THE NEW ECOMOMY OF TERROR

AN EXCERPT FROM

MODERN JIHAD

TRACING THE DOLLARS BEHIND THE TERROR NETWORKS

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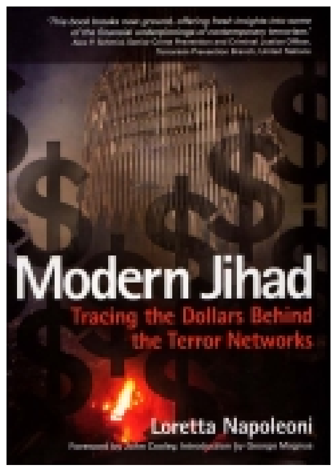

An excerpt from the book

MODERN JIHAD

TRACING THE DOLLARS BEHIND THE TERROR NETWORKS

BY LORETTA NAPOLEONI

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THE AUTHOR

LORETTA NAPOLEONI is an economist who has worked for banks and international organisations in Europe and the US. She is also a journalist and has worked as a foreign correspondent for several Italian financial papers. She has written novels and guide books in Italian, and translated and edited books on terrorism. Her most recent novel, *Dossier Baghdad,* is a financial thriller set during the Gulf War. She was among the first people to interview members of the Red Brigades in Italy after three decades of silence.

PREFACE

Terrorism has become part of the fabric of modern life. It dominates newspaper headlines, parliamentary debates and dinner table conversations. Yet few people have a clear understanding of what constitutes 'terrorism', despite the many definitions of it available to the reader. History provides limited help. The word comes from the Reign of Terror which followed the French revolution, but one can find references to terrorism as far back as the Roman Empire. Politicians, the public, academics and members of armed groups variously employ a literal, propagandistic[1] or academic definition of what is in essence the same phenomenon.

Academics agree that any definition of terrorism must include its three main characteristics: its political nature, the targeting of civilians and the creation of a climate of extreme fear.[2] Yet libraries are bursting with books that focus exclusively on one or other of these elements. Members of armed organisations and politicians freely use the propagandistic definition of terrorism – what Chomsky summarised as 'violent acts committed by enemies against "us" or "our allies"'.[3] When, in the early 1990s, I interviewed members of Italian left- and right-wing armed organisations, what struck me most was their consistent use of the word 'terrorist' to describe both each other and the state they attacked.

Political perception is the yardstick most people use to define terrorism. After 11 September 2001, I interviewed several Italians about their reactions to the attack on the World Trade Center. Many were sympathetic, but others were indifferent about the suffering of Americans. 'Why should I be supportive of the US?' one woman, a professional banker, challenged me. 'Have we forgotten what the Americans have done in Serbia, when they bombed all the bridges of Belgrade, terrorising the population? No, I cannot empathise with a nation that has brought death and despair to the world. Now they know what it means to be the target of terrorist aggression.'

Governments' use of the word 'terrorism' is often dictated by foreign policy considerations. In 1998, following attacks by the Kosovo Liberation Army (KLA) against Serbian police and civilians, the US accused the KLA of being a terrorist organisation. The British followed suit. Then, in March 1999, foreign policy in the US and UK underwent a radical shift. Both governments condemned the Serbs. Suddenly, members of the KLA were no longer 'terrorists' but 'freedom fighters'. Their new status was short-lived. As soon as the KLA supported an Islamist insurgency against the government of Macedonia – a US ally – it was once again listed as a terrorist organisation by the US State Department.[4]

The truth is that terrorism is a political phenomenon and, as long as it remains in the domain of politics, no worldwide consensus will be reached as to its definition. This is the main limitation of the political analysis. To get around this obstacle and shed some light on what has become a global menace, I will conduct an economic analysis of what is commonly known as terrorism. To underscore that no tools belonging to the domain of politics have been used, and to avoid falling into the trap of political definitions, I have chosen to use the word 'terror' instead of 'terrorism' to describe the recourse to violence by armed groups to achieve political goals. I must stress that although this is the first attempt to approach political violence from a new angle – to describe the economics of terror – this is not an academic book. Rather, it has been written in the belief that the ideas behind it should be accessible to everybody. Terror threatens the man on the street as much as academics and politicians. Its causes and the methods of its deployment should be understood by all.

This book aims to show that, over the last 50 years, members of armed organisations have been hunted down like criminals at home by the same political forces that have fostered them abroad; the final aim being to serve the economic interests of the West and its allies, Muslim oligarchies and of the East, for example the former Soviet Union in the past and Russia at present. This duality provided terror organisations with the motives to strike back and the opportunity to build their own economy. I have defined this phenomenon as the New Economy of Terror, an international network linking the support and logistical systems of armed groups. Today the New Economy of Terror is a fast-growing international economic system, with a turnover of about $1.5 trillion, twice the GDP of the United Kingdom, and is challenging Western hegemony. What we are facing today is the global clash between two economic systems, one dominant – Western capitalism – the other insurgent – the New Economy of Terror. As we shall see, this scenario is reminiscent of the Crusades, when Western Christendom rebelled against the domination of Islam. Behind the religious conflagration, economic forces initiated and sustained the Crusades, enabling the West to repel Islam and begin its march to dominance.

Over the last 50 years, the economic and political dominance of the West has hindered the expansion of emerging economic and financial forces in the Muslim world. These forces have forged alliances with Islamist armed groups and hard-line religious leaders in a campaign to rid Muslim countries of Western influence and domestic oligarchic rulers. As in the Crusades, religion is simply a recruitment tool; the real driving force is economics.

The New Economy of Terror has become an integral part of the global illegal economy, generating vast amounts of money. This river of cash flows into traditional economies, primarily to the US, where it is recycled. It has devastating effects on Western business ethics, but above all it cements the many links and opens new ones between the New Economy of Terror and legal economies.

11 September was a rude awakening for the world. It has triggered a war against a phenomenal enemy, who will attack whenever possible. What the world has not realised is that this enemy is the product of policies of dominance adopted by Western governments and their allies – the oligarchic powers of the Middle East and Asia – and its monetary lifeline is deeply intertwined with our own economies. The essence of its being is the New Economy of Terror.

Notes

1. 'There are two ways to study the approach to terrorism. One may adopt a literal approach, taking the topic seriously, or a propagandistic approach, construing the concept of terrorism as a weapon to be exploited in the service of some system of power. In each case it is clear how to proceed. Pursuing the literal approach, we begin by determining what constitutes terrorism. We then seek instances of the phenomenon – concentrating on the major examples, if we are serious – and try to determine causes and remedies. The propagandistic approach dictates a different course. We begin with the thesis that terrorism is the responsibility of some officially designated enemy. We then designate terrorist acts as "terrorist" just in case they can be attributed (whether plausibly or not) to the required source; otherwise they are to be ignored, suppressed, or termed "retaliation" or "self-defense".' Noam Chomsky, 'International Terrorism: Image and Reality', in Alexander George ed., *Western State Terrorism* (Cambridge: Polity Press, 1991), p. 12.
2. 'Terrorism is an anxiety-inspiring method of repeated violent action, employed by clandestine individual groups, or state actors, for idiosyncratic, criminal, or political reasons, whereby – in contrast to assassination – the direct targets of violence are not the main targets. The immediate human victims of violence are generally chosen randomly (targets of opportunity) or selectively (representative of symbolic targets) from a target population and server as message generators. Threat- and violence-based communication processes between terrorist [organisations] [imperil] victims and main targets are used to manipulate the main target [audience(s)], turning it into a target of terror, a target of demands or a target of attention, depending on whether intimidation, coercion or propaganda is primarily sought.' In Alex P. Schmid and Albert J. Jongman, *Political Terrorism* (Amsterdam: North-Holland Publishing Company, 1988), p. 28.
3. Noam Chomsky, *9-11* (New York: Seven Stories Press, 2002), p. 90.
4. Ibid., p. 91.

