

Following the Money Trail: Terrorist Financing and Government Responses in Southeast Asia¹

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This comparative study of ten nations in Southeast Asia demonstrates how terrorist groups in the region finance their activities and how governments combat terrorism financing. It demonstrates that area countries converge on norm acceptance measured as the spread of the international norms and practices and their transformation into national law. Norm acceptance, however, does not cause adherence and application of norms. Differences in scope, pace, and success of implementation and effectiveness of new rules between countries are related to the preferences and calculations of policymakers; the institutional capacity of political systems to produce policy changes; administrative and law enforcement capacities, and characteristics of the financial systems.

No other subject in the past four years has so influenced the political agenda more than the terrorism threat. By 9/11 it became dramatically clear that civil strife and disrupted states represent not only a major humanitarian concern but also a significant threat to regional and global security. In the wake of 9/11 and the “Global War on Terrorism” (GWOT), policymakers and many researchers have focused their attention on the menace of extremely violent transnational terrorism that seeks to expand its base of operations globally. Recent events such as the 7/7 London bombings suggest that the topic will be high on the political agenda for many years to come. Even under highly optimistic counterterrorism scenarios, terrorism is likely to remain a significant threat for several years to come.

The war, however, is not a typical war between standing armies of nation-states, but rather an ideological battle fought largely by security organizations, the intelligence community, police, first responders, and diplomatic agencies. This ideological battle is fought in large part on the battlefields of the media for the support of the local populations as well as the international community. As part of the war on terrorism, the United States and its allies have committed to stemming terrorist violence globally.

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The War on Terror takes many different routes toward its goal. The effort by the global community to limit the flow of funds to terrorist organizations is one of the cornerstones of this effort. By constricting the flow of financial support, the international community hopes to weaken various terror groups around the world. In order to achieve this goal, various parts of the international community from the UN to the G7 have sought to establish specific counterterror finance standards for governments, banking systems, and private companies to adopt. Although the international community had made some efforts to control money laundering as part of a drug control strategy, it was not until the GWOT that terror finance took center stage as a crucial front for combating terrorism. Nowhere is this more evident than in the international community's efforts to stem the flow of terrorist funds in and out of Southeast Asia.

The global war on terror has begun to focus on the radical Islamist groups such as those present in the Philippines, Indonesia, Malaysia, Thailand, and Singapore, which are believed to be tied to Al Qaeda.² The region has been exploited by Al Qaeda for its loose borders and limited government control to establish cells and train jihadists. Southeast Asia has not only been a training ground for Jihadists, but more importantly the region is a source of funding and infrastructure for various terror groups. Indonesia and the southern Philippines have been particularly vulnerable to radical Islamist groups. Terrorist funds flow both in and out of Southeast Asia. As a result of loose legal enforcement and permissive business environments Southeast Asia has been attractive region to launder and generate funds for both terrorist groups and organized crime alike.

This comparative study examines how terrorist groups in the region finance their activities, how governments combat terrorism financing, and the reasons for the varying degree to which governments comply with and implement international standards of counterterrorism financial safeguards.

The analysis proceeds in five steps. The first section provides a brief overview of the nature of terrorism and recent trends in terrorist activities in the region. The following section analyzes local and transnational sources and patterns of terrorism financing in Southeast Asia. The third part of the article investigates Southeast Asian government responses on the terrorist finance front, looking at both legislative and policy responses, and the extent to which those laws and policies have been implemented and enforced over the past couple of years. Furthermore, the fourth section examines the causes for the different degrees of compliance with and implementation of Anti-money laundering (AML) and counterterrorist finance (CTF) measures. The final section summarizes the findings and presents some tentative conclusions.

Nature and Extent of the Terrorist Threat in the Region

Before turning to terrorist finance as the main focus of this article, one must understand the terrain that is being covered. Recent terrorist events in the region such as the Bali bombings in 2002 and 2005, the Davao City Airport bombing in the southern Philippines in March 2003, and the attack on the Australian Embassy in Jakarta on 10 September, 2004 have attracted international coverage. However, it is important to note that long before 2001 large areas of the region had been hotspots of terrorism or other forms of insurgency. Although most groups involved in the numerous ethno-nationalist or ideology-driven conflicts in Southeast Asia do not meet the standard definitions of terrorism, these violent conflicts have contributed to the rise of terrorist groups in recent years in two ways. First, some Islamist terrorist organizations such as the Philippine Abu Sayyaf Group evolved out

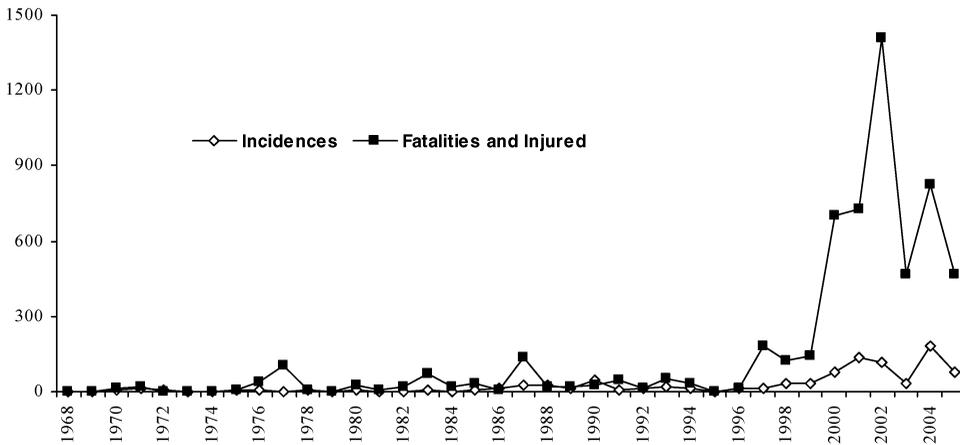


Figure 1. Terrorism trends in Southeast Asia (1 January 1968–31 May 2005).

of an ongoing armed conflict. Secondly, the shifting kaleidoscope of conflicts and their socioeconomic and political consequences create the appropriate operational environment for local and transnational terrorist groups.

Recent studies paint a bleak picture of the dynamics of Islamist terrorism in the region.³ However, not everyone agrees with the view that the region is a “Second Front” in the war on terrorism. At a first glance, one must admit that the figures from the RAND/MIPT database, the preferred source of quantitative data about terrorism, indicate that the overall number of terrorist attacks in the region of Southeast Asia has dramatically increased in recent years (Figure 1).⁴

A leading terrorism specialist, Rohan Gunaratna, argues that since the 1990s, the center of gravity of terrorism has shifted from the Middle East to the Asia-Pacific.⁵ According to this view, Southeast Asia has become the southern extension of a crisis zone reaching from Central Asia through South Asia to its most southern tail, Indonesia, and the Philippines.⁶

The actual realities in the region are more complex than the “Second Front” catchphrase suggests. Although Southeast Asia is the home to a number of Al Qaeda cadres, and it is beyond doubt that some groups are linked to Al Qaeda or are inspired by the radical ideas and the spirit of international Jihadism, at closer inspection, the data show that terrorism is concentrated in a small number of Southeast Asian nations. According to the RAND/MIPT data for the period 1998–2005, the main problem countries are now Indonesia, the Philippines and Thailand (Figure 2).⁷

In accounting for the present rise of terrorism in these countries, it is crucial to understand that terrorism or insurgency in all three countries predates the seminal events of 11 September 2001 and is very much mixed with ethno-religious separatism. Muslim insurgency in the Philippines, for example, is an old conflict and the Moro militant groups emerged long before 2001. In addition, contrary to the popular reporting by international media, one of the most potent militant groups is the Communist Party of the Philippines that emerged in the 1960s. Jemaah Islamiyah (JI), although undoubtedly inspired by Al Qaeda and working in conjunction with them on occasion to achieve common goals, can not be described as the Southeast Asian branch of Al Qaeda. In fact, the JI organization is more closely tied to the original Darul Islam movement that originated in the postcolonial period of Indonesia. In addition, JI maintains its own decision making, planning and targeting,

