
VOLUME 14, NUMBER 5, December 2003

NBR ANALYSIS

**Funding Terrorism in Southeast Asia:
The Financial Network of
Al Qaeda and Jemaah Islamiyah**
Zachary Abuza

 **NBR** THE NATIONAL BUREAU OF ASIAN RESEARCH

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The Henry M. Jackson Foundation contributes funding to the *NBR Analysis* series.

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This is the sixty-fifth *NBR Analysis*.

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Printed in the United States of America.

For further information about NBR, contact:

THE NATIONAL BUREAU OF ASIAN RESEARCH
4518 UNIVERSITY WAY NE, SUITE 300
SEATTLE, WASHINGTON 98105-4530
206-632-7370 PHONE
206-632-7487 FAX
nbr@nbr.org EMAIL
<http://www.nbr.org>

Foreword

A recent report from the U.S. General Accounting Office (GAO) highlights how international terrorists make widespread use of alternative and informal mechanisms to raise, move, and secure their funds.¹ The very nature of these informal financial mechanisms—the use of charities and informal banking systems, or trade in licit and illicit commodities—makes it extremely difficult for counter-terrorist and law enforcement officials to monitor flows of funds that terrorist groups need to sustain themselves and to execute attacks. The overlapping missions and jurisdictions of different government agencies complicates the situation further. Some agencies advocate the immediate seizure of funds when they are discovered, while others prefer to monitor transfers in order to expose more of the terrorist network. The GAO report concludes by noting that without good data and analysis, officials cannot make good decisions among competing priorities and challenges nor allocate resources to address them. We hope that the publication of this paper, which details Jemaah Islamiyah’s financing networks in Southeast Asia, will contribute to an increased understanding of this critical challenge.

In this issue of the *NBR Analysis*, Dr. Zachary Abuza, Associate Professor of International Politics at Simmons College, illustrates a variety of methods that Jemaah Islamiyah uses to raise and transfer funds. He details how the organization uses Islamic charities (many of which are associated with charities based in Saudi Arabia) and front companies to raise funds and move money around the region; how it secures pledges from its members and supporters, as well as diverts legitimate donations away from mosques and charities to its coffers; how it uses the *hawala* (underground banking) system and personal couriers (carrying cash, gold, or gems) to transfer funds across borders almost without trace; and also how some cells have resorted to petty criminal activities, such as bank robberies, to support their operations.

Dr. Abuza argues that Al Qaeda initially regarded the countries of Southeast Asia, with their loosely regulated financial sectors and pervasive money laundering and smuggling networks, as a “back office,” providing logistical and financial support for its activities elsewhere.

¹ General Accounting Office, “Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists’ Use of Alternative Financing Mechanisms,” GAO-04-163, November 2003.

The establishment of front companies, charities, and religious schools across the region provided the infrastructure that Jemaah Islamiyah used to build its terrorist network throughout the 1990s, before launching its first attacks in 2000. Dr. Abuza contrasts successes in regional cooperation in the arrest of leading terrorist operatives with uneven enforcement of international agreements and lack of political will to move against financing systems.

In a sobering illustration of the asymmetrical nature of the terrorist threat, Dr. Abuza details how funding for the October 2002 Bali bombings came from a variety of sources and through different channels. The entire operation—which claimed more than 200 lives, devastated Bali’s tourism-dependent economy, and according to some assessments dragged Indonesia’s economic growth rate down as much as one percentage point—required less than \$50,000 to plan and execute. Nonetheless, Dr. Abuza argues that sustained action against terrorist financing, despite the considerable difficulties, is worthwhile because it limits the “space” that groups such as Jemaah Islamiyah need to plan, train, and carry out attacks.

Dr. Abuza’s paper is the latest in a series of assessments of the rise of terrorism in Southeast Asia that NBR has sponsored and published in the past two years, which include: Sheldon Simon, “Southeast Asia and the U.S. War on Terrorism,” *NBR Analysis*, July 2002; Robert Hefner, “Islam and Asian Security,” *Strategic Asia 2002–03: Asian Aftershocks*, September 2002; and Zachary Abuza, “The War on Terrorism in Southeast Asia,” *Strategic Asia 2003–04: Fragility and Crisis*, September 2003.

