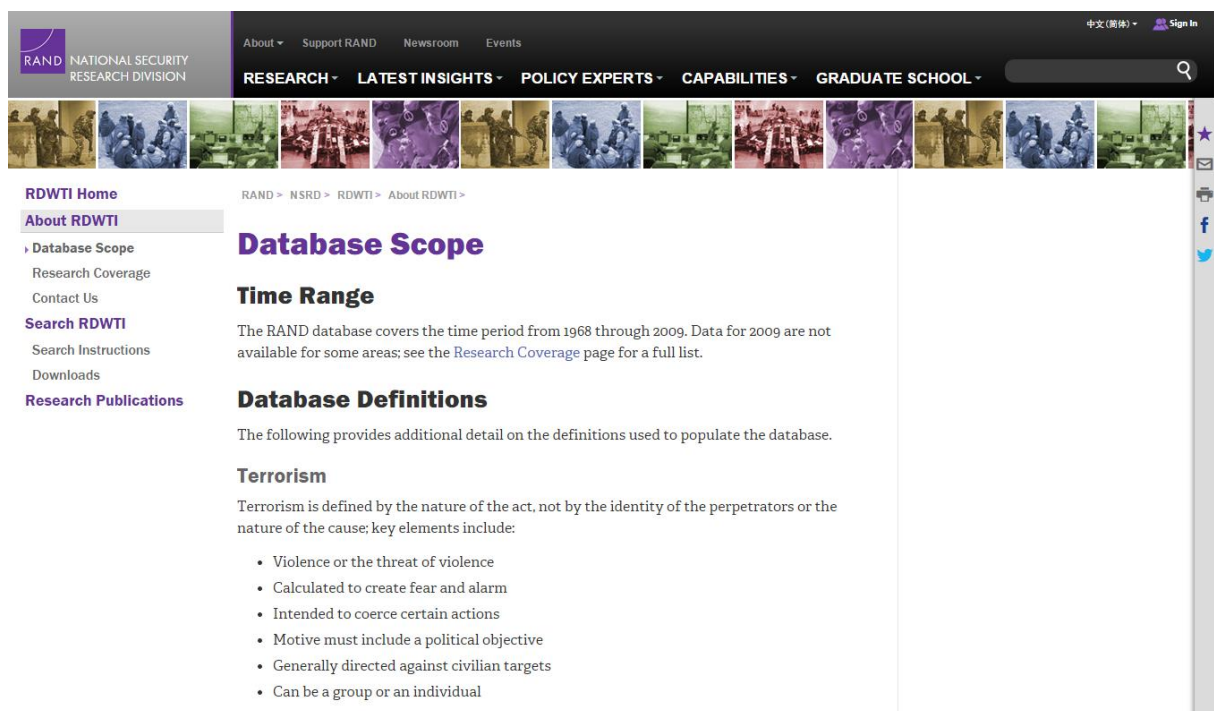
- Search the Database:** A red box containing a search bar, a 'SEARCH' button, a link for 'I'm a New User', an 'ADVANCED SEARCH' button, and a 'Browse by:' dropdown menu with a 'Go' button.
- Information on Over 125,000 Terrorist Attacks:** A grey box with a brief description of the GTD and a 'Learn more' link.
- GTD DATA VISUALIZATIONS:** A section featuring a globe visualization of terrorist attacks and a description of the 'GTD WebGL Globe'.
- THIS DATE IN TERRORISM:** A section highlighting specific events, such as the 2005 attack in Vitina, Kosovo, and the 2010 attack in Mexico City, Mexico.
- FEATURED:** A section titled 'GTD Data Now Downloadable' providing information on how to download the data files.

Source: Global terrorist database. Accessible on: <http://www.start.umd.edu/gtd/>

# RAND DATABASE OF WORLDWIDE TERRORISM INCIDENTS (RDWTI)

**RAND Database of Worldwide Terrorism Incidents (RDWTI).** Accessible on: <http://www.rand.org/nsrd/projects/terrorism-incidents.html>

**Figure 2** Description of webpages: RAND Database of Worldwide Terrorism Incidents (RDWTI)



*Source: RAND Database of Worldwide Terrorism Incidents (RDWTI).* Accessible on: <http://www.rand.org/nsrd/projects/terrorism-incidents.html>