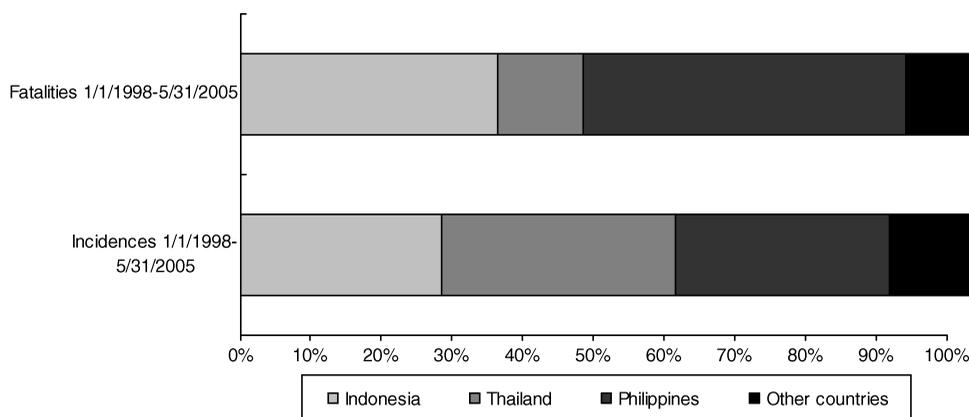


Figure 2. Hotspots of terrorism in Southeast Asia.

recruiting, and fund-raising mechanisms.⁸ The recent unrest in southern Thailand is also accurately understood as the resurrection of a prolonged cycle of conflict rather than a new phenomenon.⁹

One must also recognize that most of the terrorist organizations currently operating in the Southeast Asian theatre are local in nature and well-entrenched in their social, political, and economic environment. The major Islamist terrorist organizations are currently the Abu Sayyaf Group (ASG), the Moro Islamic Liberation Front (MILF), Jemaah Islamiyah (JI), and Al Qaeda. It is widely accepted that Al Qaeda has strong links with JI, which in turn is linked to the MILF, Abu Sayyaf, and other groups. Gunaratna estimated that before 9/11 about 20 percent of Al Qaeda's organizational strength was in Asia, concentrated in the Philippines, Malaysia, Singapore, and Indonesia. Others argue that beginning in the 1990s, Al Qaeda, through JI, had established an informal regional Jihadi coalition called the Rabitatul Mujahidin, a suspected collection of groups and individuals who share a common experience of jihad either in Afghanistan or the Maluku archipelago.¹⁰ Although many of the terrorist organizations in Southeast Asia are motivated by local agendas, many have benefited from logistical and financial support from international terrorist groups. This is to say that while Al Qaeda funds these groups when their agendas coincide, organizations such as ASG, MILF, and JI develop and fund their own agendas regardless of Al Qaeda involvement, but these terrorist groups will work with Al Qaeda when their goals are mutually beneficial.

In the past, the MILF has consistently disclaimed any connections with Al Qaeda. Although the organization has not been declared a terrorist organization by the U.S. government, previous documents highlight how MILF was forging ties with the ASG and that it was evolving into an international terrorist organization.¹¹ Intelligence sources also point to MILF's links to Al Qaeda, Middle Eastern, and South Asian groups. A recent report by Philippine intelligence details the seven-year history of MILF co-operation with numerous Islamic terrorist organizations from Indonesia and Malaysia.

There are several local groups in Malaysia, from Myanmar and in southern Thailand as well as scores of radical Islamist groups in Indonesia that are suspected to be linked in one form or the other to the JI network.¹² In addition, several terrorist organizations from outside the region, such as the Liberation Tigers of Tamil Eelam (LTTE) and pro-Al Qaeda groups

from Bangladesh and Pakistan are said to have a presence in the region, mostly through involvement in the regional arms trade, money laundering, and other criminal activities.¹³

Sources and Patterns of Terrorism Financing

As a result of their different nature, organization, motivations, and opportunities, the financial activities of terrorist organizations in the region differ with reference to the ways in which they raise and transfer funds for specific operations. Although terrorist funding in Southeast Asia stems from many different sources, there are three major local and international sources of terror finance: (1) criminal activity; (2) charities; and (3) front companies and investments.

The general pattern is that localized and well-established terrorist organizations such as ASG or MILF rely more heavily on criminal activity or local donations to sustain themselves, while receiving more logistical and organizational support from outside sources such as Al Qaeda. In contrast, regional groups which are localized to Southeast Asia but are transnational in nature such as JI rely both on localized criminal activity and donations but also receive greater funding from international sources using a network of charities and business. Once a group generates funds, they distribute them across international boundaries using various methods which include bulk cash transfers, IVTS, and front companies in various countries in the region. Funds flow into and out of Southeast Asia to support both Al Qaeda and local organizations. Once transnational terrorist organizations have generated funds from local activities or received funds from foreign sponsors, the money is distributed to allied front organizations or individuals through a sophisticated network of charities and front companies, which have been in place since the early 1990s.

Criminal Activities

Stripping away ideological goals, most terrorist organizations in the region have a strong tradition utilizing the same techniques as organized crime. Southeast Asia has long been a center for laundering and generating illegitimate funds from criminal activities such as illicit drug production and the small arms trade; decade old insurgent groups, ethnic armies, and organized crime have long used the region to acquire and channel funds to accomplish their purposes.¹⁴ Particularly in the 1990s, in response to the erosion of state support after the end of the Cold War, criminality became the most pragmatic avenue to secure finances for future operations. Factors that have contributed to this development by allowing for a booming regional money laundering system are weak regulatory financial systems, porous borders, and a thriving underground remittance system particularly in Cambodia, the Philippines, Vietnam, and Thailand. The passive compliance by government officials in various countries and the co-optation of corrupt political and judicial authorities have also been conducive for the diversification of terrorist groups into a wide variety of criminal activities and the rapid and covert movement of funds derived from those activities.¹⁵ ASG revenues come, first, from taxation, extortion, and smuggling. There is little evidence to suggest that the group receives voluntary contributions from NGOs or commercial companies.¹⁶ In addition, kidnap for ransom is another tactic often used to raise money and force political concessions. "In July 2000, Abu Sayyaf seized three French journalists. It released the hostages later in the year after it received ransom payments, including money reportedly from European governments funneled through the Libyan government. Estimates of the amount of this ransom range from \$10 to \$25 million."¹⁷ Throughout the early part of this decade ASG has managed to raise hundreds of millions of dollars through their successful

hostage taking. These amounts surpass the amounts of money raised from outside sources such as Al Qaeda. ASG is also involved in piracy, drawing on the strong Moro maritime piracy heritage, operating as successful pirates in Philippine coastal waters and sometimes further from home.¹⁸ ASG threatened to hijack vessels of the Sulpicio and WG&A lines, and in April 2004 kidnapped two Malaysians and an Indonesian boating in the region.¹⁹ ASG also collects money from drug smugglers by acting as protectors for foreign trafficking syndicates.²⁰

Intelligence sources indicate that MILF received financial help from Al Qaeda as early as 1988, after bin Laden sent his brother-in-law, Mohammed Jamal Khalifa, to the Philippines to establish a financial infrastructure for his terrorist network. Khalifa began to covertly channel money to the MILF. Both Al Haj Murad, the MILF Vice Chairman for Military Affairs, and MILF-founder Salamat Hashim repeatedly admitted that the MILF received money from Khalifa and bin Laden, but they said the funds were used for humanitarian aid. In fact, MILF seems to acquire most of its funds not from external sources (state support, charities, or wealthy individuals from other Muslim countries, and the Moro Diaspora outside of the Philippines) but from illegal logging, local drug production and trafficking, arms trafficking, and the institution of *zakat*, which takes the character of a compulsory “Jihad tax” in those areas under de facto control of the MILF.²¹ According to the Philippine authorities, there are extensive links between drug trafficking activities and the MILF. “In the Central and Western Mindanao areas controlled by MILF, mounting evidence indicates the presence of several clandestine methamphetamine laboratories. The drugs produced by these labs are distributed within the Philippines and possibly exported to other countries.”²² MILF is also widely believed to be at the forefront of the illicit arms trade importing weapons from South Asia and reselling them throughout Southeast Asia.²³

Although JI is supported through a network of international charities, and funding was received directly from Al Qaeda for the Bali and Jakarta Marriott bombings, they also generated funds themselves through criminal activities such as the robbery of a gold shop in Serang.²⁴ This technique, known as *fa’i*, plays an integral part of the JI fundraising technique. *Fa’i* is the robbing of non-believers as a way of raising funds for jihad, which was a practice first used by Darul Islam and later utilized by most all DI factions including JI. According to ICG, “The reliance on *fa’i* meant that from the beginning in Indonesia there has been a symbiotic relationship between petty criminals and thugs on the one hand, and mujahidin on the other.”²⁵

Criminal activities in the region are the most reliable and steady source of funds for the major terrorist organizations in the region. Long before the establishment of Al Qaeda and their network of terrorist financiers, MILF, ASG, and JI were funding operations through criminal activities.