SHELL-STATE ECONOMICS

'Keep it up, die in dignity because surrender would be the end of resistance and intifada.'
Sheikh Ahmed Yassin, leader of Hamas, to Yasser Arafat

In the southern suburbs of Beirut, a shanty town known as the Belt of Misery houses hundreds of thousands of refugees from Palestine, mostly poor Shiite peasants and farmers. There are no street signs, no pavements, no public lighting; a web of cables hangs above the 28 km of unfinished houses, derelict buildings and winding alleyways. This is rich recruitment ground for the Hizbollah. The monotonous landscape of bricks and cement is broken only by multicolour murals depicting Khomeini and Hizbollah's martyrs; black flags of mourning alongside the green and yellow flags of Islam that hang from balconies and windows, remind the rare visitors of the destiny of its inhabitants; the few streets which have been named by the residents bear the names of local suicide bombers, people hardly known outside the Belt of Misery. In a modest house, four-year-old Mohammad watches a video with his baby sister; a bleak landscape provides the background to a row of buildings. This is a snapshot of a place which could be anywhere in the Third World. Suddenly, the screen is filled with a blast; debris, flames, shards of steel explode in a fashion reminiscent of a gigantic firecracker. The young boy jumps up in excitement and screams: 'My daddy, my daddy!'[1]

Mohammad's father, Salah Ghandour, was a suicide bomber. On 25 May 1995, he attacked an Israeli convoy and blew himself up with 450 kg of explosives, killing twelve Israeli soldiers. The Hizbollah filmed the attack and presented it to his family, a token of his sacrifice. Although it is unusual for a married man and a father to carry out a suicide mission, Salah had always wanted to be a martyr and eventually convinced the leadership of the Hizbollah to let him fulfil his ambition. His wife and family approved of his decision: 'I was filled with joy because he had died while carrying out such an operation,' said his wife Maha. 'It is something for us to be proud of, something that makes us hold our heads high with pride, especially because he succeeded in alarming and startling Israel like he did.'[2] Astonishingly, Salah's last wishes were for his son Mohammad to follow in his footsteps.

In this deadly conflict, becoming a martyr is the highest moral achievement available to some of the refugees. Death, paradoxically, restores the dignity lost with the land, along with the political identity attached to it. Refugees are obsessed with dignity; like exposed bodies in a fully clothed society they search frantically for something to cover their nakedness. Martyrdom is the best protection they can get: it ends a life of misery and grants social status, a very high one, something to be proud of for the entire family.

A cost-benefit analysis of suicide bombers

For those who manage to achieve such a death, young men like Mohammad's father, life is ultimately an asset to dispose of; Salah traded his for the future of his community. 'Many people come to the Jihad and they are willing to lay down their souls,' explained Shehadeh Salah, 'which is the most precious thing a man has.'[3] For armed groups martyrdom is primarily an asset, a weapon like missiles, and thus suicide bombers figure as assets in the terror balance of payments. In the words of Abdel Aziz Rantisi, one of Hamas's leaders in Gaza, 'Hamas uses these tactics and means of struggle because it lacks F-16s, Apaches, tanks and missiles … It is not just for Paradise, or the virgins, but because we are under occupation and we are weak.'[4] Suicide bombing is an offensive weapon. The Liberation Tigers of Tamil, the armed group that has perfected this art, admits that it was devised to compensate for their numerical inferiority and military weakness.[5] In this macabre business people's lives are merchandise. 'Suicide bombers are a commodity that can be passed from hand to hand,' explained a senior Israeli official. 'Say you are in a terrorist cell in Bethlehem and you convince someone, or someone comes to you ready to carry out a suicide attack. You have got a treasure and you can trade it with another cell – say in Ramallah – for money, or for weapons.'[6]

If suicide bombers are assets, their missions represent expenditures. The costs of martyrdom are many and they vary from place to place. Logistical costs should not be undervalued. Equipment such as bombs and explosives can be quite accessible even in the occupied territories of Palestine. Militants from Hamas and al-Aqsa Martyrs' Brigades maintain that to construct a bomb costs as little as $5. Fertiliser, sugar, metal fragments and plastic tubing are all that is required. Planning, on the contrary, can be quite expensive; targets have to be identified and filmed and the dynamics of the attack need to be studied in meticulous detail. This requires manpower and equipment. Finally, the cost of transportation can be steep. Today, the highest logistical cost of a suicide attack inside Israel is to take the bomber to his final destination. This can be as high as $100–200[7] because most of the would-be martyrs live inside the occupied territories and Israel has set up a series of checkpoints to spot them.

Moreover, collateral costs need to be taken into consideration. The Israelis have reintroduced a technique used in 1999 whereby they destroy the family homes of suicide bombers. Often, this is the only asset the families possess. This ruthless policy has borne some fruit; since its introduction families have been reluctant to let young people follow the path of martyrdom. Overall, the most important cost is the compensation to the family for the loss of a loved one. How to quantify the life of a child? Impossible. In the occupied territories, families receive about $30,000 for each son or daughter's death from outside sponsors such as charitable organisations, groups of sympathisers or foreign regimes such as Saudi Arabia and until recently that of Saddam Hussein in Iraq. Since compensation for families generally comes from money raised abroad, the organisers of the suicide missions do not have to fund it entirely by themselves. In addition, Saudi Arabia pays for the families' pilgrimage to Mecca.[8]

Nevertheless, even taking into consideration all these costs, including the collateral ones, suicide operations still remain the most cost-effective terror attacks. For S. Thamilchelvam, the political leader of the Liberation Tigers of Tamil in Sri Lanka, suicide attacks 'ensure maximum damage done with minimum loss of life'.[9] Following 11 September, for example, the Israeli population has been terrified; immigration is down 40 per cent while migration from Israel is considerably up.[10] Suicide missions also hit hard at the economy of the enemy. Excluding compensations to the families of the hijackers, 11 September cost as little as $500,000. In sharp contrast, the total costs for the US in terms of property loss, cleaning up and federal government bailouts will be in excess of $135 billion.[11]

In Grozny, a city that resembles Dresden after the air raids of the Second World War, the cost of martyrdom is much lower, sometimes as low as the price of the explosives, mainly because no compensation is given to the relatives, as suicide bombers often come from families already wiped out by Russian troops. The policy pursued by Moscow is simple: when a rebel is captured or killed, the army goes after his family, men are killed or taken away, houses are burned or blown up, women and children are left to fend for themselves. Today, after a decade of war, Chechnya is a country where 60,000–100,000 Russian soldiers fight Islamist armed groups and a handful of survivors, mostly women and teenagers; death for these people is a relief. As pointed out by Zulikhan Bagalova, head of the Moscow Centre for Chechen Culture, the women who participated in the seizure of the Moscow theatre at the end of October 2002 were all in their early twenties; they belonged to a generation which had grown up during the war, mostly uneducated, for whom war is life and life is permanent fear. They are confronted daily with death squads, rape, torture, killings and mutilation; for them death is a much better option than life.[12] 'I personally know several women who were raped by troops in front of their fathers, brothers and husbands,' said Bagalova. 'After such treatment women either die, go mad or become kamikazes. There are lots of girls who are ready to become the next kamikaze and there will be more. Life has lost all sense for them after this humiliation.'[13]

Chechnya: An example of predatory war

In the bleak universe of the economics of terror, Chechnya is the victim of a predatory war.[14] During the last decade, Russian troops have carried out the progressive destruction of the traditional economy, a phenomenon that has contributed to the radicalisation of the conflict and eventually paved the way for Islamist armed movements. This is a process that dates back to 1862 when, after half a century of resistance, the Chechens were forced to become part of the Russian Empire. They finally gained a brief interval of *de facto* independence in 1918, only to have the Red Army march into Chechnya in 1920 and annex it to the Union of the Soviet Republics. In 1944, Stalin ordered the deportation of all Chechens – half a million at that time – to Siberia and the destruction of villages and towns. It was only in the 1950s that the survivors were allowed to return, after the famous denunciation of Stalin's policies by his successor, Nikita Khrushchev. In 1990, when the Soviet Union disintegrated, the Chechen national conference, which included all political groups, declared independence. Russia rejected this decision and in 1994 launched the first Chechen war.

The economic motives of Russian domination are related to the strategic role that Chechnya plays in Russian politics and, more recently, in the Russian oil and gas pipeline which crosses Chechnya.[15] In 1999, Russia reinvaded Chechnya, this time also for reasons related to the escalation of violence created by the war, to stop the spread of terror attacks in Moscow, the hostage taking, the incursion of Chechen fighters into Dagestan, etc. The toll of the two wars is shocking: about 100,000 civilians have been killed, equivalent to 10 per cent of the pre-war population; over 200,000 people have been made refugees and the country is littered with mines and weapons. Eventually, the state collapsed and in the vacuum created by its failure warlords and armed groups blossomed. Until then, there had been a few Arabs in Chechnya – traditionally a secular state – though populated by a majority of Muslims.

The collapse of the state opened the gates to Islamist armed organisations, including bin Laden's followers, which soon modified Chechnya's secular resistance into radical fundamentalism; Russian troops have transformed a country once rich in natural resources into a cluster of state-shells which act as transhipment points for the drugs and arms trade. For the last decade Chechnya has survived on a subsistence predatory war economy. Warlords, Islamist armed groups and Russian troops prey on what is left of the population. The progressive criminalisation of the economy, i.e. drug trade, smuggling, money laundering, kidnapping, etc., has become the main source of subsistence. The impact on the population has been tragic: massive displacement, destitution and death.