We are grateful to the Henry M. Jackson Foundation for its support of the *NBR Analysis* series. As with all issues of the *NBR Analysis*, the author is solely responsible for the content and recommendations of his paper.

Richard J. Ellings
President
The National Bureau of Asian Research

Funding Terrorism in Southeast Asia: The Financial Network of Al Qaeda and Jemaah Islamiyah

Zachary Abuza

Before Al Qaeda's regional affiliate Jemaah Islamiyah developed its own terrorist capability and Southeast Asia became a theater of operations, the region was first and foremost a back office for Al Qaeda, providing important logistical and financial support. Southeast Asia remains an important financial center for Al Qaeda. At the same time, Jemaah Islamiyah has developed its own funding mechanisms, including charities, front companies, donations, *hawala* (underground banking), gold and gem smuggling, and petty crime to support its operations. To date, none of these mechanisms have effectively been shut down. While terrorism is asymmetrical warfare and operations are relatively cheap, maintaining terrorist organizations does cost a significant amount of money. Shutting down terrorist funding is a difficult but not futile task. It is an important investigative tool and gives law enforcement officials a mechanism to deal with institutions, such as charities or remittance firms, rather than individuals. This is important because the primary success in the war on terrorism to date has been the arrest of leading operatives, while the institutions supporting terrorism remain intact. Whereas states have been willing to arrest known operatives, there tends to be less political will to pursue terrorist financing, and enforcement of sanctions and implementation of international agreements tends to be uneven at best.

Zachary Abuza is Associate Professor of International Politics and the Director of the East Asian Studies Program at Simmons College in Boston, Massachusetts. He is the author of *Militant Islam in Southeast Asia: Crucible of Terror*, Lynne Rienner, 2003; and *Renovating Politics in Contemporary Vietnam*, Lynne Rienner, 2001. He has also written numerous articles on terrorism in Southeast Asia, including the chapter, "The War on Terrorism in Southeast Asia," in Richard J. Ellings and Aaron L. Friedberg, eds., *Strategic Asia 2003-04: Fragility and Crisis*, The National Bureau of Asian Research, 2003; as well as articles on Vietnamese politics and foreign policy and the Khmer Rouge in Cambodia.

Introduction*

The war on terrorism has continued apace in Southeast Asia, and governments in the region deserve credit for the arrests of more than 200 Jemaah Islamiyah (JI) members through September 2003, including more than 30 in Singapore, 80 in Malaysia, 80 in Indonesia, about 12 in the Philippines, and 8 in Thailand and Cambodia. Several members of JI's regional *shura*, its leadership body, have been arrested, including operations chief Riduan Isamuddin (Hambali), Mohammed Iqbal Rahman (Abu Jibril), Agus Dwikarna, and Faiz bin Abu Bakar Bafana, while its spiritual leader, Abu Bakar Ba'asyir was tried in Indonesia for treason.¹ These arrests are significant, especially as JI is not a large organization, with perhaps 500 to 1,000 members. The fact that it is now focusing on soft targets such as tourist venues may indicate institutional weaknesses—the result of two years of intensive investigations and arrests—and it is less able to plan and execute terrorist attacks than it was a year ago, especially against hardened targets such as U.S. embassies. JI still maintains its capacity to attack soft targets, though, as demonstrated by the J.W. Marriott Hotel bombing in Jakarta on August 5, 2003, and one would be foolish to underestimate its capabilities to launch devastating terrorist attacks throughout the region.