Charities

Charities as a second source of funds for terrorist organizations in the region are particularly relevant for groups such as Jemaah Islamiyah. Specifically, Saudi charities have been used to support Jemaah Islamiyah, MILF, and Al Qaeda cells operating in the region. The expanding network of Islamic charities has its social and cultural foundation in the century-old tradition of charitable giving, or *zakat*. *Zakat* is a pillar of the Islamic faith and a religious obligation taken quite seriously by Muslims.²⁶ As a result, many Muslims feel an obligation to donate money to Islamic charities usually for the purpose of charity such as *khairat* and education. Particularly in poorer regions such as Mindanao, many people rely on these charities to provide basic assistance and access to education, and governments are

reluctant to interfere with their operations.²⁷ However, terrorist organizations in the region have also taken advantage of these charities (both wittingly and unwittingly) to fund their activities.

According to a UN report, Al Qaeda has provided substantial financial resources for radical extremist groups in Southeast Asia, including Jemaah Islamiyah and Al Qaeda cells in Manila and Singapore, through Islamic charities. These relationships emerged in the late 1980s and early 1990s, when Mohammed Jamal Khalifa first traveled to the southern Philippines and later returned to establish a logistical support base in the Philippines.²⁸ Khalifa directed a Saudi Arabian charity known as International Islamic Relief Organization (IIRO). Intelligence reports indicate that IIRO was used to support local terrorist operations throughout Southeast Asia.²⁹ Khalifa also established a charity known as the International Relations and Information Center (IRIC).³⁰ IRIC was responsible for numerous charitable activities in the Philippines. However, IRIC bank accounts were also tied to Khalid Sheik Mohammed, Ramzi Yousef, and Wali Khan Amin Shah's attempt to blow up 11 American jetliners in early 1995, in what was known as the "Oplan Bojinka plot."³¹

Komite Penanggulangan Krisis (KOMPAK) in Indonesia is another Islamic charity that has close ties to terror in Southeast Asia. Aris Munandar, one of the founders of KOMPAK, is closely related to Abu Bakar Ba'asyir, the spiritual leader of Jemaah Islamiyah, who was convicted for his knowledge of the 2002 Bali bombing.³² KOMPAK has several regional offices and employs persons closely associated with terrorist activities throughout Southeast Asia. These include: Imam Hanafi who bought weapons in Mindanao in March 2000 for fighters in Ambon; Suryadi Mas'uf, who is alleged to have traveled to the southern Philippines with KOMPAK money to buy weapons; Agus Dwikarna who was arrested at Manila's International Airport in March 2002 carrying C-4 explosives in his suitcase; and Tamsil Linrung, who was identified by Omar al-Faruq, a top Al Qaeda financier, as a member of Jemaah Islamiyah who participated in three terrorism planning meetings held in Malaysia in 1999 and 2000.³³

Islamic charities are a key source of funding for Al Qaeda and local terrorist organizations. Charities administered by Al Qaeda members such as IRIC and IIRO fund groups when their agendas coincide. The funding for groups such as MILF or ASG was often to establish training camps and develop infrastructure that could be utilized by Al Qaeda recruits. Clear evidence of funding for JI was for operations such as the Bali and Marriott bombings, which were planned by Mantiqi 1, which has closer ties to Al Qaeda than other members of the JI leadership cadre.³⁴ In addition these bombings appear to be more in line with Al Qaeda's goal of attacking the West whereas JI's efforts in Maluku and Sulawesi, which coincide less with Al Qaeda's agenda, do not appear to be funded or supported by Al Qaeda.

Front Companies and Investments

Southeast Asia's friendly business environment and tremendous growth in the early 1990s made it an attractive location for transnational terrorist groups to establish front companies capable of generating profits for terrorist operations. According to information from the Thai financial investigative unit and Zachary Abuza, three Middle Eastern general trading companies, Al Jallil Trading Co. Ltd, Al Amanah Enterprise Co. Ltd, and Sidco Co. Ltd. were shut down for their role in the financing of Al Qaeda.³⁵ A white paper released by the Singapore Ministry of Home Affairs cast light on the operations of JI and their economic wing, which was tasked to generate long-term sources of funds and income to finance JI activities and operations. According to the white paper, "All JI-run businesses had to

contribute 10% of their total earnings to the group.”³⁶ JI leadership controlled these funds and used them to procure weapons, fund operations, send jihadists to Afghanistan, and support jihad training camps in the Philippines and Afghanistan.

Al Qaeda supported their efforts global from funds generated in Southeast Asia. Both Zacarias Moussaoui and Ramsi Yousef received financial support that can be traced back to Malaysia. According to the FBI Moussaoui received US\$2500 monthly stipend as a “marketing consultant” for a Malaysian computer technology firm, Infocus Tech, while the Kuala Lumpur-based firm, Konsojaya Trading Company, financed the Bojinka plot and the Ramzi Yousef 1993 World Trade Center bombing.³⁷

By using front companies, terrorist organizations are able to hide and generate funds in the legitimate economy making the process of laundering funds obsolete. This *modus operandi* is used by Al Qaeda rather than local groups such as ASG or MILF because it requires large amounts of capital and skills to set up front companies that are capable of generating funds to sustain themselves and the organization.

Channeling Funds

Generating funds is only the first half of financing terrorism. Once the funds are collected, they must be distributed. In Southeast Asia as in most cases around the world terror funds are dispersed using IVTS, bulk cash transfers, and front companies. These methods, much like those used by transnational crime, rely on porous borders, poor regulation, and limited enforcement capabilities. Informal value transfer systems (IVTS) are money transfer operations that function outside formal banking systems. They are a prominent aspect of most developing nations with large diasporas around the world. International financial institutions estimate that the annual IVTS transfers account for roughly \$2 trillion or 2 percent of international financial transactions annually.³⁸ IVTS are faster and more reliable and reach more destinations often at a lower cost with a better exchange rate.³⁹ Developing countries are thus hard-pressed to interfere with IVTS because they represent a major source of income for their economies. The Philippines is a prime example of the difficulty faced by Southeast Asian nations. There are more than seven million Overseas Filipino Workers (OFW) and the Asian Development Bank, in a recent report, estimated the total amount of OFW remittances at \$US 29.1 billion in the years 1995–1999 alone.⁴⁰

IVTS make an attractive financing option for terrorists because of a lack of regulation, paper trail, or means of tracking exchanges. IVTS are unregulated and difficult to uncover as they are loose networks that are often based on familial and personal ties. Financial funds are transferred through businesses that have little or nothing to do with the formal financial sector. These systems have been abused as a means to launder money and gain access to the legitimate economy for terrorist financiers throughout the world and especially in Southeast Asia.

In addition to IVTS, terrorist funding in Southeast Asia makes use of bulk cash transfers, both of which are difficult to stop or even track to know the extent to which they are taking place. Riduan Isamuddin, better known as Hambali, responsible for the operations of Jemaah Islamiyah in Southeast Asia, has made excellent use of loose border controls to transfer large amounts of money throughout Southeast Asia. The 2005 UN report gives an example of how Hambali was able to use bulk cash transfers to pass funds to various sources to support Jemaah Islamiyah operations in Indonesia: “Hambali passed funds to Wan Min Wan Mat (a financier for Jemaah Islamiyah) who transferred approximately US\$ 30000, including some Thai currency, to Ali Ghufron, alias Mukhlas (head of one of Jemaah Islamiyah’s operational units and older brother of two of the Bali bombers, Amrozi and

Ali Imron). The funds were moved in two installments between July and September 2002 by Indonesian laborers working in Malaysia and were delivered to Mukhlas at his home in Lamongan, Indonesia.⁴¹ Hambali also sent \$30000 of Al Qaeda money to Indonesia in April 2003 through cash couriers to finance the bombing of the Marriott Hotel.⁴²

State Responses to Terrorism Financing

As a consequence of terrorist organizations operating in the region relying on different means to finance their operations and using different methods to channel their funds, a variety of responses will necessarily be needed for successful counterterrorist finance measures in the region.