Predatory, guerrilla and commercial war economies are part of the new wars. These conflicts are waged by armed groups, state-shells as well as legitimate states and are fought outside the international rules of war. Often, the perpetuation of these wars becomes an end in itself, as in Afghanistan. When this happens, being at war legitimises, in the eyes of armed groups, the use of violent means to create and sustain economic profits and political power. In the 1990s, Afghanistan was a country without a state structure, divided into two main state-shells at war with each other; the Taliban and the Northern Alliance ruled thanks to a war economy based on the production of narcotics, smuggling, arms dealings and external support. War, therefore, creates alternative systems of profit, power and protection. The Afghan narcotics industry, the largest in the world, was assembled during the anti-Soviet Jihad by the ISI in cooperation with the Mujahedin to fund the war against Moscow. When Sendero Luminoso moved to Selva Alta, it created an economic stronghold, an area under its control. To finance its war against the Peruvian government, the *Senderistas* used the profits from the coca production.

Diamonds-for-arms trade

In countries rich in natural resources, such as gold and diamonds, state-shells prey on those assets to keep the war economy going. This was the case with the Revolutionary United Front (RUF) in Sierra Leone, one of the largest producers of diamonds in the world. In 1991 the RUF, guided by Foday Sankoh, invaded the country from Liberia and gained control of the mining fields. In 2000, estimates of RUF diamond revenues ranged between

$25 million and $125 million a year.[16] The diamond trade has also been supporting and enriching former armed groups' leaders, now heads of states: Charles Taylor, president of Liberia, and Blaise Compaore, ruler of Burkina Faso. In the early 1990s, Taylor, Compaore and Ibrahim Bah, a Senegalese who fought in the anti-Soviet Jihad, helped Sankoh gain control of Sierra Leone's diamond mines.[17] Together, they ran an illicit diamonds-for-arms trade, which kept the RUF and its friends well armed. Arms and ammunition were shipped to Burkina Faso or Liberia and then smuggled to the RUF; payments were in diamonds. People like Victor Bout, a former Soviet air force officer-turned-arms dealer, have been smuggling weapons into and diamonds out of Africa for over a decade. The figures for this illicit trade are staggering. In 1999, for example, diamonds worth $75 million were exported via these channels; these are untaxed and unrecorded export revenues which bought the RUF and its partners arms, ammunition, food, fuel and medicine.[18]

The RUF war economy is not limited to its African neighbours; it is very much a part of the New Economy of Terror. In 1998, Ibrahim Bah brokered a deal with members of the bin Laden network. Bah introduced Abdullah Ahmed Abdullah to Sam Bokerie, better known as Mosquito, a leading RUF commander. Through the deal, uncut diamonds, worth tens of millions of dollars, were traded for arms and cash. In this way al-Qaeda was able to launder drug money with highly liquid assets. Aziz Nassour, a Lebanese diamond broker, sold a share of the diamonds for $6 million on the international market.[19] Between December 2000 and September 2001, Nassour is believed to have set up a courier system to buy $300,000 worth of diamonds. Couriers travelled from Antwerp to Abidjan on Sabena flights. From Abidjan they reached Monrovia in Liberia, chartering small planes from Weswua airlines. In Monrovia they met the commanders of Sierra Leone who carried the diamonds.[20]

The diamonds that have not been sold have been kept as a safeguard in the event that Western governments freeze accounts used by bin Laden's network.[21] According to Belgian sources, just before 11 September, bin Laden's associates converted $10 million into precious stones for precisely this reason.[22] Diamonds are not the sole highly liquid assets used as a hedge against the actions of Western governments. Reports confirm that bin Laden's men have been buying Tanzanite, a dark blue stone similar to but not as hard as diamonds, mined only in a small corner of Tanzania, to resell it on the international market or to store it.[23] Up to 90 per cent of Tanzanite production is smuggled out of the country. In 1997, the FBI seized the diary of Wadih el Hage, an associate of bin Laden, who had been selling smuggled

Tanzanite in London. The diary contained evidence of the role played by the gemstone in money laundering and financing bin Laden's network.[24]

Preying on humanitarian aid: The example of Sudan

In the absence of commercial natural resources, state-shells' economies feed primarily on the humanitarian aid generated by war. This happens when armed groups, sustained by predatory war economies, fight one another. In these circumstances, groups use war to divert international aid from their victims. In Sudan, the population of the south has been depleted of its assets by the government of the north; a coalition of the military, merchants and politicians has absorbed most of this wealth. The policy of asset transfer has been implemented by promoting famine and preventing relief and aid from reaching their destination. 'Economic resources given to the displaced [in the south] to promote their self-sufficiency have invariably ended up in the hands of exploiting groups.'[25] However, the southern population is also the victim of the Sudan People's Liberation Army (SPLA), an armed group led by John Garang, and other Sudanese armed groups at war with the government of Khartoum and sponsored by the United States.[26] Far from being a liberation army, the SPLA is a *de facto* occupying force. The SPLA uses the same tactics as Khartoum to prey on the population. The 1998 famine in Sudan, for example, was precipitated by the US-sponsored SPLA offensive in the Bahr al-Ghazal area.[27] In a courageous denunciation, Monsignor Caesar Mazzolari, a Roman Catholic bishop, accused the SPLA of diverting 65 per cent of the food aid supplied to populations trapped inside areas controlled by the rebels in southern Sudan. According to relief workers, 'much of the relief food going to more than a million famine victims in rebel-held areas in southern Sudan is ending up in the hands of the SPLA'.[28]

To maximise the exploitation of the population, state-shells engaged in predatory war economies may even establish economic cooperation. In this case an agreement is reached between the groups to maximise the looting of the population, as happened in Sierra Leone. When the army withdraws from a village, it leaves arms and ammunition for the terror groups to use to raze villages and towns and loot them for cash. The population abandons the houses and takes refuge in the countryside, thus emptying the towns. As soon as the armed groups move out, the army moves in and loots the villages a second time, collecting property, items which are difficult for the rebels to dispose of.[29] This reflects the conditions of war in which state-shells survive, reminiscent of medieval wars in which booty was an integral part of the conflict. The rules of war allow victorious soldiers to confiscate public property when required by the necessity of war.[30]

Paying for the war

The primary victims of the new war economies are civilians. As pointed out by Mary Kaldor in her book *New and Old Wars*, at the beginning of the twentieth century, 85–90 per cent of casualties in wars were military. In the Second World War, approximately half of all war deaths were civilians. Today more than 50 per cent of war casualties tend to be civilians.[31] Territorial control is often achieved by physically suppressing the opposition. According to Human Rights Watch: 'In such places as the commune of Nyakizu, in Southern Rwanda, local officials and other killers came to "work" to kill Tutsi. They went home "singing" at quitting time … The "workers" returned each day until the job had been finished – that is until the Tutsi had been killed.'[32]

State-shells are economic entities at war and their balance of payments reflects this reality. Cost of arms and ammunition is paramount and represents their major expenditure. According to Aaron Karp, former director of the Arms Transfer Project at the Stockholm International Peace Research Institute and an expert in how weapons reach armed groups, 'it costs about 75 million dollars a year to equip a militia army of 10,000 troops with light arms'.[33] Legitimate and covert state sponsorship is often required to bear part of these costs. US foreign policy still includes the sponsoring of armed groups, using either legitimate or covert operations. In 2001, for example, the US Congress voted to supply the SPLA with millions of dollars. Previously, the group had been sponsored via covert operations. In 1996, the Clinton administration sent the SPLA more than $20 million in military equipment via Eritrea, Ethiopia and Uganda.[34]

Iran is another country engaged in similar activities. In 1993, a ship sailing under a Panamanian flag was seized in the Mediterranean. It carried surface-to-surface missiles, 25,000 machine guns and 7 million rounds of ammunition from Iran heading for Muslim fighters in Bosnia. A year earlier, at Zagreb airport, an Iranian Boeing was confiscated; it was carrying thousands of machine guns and 40 Iranian volunteers.[35] More recently, in 2002, a shipment of Iranian arms to the PLO was discovered while en route to the occupied territories. According to Aaron's estimate, in the early 1990s, the 'arms trade just to non-state actors, to insurgent groups, ethnic nationalists, terrorist cells … little sub-state groups … [was] worth at the most about 2.5 to 3 billion dollars per year'.