# GLOBAL TERRORISM INDEX

Global Terrorism Index. Accessible on:

<http://economicsandpeace.org/research/iep-indices-data/global-terrorism-index>

Figure 3 Description of webpages: Global Terrorism Index

The screenshot shows the homepage of the Global Terrorism Index (GTI) website. At the top, the logo for the Institute for Economics & Peace is displayed, along with the tagline "Quantifying Peace and its Benefits". Navigation links for Research, Publications, Education, Media, and About Us are visible. The main content area features the title "Global Terrorism Index" and a description: "The Global Terrorism Index (GTI) is the first index to systematically rank and compare 162 countries according to the impact of terrorism." It also explains that the GTI uses four indicators to measure the impact of terrorism: the number of terrorist incidents, the number of deaths, the number of casualties, and the level of property damage. A section titled "Global Terrorism Index Interactive Map" shows a world map with countries colored according to their GTI score. On the right side, there is a section for "Peace Indices" which mentions the Global Peace Index and a section for "Peace Education" which promotes the "Building Blocks of Peace" teaching materials. A "REGISTER NOW!" button is prominently displayed. Below this, there is a section for "Recently released IEP publications" featuring a report titled "Peace and Religion: a global statistical analysis on the empirical link between peace and religion."

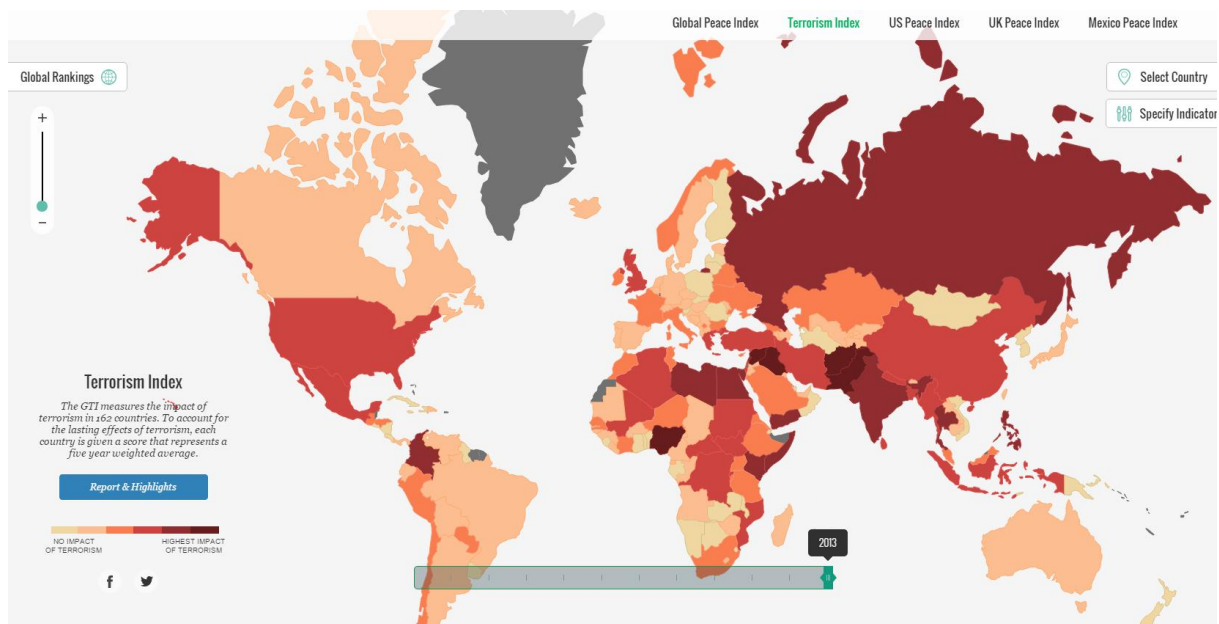
Source: Global Terrorism Index. Accessible on: <http://economicsandpeace.org/research/iep-indices-data/global-terrorism-index>

# GLOBAL TERRORISM INDEX

Global Terrorism Index. Accessible on:

<http://www.visionofhumanity.org/#/page/indexes/terrorism-index>

**Figure 4** Description of webpages: Global Terrorism Index



Source: Global terrorism index. Accessible on:

<http://www.visionofhumanity.org/#/page/indexes/terrorism-index>