Recently, some policymakers and scholars have argued that CTF is not an efficient use of resources in the fight against terrorism. They claim that because terrorist attacks such as the Super Ferry 14 cost as little as \$400 dollars it is not worth the millions that are spent trying to stop these funds. Although it is not the goal of this article to argue whether CTF and AML is an efficient allocation of resources it is important to consider certain aspects of this argument.

Nations that have effective CTF legislation in place use paper trails that are established through AML regimes to track down many members of the terrorist networks. These members would otherwise have gone undetected because they did not play a direct role in carrying out the attack. In addition, seizing of terrorist funds damages the ability of terrorist organizations to recruit, establish camps, and provide safe havens. There are also several positive externalities of effective AML and CTF regimes, including the detection and seizure of funds from financial fraudsters, corrupt politicians, and companies involved in illicit activities. As a result this improves a nation's macroeconomic stability and makes it a more attractive business destination for legitimate business. For these reasons the International Monetary Fund has taken over evaluating a nation's AML and CTF regimes as part of an overall evaluation of a nation's fiscal stability.

Borrowing from the analytical framework developed by the Targeting Terrorist Finances Project⁴³ the extent to which countries in the region comply with and implement international standards to counter the financing of terrorism can be examined along four different dimensions: (1) the legal frameworks of these countries; (2) the level of sophistication with regard to their administrative infrastructure addressing terrorist financing; (3) the variety of different regulatory measures that they have instituted in order to ensure banking compliance and the establishment of systems for regulating IVTS and charities; and (4) evidence of enforcement.⁴⁴ Table 1⁴⁵ summarized the results of the analysis that will be discussed in this section.

Legal Framework

In terms of legal frameworks, most countries in the region have taken basic steps to transfer international norms into national law. With the exception of Cambodia and Laos each country in the region has criminalized money laundering for illicit activities beyond those related to drug profits. From Table 1, it is obvious that the countries with the most comprehensive packages are Brunei and Singapore followed by Indonesia, Malaysia, and Thailand whereas Cambodia, Laos, and Burma have the weakest framework. With the exception of these three countries, Southeast Asia's legal framework seems strong in that most countries now possess the means to freeze and forfeit assets that are tied to money laundering.

Table 1
State responses to terrorism financing

	Brunei	Burma	Cambodia	Indonesia	Laos	Malaysia	Philippines	Singapore	Thailand	Vietnam
Legal Framework										
Criminalized Drug Money Laundering	1	1	1	1	0	1	1	1	1	1
Criminalized ML beyond Drugs	1	1	0	1	0	1	1	1	1	1
System for Identifying/ Forfeiting Assets	1	1	0	1	0	1	1	1	1	1
Criminalized Terror Financing	1	0	0	1	0	1	0	1	1	0
Party to the International Terrorism Financing Convention	1	0	0	0	0	0	1	1	1	1
Member of APG	1	0	1	1	0	1	1	1	1	0
Total	6	3	2	5	0	5	5	6	6	4
Administrative Framework										
FIU	0	1	0	1	0	1	1	1	1	0
Committed Additional Resources or Sought Further Assist	1	0	0	1	0	1	1	1	1	1
Cooperates with Internal Law Enforcement	1	1	1	1	0	1	1	1	1	0
Mutual Legal Assistance	1	1	0	1	0	1	1	1	1	1
Member of Egmont Group	0	0	0	1	0	1	0	1	1	0
Total	3	3	1	5	0	5	4	5	5	2

However, there are some weaknesses in the system; for example, under Bank of Indonesia regulations law enforcement officials may order the seizure of assets of individuals or entities that have been either declared suspects, or indicted for a crime, but in practice to identify such assets they must have the permission of the banks. In Malaysia, the Anti-Money Laundering Act 2001 covers fairly comprehensively all aspects of criminal proceedings related to money laundering, however, “reporting institutions, complain of their ignorance with respect to reporting requirements on currency transactions, monetary instruments and foreign accounts.”⁴⁶ As a result, law enforcement agencies do not have the full power needed to quickly freeze the assets of criminals or terrorists. In addition, only Brunei, Indonesia, Singapore, Thailand, and (most recently) Malaysia have criminalized the financing of terrorism.

Recently enacted legislation in the Philippines and Indonesia has been praised by the U.S., U.K., and FATF, and both countries are making progress developing a sound strategy to stop money laundering and terror financing from taking place in their economies. Much of the original legislation exclusively addressed the formal financial sectors as it did around the world, which created enormous problems for effective CTF in Southeast Asia because many countries have susceptible informal economies that terrorists can exploit by smuggling goods, abusing IVTS, and diverting monies from nontraditional financial institutions such as charities.⁴⁷ Only recently, some nations in Southeast Asia have begun to address informal financial institutions as well.

In addition to the aforementioned weaknesses, international cooperation, which is necessary for successful CTF and AML measures, is also underdeveloped. Brunei, the Philippines, Singapore, and Vietnam are the only parties to the UN Convention for the Suppression of the Financing of Terrorism. Other governments in the region have signed the convention but have failed to ratify the treaty. The Asia Pacific Group on Money Laundering is a regional Financial Action Task Force (FATF)–style body. With the exception of Laos, Burma, and Vietnam who maintain observer status, all Southeast Asian nations are full members of the APG.⁴⁸ The APG is working with its members to facilitate the adoption, implementation, and enforcement of internationally accepted standards against money laundering and the financing of terrorism.

Administrative Framework

The legal framework is only part of the picture; states must also have a strong and diverse administrative structure that improves their ability to support the implementation of CTF and AML measures. Six countries in Southeast Asia have Financial Intelligence Units (FIU), four of which are members of the Egmont Group, the premier organization of FIUs. By participating in the Egmont Group the FIUs are under obligation to assist other members with their investigations and pursuit of illegal funds and therefore assist in tracking and freezing funds worldwide. There is evidence that there is international cooperation and additional resources being committed to CTF and AML initiatives. The Asia Development Bank has taken steps to assist Thailand, the Philippines, and Vietnam with improving AML and CTF strategies and cooperation. There is also cooperation between enforcement agencies in the region through information sharing, tracking, and freezing of assets through Mutual Legal Assistance (MLA).

Overall there is an effort in countries such as Vietnam, Cambodia, and Laos to establish FIUs and to improve the infrastructure; however, with such large informal sector economies and limited financial institutions AML and CTF reforms are unlikely to be very effective. Whereas Singapore, Thailand, and Malaysia score high with regard to their administrative

capacity, the Philippines and Indonesia are often cited as the two most troublesome countries when it comes to the administrative means for effective CTF. Although this is certainly true, both countries have at least begun to seek international cooperation to develop stronger institutions, although corruption and a lack of resources may weaken their capability to enforce these strategies.

Variety of Approaches

An assessment of government responses to terrorist financing must also take into account if and to what extent governments have instated a variety of different regulatory measures to prevent a “balloon effect”—as regulation of the formal sector improves, illegal funds are forced in the (unregulated) informal sector. Specifically, governments must ensure banking compliance through continuous reporting and regulate the informal sector including IVTS, money changers, casinos, and charities. Thus far, only Singapore and Thailand, Malaysia and Burma have employed a comprehensive approach to counterterror financing. Most nations in Southeast Asia with the exception of Laos require suspicious transaction reporting and maintain records of financial transactions. However, only about half of Southeast Asia monitors large transactions. With the exception of Cambodia, Laos, and Vietnam, each country now has some controls in place to regulate these nontraditional financial institutions. Malaysia is a prime example of the extensive efforts made to regulate charities. The Registrar of Societies in Malaysia supervises and controls charitable organizations and mandates that every registered society of a charitable nature submits its annual returns. This ensures that financial transactions are recorded and reviewed. Activities, which are deemed suspicious, are reported to Malaysia’s FIU. In addition, tax laws encourage reporting of contributions by making them tax deductible.