Banks and financial institutions are also part of the activities related to sponsoring arms purchases. The Iraqis used Credit Lyonnais in France and Banca Nazionale del Lavoro (BNL) in the United States and Italy to fund their weapons expenditures. During the Iran–Iraq war, the BNL branch in Georgia, Atlanta, loaned money to Saddam Hussein to build up his military arsenal. The bank was used as a covert source of funding for the Iraqi weapons programmes by the US; overall the Iraqis were able to get as much as $5 billion out of BNL. Ironically, the US taxpayer has reimbursed part of the money because the US government had guaranteed some of the loans on which Iraq eventually defaulted.[36] Naturally, when state sponsors cover the cost of arms, what is generally a net cost for the terror balance of payments becomes an asset. This was the case with the Stingers given to the Mujahedin in Afghanistan by the US in the 1980s. Most of them were not used, as it was impossible to carry them across the harsh terrain of Afghanistan; over the years they were resold on the black market at ten times the original price. Iran, for example, bought several and, in 1987, used them from Iranian gunboats to fire at US Navy helicopters in the Persian Gulf. To avoid a repetition of this scenario, the US government has even tried to repurchase the Stingers, offering, in the mid-1990s, more than $100,000 for missiles initially sold for $23,000. However, this offer was well below the black market price of over $200,000, so the US was unable to complete the purchase.

Black marketeers

The black market is where most state-shells and armed groups buy arms and ammunition. According to Aaron, 'where there's warfare, there's a demand',[37] and where there is demand there is supply. Ironically, it is the United States that is one of the principal suppliers of the illegal market. There are numerous examples of American companies involved in these businesses. A Los Angeles trading firm, for example, smuggled 87 US helicopters, which could easily be adapted for war purposes, to North Korea. During the Iran–Iraq war, a contraband ring based in the US supplied US-made F-14 aircraft and their parts to Iran for over $10 million. Between 1982 and 1988, the US Customs Service, FBI and other law enforcement groups seized over 6,000 US-manufactured weapons and military items for a total value of half a billion dollars, which people had tried to smuggle out of the country.[38]

In the 1990s, Victor Bout masterminded an international web of arms smuggling, selling stockpiles of redundant Soviet arms to state-shells and armed groups across the world. According to Belgian authorities, his fleet of Soviet-era ships supplied the RUF in Sierra Leone, Unita in Angola and the extremist Hutu militia in Rwanda, among others.[39] More recently, he became one of the main arms dealers for the Taliban. Bout, like most black market arms suppliers, relies largely on barter. While in Sierra Leone he was paid in diamonds; in Afghanistan it was narcotics.[40]

Smuggling Iraqi oil, Afghan narcotics and Ukrainian weapons

In the absence of state sponsors, or in conjunction with them, state-shells and terror groups use smuggling to meet the high costs of arms, to avoid embargoes and sanctions imposed by the international community. According to the UK government, Saddam Hussein stockpiled chemical, biological and conventional weapons using a $2 billion per year illicit sale of oil. Oil is smuggled via neighbouring Arab and Islamic countries. Over 500 companies have been involved in the oil-for-arms deal.[41] State-shell war economies often depend on the ability to develop a 'healthy' contraband industry. Afghanistan, for example, has survived on smuggling for two decades. Smuggling replaces the domestic and export industry. In so doing it offers large sections of the population the possibility of earning enough money to survive and a much smaller group of people opportunities for the accumulation of wealth. Two-way smuggling, where one product is taken out and another brought in, is the most common method. In Afghanistan drugs-for-weapons deals were the most popular.

Following the laws of economics, experienced smugglers from neighbouring countries were attracted by the Afghan narcotics business; people like Mansour Shahab, an Iranian bandit and professional smuggler of Arab origins from Ahvaz. In 1996 Shahab met an Arab-Afghan who sold him drugs in exchange for 150 Kalashnikovs. The man invited him to visit Afghanistan. Shahab went, and set up a healthy smuggling business for the Taliban. His route cut across the Iraq–Iran border, along which Shahab and his gang of bandits smuggled everything, from narcotics to electronic equipment to arms and ammunition.[42]

To avoid capture, smugglers utilise the most ingenious techniques. To cross the Iranian desert, for example, they use camels addicted to opium; the animals carry their loads of illicit goods unaccompanied, travelling from one fix to the next.[43] Smuggling routes are the arteries of the New Economy of Terror; they feed terror's current account with an endless supply of cash, goods and migrants. Like the old Silk Route, smugglers also travel in caravans across hostile territories, far from the highways of civilisation.

On the supply side, the disintegration of the Soviet Union has greatly boosted the international contraband of arms. The disappearance of the Soviet central government, which coordinated the supply and demand for weapons, has left its three largest producers of arms – Russia, Ukraine and Belarus – in need of new markets. In 2001, these three countries exported $5 billion worth of weapons, a figure that excludes undisclosed and illegal deals. While Russia is in a better position, supplying large clients like China and India, the other two are not as fortunate and have to rely on demand from state-shells. Thus Ukraine is one of the major suppliers for the RUF in Sierra Leone. Arms are shipped to Liberia or Burkina Faso, legitimate countries, and from there smuggled to Sierra Leone. In addition, stockpiles of arms and ammunition left over from the Soviet era have been flooding the illegal market. For a decade, inside the New Economy of Terror there has been no shortage of weapons; on the contrary, the buoyant supply has been boosting demand.

The analysis of the balance of payments of armed organisations has shown a vast range of economic activities within reach of state-shells and armed groups. Some of them are directly linked to the war economies that sustain terror; others are related to criminal activities and a small percentage refer to legitimate activities. All of them, however, belong to the New Economy of Terror, a parallel economic system to the traditional and legitimate one. The final question to answer is: how big is this illicit economic system and how much does it overlap with the world economy?

Notes

1. Hala Jaber, *Hizbollah, Born with a Vengeance* (New York: Columbia University Press, 1997).
2. Ibid., p. 5.
3. 'Inside a Terrorist's Mind', interview with Salah Shehadeh, The Middle East Media Research Institute, Special Dispatch Series No. 403, 24 July 2002, www.memri.org.
4. Suzanne Goldberg, 'The Men behind the Suicide Bombers', *Guardian*, 12 June 2002.
5. The Tamil population comprises one quarter of the Sinhalese population of Sri Lanka. Amy Waldman, 'Master of Suicide Bombing: Tamil Guerrillas of Sri Lanka', *New York Times*, 14 January 2003.
6. Ibid.
7. James Dunnigan, 'The Rise and Fall of the Suicide Bomber', 21 August 2002, www.strategypage.com.
8. Goldberg, 'The Men behind the Suicide Bombers'.
9. Waldman, 'Master of Suicide Bombing: Tamil Guerrillas of Sri Lanka'.
10. Ibid.
11. Kimberly I. Thachuk, *Terrorism's Financial Lifeline: Can it be Severed?*, Strategic Forum, Institute for the National Strategic Studies Defense University, Washington DC. No. 191, May 2002, p. 7.

led to a drastic deterioration in the security and food distribution situation of the region.' Ibid.

28. Ibid.
29. David Keen, 'When War Itself is Privatised', *Times Literary Supplement*, December 1995.
30. In theory, this refers only to public property; private property must be returned to the legitimate owners at the end of the war. Lesley Green, *The Contemporary Law of Armed Conflict* (Manchester: Manchester University Press, 2000), pp. 152–5.
31. Mary Kaldor, *New and Old Wars: Organized Violence in a Global Era* (Cambridge: Polity Press, 1999), ch. 5.
32. Ibid., p. 99. See also 'Playing the Communal Card: Communal Violence and Human Rights', *Human Rights Watch*, 1995.
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THE GLOBALISATION OF THE NEW ECONOMY OF TERROR

'If [the United States] enters into a conflict with the sons of the two holy mosques, America will forget the horrors of Vietnam. This, indeed, was the case; praise God. What is to come is even greater, God willing.'

Osama bin Laden on al-Jazeera TV channel,
21 December 2001

In November 2001, at an international conference held in Bonn on the future of Afghanistan, Hamid Karzai was elected prime minister *ad interim*. Since then a lot has been written about him, from his patriotic fight against the Taliban to the style of his clothes. Yet very few people remember that during the 1990s Karzai was involved in negotiations with the Taliban regime for the construction of a Central Asian gas pipeline from Turkmenistan through western Afghanistan to Pakistan. At that time he was a top adviser and lobbyist for Unocal, the California-based oil company which was negotiating the right to build the pipeline across Afghanistan. Even fewer people remember that as leader of the Pashtun Duri tribe during the anti-Soviet Jihad, Karzai was a member of the Mujahedin. In the early 1990s, thanks to his excellent contacts with the ISI, he moved to the US where he cooperated with the CIA and the ISI in supporting the Taliban's political adventure.[1]

President Bush's special envoy to the newly formed Afghanistan state is a man named Zalmay Khalilzad, another former employee of Unocal. In 1997, he produced a detailed analysis of the risks involved in the construction of the Central Asian gas pipeline. Khalilzad also worked as a lobbyist for Unocal and therefore knows Karzai very well.[2] In the 1980s, during the anti-Soviet Jihad, President Reagan named Khalilzad special adviser to the State Department; it was thanks to his influence that the US accelerated the shipment of military aid to the Mujahedin.