In addition to the arrests, regional security forces have stepped up their surveillance of suspected Islamist militants, and have tried to better monitor the sale of explosives, chemical

* A paper that covers such a range of complex issues in so many countries is the result of the time, assistance, and knowledge of many people. Most of the government officials whom I interviewed requested anonymity. They hail from the United States, Australia, Canada, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. They know who they are and how grateful I am for their assistance. Matt Levitt gave me a lot of help and encouragement. I would also like to thank officials of Komite Penanggulangan Krisis (KOMPAK) and the Majelis Mujahidin Indonesia (MMI) in Indonesia for their perspectives. Finally there are a few members of the fourth estate who deserve particular mention: Simon Elegant and Andrew Perrin of *Time Magazine*, Ellen Nakashima of *The Washington Post*, Nick McKenzie of the Australian Broadcasting Corporation, Jane Perlez of *The New York Times*, Marianne Wilkinson of *The Sydney Morning Herald*, Shawn Donan of the *Financial Times*, Kimina Lyall and Sian Powell of *The Australian*, Jane McCartney and Simon Cameron-Moore of Reuters, and Eddie Chua of *The Malay Mail*. The input of all of these individuals was invaluable, but the conclusions are my own. Finally, I would like to thank the Freeman Foundation and Dean Diane Raymond of Simmons College for helping to cover many of the travel expenses relating to this research. I would also like to thank Jessica Robash for all her help, and Michael Wills and two anonymous reviewers for their comments and guidance.

¹ Ba'asyir was acquitted of the treason charge, though in September 2003 he was sentenced to four years for subversion and immigration violations. In December, an appeals court cleared him of the subversion charge and reduced his sentence to three years. The prosecution had requested a 15-year sentence.

components used in bomb-making, and military stockpiles.² The glaring exception to their success in fighting terrorism has been on the financial front. The mechanisms for funding terrorism remain largely untouched in Southeast Asia, and to date almost no terrorist assets or funds have been seized in the region. The assets of two leading JI members, Hambali and Abu Jibril, were blocked by the United States under Executive Order 13244 in January 2003, but this took place 18 months after Abu Jibril was arrested. Indeed, this is a problem around the world; as of September 2003, only \$136.7 million in Al Qaeda-linked assets had been frozen.

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In early 2003, the U.S. Treasury Department's Office of Foreign Asset Control drew up a list of 300 individuals, charities, and corporations in Southeast Asia believed to be Al Qaeda and JI funders. Due to inter-agency disputes, diplomatic concerns, and tactical considerations, the list was winnowed down to 18 individuals and 10 companies. Only on September 5, 2003, was this partial list announced. As one U.S. official said, "Most of the really sensitive names have been dropped, so it won't have the kind of impact that the full 300 would have, though there'll still be a few surprises."³ Nonetheless, the designations that were finally announced in September 2003 were a diplomatic compromise, and belied the real scope of the problem.

Yet Southeast Asia seems to have gained in importance to Al Qaeda's money men, according to U.S. law enforcement officials. Denis Lormel, the head of the terrorist financing tracking unit at the Federal Bureau of Investigation (FBI), asserts that with the crackdown on Middle Eastern funding mechanisms, especially the financial centers in Abu Dhabi and other parts of the United Arab Emirates (UAE), Al Qaeda has increasingly relied on Southeast Asia to move its money and hide its assets.⁴

Al Qaeda's financial network is very sophisticated and complex, and dates back to the late-1980s. Osama bin Laden set out to establish an organization that would be self-sustaining over time; in part self-reliant, but in part reliant on the *ummah*—the Muslim community. Beneath bin Laden and his senior lieutenants is the *shura majlis*, the consultative council. Four specialized committees, military, religious-legal, finance, and media, report to bin Laden and

² See, for example, "It's All Too Easy to Buy a Bomb in Indonesia," *Straits Times*, November 2, 2002; and "Seized: 1 Tonne of Chemicals for Bombmaking," *Straits Times*, December 17, 2002.

³ Cited in Simon Elegant, "Cash Flowing," *Time Asia*, March 24, 2003.

⁴ Jane MacCartney and Simon Cameron-Moore, "US to Freeze 'Terror' Funds in SE Asia—Sources," Reuters, March 13, 2003; Agence France-Presse, "FBI Watching al-Qaeda Funds in Southeast Asia," *Financial Times*, March 31, 2003.