However, the strengths of each of the regulations and the extent to which they are implemented and effective in individual countries remain a matter of concern. Most of the institutions that regulate the informal financial sector are newly instituted and will need to be strengthened over the coming years. For example, Burma has a comprehensive set of regulations in place, but has enormous problems with unregulated drug money flowing through its economy. Given that Burma has “become home to a growing array of trafficker-linked investments and commercial enterprises, often in overt partnership with the ruling military junta,”⁴⁹ one must question if Burma’s AML/CTF regime is little more than an attempt to appease the international community through legal rhetoric whereas in fact the government has little interest in enforcing the rules that are on paper.

Enforcement

Enforcement of a legal framework, international obligations, and administrative measures is the most critical, and simultaneously, the weakest element in CTF in Southeast Asia. As Table 1 demonstrates, the majority of governments in Southeast Asia are either unable or unwilling to demonstrate that the measures discussed so far are more than “window-dressing” for Western governments and have only created dead-letter provisions.

Of the countries surveyed, only Indonesia, the Philippines, Thailand, and Singapore provide evidence of credible efforts to enforce their AML and CTF regimes. Each of these countries has demonstrated either arrests or prosecutions and seizures or freezing of assets relating to terror finance and money laundering. In the Republic of the Philippines and Indonesia prosecutions took place only recently. It should be noted, however, that Indonesia has gone beyond the requirements of UN Resolution 1267 and frozen bank accounts of

individuals not on the Consolidated List, but who held assets on behalf of listed persons. In contrast to them, the governments of Burma and Vietnam have stated that they have examined their financial records but found no assets of UN-designated terrorists or terrorist organizations whereas Brunei, Malaysia, Cambodia, and Laos have failed to report any seizures or arrests.

This study realizes that the data collected may not reflect the total enforcement as information is based on public source documents. Keeping this in mind the present authors' survey shows that only a few states are able to produce compelling evidence of enforcement. Even countries with greater administrative resources and established AML systems such as Singapore and Thailand have difficulty proving that they have enforced their regulations.

However, the lack of enforcement should not be seen as contradicting the general argument that the approaches to CTF and AML in Southeast Asia vary and are nuanced. The findings show that many governments in the region have moved to adapt to existing norms in the international AML regime and other standards of CTF measures. However, the major issue, particularly in the main problem of terrorism facing countries in Southeast Asia, is not the formal adaptation of legislation or regulation, but delayed or incomplete implementation and poor effectiveness of these rules. This comparative assessment is summarized in Table 2.

In other words: while countries converge on norm acceptance measured as the spread of the international norms and practices that make up the new CTF and the transformation of these rules into national law, norm acceptance does not necessarily cause adherence and application of norms. Rather, states in the region diverge regarding the extent to which they comply with the norms, measured in terms of implementation and effectiveness of the new CTF regimes.

Explaining Variability in Government Responses

What factors account for the discrepancy of norm acceptance and norm compliance and for the differences between individual countries in the region? From the compliance and implementation literature it can be assumed that no single outstanding factor can be singled out as the primary cause.⁵⁰ Regardless of their theoretical approach, most scholars would agree that the panoply of possible factors that explain why states do (not) comply with international rules is broad, ranging from general factors such as international vulnerability, the definition of national identities and interests, political institutions, administrative and state capabilities to policy-field-specific factors such as, in case of CTF, the operational environment in which terror financiers operate, including the characteristics of formal and informal financial systems.

Regarding the regional convergence on legal frameworks, the most important factor is certainly external pressure. Given the dynamics of the international war on terrorism and the current *Zeitgeist* in counterterrorism, there is enormous pressure on Asian governments to show at least a minimum of norm acceptance. Most area governments, which are externally vulnerable and which have a high interest in foreign aid, have realized that the costs of legislative activism are considerably lower than the costs of blatant disregard of international norms and rules. In other words, governments may accept the international standards formulated by Western governments and establish legal frameworks for an AML and CTF regime because re-writing legal textbooks is an inexpensive means of avoiding the high costs related to deviant behavior. This calculus of legal window-dressing helps to explain why countries like Cambodia, Vietnam, and, especially, Burma have introduced some legislative measures and seem to follow a multidimensional approach.

Table 2
Relative degree of norm acceptance and compliance

	<i>Relative Degree of Acceptance and Compliance</i>					
	Weakest					Strongest
Legal Framework	Laos	Cambodia	Burma	Vietnam	Indonesia Malaysia Philippines	Brunei Singapore Thailand Indonesia Malaysia Singapore Thailand
Administrative Framework	Laos	Cambodia Vietnam	Brunei Burma Philippines			
Multidimensional Approach	Laos		Cambodia Philippines		Indonesia Malaysia Vietnam	Burma Singapore Thailand
Enforcement	Brunei Burma Cambodia Laos Malaysia Vietnam				Brunei Thailand Singapore	Indonesia Philippines

Note: Within each row (legal, administrative, approach, and enforcement) states that achieve full compliance with all of the criteria are rated “strongest,” and states that are non-compliant on all measures are rated weakest. Cambodia and the Philippines are scored lower in the Multidimensional Approach because they do not regulate the informal financial sector. However, they have comprehensive legislation for ensuring banking compliance.

In this regard, the timing of legislative activism is telling. As Table 3 shows, with the exception of Brunei, Singapore, and Thailand, no Southeast Asian country had started major policy activities before 2001.

The more developed economies of Singapore, Malaysia, and Thailand were the first to institute laws to combat money laundering and began the process in the late 1990s. Whereas the Philippines and Indonesia enacted anti-money laundering acts in 2001 and 2002, respectively, both had to amend the legislation to be more in line with international standards after FATF deemed the original laws inadequate. Both were only removed from the Non-Cooperative Countries and Territories list in February 2005. Singapore, Thailand, and Brunei, together with Malaysia, have strong anti-money laundering regimes, partially because these countries have developed formal financial sectors and offshore financial centers (OFC). OFCs like Labuan in Malaysia and the Brunei IOFC are particularly exploitable for activities related to money laundering because they use anonymity as a major selling point.⁵¹ Therefore, these states have a strong interest in protecting their formal financial sectors not from terrorism in particular but from ill-gotten funds in general.

There is also a relationship between the development of the formal financial sector and the rate at which governments act to inhibit money laundering. Countries that rely on largely underdeveloped (formal) financial sectors are less likely to be quick to respond with formal legislation and efforts to stamp out terror financing because formal regulation is necessarily less effective. Countries that rely on remittances from overseas and IVTS are less likely to interfere with terror finance for fear of disrupting their economies. Thus, the extent of regulatory problems, informal money transfer, and alternative remittance systems such as *hawala*, the Chinese *fei ch'ien*, or the Thai *poey kuan* raise is directly related to the degree of maturity of the national banking sector.⁵²

This observation indicates that domestic factors may be more important for explaining variation of compliance and ultimate effectiveness than the pressure and enforcement capacity of international actors. From the perspective of the compliance and implementation research, non-compliance with international norms and practices is the consequence of a “misfit” between international rules and national context. Following the “misfit” hypothesis, non-compliance is common when rules are inconvenient for governments because they create costs that governments do not want or cannot afford.⁵³ In this regard, states’ definitions of their national interests and their institutional capacities are the core variables. Furthermore, the ultimate effectiveness of CTF also depends on the nature and scope of the problem.

In addition to factors such as international vulnerability, and the operational environment of terror finance including aspects of the formal and informal financial sectors, administrative and government effectiveness also plays a role. For several reasons, states in the region vary widely in terms of the degree of government effectiveness, especially the quality, competence, and independence from political pressure of bureaucracies. In addition, effectiveness and predictability of the judiciary and the law enforcement apparatus, and the extent to which public power is exercised for private gain vary considerably—ranging from high quality bureaucracies and relatively low levels of corruption (at least compared to other countries in the region) in Singapore and Malaysia to disorganized bureaucracies and hyper-corruption in countries such as Burma, Cambodia, Indonesia, and the Philippines (Table 4).⁵⁴ In states characterized by highly ineffective governments, rudimentary rule of law and high levels of political corruption, it is highly implausible to expect effective AML and CTF regimes.