The Central Asian pipeline

Karzai and Khalilzad's involvement with the Taliban on behalf of Unocal took place at a time when Mullah Omar was preaching the benefits of the Sharia law, when women in Afghanistan were banned from social life and plans were underway to blow up the ancient statues of the Buddha at Bamiyan. Somehow, the backwardness and cruelty of the Taliban regime could be overlooked by the West when one of the deals of the century was at stake. Unocal was about to write a new chapter in the long history of 'The Great Game', the phrase immortalised by Rudyard Kipling in *Kim*.[3]

One of the earth's richest oil and gas fields is located on the eastern shore of the Caspian Sea, north of Afghanistan,[4] in the territories belonging to the Central Asian republics. The cheapest way to link these fields with the international market is with a pipeline across Iran. From the Iranian coast oil and gas can be shipped via the existing Iranian network. However, US companies are prevented from using this route by the Iran–Libya Sanctions Act (ILSA), which prohibits commercial ventures with these two countries. The longer route, through Afghanistan to the Pakistani coast, is more expensive, but considerably more advantageous for the US. It would eliminate the need to deal with Iran, a country towards which Washington nurtures deep antipathy and resentment, and give the US and its partners control of the new supply of energy. Since the mid-1990s, the Americans have been pursuing this avenue. 'Impressed by the ruthlessness and willingness of the then-emerging Taliban [movement] to cut a pipeline deal,' writes Ahmed Rashid, 'the State Department and Pakistan's Inter-Services Intelligence agency agreed to funnel arms and funding to the Taliban in their war against the ethnically Tajik Northern Alliance. Until 1999, US taxpayers paid the entire annual salary of every single Taliban government official.'[5]

The Unocal deal was also regarded as the jewel in the crown of what was known in Washington as 'the strategy of the Silk Route'. This policy pursued the exclusion of Russia from the Asian pipelines: the energy highways that travel from the basin of the Caspian Sea westwards, and from Central Asia south and eastwards. Finally, by establishing a strong presence in these areas, the US wanted to lock Iran and China out of the energy business in the region, since Washington feared they could assist the Central Asian republics in setting up their own oil companies. In the months before the Taliban came to power, former US Assistant Secretary of State for South Asia, Robin Raphael, waged an intense round of shuttle diplomacy between the powers with possible stakes in the Unocal project. 'Robin Raphael was the face of the Unocal pipeline,' said an official of the former Afghan government who was present at some of the meetings with her. '… In addition to tapping new sources of energy, the [project] also suited a major US strategic aim in the region: isolating its nemesis Iran and stifling a frequently mooted rival pipeline backed by Tehran.'[6]

The rise of the Taliban was the outcome of an alliance between the US and its Muslim partners, Pakistan and Saudi Arabia. The involvement of Islamabad and Riyadh was part of the policy of Islamist colonisation discussed in chapter 9. Washington's motivations were exclusively economic. As pointed out by Professor William O. Beeman, an anthropologist specialising in Middle Eastern studies at Brown University, US support for the Taliban had 'nothing to do with religion or ethnicity, but only with the economics of oil'.[7] The Unocal consortium feared that as long as the country was split among squabbling warlords, the pipeline would never be built. Political stability was required to implement the $4.5 billion project and the US believed that the Taliban regime would be the most suitable government to achieve such a goal. Thus, in the aftermath of the Taliban's conquest of Kabul in 1996, the State Department avoided criticising the methods the Taliban used to establish control over the country; instead, it comfortably declared that the US found 'nothing objectionable' in the introduction of the Sharia law in Afghanistan. This statement was echoed by the Chairman of the Senate Foreign Relations Subcommittee on the Near East and South East, Senator Hank Brown, who said, 'the good part of what has happened is that one of the factions [the Taliban] at least seems capable of developing a new government in Afghanistan'.[8]

The alliance between American capitalism and Islamist fundamentalism was not limited to the creation of the Taliban; it also produced business ventures designed to extract favours from the new regime. To strengthen its bargaining power with the newly formed Islamist state, Unocal joined the Saudi Delta Oil Corporation to create a consortium called CentGas. Delta Oil is owned by the bin Mahfouz and al-Amouidi families, Saudi clans that have strong links with Osama bin Laden's family. The sister of Khalid bin Mahfouz, for example, is one of Osama's wives. Mahfouz has been sponsoring charitable institutions used as fronts by bin Laden's associates through the National Commercial Bank, which his family controls.

Ironically, it was through the CentGas consortium that people close to bin Laden came to work with people close to the Bush family. The feasibility study of the Central Asian pipeline project was performed by Enron, the US oil giant which, in 2002, filed for bankruptcy; Enron CEO Ken Lay was an old Bush family friend; Donald Rumsfeld, the current US Secretary of Defense, was a large stockholder in Enron; and Thomas White, former vice-chairman of Enron, is President Bush's Secretary of the Army. 'A chief benefactor in the CentGas deal [was going to be] Halliburton, the huge oil pipeline construction firm that also had its eye on the Central Asian oil reserves. At the time, Halliburton was headed by Dick Cheney,'[9] the US vice-president.

The CentGas deal never came to fruition. The Taliban's inability to commit to any agreement, coupled with public recognition of the exploitative nature of their regime, contributed to its failure. For years, the Taliban skilfully conducted simultaneous negotiations with two potential oil companies: the Argentinean Bridas and Unocal/CentGas. Both companies showered the Taliban with gifts and money, flying their delegations to the US to win them over. On one occasion, a group of Taliban met high-ranking executives of Unocal in Texas. Parties, dinners and trips to the local shopping malls were organised. At that time, Zalmay Khalilzad, who was working for Unocal, lobbied the Clinton administration to 'engage' with the Taliban.[10] The press reported some of these 'informal' meetings between US officials and the rulers of Afghanistan: 'Senior Taliban leaders attended a conference in Washington in mid-1996 and US diplomats regularly travelled to Taliban headquarters,' wrote the *Guardian*.[11] But these reports aroused very little interest.

The major impediment to the deal, however, was political: the Taliban demanded official recognition from the White House, something concrete to endorse their rule. This was not feasible. Strong social pressure from US women's organisations, which strenuously lobbied their congressmen and the nation against the inhuman treatment of women in Afghanistan, exposed Americans to the facts of the brutality of the Taliban regime. 'The United States wants good ties [with the Taliban] but can't openly seek them while women are oppressed,' reported CNN.[12] None the less, negotiations carried on more or less openly until 1998, when bin Laden's associates bombed US embassies in Africa. At that point relations broke down. Clinton launched cruise missiles at bin Laden's supposed whereabouts in Afghanistan, an act that convinced the oil lobby that, for the moment, the pipeline deal could not go ahead.

Oil economics

Clinton's belligerent attitude towards bin Laden and the Taliban regime did not reflect a shift in policy. Corporate America continued to do business with people who supported Islamist insurgency. The oil industry, in particular, continued to be run by a very small group of American and Saudi families with close financial relations. Among them were the Bush family, the bin Laden family and Osama bin Laden's Saudi sponsors. The ties among these people go back a long way. In 1979, when George W. Bush was attempting to break into the big league of Texas's oil businessmen, he received $50,000 from a family friend, James Bath, in exchange for 5 per cent of his firm Arbusto Energy. At the time Bath represented the US business interests of Salem bin Laden, brother of Osama and head of the bin Laden family. For several years, George Bush Sr has been the senior adviser of the Carlyle Group, a Washington-based merchant bank specialising in buyouts in the defence and aerospace industry. Former members of the Reagan and Bush administrations are also Carlyle 'advisers': James Baker, former Secretary of State, and Frank Carlucci, former Secretary of Defense. John Major, former British prime minister, is also a Carlyle adviser, as are Fidel Ramos, former president of the Philippines, and Anand Panyarachun, the former Thai premier. Among the investors in the Carlyle group are members of the Saudi elite, including the bin Laden family, which sold its stock after 11 September.

Naturally, as soon as George W. Bush was elected president, Unocal and BP-Aramco, which had in the meantime bought Bridas, the Argentinean rival, started once again to lobby the administration, among whom were several of their former employees. Unocal knew that Bush was ready to back them and resumed the consortium negotiations. In January 2001, it began discussions with the Taliban, backed by members of the Bush administration among whom was Under Secretary of State Richard Armitage, who had previously worked as a lobbyist for Unocal. The Taliban, for their part, employed as their PR officer in the US Laila Helms, niece of Richard Helms, former director of the CIA and former US ambassador to Iran. In March 2001, Helms succeeded in bringing Rahmatullah Hashami, Mullah Omar's adviser, to Washington. Apparently, he even brought a carpet as a gift for George W. Bush from the Taliban leader.[13] As late as August 2001, meetings were held in Pakistan to discuss the pipeline business. At one of these, which took place in Islamabad on 2 August, Christina Rocca, in charge of Asian affairs at the State Department, met the Taliban ambassador to Pakistan, Abdul Salam Zaeef.

While negotiations were underway, the US was secretly making plans to invade Afghanistan. The Bush administration and its oil sponsors were losing patience with the Taliban; they wanted to get the Central Asian gas pipeline going as soon as possible. The 'strategy of the Silk Route' had been resumed. US academics, journalists and intellectuals denounced the White House's new approach. 'The US had quietly begun to align itself with those in the Russian government calling for military action against Afghanistan and has toyed with the idea of a new raid to wipe out bin Laden,'[14] wrote Frederick Starr, head of the Central Asian Institute at Johns Hopkins

University, in December 2000. Paradoxically, 11 September provided Washington with a *casus belli* to invade Afghanistan and establish a pro-American government in the country. When, a few weeks after the attack, the leaders of the two Pakistani Islamist parties negotiated with Mullah Omar and bin Laden for the latter's extradition to Pakistan to stand trial for the 11 September attacks, the US refused the offer.[15] Back in 1996, the Sudanese Minister of Defence, Major General Elfatih Erwa, had also offered to extradite Osama bin Laden, then resident in Sudan, to the US. American officials declined the offer at that time as well. Instead, they told General Erwa to ask bin Laden to leave the country. 'Just don't let him go to Somalia,' they added. In 1993, 18 US soldiers had been brutally killed in Somalia in street riots involving al-Qaeda supporters and the US feared that bin Laden's presence in the country would create further unrest. When Erwa disclosed that he was going to Afghanistan, the American answer was 'let him go'. Is it possible that the US did not want to bring bin Laden to 'justice'? Could it be because he has too many tales to tell?

For Gore Vidal, 'the conquest of Afghanistan had nothing to do with Osama. He was simply a pretext for replacing the Taliban with a relatively stable government that would allow Union Oil of California [Unocal] to lay its pipeline for the profit of, among others, the Cheney-Bush junta.'[16] Vidal's view might not be far from the truth. Karzai's role during the interim government is clearly that of a mediator of the interests of the US oil companies in the pipeline business. Kalilzad has a similar task. Two small oil companies, Chase Energy and Caspian Energy Consulting, have already obtained permission from the governments of Turkmenistan and Pakistan to resume the pipeline negotiations. These companies acted on behalf of much bigger oil corporations whose identity has been kept secret; however, the fact that S. Rob Sobhani, president of Caspian Sea Consulting, has worked for BP-Aramco as a consultant for Central Asia[17] might throw some light on the mystery.

The economics of US foreign policy

The Unocal consortium saga outlines the degree of interaction that exists between traditional and state-shell economies even in the domain of 'legitimate' businesses. This exchange transcends the lack of 'full political status' of state-shells. Although the US refused to recognise the Taliban regime, it did engage with it in high-level negotiations for the construction of the Central Asian pipeline. The administration was willing to ignore the regime's brutal treatment of women, the breaching of human rights and the cruelty of the Afghani rulers, provided the Taliban agreed to a deal that would have given US oil companies the upper hand in the Great Game. In the post-Cold War era the economic interests of a sector of American industry, and not a policy of international equilibrium, forged US foreign policy towards state-shells. Behind a façade of principles and ideological propaganda, relationships between Washington and state-shells harbouring Islamist terror groups have been formulated according to the narrow principles of self-interest.

The relations between the Clinton administration and Sudan are a good example of the subordination of politics to economics. In November 1997, Washington imposed economic sanctions on Khartoum, a regime that according to the US was still hosting training camps for Islamist armed groups. A number of American companies which imported gum arabic objected to the sanctions and asked for an exemption. Among them were trade giants such as the 'Newspaper Association of America, [the] National Soft Drinks of America, [the] National Food Processors Association, [the] Grocery Manufacturers of America and the Non-prescription Drug Manufacturers Association'.[18] All these companies depended on imports of gum arabic from Gum Arabic Co. of Khartoum, a company controlled by Osama bin Laden, of which the Sudanese government held only a 30 per cent stake. Sudan is the largest exporter of gum arabic and US importers are its biggest buyers. Indeed, they receive better treatment than French importers, the second largest buyers, who pay higher prices. The consequences of the embargo for US companies would have been disastrous. Since importing from Chad or Nigeria was not viable due to the poor quality of the product, American importers would have had to buy gum arabic from their French competitors at much higher prices. Eventually, the US Gum Arabic lobby won their appeal and the product was excluded from President Clinton's economic sanctions. To justify this decision, the State Department issued the following statement: 'We have no information that bin Laden controls gum arabic exports from Sudan.'[19] Therefore, trade between Gum Arabic Co. of Khartoum and the US continued as usual even in the summer of 1998, in the shadow of the cruise missiles launched by Clinton.

Washington's policy towards Saudi Arabia has been shaped by similar constraints. The high dependency of America upon Saudi oil was, until recently, at the root of the determination of post-oil-shock US administrations to keep the House of Saud in control of the largest oil reserves in the world. This commitment often required turning a blind eye to a strong and growing connection between the Saudi elite and Islamist armed groups. As long as America was safe, this policy went almost undetected. Prior to 11 September the FBI had attempted unsuccessfully to investigate a Muslim organisation, the World Assembly of Muslim Youth (WAMY), which was suspected of having links with terror groups. Two of Osama bin Laden's brothers were actively involved in it: Abdullah bin Laden, who was the US director of the charity, and his brother Omar. The WAMY was founded in 1972 with the aim of blocking 'Western corruptive ideas'. By 2002 it was controlling 450 organisations in 34 countries. In the early 1990s, it began acting as a channel for Saudi donations to radical Islamist groups. Among them was the Student Islamic Movement of India, which supports Islamist armed groups in Kashmir and seeks to transform India into an Islamist state.[20] In the late 1990s, the Philippine military denounced the WAMY for its funding of Islamist insurgency. However, an FBI investigation into the WAMY and its Saudi connection was repeatedly blocked by the US administration. 'The FBI wanted to investigate these guys,' admitted Joe Trento, a US national security expert, '…they weren't permitted to.'[21] Restrictions increased when President Bush was elected to the point where agents were specifically told to 'back off'.

Today, the United States is no longer safe; the illusion of keeping political violence outside its borders has evaporated. So has the notion that Washington could manipulate Islamist armed groups to its own advantage. What remains is its high energy dependency – Americans' addiction to oil. As long as it lasts, Washington's foreign policy is likely to be forged by Texan interest groups. A clear indication of this reality is the fact that in the aftermath of 11 September the Saudi elite has continued to benefit from the protection of the White House; WAMY accounts were not frozen and all the members of the bin Laden family were whisked out of America on a privately chartered flight back to their country of origin, Saudi Arabia, where US investigators cannot reach them. It took the US more than one year to begin to criticise the Saudi regime and this took place only when the evidence of the degree of Saudi involvement in Islamist terror could no longer be denied. It took the Bush administration a further year to pull US troops out of Saudi Arabia, a decision taken only after securing the rich oil fields of Iraq.

Smuggling electronics in Asia

The interdependency between some US business interests, Islamic states and state-shells is particularly strong in the domain of 'illegal businesses'. State-shells, for example, offer attractive outlets for consumer-product multinationals, companies whose financial well-being depends on the exploitation of new markets. Smuggling offers a very good example of the nature of this relationship. According to the late Daniel Pearl, Sony

Corporation used a contraband network in Asia as part of its overall marketing strategy in the region. The economics of smuggling are based on the avoidance of high import duties, barriers to trade levied by governments of the developing world. In Pakistan, a legally imported 21-inch Sony Wega TV costs almost $500; the identical TV smuggled in would cost 25 per cent less. Sony, however, receives the same amount of money (about $220) from either the smugglers or legal distributors. Naturally, smuggled goods sell better because they are cheaper; therefore demand for them is higher. By 1996, as many as half a million televisions were smuggled into Pakistan, 70 per cent of which were Sony.[22] According to the Pakistan Electronics Manufacturers Association, in 1997 for every TV imported legally two were smuggled. Most of the smuggled electronic items come from distributors in the Gulf. 'Sony Gulf's authorised distributor in Dubai sells [TV] sets to traders who often ship them to the Iranian port of Bandar Abbas. From there some of the goods head northeast to the Afghan border near Herat, then southeast on the highway to Kandahar, on to Jalalabad and then typically enter Pakistan illegally along the Khyber Pass near Peshawar.'[23] Dealers in Pakistan confirmed that the Sony distributor in Dubai supplied the Pakistani market with smuggled products along with a service guarantee. Although in 1997 Sony did not import or assemble any product in Pakistan, it did offer service guarantees. Data Electronics in Lahore provides repair under the Sony guarantee for products sold in the Middle East and used in Pakistan. The company has been regularly reimbursed by Sony for services offered to 'smuggled TVs'.[24]

Criminal money

Smuggling of goods is only one aspect of the close relationship that exists between state-shells' criminal and legitimate economies. Illegal capital flights, tax evasion and other criminal activities are others. Globalisation has provided criminal and armed organisations with the opportunity to build and share international economic infrastructures: Islamic banks, offshore tax havens and state-shell economics described in the previous chapters are part of it. So are money laundering institutions in the West. They are all key elements of the same body: the international illegal economy.