Two examples illustrate the relationship between these variables. First, leaving aside the anomaly of Burma (relatively high degree of norm acceptance but low extent of compliance),

Table 3
Timeline for the introduction of selective measures of AML and CTF

	1999	2000	2001	2002	2003	2004	2005
Criminalize Money Laundering	Singapore Thailand	Brunei	Malaysia Philippines Brunei	Indonesia Burma			Vietnam
Criminalize Terror Financing				Indonesia Singapore Malaysia Philippines	Thailand		Malaysia
FIU	Singapore Thailand				Indonesia	Burma	
Record Large Transactions	Singapore Thailand	Brunei	Philippines	Cambodia		Burma	
NMP	Singapore Thailand	Brunei Vietnam	Indonesia	Malaysia	Cambodia Burma Philippines		

Table 4
Government effectiveness and control of corruption in Southeast Asia

	Brunei	Burma	Cambodia	Indonesia	Laos	Malaysia	Philippines	Singapore	Thailand	Vietnam
Government Effectiveness	0.96	-1.29	-0.56	-0.56	-0.80	0.92	-0.06	2.26	0.28	-0.27
Control of Corruption	0.32	-1.37	-0.90	-1.16	-1.25	0.38	-0.52	2.30	-0.15	-0.68

evidence from the other nine Southeast Asian countries suggests that one of the issues that particularly bedevil the anti-money laundering efforts in the region are the high levels of corruption. Although Asia-Pacific is less prone to the problem of corruption than many regions in the world, the available corruption data indicates a broad range of experiences across the region. Some jurisdictions fair extremely well in independent assessments of corruption (Singapore), others exhibit moderate levels (Malaysia, Brunei, and Thailand), whereas Cambodia, Burma, Indonesia, Laos, the Philippines, and Vietnam have major problems in this area, according to various sources.⁵⁵

The deeper the swamp of political corruption, the shallower is the personal interest of politicians in the passage of an effective money laundering statute. Corruption and money laundering are in fact inseparable. "The machine of money laundering often requires the lubricant of corruption to function effectively." In countries with high levels of political corruption such as the Philippines and Indonesia, lawmakers may delay and dilute legislation that changes the policy status quo toward internationally accepted standards of AML and CTF because they seek to ensure that the laws they draft will not be used against them at a later stage.⁵⁶ There is also concern that information passed to law enforcement agencies will be passed to the criminals who will target officials and their families in a calculated attempt to prevent the further reporting of suspicious activities. Effective AML and restricting the flow of terrorist finance may not only have a low priority but may even be harmful for the political and economic survival of elites.

Second, some aspects of implementation such as comprehensive and well-informed compliance with record-keeping and auditing rules or fully staffing new organizations may take time. Other aspects of implementation, such as standing up and funding new organizations and oversight bodies may be accomplished more readily. However, in many parts of the region, states simply lack the resources to improve administrative capabilities in order to regulate financial activities of terrorist organizations through these new organizations. Whereas, for example, in the Philippines, Indonesia, Burma, and Cambodia, over-politicized and under-equipped administrations and the erosion of the government's monopoly on the use of force constitute a fundamental problem of good governance, the lack of compliance with international norms can hardly be traced back solely to the lack of political will of governments.

Despite all of the policy talk and legislative activity in recent years, the international community has only recently begun to make practical assistance available to capacity building in Southeast Asia. The EU is funding the implementation of SCR 1373 among a number of regional governments such as the Philippines and Indonesia, although the effectiveness of these efforts is questioned. At the APEC Leaders Forum 2003 agreement was reached to establish a regional security fund, to be administered by the ADB. It will assist the Philippines and Indonesia to enhance their border protection capacity and some of this additional funding is to be made available for anti-money laundering purposes. However, given the desolate condition of public administration in countries like Burma, Cambodia, and Laos, the chronic disorganization in Indonesian and Philippine bureaucracy and the endemic corruption in judiciary and security apparatus in both countries, it seems unlikely that these measures will have a strong impact.

Finally, one factor that is mostly overlooked in the scholarly debate on compliance with international norms in Southeast Asia, and especially in the literature on CTF, is the institutional framework of governments, specifically the distribution of veto authority, which shapes the overall character of the policy environment in which executives and legislators operate. Borrowing from the imaginative work of George Tsebelis and others on decision making in different institutions and on the capacity of political systems to alter the policy

status quo,⁵⁷ it seems plausible to assume that policy stability is correlated with the number of institutional and partisan veto players, their ideological distance, and their internal coherence. Democratic systems with many partisan and institutional veto players and strict political constraints on the executive will create difficulties for compliance with international norms of CTF because their capacity to produce policy changes is low, whereas more authoritarian regimes with strong and cohesive executives that dominate the policymaking process should bear a higher capability to reform their legal and regulatory framework, *if* the policy preferences of executives and political elites favor such a policy change.

A quick glance at the overview of institutional characteristics of the political systems in Southeast Asia in Table 5⁵⁸ overall supports this assumption. Although several factors help to explain why countries take different approaches to CTF and comply differently with international norms, one reason is that altering policies is easier in some Southeast Asian countries than in others. Whereas governments in semi-democratic Singapore and Malaysia face only weak institutional constraints and, through their dominant and cohesive political parties, have strict control over policymaking, governments in the new democracies in the region have to deal with large numbers of veto players. This is the case for Thailand before 2001, when the Thai-Rak-Thai government under the leadership of Prime Minister Thaksin established near-absolute control of the parliament, but especially for the Philippines and Indonesia. In the two nations, compliance with the international norms and principles of CTF is also complicated by strict constitutional constraints; a fragmented political party system and the fact that political parties lack internal coherence. The fact that the authoritarian governments in the region do not constitute a coherent pattern of compliance despite the fact that political constraints are comparable and weaker than in semi-democratic or democratic regimes does not contradict the expectation concerning the relevance of institutional factors but rather supports the argument that other factors are also relevant.

Conclusion

This comparative study of terrorist financing and government responses in Southeast Asia examined how terrorist groups in the region finance their activities, what measures, legislative and otherwise, have been employed by the governments in the region to combat terrorism financing, and what factors account for the discrepancy of norm acceptance and compliance in the region. The present analysis demonstrates that three general sources of funding for terrorist groups in the region exist: criminal activities, charities, and commercial activities. Although most local groups depend on the first and second sources, access to the third source is easier for transnational groups. Because of the heterogeneous nature of terrorist groups in the region and the fact that the nature of a terrorist group and its operational environment affects its capacity to acquire funding, a variety of government responses is needed for successful counterterrorist financing in Southeast Asia. Accordingly, this article examined the degree of acceptance of and compliance with international norms of CTF in the ten area countries along four aspects of policy implementation. It is important to note, however, that the authors evaluated the countries not in absolute terms but relative to each other. In other words, the findings say more about intra-regional trends and differences than about the status of individual countries compared to nations in other regions outside of Southeast Asia. Furthermore, this analysis is solely based on information from publicly available and unclassified sources. Although this approach increases the transparency of the findings and allows other scholars to review and control the conclusions, it does so at the cost of additional evidence available from classified material and confidential sources.

The analysis detected two major trends in AML/CTF in the region. Whereas countries converge on norm acceptance measured as transformation of international rules into national law, they diverge in terms of compliance and implementation. Within the Southeast Asian theater, Singapore shows the strongest degree of compliance and implementation, followed by Thailand and Indonesia. Already with a considerable gap follow Malaysia, the Philippines, and, even further behind, Brunei. Although laws are on the books, effective implementation is insufficient. The relevant governmental institutions are not well developed, and international law enforcement cooperation is slow. Furthermore, despite all of this policy and legislative activity little practical assistance is available to financial institutions that are supposed to identify terrorist financing. Islamic charities and the informal value transfer systems such as *hawala* are unregulated and evidence for enforcement of paper rules is mostly lacking. From the comparative evaluation summarized herein, the Philippines, partly due to the well developed legal framework and evidence of enforcement, does better than often portrayed. However, the lack of an adequate administrative framework remains the Achilles' heel of CTF in that nation. The problem countries in the region are Laos, Cambodia, Vietnam, and Burma.