Organised trafficking in drugs, weapons, goods and people constitutes a large section of this economy, which can be defined as the 'criminal economy'. Narcotics generate a turnover of about $400 billion a year; another $100 billion is produced by the smuggling of people, weapons and other goods, such as oil and diamonds; and 90 per cent of this money is recycled outside the country of origin. Out of the $400 billion from the narcotics business, for example, as little as $1.4 billion stays in the country of production.[25] Raymond Baker, a senior fellow at the Center for International Policy in Washington and a leading expert on money laundering, believes that most of the money generated by violent criminal activity is recycled in the West, particularly in the US. 'When it comes to large deposits from overseas, far too often American banks assume a "don't ask, don't tell" philosophy,' he said. 'In fact, the Treasury Department estimates that 99.9 per cent of the criminal money presented for deposit in the United States is accepted into secure accounts. It's a sad fact, but American banks, under the umbrella of conflicting American laws and policies, will accept money from overseas even if they suspect that it has been illegally obtained.'[26]

Illegal capital flight

Another component of the international illegal economy is represented by illegal capital flight. This refers to money that moves from country to country illegally, undetected and unrecorded. Illegal capital outflow can be generated by tax evasion, payments of kickbacks and bribes, earnings from falsified invoices and other sham transactions. As a phenomenon of the globalisation of the illegal economy, it has the most damaging effect on the domestic economies of countries where the money is generated and taken out, as it depletes them of their wealth. According to Baker nearly 40 per cent of Africa's aggregate wealth has been transferred abroad and between $200 billion and $500 billion left Russia in the 1990s. Sierra Leone offers a good example of the negative impact of illegal capital outflow; the bulk of the foreign exchange produced by the contraband of diamonds, estimated between $25 million and $125 million a year, is used to buy weapons for the Revolutionary United Front (RUF) and its partners in the smuggling business. Little of this wealth is redistributed inside the country.

Asset transfer is another component of illegal capital outflow that results in the impoverishment of countries. In 2001 about $68 billion were given in aid to countries which produce drugs, such as Afghanistan, or are drug transhipment points, such as Chechnya. The bulk of this money never reached the needy, but went to sustain the drugs, smuggling and terror industries, which in turn shipped or spent the profits outside the country of origin. According to Baker, in the late 1990s developing and transitional economies received a capital inflow of $50 billion a year from foreign aid (from the US, OECD and World Bank). During the same period, the outflow of money that illegally left these countries due to mispricing in arm's length trade and the proceeds of corruption was $100 billion,[27] twice the inflow. 'In addition there are transfers of pricing by multinational corporations dealing with their own subsidiaries and affiliates, all criminal money, all illegal asset swaps, all falsified transfers that are not attached to any trade. The total figure of dirty money out of poor countries is $500 billion per year.'[28]

Gross criminal product

Raymond Baker calculated that overall illegal capital flight is equivalent to about half a trillion dollars a year.[29] Therefore, together with criminal money, it amounts to a staggering $1 trillion a year, higher than the nominal GDP of the United Kingdom. Other estimates of the size of illicit financial transactions, also known as the 'Gross Criminal Product', are very similar and set the value at between $600 billion and $1.5 trillion, about 2–5 per cent of the world gross national product, of which narcotics range from $300 billion to $500 billion, smuggling of arms, other goods, people and counterfeiting between $150 billion and $470 billion and proceeds from computer crimes at $100 billion.[30]

This torrent of money runs from developing and transitional economies to Western countries. It represents a considerable wealth, a yearly injection of cash equivalent to 5 per cent of world GDP, which is regularly washed through the international money laundering system. Many financial institutions provide this service. In 1995, a report of the Australian Financial Intelligence Unit, Austrac, estimated that 3.5 billion Australian dollars were recycled through Australia every year. As little as 1 per cent of this money was seized by the police. Turkish Cyprus is another laundering paradise where banks and financial institutions wash about $1 billion a month from Russia.[31] In recent years Thailand has also become a favourite destination for money launderers. In 1996 Bangkok's Chulalongkorn University estimated that $28.5 billion went through the country's money laundering system, the equivalent of 15 per cent of Thai GDP.[32]

By far the largest and most important market for the recycling of dirty money is the US. Baker is adamant that the bulk of the money to be laundered goes through US and European institutions. Criminal and terror money enters the system in the guise of corrupt or tax-evading money. Though US anti-money laundering legislation requires the registration of cash deposits, 'Treasury Department officials have stated on multiple occasions that it is US policy to attract flight capital out of other countries, with little or no heed paid to whether or not it is tax evading.'[33] Corruption is another field where the law is highly ambiguous. Until the end of 2001, while US businessmen were prohibited from bribing foreign government officials, US banks were allowed to assist them in moving money without asking any questions about the origins. 'What the US law conveys … to

American business people, financial advisers and bankers,' writes Baker, 'is do not bribe foreign officials; however, if wealthy foreign officials are encountered, including those suspected of being corrupt, then the United States wants their money.'[34] The Bank of New York, for example, has been under investigation about a laundering scheme that shipped $10 billion out of Russia. Members of the Russian mafia, business and government officials linked to it have masterminded the outflow, which included money given in aid from the International Monetary Fund.[35] In October 2001, in the Patriot Act, handling the proceeds of corruption was finally made an offence under US anti-money laundering law, 25 years after the Foreign Corrupt Practices Act was passed. However, criminalising the handling of the proceeds of corruption does not change the fact that there remain many ways of getting around the law.[36]

Money laundering comes at a price. In the 1980s it was only 6 per cent; by the end of the 1990s it had jumped to 20 per cent of the sum to be recycled,[37] and it is still rising. 'This is the percentage charged on the total amount to be laundered,' explains Baker. 'For drugs dealers, this is a cost easily absorbed. The price of drugs has in fact been falling in the US at the same time that the cost of laundering has been rising. This clearly reflects the ready supply of drugs and the lower costs of smuggling, enabling the laundering tab to be paid easily.'[38] Laundering is not only getting riskier and therefore more expensive, it also requires more sophisticated techniques. According to Raymond Baker every $100 billion processed by the laundering machine corresponds to $400 billion to $500 billion of 'dirty money'.[39] If this figure is correct, out of $1 trillion every year about $200 billion are 'washed' by Western money laundering institutions and enter the world money supply as 'clean money'.

The new economy of terror

Armed groups do not finance themselves solely with illegal money, they also have access to legal sources of revenue. The 11 September attacks, for instance, were financed with clean money. Profits from legitimate businesses, money collected by Muslim charities and mosques, independent donations made to Muslims that end up supporting armed groups are not 'dirty money'. Unocal's $25 million 'donations and gifts' to the Taliban to win the Central Asian pipeline contract came out of the company's legal budget. In essence this is the main difference between criminal money and the financing of terror: assets and profits acquired by legitimate means and even declared to tax authorities can be used to finance terror. Thus, when compared with the international illegal economy, the New Economy of

Terror has this additional financial source, which could be estimated at between one third and half a trillion dollars per year.[40]

Together with the illegal economy, the New Economy of Terror amounts to nearly $1.5 trillion, well over 5 per cent of the world economy. This constitutes an international economic system parallel to the legitimate one. It generates a river of money, which flows towards traditional economies and essentially poisons them. It increases dependency upon illegal monetary sources and weakens the system of control for money laundering. The outflow depletes developing and transition countries, where much of this wealth originates. It impoverishes legitimate economies and boosts illegal and terror economies. This process weakens states and encourages the formation of state-shells; entities created around the economics of armed conflict sustained by terror groups. As this process evolves, the size of this alternative economic system will increase and with it Western dependency on it.

The final question to answer is: how big is the pool of resources that feeds the world illegal economy? How large is the amount of money in circulation inside this economic system? In monetary terms, a very rough indicator is provided by the stock of US dollars held abroad, that is US currency used outside the United States.[41] Because the means of exchange of the illegal economy is the US dollar, it is reasonable to assume that the bulk of the stock of dollars held outside the US is part of this economy. Recent studies have shown that from 1965 to 1998 the share of US currency permanently held abroad has risen about 60 times.[42] This is a very basic indicator of the growth of the illegal economy over this period of time. Today about two-thirds of the US money supply, M1,[43] is held outside the US and the percentage is still growing. This value gives us a rough indicator of the incremental growth of the world illegal economy. A comparison of the issue of $100 bills from 1965 to 1998 shows that the growth of foreign stock has been much higher than that of the domestic one. More and more dollars leave the country where they are issued and never return; they are used for transactions, held as a security, deposited in foreign banks in monetary safe havens. The implications for the US economy are considerable and outline the degree of dependency between the legal and illegal economies.

US currency held abroad is a considerable source of revenue to the US treasury because of signorage, the government's gain in converting valuable metal into more valuable coins.[44] 'If the amount of currency held abroad is around 200 billion dollars [1996 figure], and the three-month Treasury bill rate is 5.2 per cent … the amount of seigniorage (and tax payer saving) from externally circulating currency, calculated as the product of these two figures, would be more than 10 billion dollars.'[45]

The degree of interdependence between the two systems is already too advanced to consider severing all ties. Could Western capitalism afford to lose a yearly cash injection of $1.5 trillion? Could we live without the oil of Muslim countries? The answer, for the time being, is no. Re-colonising those regions where Islamist terror is breeding is not feasible, even if this is what the Bush administration is effectively attempting to do. The era of Western colonisation is gone. The difficulties encountered in rebuilding Afghanistan, the reluctance of world leaders to back the US invasion of Iraq, the political instability of the new Iraq, the split between the US and new Europe and old Europe are all signs of the danger looming ahead. The threat of terror, forever present in the minds of Western policy-makers, is a constant reminder that major changes in Western foreign policy are needed. War is not the best option. Ironically, any conflict will boost the New Economy of Terror, which feeds on conflicts; so will economic embargoes and any commercial straitjackets imposed upon countries that harbour terror groups. Closing channels to the legitimate international economic system will only open up new ones to the illegal one.

Notes

1. Michael Chossudovsky, *Guerra e Globalizzazione* (Torino: Edizioni Gruppo Abele, 2002), p. 95.
2. Karen Talbot, 'US Energy Giant Unocal Appoints Interim Government in Kabul', *Global Outlook*, Spring 2002, Vol. 1, No.1, p. 70.
3. The Great Game is the name given to the struggle between Victorian Britain and Tsarist Russia, a secret war fought to control Central Asia and its resources.
4. Estimates of barrels of crude oil beneath the Caspian in 'proven' reserves range from 68 billion to over 100 billion barrels, worth approximately $2 trillion at current prices.
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16. Vidal, 'The Enemy Within'.
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19. Ibid.
20. Gregory Palast, 'FBI and US Spy Agents Say Bush Spiked Bin Laden Probes before 11 September', *Guardian*, 7 November 2001.
21. Gregory Palast, 'Did Bush Turn a Blind Eye on Terrorism?', *BBC Newsnight*, 6 November 2001.
22. Daniel Pearl and Steve Stecklow, 'Taliban Banned TV but Collected Profits on Smuggled Sonys', *Wall Street Journal*, 9 January 2002.
23. Ibid.
24. Ibid.
25. $1.4 billion is the average value of drugs produced in 1999–2001 at constant 2001 prices for the seven major drug-producing countries: Afghanistan, Bolivia, Burma, Colombia, Laos, Mexico, Peru. This figure has been calculated on the basis of the value of the drugs at the first point of sale, which is different from the cost of production (how much did it cost the farmer to produce the harvest). This indicator is based on potential production of drugs as estimated by the United Nations. Seizures and damage to crops at harvest time has been taken into consideration.
26. 'Q&A, Dirty Money: Raymond Baker Explores the Free Market's Demimode', *Harvard Business School Bulletin*, February 2002, www.alumni.hbs.edu.
27. Raymond Baker, 'Money Laundering and Flight Capital: The Impact on Private Banking', Senate Committee on Governmental Affairs, permanent Subcommittee on Investigations, 10 November 1999, http://www.brook.edu.
28. Author's interview with Raymond Baker.
29. Baker included in this calculation the *zakat* and money sent abroad with the *hawala*.
30. Kimberly L. Thachuk, *Terrorism's Financial Lifeline: Can it be Severed?* Strategic Forum, Institute for the National Strategic Studies Defense University, Washington DC, No. 191, May 2002, p. 2.
31. Mike Brunker, 'Money Laundering Finishes the Cycle', *MSNBC News*, 31 August 2002, msnbc.com/news.
32. 'That Infernal Washing Machine', *Economist*, 26 July 1997.
33. Author's interview with Raymond Baker.
34. Baker, 'Money Laundering and Flight Capital: The Impact on Private Banking'.
35. Brunker, 'Money Laundering Finishes the Cycle'.
36. Author's interview with Raymond Baker.
37. 'That Infernal Washing Machine'.
38. Author's interview with Raymond Baker.
39. Ibid.
40. This estimate is based on the author's research and calculation of the size of the legal business of terror organisations.
41. According to the Federal Reserve, 'foreigners use high-denomination bank notes primarily as a store of value, while countries with unstable economies may choose to use the dollar as a medium of exchange'. Federal Reserve Board, *Currency and Coin*, www.federalreserve.gov/paymentssystems/coin/.
42. This is the component of 'US currency that is in continual circulation, or permanently held abroad. We assume, as an identifying assumption, that there is a permanent and transitory component to foreign-held currency. As a matter of definition the permanent component reflects currency which is in continual circu-

lation abroad and hence does not flow through Federal Reserve cash offices. We assume that currency held temporarily abroad, say due to tourism or business travel, returns to the United States … with the same transit time as currency in domestic circulation.' Richard G. Anderson and Robert H. Rasche, *The Domestic Adjusted Monetary Base*, working paper 2000–002A, Federal Reserve Bank of St. Louis, www.research.stlouisfed.org/wp/2000/2000–002.pdf.

43. Cash and short-term deposits.
44. Each time the government issues money due to the demand for money it creates wealth. Signorage was the term used in the Middle Ages by the Italian lords (*signori*) to issue gold coins, the value of the coins was equal to the value of the gold in it plus the signorage, the cost of issuing the coins. All US currency, including that held externally, can be thought as a form of interest-free Treasury borrowing and therefore as a saving to the taxpayer.
45. Richard D. Porter and Ruth A. Judson, *The Location of US Currency: How Much is Abroad?* (Federal Reserve of St. Louis, 1996).

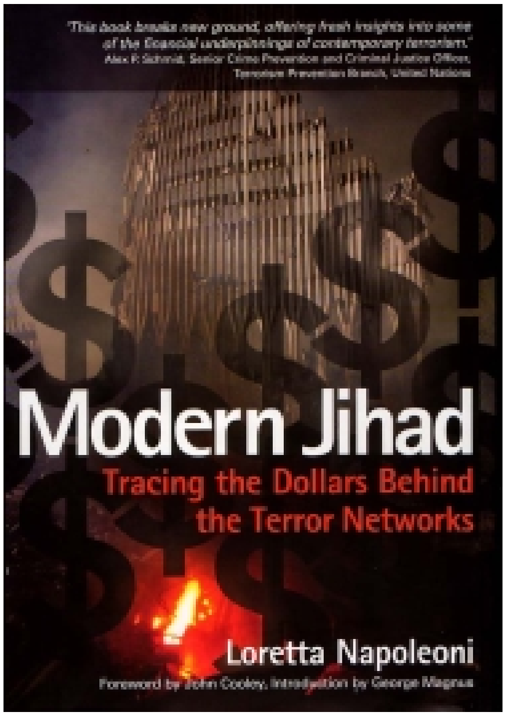
Reviews

"This thoughtful and incisive inquiry yields much insight into some of the most important issues of today, and tomorrow. Loretta Napoleoni's work is really excellent."
— Noam Chomsky

"Napoleoni's utterly compelling, heroically researched and indispensable analysis follows nothing but, eschews what she calls the "trap of politics", sets out to trace Islamist terrorism to its financial roots and show how, as with everything else, there are grey areas. Modern Jihad is the last act in Kipling's great game, and the economics of oil, as usual, lie close to the surface. A murky financial network of dynastic ties shows that little separates the Bushes from the Bin Ladens - apart from a financial consultant and a merchant bank or two." – Chris Petit, The Guardian, December 13, 2003

"What this work does achieve is a fascinating and incisive cataloguing of the known economic activities of organizations that, whether terrorist or not, have as their aim the transformation of the existing order in the Middle East, the broader Muslim world and, ultimately, the United States." – Alan Cowell, The New York Times

"Loretta Napoleoni's Modern Jihad isn't just another discussion of Islam or 9/11: it is an informed and informative financial probe of the roots of terror networks, tracing the dollars behind them and how terrorism is funded. From the creation of illegal organizations and subverted international economic systems; to trafficing money to terrorist groups; to smuggling, Modern Jihad is quite a different take on global terrorism and is strongly recommended as a mainstay addition to any serious collection on contemporary terrorism." – Midwest Book Review



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