Although to some extent it is certainly correct that, as one observer has criticized recently, that Southeast "Asia hasn't stopped the terror funding,"⁵⁹ the present analysis shows that this sweeping criticism fails to account for nuanced differences in the regional trends and for the nature of the problem. Rather, this analysis shows that considerable differences in scope, pace, and success of compliance and implementation between countries are related to several factors, among others, the preferences and calculations of rational political actors; the institutional capacity of political systems to produce policy changes; administrative and law enforcement capacities, especially in those countries that are the major theaters of terrorism financing, and characteristics of the financial systems. Political considerations concerning the costs and benefits of opportunities and strategic considerations rather than a general (lack of) will of governments to cooperate in international efforts on the financial front in the global war on terrorism helps to illuminate the trend toward norm acceptance in the region.

Concerning discrepancies in compliance and implementation other factors are also relevant. In this regard, three factors are of outmost relevance: First, the level of political corruption and second institutional constraints that affect the capability of political regimes to produce policy changes. There is also a relationship between the development of the formal financial sector and the rate at which governments act to inhibit money laundering. Countries that rely on remittances from overseas and funding from charities are less likely to interfere with terror finance for fear of disrupting their economies. In addition, CTF measures that focus on formal banking institutions are only of limited effectiveness, given the high relevance of the informal financial sectors. Even CTF measures that focus on informal banking institutions will be of limited effectiveness in raising terrorists' transaction costs and disrupting terrorists' financial networks, because local terrorist groups are often entrenched in a network of decades-old insurgencies and organized crime and have learned to take advantage of the region's porous borders and large unregulated areas to rely on smuggling of people, arms, drugs, and other forms of illicit crime such as piracy and kidnappings-for-ransom. In this context an additional challenge in suppressing fund-raising efforts of terrorist group is the problem of separating funding for terrorist actions and for nonterrorist activities such as other forms of armed struggle or social work by the same organization, especially in those cases of terrorism that are related to protracted separatist conflicts, such as those in the Southern Philippines.

In view of the manifold obstacles of effective counterterrorism finance, one must assume that even under optimistic assumptions, tackling these problems and shutting down the sources and pipelines of terror money is likely to remain a significant issue on the broader agenda of the War on Terrorism for several years to come.

Notes

1. "Southeast Asia" is taken to mean all member countries of the Association of Southeast Asian Nations (ASEAN). Thus it covers Indonesia, Malaysia, the Philippines, Brunei Darussalam, Vietnam, Laos, Cambodia, Burma (Myanmar), Singapore, and Thailand but not East Timor.

2. John Gershman, "Is Southeast Asia the Second Front", *Foreign Affairs* (November/December 2002), 81: 60–74.

3. Cf. Zachary Abuza, *Militant Islam in Southeast Asia* (Boulder: Lynne Rienner, 2003); and Angel M. Rabasa, *Political Islam in Southeast Asia: Moderates, Radicals, and Terrorists*, Adelphi Paper 358 (New York: Oxford University Press, 2003).

4. Countries covered are Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, South Vietnam, Thailand and Vietnam. Data proceeded by the authors are from MIPT Terrorism Knowledge Base, available at (<http://www.tkb.org/>), last accessed 30 June 2005.

5. Rohan Gunaratna, *Inside Al Qaeda: Global Network of Terror* (New York: Columbia University Press, 2002).

6. Brahma Chellaney, "Fighting Terrorism in Southern Asia. The Lessons of History," *International Security*, (Winter 2001/02), 26: 94–116, here p. 96; see also Niklas Swanstrom and Emma Bjornehed, "Conflict Resolution of Terrorists Conflict in Southeast Asia," *Terrorism and Political Violence* (Summer 2004), 16: 328–349; Sheldon Simon, "Southeast Asia: Back to the Future?," in Ashley J. Tellis and Michael Wills, eds., *Strategic Asia 2004–05: Confronting Terrorism in the Pursuit of Power* (Washington, DC: NBAR, 2004), 293.

7. Authors' calculation according to data from MIPT Terrorism Knowledge Base, available at (<http://www.tkb.org/Home.jsp>) accessed 6 June 2005.

8. International Crisis Group, "Recycling Militants in Indonesia: Darul Islam and the Australian Embassy Bombing," ICG Asia Report Number 92, 22 February 2005 and International Crisis Group, "Al- Qa'ida in Southeast Asia: The Case of the "Ngruki Network" in Indonesia." ICG Indonesia Briefing. 8 August 2002.

9. Aurel Croissant. "Unrest in South Thailand: Contours, Causes and Consequences Since 2001," *Contemporary Southeast Asia* (April 2005), 27, 21–44.

10. Kumar Ramakrishna, "Terrorism in Southeast Asia. The Ideological and Political Dimensions," *Southeast Asian Affairs* (2004), 55.

11. Stephen Ulph, "MILF peace talks under fire," *Jane's Intelligence Affairs Analyst*, 1 October 2004.

12. The authors have deliberately not included either the Gerakan Aceh Merdeka (GAM) or the Organisasi Papua Merdeka (OPM) nor the communist movement of the Philippines (NPP/CPP/NDF). Although the Aceh rebellion is heavily Islamic in nature, and the State Department's 2003 Human Rights report for Indonesia specifically criticized GAM, stating that "GAM rebels also carried out grave abuses including murder, kidnapping and extortion" and GAM is frequently linked with acts of maritime piracy against international shipping in the Strait of Malacca, the authors do not consider the Free Aceh Movement as a terrorist organization but as a typical separatist organization engaging in guerilla warfare, whose criminal activities appear to be economically motivated, The same holds true for the largely Christian Free Papua Movement.

13. For more information about the various groups and their involvement in the region, see Sheldon W. Simon, "Southeast Asia and the US War on Terrorism," *NBR Analysis* 13(4) (June 2002);

Bruce Vaughn et al., *Terrorism in Southeast Asia*, CRS Report for Congress, updated 7 February 2005; Abuza, *Militant Islam*; Anthony Davis, "Thailand Cracks Down on Illicit Arms Trade," *Jane's Intelligence Review*, 01 December 2003.

14. Cf. Tamara Makarenko, "Tracing the Dynamics of the Illicit Arms Trade," *Jane's Intelligence Review*, 1 September 2003; David Capie, "Trading the Tools of Terror: Armed Groups and Light Weapons Proliferation in Southeast Asia," in Paul J. Smith, ed., *Terrorism and Violence in Southeast Asia. Transnational Challenges to States and Regional Stability* (Armonk and London: M.E. Sharpe, 2005), 188–211.

15. Peter Chalk, "Myanmar Leads Rise in Southeast Asian Drug Trade," *Jane's Intelligence Review*, 1 December 2004, 28–29.

16. Cf. Alfredo L. Filler, "The Abu Sayyaf Group: A Growing Menace to Civil Society," *Terrorism and Political Violence*, 14(4) (Winter 2002), 131–162.

17. Larry Niksch, "Abu Sayyaf: Target of Philippine-U.S. Anti-Terrorism Cooperation," *CRS Report for Congress*. Congressional Research Service. 25 January 2002.

18. Graham H. Turbville Jr., "Preface: Future Trends in Low Intensity Conflict," *Low Intensity Conflict & Law Enforcement*, 11(2/3) (Winter 2002), 161.

19. Rommel C. Banlaoi, "Maritime Terrorism in Southeast Asia: The Abu Sayyaf Threat," *Naval War College Review* (Autumn 2005).

20. Bureau for International Narcotics and Law Enforcement Affairs, "International Narcotics Strategy Report 2005," *U.S. Department of State* (March 2005).

21. Helmut Schneider, "The Political Economy of Intra-State Conflicts. The Regional Conflict in the Southern Philippines," in Michael Waibel and Peter Kreisel, eds., *The Pacific Challenge. Development Trends in the 21st Century* (Göttingen: Universitätsverlag, 2005), 130.

22. Bureau for International Narcotics and Law Enforcement Affairs, "International Narcotics Strategy Report 2005".

23. Chalk, Peter. "Light Arms Trading in SE Asia" *Jane's Intelligence Review* (1 March 2001).

24. UN Monitoring Group. 2005 Report, 23.

25. International Crisis Group, "Recycling Militants in Indonesia: Darul Islam and the Australian Embassy Bombing," *Asia Report* Number 92. 22 February 2005, 5.

26. For a basic explanation of *Zakat*, see (<http://www.bbc.co.uk/religion/religions/islam/customs/zakat/index.shtml>).

27. For instance, Wolters states that in Mindanao, the number of madrasahs financed by Arab governments and Islamic charities increased from about 1,100 in 1981 to more than 2,000 in 1988; see Willem Wolters, "Muslim rebel movements in the southern Philippines: Recruitment area for al-Qaeda terrorists?", *Focaal—European Journal of Anthropology*, no. 40 (2002), 157.

28. UN Monitoring Group. 2002 Report, 14.

29. *Ibid.*, 15.

30. Jo Biddle, "Bin Laden's Tentacles Stretch Round Asia." *Agence France Presse*. 18 September 2002.

31. Matthew Brzezinski, "Bust and Boom," *The Washington Post*, 30 December 2001.

32. During his first trial Indonesian courts acquitted Ba'asyir of being JI's spiritual leader because of a lack of evidence. Shortly afterward he was charged with involvement of both the Marriott attack and the Bali bombings. In his second trial, judges said that while he had not been involved in the Bali attacks, he had given his approval. He was sentenced to 30 months in jail for being part of an "evil conspiracy." Charges relating to the Marriott bombing were dismissed. "Profile: Abu Bakar Ba'asyir," *BBC News*, 3 March 2005. Available at: (<http://news.bbc.co.uk/2/hi/asia-pacific/2339693.stm>).

33. UN Monitoring Group. 2005 Report, 28.

34. The JI organization consists of four mantiqis of district commands.

35. "Agencies Acted on Their Own," *The Nation*, 30 July 2003; Zachary Abuza, "Funding terrorism in Southeast Asia: The financial network of Al Qaeda and Jemaah Islamiyah," *Contemporary Southeast Asia*; August 2003, 169.

36. Ministry of Home Affairs, "White Paper: The Jemaah Islamiyah Arrests and the Threat of Terrorism," *Government of Singapore*, 6.

37. Brian Joyce, "Terrorist Financing in Southeast Asia." *Jane's Intelligence Review*, 1 November 2002.
38. Nimrod Raphaeli, "Financing of Terrorism: Sources, Methods, and Channels," *Terrorism and Political Violence* 15(4) (Winter 2003), 59–82.
39. Financial Crimes Enforcement Network, "FinCEN Advisory: Informal Value Transfer Systems" U.S. Department of Treasury. March 2003. Regarding IVTS see (<http://www.fincen.gov/advis33.pdf>) and The World Bank and the International Monetary Fund's, "Informal Funds Transfer Systems: An Analysis of the Informal Hawala System," 21 March 2003, available at (<http://www-wds.worldbank.org/>).
40. ADB, *Enhancing the Efficiency of Overseas Filipino Workers Remittances: Final Report*, July 2004, p. 3, available at (<http://www.adb.org/Documents/TARs/PHI/tar-phi-4185.pdf>).
41. UN Monitoring Group. 2005 Report, 23.
42. Ibid.
43. The Targeting Terrorist Finance Project at Brown University's Watson Institute for International Studies has been investigating the extent to which countries comply with and implement international standards to counter the financing of terrorism; see (http://www.watsoninstitute.org/project_detail.cfm?id=51).
44. The information for this section was collected from the public domain and relies most heavily on the International Narcotics Control Strategy Report published annually by the U.S. State Department, country reports to the UN Counter-Terrorism Committee, and reports by the UN Monitoring Group established pursuant to Resolution 1267 concerning Al Qaeda and the Taliban and associated individuals and entities.
45. Additional information for this table was collected from the website of the Asia Pacific Group.
46. Bala Shanmugam, Mahendhiran Nair and R. Suganthi, "Money Laundering in Malaysia," *Journal of Money Laundering Control* (Spring 2003), 376.
47. UN Monitoring Group. 2005 Report, 20.
48. The Asia Pacific Group lists Cambodia as a member jurisdiction whereas the FATF website lists it as an observer jurisdiction. The authors have deferred to the APG listing of Cambodia as a full member.
49. U.S. State Department, 1997 International Narcotics Control Strategy Report, March 1998, available at (www.ibiblio.org/freeburma/drugs/aundry.txt) (accessed 12 August 2005). For more information, see Jake Sherman, "Burma: Lessons from the Cease-Fires," in Karen Ballentine and Jake Sherman, *The Political Economy of Armed Conflict. Beyond Greed and Grievance* (Boulder and London: Lynne Rienner, 2003), 225–258.
50. Cf. Gerda Falkner, Oliver Treib, Miriam Hartlapp and Simone Leiber, *Complying with Europe: EU Harmonisation and Soft Law in the Member States* (Cambridge: Cambridge University Press, 2005).
51. L. Errico and A. Musalan, "Offshore Banking: An Analysis of Micro- and Macro-prudential Issues," *IMF Working Paper 99-05* (Washington, DC: IMF, 1999), 10.
52. Leonides Buencamino and Sergei Gorbunov, "Informal Money Transfer Systems," *DESA Discussion Paper* no. 26 (New York: UN, November 2002).
53. See Tanja Börzel and Thomas Risse, "Conceptualizing the Domestic Impact of Europe," in K. Featherstone and C. Radaelli, eds., *The Politics of Europeanization* (Oxford: Oxford University Press, 2003), 55–78.
54. *Government effectiveness* combines perceptions of the quality of public service provisions, the quality of bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies; *Control of Corruption* indicators measure perceptions of corruption; scores are between –2.5 and 2.5 each with higher values indicate higher levels of effectiveness and control of corruption; World Bank Governance Indicators are taken from Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, *Governance Matters III: Governance Indicators for 1996–2002*, The World Bank, 30 June 2003, available at (<http://www.worldbank.org/wbi/governance/pdf/govmatters3.pdf>).

55. Allan Castle, *Money Laundering and Corruption in the Asia Pacific*, Working Paper No. 4, March 1999 available at (www.icdr.law.ubc.ca/Publications/Reports/Paper4.PDF); see also the Control of Corruption indicator in Kaufmann et al, *Governance Matters III*; and Transparency International, *Corruption Perception Index 2004*, available at (<http://www.transparency.org/pressreleases.archive/2004/2004.10.20.cpi.en.html>).

56. "A Hard Case to Crack: Money Laundering in Asia," *Corporate Financing Week*, New York, 1 October 2003.

57. Cf. George C. Tsebelis, *Veto Players. How Political Institutions Work* (Princeton, NJ: Princeton University Press, 2002); Witold, J. Henisz, "The Institutional Environment for Infrastructure Investment," *Industrial and Corporate Change* 11(2) (2002), 355–389; T. Beck, G. Clarke, A. Goff, P. Keefer, and P. Walsh, "New Tools and New Tests in Comparative Political Economy: The Database on Political Institutions," *World Bank Economic Review* 15(1) (2001), 165–175.

58. The Polity IV Project's data set has annually coded ratings on the qualities of political institutions: competitiveness of executive recruitment, extent of executive constraints, and openness of political competition. These ratings have been combined into a single measure of governance: the Polity score, ranging from –10 (fully institutionalized autocracy) to +10 (fully institutionalized democracy). Countries with Polity scores from 6 to 10 are counted as democracies, even though, elected governments that fall short of a perfect 10 have weaker checks on executive power, some restrictions on political participation, or shortcomings in the application of the rule of law to opposition groups. Countries with Polity score of –10 to –6 are counted as autocracies. Anocracies are a middling category rather than a distinct form of governance. They are countries whose governments are neither fully democratic nor fully autocratic. *Executive Constraints*: operational (de facto) independence of chief executive according to Polity IV; scores for the year 2003 are between 1 and 10; the higher the score, the weaker the independence of the head of government; Party System Fragmentation: Effective Number of Parties in Parliament (latest election); data collected from Kaufmann et al., *Governance Matters III*; regime types and executive constraints categorized according to Polity IV, (<http://www.cidcm.umd.edu/inscr/polity/report.htm>); data on effective number of parties and political party cohesiveness are from Bertelsmann Foundation, ed., *Bertelsmann Transformation Index 2006* (Gutersloh: Bertelsmann, 2006).

59. Zachary Abuza, "Asia Hasn't Stopped the Terror Funding," *Asian Wall Street Journal*, 1 October 2003.